

AGENDA ITEM: 11

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Meeting	Audit Committee
Date	24 March 2011
Subject	Annual Review of Audit Committee's Effectiveness
Report of	Assistant Director of Finance – Audit and Risk Management
Summary	To review the Committee's effectiveness, as required annually by its terms of reference, and to review the terms of reference.

Officer Contributors:	Maryellen Salter, Assistant Director of Finance – Audit and Risk Management
Status (public or exempt)	Public
Wards affected	None
Enclosures	Appendix A : Review of Effectiveness
For decision by	Audit Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	Not applicable

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1 RECOMMENDATIONS

- 1.1 The Committee's views are sought on the review of the effectiveness of the Committee in 2010/11 and the recommendations made, 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 A (role and structure section) 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 last reviewed its effectiveness in the meeting of the 11th March 2010. At that meeting they considered the terms of reference as being appropriate and no recommendations were made.**

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 Delivering the core functions of an Audit Committee contributes to effective systems of internal control. The Audit Committee's work includes providing assurance on the council's arrangements for:**
 - risk management;**
 - maintaining effective internal control; and**
 - reporting on financial and other performance.**

- 6.2 In addition, by the Audit Committee monitoring progress against any actions to address significant internal control concerns effectively this can lead to better use of resources and a positive culture of improvement within the Council.

7 LEGAL ISSUES

- 7.1 None.

8 CONSTITUTIONAL POWERS

- 8.1 This Committee's terms of reference as described in Part 3, Section 4 of the Council's Constitution, includes a requirement to review annually the Committee's effectiveness.

9 BACKGROUND INFORMATION

- 9.1 Attached at Appendix A is a review of effectiveness for 2010/11, using the recommended template from the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance on model audit committees, conducting a short survey to members, and review of documentation.

- 9.2 This shows that the Audit Committee has substantially operated in line with recommended practice, however there were some areas that the Audit Committee could improve its effectiveness. Members are asked to consider the review and comment on the following recommendations:

- The workplan for 2011-12 needs to be designed so that the Audit Committee can discharge its responsibilities effectively (the Assistant Director of Finance has carried out this recommendation on behalf of the Audit Committee);
- The Audit Committee should produce an Annual Report for full Council to consider highlighting how it has fulfilled its role appropriately, met its objectives for the year, and summarises the key issues. This could be done for the June Audit Committee;
- The Committee should consider a member briefing on fraud and whistleblowing arrangements and the internal control environment, this could coincide with its assessment of the Annual Governance Statement. If a briefing is not appropriate the Corporate Anti-Fraud Team (CAFT) is rolling out e-learning for fraud which could be extended to Audit Committee members;
- The Committee should ensure that it receives assurances from both external audit and officers regarding estimates and judgments, this may be in a short presentation or inclusion within external audit's report to those charged with governance (ISA260 report) on those high risk areas and detailed the procedures that were carried out to satisfy themselves that they are accurately stated (September 2011 meeting);
- The Audit Committee should:
 - receive quarterly reports on the recommendations not implemented for priority one recommendations of Internal Audit (now included within workplan as a standing item);

- have a workplan devised for the upcoming year that includes quarterly updates on arrangements and improvement to risk management (now included as a standing quarterly item in workplan); and
- it should assure itself when the Internal Audit Plan for the year is presented that the areas for review cover those areas that are considered high risk to the Council (March 2011 meeting).
- A needs assessment of the training requirement of members should be performed, following this a programme of training should be devised for member agreement. The Assistant Director of Finance can carry this out on behalf of the Committee)

9.3 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.

9.4 Members are invited to consider what further training they would like considered during 2011/12, either for the Committee as a whole, or individually. 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

9.5 In reviewing the Committee's effectiveness it makes sense to also review its terms of reference, which has been included within the report under the heading 'structure and role'. These have been previously reviewed in 2010. There are no recommendations for changing any of the terms of reference, but the Committee are asked to consider the matter and whether the statement of purpose still is relevant to Members.

10. LIST OF BACKGROUND PAPERS

10.1 None.

Legal: MAM
Finance: MC

Appendix

London Borough of Barnet
Internal Audit & Risk Management
Review of the effectiveness of the Audit Committee

Maryellen Salter, Assistant Director of Finance, Audit and Risk Management
March 2011

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Executive Summary

1. Introduction

In June 2007 CIPFA published *Delivering Good Governance in Local Government: Framework*, which is based on the Good Governance Standard for Public Services drawn up by the Independent Commission on Good Governance in Public Services established by CIPFA and the Office for Public Management in partnership with the Joseph Rowntree Foundation.

Local authorities are required to review their governance arrangements against the Governance Framework and prepare an Annual Governance Statement which publicly reports the effectiveness of the authority's governance arrangements.

