

AGENDA ITEM: 9

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Meeting	Audit Committee
Date	11 March 2010
Subject	Annual Review of Audit Committee's Effectiveness
Report of	Director of Corporate Governance
Summary	To review the Committee's effectiveness, as required annually by its terms of reference, and to review the terms of reference.

Officer Contributors:	Jeff Lustig - Director of Corporate Governance Richard King - Interim Chief Internal Auditor
Status (public or exempt)	Public
Wards affected	None
Enclosures	Appendix A : Review of Effectiveness Appendix B : Audit Committee Terms of Reference Appendix C : Audit Committee Members Training Appendix D : Areas for Audit Committee Member Training
For decision by	The Audit Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	Not applicable

Contact for further information: Richard King 020 8359 3167

1. RECOMMENDATIONS

- 1.1 The Committee's views are sought on the review of the effectiveness of the Committee in 2009/10, attached at Appendix A.**
- 1.2 That the Committee identify any additional development requirements of its Members, collectively or individually.**
- 1.3 That the Committee consider the Committee's terms of reference as set out in the Constitution and at Appendix B and instruct the Director of Corporate Governance to make any recommendations for change to the Special Committee (Constitution Review).**

2. RELEVANT PREVIOUS DECISIONS

- 2.1 The Audit Committee on 27th April 2009 resolved that:**

(1)..... a framework outlining a practical exercise in identifying risk management issues be brought to a future meeting of the Audit Committee, and,

(2) Officers report back at the September 2009 meeting on the progress with the assessments, skills and experiences of the Members of the Audit Committee

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1 Reviewing the work of the Audit Committee is an essential aspect of effective corporate governance.**

4. RISK MANAGEMENT ISSUES

- 4.1 Failure to ensure that the Audit Committee is fully effective could have a negative impact on the Authority's Corporate Governance and Risk Management arrangements**

5. EQUALITIES AND DIVERSITY ISSUES

- 5.1 Monitoring of the Council's systems for accounting, regulation and control contribute to the management of resources and ensuring the equitable delivery of services to all members of the community.**

6. USE OF RESOURCES IMPLICATIONS (Finance, Procurement, Performance & Value for Money, Staffing, IT, Property, Sustainability)

- 6.1 None.**

7. LEGAL ISSUES

- 7.1 None.**

8. CONSTITUTIONAL POWERS

- 8.1 This Committee's terms of reference include a requirement to review annually the Committee's effectiveness.

9. BACKGROUND INFORMATION

- 9.1 Attached at Appendix A is a review of effectiveness for 2009/10, using the recommended template from the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance on model audit committees. This shows that the Audit Committee has substantially operated in line with recommended practice. Members are asked to consider the review. The Committee has undertaken a full body of work during the year including the approval of the Council's Statement of Accounts, Annual Governance Statement, agreeing and monitoring the annual plans and reports of the Internal Audit and Corporate Anti Fraud Team as well as receiving reports from the Council's External Auditors.
- 9.2 Members are invited to consider what further training they would like considered during 2010/11, either for the Committee as a whole, or individually. Appendix C lists potential areas for member training identified by CIPFA in their guidance 'Audit Committees: Practical Guidance for Local Authorities'.
- 9.3 In reviewing the Committee's effectiveness it makes sense to also review its terms of reference, which are set out in Appendix B. These have been previously reviewed in 2007, 2008 and 2009. There are no recommendations for changing any of the terms of reference, but the Committee are asked to consider the matter.

10. LIST OF BACKGROUND PAPERS

- 10.1 None.

Legal: MM

Finance: JW

Appendix A

Measuring the Effectiveness of the Audit Committee

Issue	Yes / No	Comment
Terms of Reference		
Have the committee's terms of reference been approved by full council?	Yes	As part of Constitution review that was completed in 2009. This annual effectiveness review also includes a short review of terms of reference.
Do the terms of reference follow the CIPFA model?	Yes	The Interim Chief Internal Auditor conducted the 2009/10 review against these.
Internal Audit Process		
Does the committee approve the strategic audit approach and the annual programme?	Yes	Annual plan agreed in March every year. The 2009/10 annual plan was approved on 10 March 2009. The 2010/11 annual plan is for approval on 11 March 2010.
Is the work of internal audit reviewed regularly?	Yes	Annually by External Audit. The work of internal audit was last reviewed by External Audit as part of their 2008/9 audit.
Are summaries of quality questionnaires from managers reviewed?	Yes	They are reported in interim and annual reports to the Committee. The review of quality questionnaire was last reported on 16 December 2009.
Is the annual report, from the head of audit, presented to the committee?	Yes	Interim and annual reports are presented to the Audit Committee by the Head of Internal Audit. Reports and incorporate a review against the Internal Audit work plan agreed at the start of the year. The 2008/9 Annual Report was presented to the Committee on 29 June 2009.
External Audit Process		
Are reports on the work of external audit and other inspection agencies presented to the committee?	Yes	The committee receives the relevant reports from the external auditor including the Annual Audit & Inspection Letter, Grants Audit, Data Quality and ISA 260 reports.
Does the committee input into the external audit programme?	Yes	The committee receives a report on the External Audit plan, which it is able to make recommendations on.
Does the committee ensure that officers are acting on and monitoring action taken to implement recommendations?	Yes	Response from officers and subsequent action plans form part of the Internal Audit reports to the committee. Where the Committee is not satisfied with the response by senior managers, the Committee can request the managers to attend its meetings to give an explanation.