An effective Audit Committee is a cornerstone of good governance. The outcome of its work can demonstrate to stakeholders that the Council's affairs are being conducted in an environment of openness, honesty and integrity. The main objective of the Audit Committee is to independently contribute to the assurance framework that an effective internal control system is maintained.

The Audit Committee should support the Council and the s151 Officer, and the Monitoring Officer, by reviewing the comprehensiveness of assurances in meeting the Council and s151 Officer's assurance needs and reviewing the reliability and integrity of those assurances.

2. Objective and scope of the review

The objective of the review was to provide assurance to the Audit Committee that they are undertaking their work in accordance with their own terms of reference, and best practice. In undertaking this review we considered the following key areas:

- Structure and role;
- Membership;
- Meetings;
- Internal Audit Process;
- External Audit Process;
- Fraud and Internal Control;
- Financial Reporting;
- Risk Management; and
- Administration

3. Approach

The approach to the review has been to:

- a) Review documentation; and
- b) Undertake a short survey

4. Summary of Findings

The Audit Committee's terms of reference, annual work plan for 2010-11 and other key documents have been reviewed and compared against the CIPFA Code. In addition, a short survey was completed to gain insight into members' thoughts on the Audit Committee's effectiveness. Overall, the Audit Committee has been effective in its role for the year however it may wish to enhance some of functions. This report has focused on two types of areas for consideration by the Audit Committee:

- 1) Recommendations that the Committee should consider implementing within the current year; and
- 2) Areas of good practice that would enhance the Audit Committee's effectiveness.

The key recommendations that the Audit Committee should consider implementing:

- The workplan for 2011-12 needs to be designed so that the Audit Committee can discharge its responsibilities effectively (the Assistant Director of Finance has carried out this recommendation on behalf of the Audit Committee);
- The Audit Committee should produce an Annual Report for full Council to consider highlighting how it has fulfilled its role appropriately, met its objectives for the year, and summarises the key issues. This could be done for the June Audit Committee;
- The Committee should consider a member briefing on fraud and whistleblowing arrangements and the internal control environment, this could coincide with its assessment of the Annual Governance Statement. If a briefing is not appropriate the Corporate Anti-Fraud Team (CAFT) is rolling out e-learning for fraud which could be extended to Audit Committee members;
- The Committee should ensure that it receives assurances from both external audit and officers regarding estimates and judgments, this may be in a short presentation or inclusion within external audit's report to those charged with governance (ISA260 report) on those high risk areas and detailed the procedures that were carried out to satisfy themselves that they are accurately stated (September 2011 meeting);
- The Audit Committee should:
 - receive quarterly reports on the recommendations not implemented for priority one recommendations of Internal Audit (now included within workplan as a standing item);
 - have a workplan devised for the upcoming year that includes quarterly updates on arrangements and improvement to risk management (now included as a standing quarterly item in workplan); and
 - it should assure itself when the Internal Audit Plan for the year is presented that the areas for review cover those areas that are considered high risk to the Council (March 2011 meeting).
- A needs assessment of the training requirement of members should be performed, following this a programme of training should be devised for member agreement. The Assistant Director of Finance can carry this out on behalf of the Committee)

5. Acknowledgements

The Assistant Director of Finance - Audit and Risk Management would like to thank the Committee for their engagement through-out this review, and the assistance of external audit.

6. Results of the survey

Through-out this report all respondents to the survey have been referred to as members, this has included independent members and external audit. Detailed questions sent to members and summary results are included in Appendix B.

Structure and Role

Why is this important?

The Audit Committee has a particular role to play in understanding and reviewing the work of Internal Audit, the work of External Audit, and financial reporting.

The structure and role of the Audit Committee must also be clearly set out within the overall governance framework to prevent misinterpretation of roles. For example, the focus of audit committees should be overseeing financial processes, audit and risk management, whilst standards committees should ensure and promote good ethical conduct.

Is the Audit Committee's structure and role suitably set out to ensure the Committee is able to discharge its responsibilities effectively?

The results from the survey sent to members highlight responses were mixed with half (3) believing the structure and role of the Committee was suitably set out. Some of the comments received provided insight into the areas where respondents thought the weaknesses were for example, one member felt that the Committee was hamstrung by the interpretation of the constitution and that investigation into matters of past events was outside of its remit.

In addition, members felt that the Committee should receive reports in a timely fashion so that they could play an active part in the monitoring the resolution of the issue and discharge their responsibility appropriately.

One member also felt strongly that the Committee should be proactive and should not be inhibited by the Constitution, or at least the interpretation of it.

Positive comments were received regarding the influence of the new chair in setting out roles and responsibilities clearer, however there seemed to be still some confusion of these exact roles.

To ensure that the Committee was able to meet its objectives and discharge its responsibilities the terms of reference contained within the constitution was compared to the annual work programme for the Committee devised at the start of the year. The results of this review are summarised in the table below.

Table 1: Review of the roles and responsibilities of the Committee against the annual workplan devised at the start of the year.

The Audit Committee's role as defined by the Terms of Reference:	Audit Comments:
Audit Activity	
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.	The 2010-11 workplan includes consideration of the Internal Audit's opinion in June of the relevant year and consideration of the proposed plan for the following year in March. This is appropriate to the terms of reference.

The Audit Committee's role as defined by the Terms of Reference:	Audit Comments:
To consider summaries of specific internal audit reports as requested.	The Audit Committee receives quarterly reports from Internal Audit and the annual report which details the specific findings of audits throughout the year. This is appropriate to the terms of reference.
To consider reports dealing with the management and performance of the providers of internal audit services.	The annual work programme makes reference to the Internal Audit Annual report for fulfilling this objective. However, this is incorrect as the quarterly progress reports give this level of detail of the performance of the in-house and contractor who currently undertake IA services. Recommendation: Workplan for 2011-12 be adjusted to refer to correct report.
To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale.	The workplan refers to an 'interim report' which was superseded by quarterly progress reports. It also refers to the Annual Report in delivering this objective, this is also incorrect. Progress report for October 2010 and separate report for February was created for the Committee to better understand areas of non implementation. This process was not in place for 2010-11. Recommendation: The workplan for 2011-12 will be adjusted to include Exception Recommendations Report on a quarterly basis.
To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.	The annual workplan for the Committee included reference to External Audit's Annual Audit Letter (AAL) in March, the timing of the AAL should have been included in the December Audit Committee's agenda. In addition, the workplan refers to an interim external audit management report however this type of report is not referred to within their annual audit plan. Instead, external audit give quarterly progress reports to the audit committee and a series of other reports: Annual Audit plan (March); Audit Approach Memorandum (June); Report to those charged with Governance (September); and grants report (December). Recommendation The correct series of reports expected for the external auditor shall be included in the 2011-12 workplan.
To consider specific reports as agreed with the external auditor.	The 2010-11 workplan included the grants report referred above and the Data Integrity Audit Report, this work is no longer mandated by the Audit Commission and as such would no longer be reported to the Audit Committee specifically unless commissioned by the Council. Recommendation The workplan is to be adjusted to include the

The Audit Committee's role as defined by the Terms of Reference:	Audit Comments:
	correct reports expected from the external auditor.
To comment on the scope and depth of external audit work and to ensure it gives value for money.	The workplan includes reference to the Committee's review of the Annual Audit Plan, which includes reference to fees. This was presented in February 2011 and the Chairman questioned the external auditor on value for money.
To liaise with the Audit Commission over the appointment of the Council's external auditors.	<p>The annual workplan does not reference any document whereby consideration is paid to this responsibility; however it should refer to the Annual External Audit Plan presented in March of each year. Although the appointment of auditors is not an annual event the Audit Commission does mandate what work external audit will carry out and their plan outlines this to the Committee. It would not be expected that the Audit Committee have a direct relationship with the Audit Commission.</p> <p>Recommendation The annual workplan should refer to the Annual Audit Plan of external audit for understanding the mandate of the Audit Commission year on year.</p>
To commission work from the internal and external audit.	This has currently been described as ad hoc within the workplan for 2010-11, this would be accurate and in accordance with the terms of reference.
Regulatory Framework	
To maintain an overview of the council's constitution in respect of contract procedure rules and financial regulations.	Currently the Committee is due to receive a report on the review of the constitution in March 2011, this is in line with the workplan.
To review any issue referred to it by the chief executive or a director, or any Council body.	This is currently included as an ad hoc item which is appropriate.
To monitor the effective development and operation of risk management and corporate governance in the Council.	<p>Currently this has been described within the current workplan as 'it is envisaged that this would be part of the assurance framework presented with the annual report on the Annual Governance Statement' and as such no reports have been identified for the Committee to review other than the Annual Governance Statement. This has not been appropriate for the Audit Committee to discharge its responsibility.</p> <p>The Committee have however been receiving updates on risk management in the October and</p>