Issue	Yes / No	Comment
<p>Does the committee take a role in overseeing:</p> <ul style="list-style-type: none"> • risk management strategies • internal control statements • anti-fraud arrangements • whistle-blowing strategies? 	<p>Yes Yes Yes Yes</p>	<p>The Committee approves the corporate Annual Governance Statement, Risk Management Strategy, receives updates twice a year on the major corporate risks of the Council and receives an annual report from the Corporate Anti Fraud Team, which includes information on whistle blowing activity.</p>
Membership		
<p>Has the membership of the committee been formally agreed and a quorum set?</p>	<p>Yes</p>	<p>Approved by Council on 13 May 2008.</p>
<p>Is the chair free of executive or scrutiny functions?</p>	<p>Partially</p>	<p>The 2006 Constitution review introduced the requirement for the Chairman to be from an opposition party. The Chairman has no executive functions but is a substitute for one committee responsible for partly discharging executive function. Additionally, the Chairman is not permitted to serve in that role for more than four consecutive years. Due to limited number of members available to serve on various Council committees there is little scope for increasing Chairman's independence.</p>
<p>Are members sufficiently independent of the other key committees of the council?</p>	<p>Partially</p>	<p>None of the Audit Committee members have any executive function but some Councillors serve on committees responsible for partly discharging executive functions. Other Committee memberships are non executive and relate to the scrutiny and Council functions. Due to limited number of members available to serve on various Council committees there is little scope for increasing member independence.</p>
<p>Have all members' skills and experiences been assessed and training given for identified gaps?</p>	<p>Partially</p>	<p>Presentation and training events have been provided to the Committee on the topics requested or required at the appropriate times to enable members to discharge their duties.</p> <p>Individual assessments have not been conducted and will be undertaken during 2010-11 as part of the induction of new members.</p>
<p>Can the committee access other committees as necessary?</p>	<p>Yes</p>	<p>However, it was envisaged when the Audit Committee was established that it would be informed of all service inspection reports received from the perspective of reviewing any internal control weaknesses that these might be highlighting. This has not formally occurred to date.</p>
Meetings		

Issue	Yes / No	Comment
Does the committee meet regularly?	Yes	Meetings are also planned around the dates for key reports being produced, e.g. Statement of Accounts, AGS, Annual Audit Letter. During 2009/10 the Committee met on 27 April, 29 June, 29 September, 16 December 2009 and 11 March 2009.
Are separate, private meetings held with the external auditor and the internal auditor?	Yes	Paragraph 3.8 of the Constitution allows for the Head of Internal Audit to meet with the Chairman of the Audit Committee alone.
Are meetings free and open without political influences being displayed?	Yes	Meetings are also open to the public.
Are decisions reached promptly?	Yes	
Are agenda papers circulated in advance of meetings to allow adequate preparation by members?	Yes	
Does the committee have the benefit of attendance of appropriate officers at its meetings?	Yes	
Training		
Is induction training provided?	Yes	
Is more advanced training available as required?	Yes	See attached Appendix C for the details of the training since the last Annual Review of the Audit Committee's Effectiveness in April 2009...
Administration		
Does the authority's Section 151 officer or deputy attend all meetings?	Yes	The Head of Strategic Finance and other officers have deputised for the Section 151 officer.
Are the key officers available to support the committee?	Yes	The Director of Corporate Governance (Monitoring Officer) and Head of Internal Audit attend other officers attend as required.

Audit Committee Statement of Purpose & Terms of Reference

Statement of Purpose

The purpose of an audit committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.

Terms of Reference

Audit Activity

1. To consider the head of internal audit's annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the council's corporate governance arrangements.
2. To consider summaries of specific internal audit reports as requested.
3. To consider reports dealing with the management and performance of the providers of internal audit services.
4. To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale.
5. To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
6. To consider specific reports as agreed with the external auditor.
7. To comment on the scope and depth of external audit work and to ensure it gives value for money.
8. To liaise with the Audit Commission over the appointment of the Council's external auditors.
9. To commission work from the internal and external audit.

Regulatory Framework

10. To maintain an overview of the council's constitution in respect of contract procedure rules and financial regulations.
11. To review any issue referred to it by the chief executive or a director, or any Council body.

12. To monitor the effective development and operation of risk management and corporate governance in the Council.
13. To monitor Council policies on 'Raising Concerns at Work' and the anti-fraud and anti-corruption strategy and the Council's complaints process.
14. To oversee the production of the authority's Annual Governance Statement and to recommend its adoption.
15. To consider the Council's compliance with its own and other published standards and controls.

Accounts

16. To review and approve the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
17. To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

Review of Effectiveness

18. To conduct an annual review of the effectiveness of the Audit Committee.

Appendix C

Audit Committee: Members Training 2009-10

Date	Training Subject	Training Organisation	Members attending
27/04/09	Annual Statement of Accounts Comprehensive Area Assessment Use of Resources	CIPFA Grant Thornton	Councillors: J. Davies G. Cooke T. Davey H. Rayner M. Depala
14/09/09	Audit Committee Role and Corporate Governance (For new members on Audit Committee)	CIPFA	Councillor J. Marshall
29/09/09	Risk Management	Zurich	Councillors: J. Marshall M. Palmer G. Cooke T. Davey A. Tambourides D. Webb

Areas for Audit Committee Member Training

The following is a list of potential areas for member training for the Audit Committee identified by CIPFA in their Guidance entitled: Audit Committees: Practical Guidance for Local Authorities

- the role of the committee and the terms of reference
- the financial and risk environment with the importance of risk management
- financial reporting
- governance
- understanding financial statements
- the role of internal and external audit
- regularity framework, including production of the Annual Governance Statement
- an overview of Council services