The Audit Committee's role as defined by the Terms of Reference:	Audit Comments:
	<p>March Internal Audit Progress report. Also, omitted from the workplan was the requirement for the Committee to review and consider the risk management policy statement and strategy.</p> <p>Recommendation The workplan for 2011-12 to include reference to risk management progress reports, review and consideration of the risk management policy statement and strategy, and effectiveness of risk management through Internal Audit progress reports.</p>
<p>To monitor Council policies on 'Raising Concerns at Work' and the anti-fraud and anti-corruption strategy and the Council's complaints process.</p>	<p>The Committee receives and notes the work of the Corporate Anti Fraud Team (CAFT) through their interim and annual report and their proposed work plan for the upcoming year. This is seen as appropriate for the Committee to discharge their responsibility.</p>
<p>To oversee the production of the authority's Annual Governance Statement and to recommend its adoption.</p>	<p>The Committee receives a draft Annual Governance Statement and a final Annual Governance Statement. This is seen as appropriate for the Committee to discharge its responsibilities as it is also considered alongside the Internal Audit and External Audit assurances.</p>
<p>To consider the Council's compliance with its own and other published standards and controls.</p>	<p>The workplan for 2010-11 has suggested that the report that would cover this responsibility would be the Use of Resources internal control assessment. This is out of date as the Council is no longer externally assessed for the Use of Resources. The internal audit and external audit annual opinions should assure the Committee that published standards and controls are met.</p> <p>Recommendation The 2011-12 workplan should make reference to the Internal Audit Annual Opinion and the External Audit Annual Audit Letter for this responsibility.</p>
<p>Accounts</p>	
<p>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.</p>	<p>The Audit Committee considered the draft accounts in its meeting in June, prior to the accounts being audited. At this point they were presented with the accounting policies and asked for their views on the appropriateness and duly adopted them after consideration. The Committee then considered the audited accounts in September with consideration of the external audit report. This was considered as appropriate to their role.</p> <p>The 2010-11 workplan referred only to the draft set</p>

The Audit Committee's role as defined by the Terms of Reference:	Audit Comments:
	<p>of accounts as discharging this responsibility. The Accounts and Audit Regulations 2003 (as amended) are currently being consulted on, if approved, in June the Audit Committee will be asked to certify the accounts in June rather than approve, then approve them once they have the details from the audit in September. This is more in line with the Private sector.</p> <p>Recommendation The workplan should be adjusted to include reference to draft accounts, final accounts and the report for external audit – To those charged with Governance.</p>
<p>To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.</p>	<p>The Council reviewed the external auditors report to those charged with governance (ISA260) at the September meeting alongside the accounts. This was considered appropriate to the responsibilities assigned to the Committee.</p>
<p>Review of effectiveness</p>	
<p>To conduct an annual review of the effectiveness of the Audit Committee.</p>	<p>The Chairman of the Audit Committee commissioned Internal Audit to carry out a review of the effectiveness of the Audit Committee in November 2010 and the results presented in March 2011.</p>

Recommendations

The workplan for 2011-12 needs to be devised to ensure that the reports presented to the Committee enable it to discharge its responsibilities appropriately.

The Audit Committee should produce an Annual Report for full Council to ensure it has fulfilled its role appropriately, met its objectives for the year, and summarises the key issues for the year.

Further actions to enhance the Audit Committees effectiveness:

The Audit Committee's statement of purpose is "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", the Audit Committee may want to review this to ensure the interpretation is the agreed position of the Committee in the overall governance framework.

Membership

Why is this important?

The Audit Committee must be independent and non-political. Each member should understand the Council's strategy and objectives to suitably contextualise their work. The Chair of the Audit Committee is responsible for Audit Committee effectiveness, and members should collectively have the necessary business, reporting, auditing and governance skills to fulfil their responsibilities. At least one member should have significant, recent and relevant financial experience.

Is the Audit Committee suitably independent and objective and does each member have a good understanding of the objectives, priorities and risks of the organisation, and of their role on the Audit Committee?

Based on the findings from the questionnaire members are largely satisfied (67%) that the Audit Committee is suitably independent and objective. The inclusion of two independent members has been viewed as a positive improvement made in the current year, and the fact that the Chairman is a member of an opposition party creates objectivity.

Some members thought that there was a lack of continuity of membership and that the Committee isn't viewed as important. It was also felt that the Audit Committee was unfairly held to account for issues that were not within its responsibility. Another member felt that the Committee was subservient to the Chief Executive and as such was not truly independent.

One point raised was that there are quite a few members, with the inclusion of the independent members, and as such meetings can go for longer and there could be repetitions of points.

In October of the current year the Committee received a short presentation on the roles and responsibilities of the Committee however there are no formal arrangements in place to ensure new members understand their roles and responsibilities.

Recommendations

There are no high priority recommendations

Further areas to consider action to enhance the Audit Committee:

To improve the effectiveness of the Audit Committee the Chairman could consider:

- timings of agenda items to ensure that all items receive appropriate consideration for decision making; and
- having an information pack to cascade to new members

Meetings

Why is it important?

Meetings should be held often enough to consider the annual work programme of the Audit Committee and time should be allocated to agenda items according to the level of risk and importance to the Committee. The Audit Committee should be provided with appropriate support to enable it to be effective.

The Audit Committee must be non-political. The role of the Audit Committee is not to review or revisit policy.

Are the Audit Committee meetings suitably structured, supported, and efficient?

The majority of the respondents to the survey were satisfied with the Audit Committee meetings. One member who was satisfied with the meetings however did request that they receive more information on recommendations being implemented and what the reports are.

An area identified for improvement is the focus on low risk items and a process for ensuring that not all the time is spent on those items earlier on the agenda, thereby neglecting those later on the agenda.

The Chairman is proactive in holding pre-meetings of the Audit Committee to discuss those items of high importance for the Committee to consider.

Recommendations

There are no high priority recommendations.

Further areas to enhance the Audit Committees effectiveness

The Chairman could, within the pre-meetings, consult with report authors, in their judgment, the expected time it should take to consider each item.

Internal Audit Process

Why is it important?

Internal Audit provides objective assurance that the Council's risk management framework and systems of internal control are operating effectively and efficiently. The Internal Audit plan needs to reflect current priorities and plans to ensure suitable controls are in place to help the Council achieve its objectives.

The Audit Committee should review and understand the role of Internal Audit, its Annual Plan, and overall effectiveness of Internal Audit.

Does the Audit Committee have sufficient understanding of the role of Internal Audit and suitable assurance arrangements in place to ensure that internal audit is operating efficiently, effectively and delivering value for money?

Most (67%) respondents to the survey thought that they had sufficient understanding of the role of Internal Audit. Positive comments were that the introduction of a clear audit strategy was key factor.

One member felt that the post of the Head of Internal Audit was left vacant for far too long and was also under-valued. One member felt that Internal Audit was under-resourced and under staffed. One member was unclear on what the procedures were for assessing value for money.

Since October members of the Audit Committee have been receiving information regarding the Internal Audit's service efficiency and effectiveness, although problems are still evident review of these indicators highlight that progress has been made. To continue to improve in this area the Council are partnering with London Borough of Enfield for the procurement of a more strategic partner to assist in delivering the Internal Audit function in future.

The current Chairman has prioritised the implementation of Internal Audit recommendations and the Committee has taken the view that officers should be requested to attend the Committee if there are instances of no action from one meeting to the next. This is a positive way in which to drive improvement within the organisation and improve buy in to the audit process.

Recommendations

There are no high priority recommendations

Further areas to consider improving effectiveness:

The Committee should consider whether the Annual Audit Plan provided the necessary areas for their assurance processes, which has been included in the March agenda.

External Audit Process

Why is it important?

External audit is an essential part of the process of accountability for public money. It makes an important contribution to the stewardship of public resources and the corporate governance of public services. External auditors in the public sector give an independent opinion on public bodies' financial statements and review, and report on, aspects of the arrangements put in place by public bodies to ensure the proper conduct of their financial affairs and to manage their performance and use of resources.

The Audit Committee should ensure that a professional relationship is maintained between Internal and External audit so that lines of reporting can be used effectively and duplication of effort is avoided.

Does the Audit Committee have sufficient understanding of the role of External Audit and suitable assurance arrangements in place to ensure that external audit is operating efficiently, effectively and delivering value for money?

The majority of respondents to the survey (83%) thought that they had sufficient understanding of the role of external audit.

One member was unsure of the role of external audit going forward due to the abolishment of the Audit Commission, of concern was that the thought that auditors would tell the Council what they wanted to hear which had adverse outcomes in the private sector.

One respondent thought that there was some work to do in differentiating between external and internal audit. There was also a query of understanding how the Committee assesses/judges how external audit provide value for money.

Positively, the Audit Committee has requested that despite the cessation of the Use of Resources assessment that it continues to receive half yearly updates from officers on the implementation of the recommendations arising from the final review undertaken by external audit.

Recommendations

No high priority recommendations.

Further areas to enhance the Audit Committees effectiveness

To improve its effectiveness the Audit Committee may want to consider introducing similar performance measures surrounding efficiency and effectiveness that are in place for internal audit.

Fraud and Internal Control

Why is it important?

The Audit Committee has an important role in overseeing the reporting and investigation of suspected or actual fraud or impropriety and that effective whistleblowing arrangements are in place.

In addition, the Council is required to produce a meaningful Annual Governance Statement.

Is the Audit Committee effectively monitoring and reviewing the internal control environment, including fraud and corruption?

There was a mixed response with this question within the survey, half agreed that the Committee is effectively monitoring internal control and fraud, however a third were unsure and one did not think they were achieving this role. Those unsure were new to the Audit Committee and at the time of the survey had not had sufficient exposure to make a conclusion however they stated they were encouraged so far. One member was extremely positive that CAFT continued to be a strength of the Council.

One comment was that due to time spent on items earlier in the agenda that sufficient time was not spent on fraud who were often last on the agenda.

One respondent appeared confused that Internal Audit had a role to play in identifying fraud within the Council or that it was responsible for monitoring the internal control environment. This is in fact a role for officers and managers, this was highlighted in the recent Internal Audit Strategy presented to members in February: The responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity.

The Committee receives an annual plan, interim report and annual report from the Corporate Anti Fraud team.

Recommendations

The Committee should consider a member briefing on the fraud and whistleblowing arrangements and the internal control environment, this could coincide with its assessment of the Annual Governance Statement. Or if a briefing is not appropriate the CAFT are devising an e learning tool to cascade fraud arrangements to staff which could be extended to Audit Committee members.

Further areas to enhance the Audit Committees effectiveness

No further areas to enhance.

Financial Reporting

Why is it important

The Council's financial statements are an essential means by which it accounts for the stewardship of resources and its financial performance in the use of those resources.

The Audit Committee should review the significant financial reporting issues and judgements made in connection with the preparation of the Council's financial statements and related formal statements (e.g. summary accounts).

It is management's, not the Audit Committee's, responsibility to prepare complete and accurate financial statements and disclosures in accordance with financial reporting standards and applicable rules and regulations. However the Audit Committee should consider significant accounting policies, any changes to them and any significant estimates and judgements.

Management should inform the Audit Committee of the methods used to account for significant or unusual transactions where the accounting treatment is open to different approaches. Taking into account the external auditor's view, the Audit Committee should consider whether the Council has adopted appropriate accounting policies and, where necessary, made appropriate estimates and judgements. The Audit Committee should review the clarity and completeness of disclosures in the financial statements and consider whether the disclosures made are set properly in context.

The Audit Committee should also ensure that the systems for financial reporting to the full Council, including those of budgetary control, are subject to review as to completeness and accuracy of the information provided to the full Council and its committees.

The Audit Committee needs to ensure it does not become involved in any details that should be dealt with more properly by the s151 Officer, accountable officers, or other relevant committee.

Does the Audit Committee perform a suitable role in the financial reporting process to ensure that the financial statements of the Council accurately reflect the financial affairs of the Council for the reporting period?

The majority (83%) of respondents felt that they understood their role in relation to the financial reporting process.

One respondent who did not feel that the Audit Committee performed a suitable role commented that they felt it was internal audit's role to inform the Committee whether the Council had the checks in place to ensure the accounts are accurate. Whilst Internal Audit reviews the Council's key financial systems during the year, external audit have the most significant assurance role within the financial reporting process. External audit also review the work of internal audit to take into consideration, at the planning stage, whether there are some key weaknesses within the control environment which could affect the financial reporting accuracy assertion.

The Committee received training and briefings from the Finance Department through-out the year for key changes, this year there has been a focus on International Financial Reporting Standards (IFRS) and the timeline for implementation. The Finance Department also provided the Audit Committee with the accounting policies for 2010-11 at the December 2010 meeting so that they have early oversight of how the accounts will be prepared.

External audit have also been available to provide ad hoc briefings when required. Most recently committee members requested to understand areas where significant judgment and estimate are used within the accounts.

Recommendations

The Committee should ensure that it receives assurances from both external audit and officers regards estimates and judgments, this may be in the form of a short presentation or inclusion within the External Audit's report to those charged with governance on those high risk areas and what procedures were carried out to satisfy themselves they are accurately stated.

Further areas to enhance the Audit Committees effectiveness

To ensure that the Audit Committee can effectively challenge the Financial Statements there should be a thorough review of the accounting policies at the June meeting alongside presentation of the accounts. Although accounting policies have already been viewed by the Committee at the December meeting, it is important that these agreed alongside the accounts. This could be a particular area that the independent members will be key strength to the Council, with their experience of the private sector.

Members will also receive the Audit Approach Memorandum from external audit at the June meeting, which described External Audit's approach to auditing the financial statements of the Council and the areas that they consider high risk. It is important that the Committee reviews the areas of high risk and ensures that it is in line with their understanding of the Council. If members have particular concerns it is important that those are raised and that assurances are received at the September meeting.

Risk Management

Why is it important?

The role of the Audit Committee should be to provide a source of assurance about the organisation's arrangements for managing risk as well as financial control and reporting.

The Committee should know how to use the risk management arrangements to inform its assurance requirements.

The Audit Committee is responsible for assessing the organisation's risk management, control and governance arrangements, and advising the Council on the effectiveness and outcomes of these arrangements.

Does the Audit Committee receive sufficient assurances on the organisation's arrangements for managing risks? Does it receive enough information on the effectiveness and outcomes of these arrangements?

This is an area where members felt most dissatisfied with the current information being presented. Respondents were unclear on whether it had sufficient assurances on the risks of the Council. Some thought that the improvement was likely where Internal Audit worked closely on the key risks of the organisation. One member felt that it (risk registers) were seen as an administrative task, and could lend itself to being a box ticking exercise. Members did not also want to be overwhelmed with too much information, but clearly there was room for improvement. It was also felt that where the Committee received limited or no assurances from Internal Audit reports they were not convinced these were acted upon by officers to address the risks and recommendations.

83% felt that they did not receive enough information, this seems consistent with the fact that the workplan set at the start of the year did not allocate the Committee to receive any reports regarding risk management. Recently risk management arrangements and the corporate risk register has been presented quarterly.

Recommendations

The Audit Committee should:

- receive quarterly reports on the recommendations not implemented for priority one recommendations of Internal Audit;
- have a workplan devised for the upcoming year that includes quarterly updates on arrangements and improvement to risk management; and
- it should assure itself when the Internal Audit Plan for the year is presented that the areas for review cover those areas that are considered high risk to the Council.

Further areas to enhance the Audit Committees effectiveness

The Audit Committee should consider whether it requires further information on risk management than what has been provided recently. Also, it will be standing annual requirement that it should review the risk management policy statement and strategy to have sufficient overview of the arrangements within the Council.

Administration

Members were also asked the following questions.

Does the Audit Committee receive support from the s.151 officer and relevant officers to present papers and answer queries?

83% of respondents felt that the Audit Committee received sufficient support from the s.151 officer and other relevant officer, with one member unsure.

Are members provided with sufficient training to meet gaps in capabilities?

Only 17% of members felt that they were provided with sufficient training, 33% did not feel that they sufficient training whereas 50% were unsure they received enough.

Some members were of the view that training could not be provided as it was dependent of personal characteristics and experience. It is clear from comments that members would appreciate training as nothing has been formally set out to members.

A training schedule was devised at the start of the financial year however it was implemented on an ad hoc basis. In addition, due to the size of the agenda's for each meeting it was not seen as appropriate by the Committee that training was provided before the Committee.

Recommendation

A needs assessment of the training requirements of members should be performed and following this a programme of training should be devised for member agreement.

Appendix A: Self Assessment Checklist

Issue	Yes	No	N/A	Comment
Terms of Reference				
Have the Committee's terms of reference been approved by full Council?	✓			As part of Constitution review that was completed in 2010. This annual effectiveness review also includes a short review of terms of reference.
Do the terms of reference follow the CIPFA model?	✓			This was carried out in 2009
Internal Audit Process				
Does the Committee approve the strategic audit approach and the annual programme?	✓			Mach each year.
Is the work of internal audit reviewed regularly?	✓			Completed by external audit in September 2010
Are summaries of quality questionnaires from managers reviewed?	✓			Included in effectiveness indicators
Is the annual report, from the head of internal audit, presented to the Committee?	✓			June each year.
External Audit Process				
Are reports on the work of external audit and other inspection agencies presented to the Committee?	✓			Limited reports received from other inspection agencies however the Committee has requested that this is not regular and will be declining due to approach to localism.
Does the committee input into the external audit programme?	✓			The Committee receives the Annual Plan.
Does the committee ensure that officers are acting on and monitoring action taken to implement recommendations?	✓			Partially , there is no formal programme of receiving reports on progress against external audit recommendations
Does the Committee take a role in overseeing: <ul style="list-style-type: none"> Risk management 	✓			Partially , however they were not included within formal workplan and were subsequently added.

Issue	Yes	No	N/A	Comment
strategies <ul style="list-style-type: none"> • Internal control statements • Anti-fraud arrangements • Whistle-blowing strategies? 				
Membership				
Has the membership of the Committee been formally agreed and a quorum set?	✓			Approved by Council in May 2010.
Is the Chairman free of executive or scrutiny functions?	✓			The 2006 Constitution review introduced the requirement for the Chairman to be from an opposition party. The Chairman has no executive functions. 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.
Are members sufficiently independent of the other key committees of the council?		✓		Partially: 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.
Have all members skills and experiences been assessed and training given for identified gaps?		✓		Presentation and training events have been provided to the

Issue	Yes	No	N/A	Comment
				<p>Committee on the topics requested or required at the appropriate times to enable members to discharge their duties.</p> <p>Individual assessments were due to have been undertaken during 2010-11 as part of the induction of new members, however this did not occur.</p>
Can the committee access other committees as necessary?	✓			<p>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. One report came to the Audit Committee in December 2010 regarding the review of Data Protection.</p>
Meetings				
Does the Committee meet regularly?	✓			The Audit Committee meets on a quarterly basis which is standard practice.
Are separate private meetings held with the external auditor and the internal auditor?	✓			Both external and internal audit have met separately with in the Chairman during the year.
Are meetings free and open without political influences being displayed?	✓			Meetings are also held open to the public.
Are decisions reached promptly?	✓			There is sometimes too much time given to items at the start of the agenda, meaning others do not receive due consideration.
Are agenda papers circulated in advance of meetings to allow adequate preparation by members?	✓			
Does the committee have the benefit of attendance of appropriate	✓			Results of the survey indicate members are

Issue	Yes	No	N/A	Comment
officers at its meetings?				satisfied with the support from officers.
Training				
Is induction training provided to members?		✓		New members did not receive induction training and therefore there is scope to improve this.
Is more advanced training available as required?		✓		Partially: There has been ad hoc training and briefings provided to members however member needs are not known.
Administration				
Does the authority's s151 officer or deputy attend all meetings?	✓			
Are the key officers available to support the Committee?	✓			

Appendix B: Survey responses and questions

The following questions were asked of members:

Structure and role

Do you believe that the Audit Committee's structure and role is suitably set out to ensure the Committee is able to discharge its responsibilities effectively?

Membership

Is the Audit Committee suitably independent and objective and does each member have a good understanding of the objectives, priorities and risks of the organisation, and of their role on the Audit Committee?

Meetings

Are the Audit Committee meetings suitably structured, supported, and efficient?

Internal Audit

Does the Audit Committee have sufficient understanding of the role of Internal Audit and suitable assurance arrangements in place to ensure that internal audit is operating efficiently, effectively and delivering value for money?

External Audit

Does the Audit Committee have sufficient understanding of the role of External Audit and suitable assurance arrangements in place to ensure that internal audit is operating efficiently, effectively and delivering value for money?

Fraud and Internal Control

Is the Audit Committee effectively monitoring and reviewing the internal control environment, including fraud and corruption?

Financial Reporting

Does the Audit Committee perform a suitable role in the financial reporting process to ensure that the financial statements of the Council accurately reflect the financial affairs of the Council for the reporting period?

Risk Management

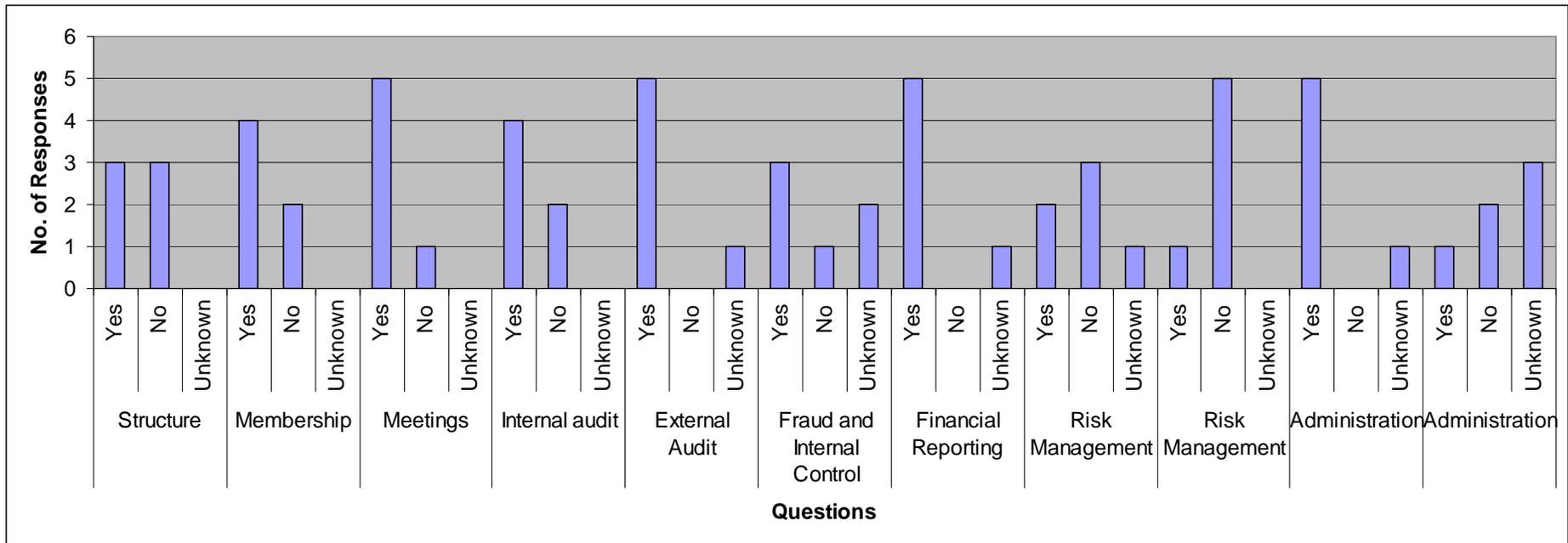
1. Does the Audit Committee receive sufficient assurances on the organisation's arrangements for managing risks?
2. Does it receive enough information on the effectiveness and outcomes of these arrangements?

Administration

1. Does the Audit Committee receive support from the s.151 officer and relevant officers to present papers and answer queries?
2. Are members provided with sufficient training to meet gaps in capabilities?

The following graph represents the responses into yes, no and don't know categories for the above questions. There were 6 respondents out of a possible 10, which represents a statistically significant sample, i.e. that these results can be relied upon to be correct representation of members.

Table 2: Responses to the Audit Committee short survey*:



* Please note that there are two questions in relation to risk management and administration as noted above and therefore reference should be made to the above questions to understand the nature of the questions asked.