

First Major Review – Effectiveness of the Audit Committee and its Terms of Reference – Second Witness Session

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REASON FOR ITEM

This is the second witness session of the Committee's review into the effectiveness of the Audit Committee and its Terms of Reference. The report also includes a brief summary of some of the possible initial recommendations of the review.

OPTIONS OPEN TO THE COMMITTEE

1. Question the witnesses
2. Highlight issues for further investigation
3. To make a note of possible recommendations for the review

INFORMATION

1. At this Committee's last meeting held on 21 July 2011, a review into the effectiveness of the Audit Committee and its Terms of Reference commenced. The scoping report for the review is attached as **Appendix 1** to this report.
2. The first witness session for the review took place on 13 September when the Chairman of the Audit Committee, John Morley and Jonathan Gooding from Deloitte, the Council's External Auditors attended the meeting. The following information was provided by the witnesses which is pertinent to the review:
 - The membership of the Audit Committee could be expanded and consideration could be given to the appointment of an additional Independent Member
 - The possible addition of another Independent Member would also tie in with the proposals contained in the Department for Communities and Local Government consultation on the future of local public audit
 - The rules on the quorum for the Audit Committee are strict (currently 80% of Members have to be present) and could be made less restrictive to ensure there are no problems with meetings being inquorate due to Member absences
 - It would be advantageous for Audit Committee Members (and substitutes) to have financial backgrounds

- There should be continuity of service for Audit Committee Members to ensure that expertise and knowledge is not lost
- Consideration could be given to providing the Audit Committee with full Internal Audit reports, rather than the summaries which were currently produced
- The invitation of officers to meetings to be questioned on unsatisfactory assurance levels received from Internal Audit should be added to the Committee's terms of reference
- Consideration needed to be given to which Council body scrutinised and received Audit Committee minutes
- There should be included in the Audit Committee's Terms of Reference, that the Audit Committee meets with both the External Auditors and the Head of Audit and Enforcement in private. This currently happened and was good practice.

3. As way of comparison, the following table provides details on the membership of other London Borough's Audit Committees.

Local Authority	Number of Cllrs	Independent Members
City of London	11	3 (1 vacancy)
Hounslow	10	0
Camden	10	0
Haringey	10	0
Croydon	7	1
Bromley	7	0
Greenwich	7	1
Newham	7	3
Enfield	7	0
Harrow	7	0
Bexley	6	0
Hammersmith and Fulham	6	1
Tower Hamlets	6	0
Hackney	6	0
Lewisham	6	0
Havering	6	0
Barking and Dagenham	6	1
Waltham Forest	6	0
Hillingdon	4	1
Lambeth	5	0
City of Westminster	5	0
Wandsworth	5	0
Southwark	5	0
Ealing	5	1
Richmond	5	0
Kingston	5	0

Sutton	5	0
Redbridge	5	0
Merton	4	1
Islington	4	2
Kensington & Chelsea	4	3 (co-opted)
Barnet	7	2
Brent	3	1

Terms of Reference

4. The existing Terms of Reference of the Audit Committee (**Appendix 2**) were agreed by Cabinet when the Audit Committee was set up in 2006. Members are asked to look at the Terms of Reference to assess the appropriateness of them and where necessary to suggest amendments or changes.

Witnesses

5. At this Committee's last meeting Members agreed that Councillor George Cooper, an experienced Member of the Audit Committee, together with an Independent Member from another local authority be invited to attend a meeting to provide their perspective on the review.
6. For this meeting Councillor George Cooper will be in attendance and for the meeting in November, Mr Ian Luder, an Independent Member of Kensington and Chelsea's Audit Committee has kindly agreed to attend the meeting to help the review.

Key Issues and areas of possible questioning for the witnesses

1. What role do Members of the Audit Committee have?
2. What level of financial expertise and training should Audit Committee members have?
3. Is the scope of Hillingdon's Audit Committee sufficient to enable it to function effectively? If it is not sufficient what changes could be made to make it more effective?
4. Is the composition of the Audit Committee sufficient to enable the Committee to operate effectively? Is the level of expertise and knowledge of Members sufficient to enable them to carry out their tasks and duties to a high standard?
5. What are the advantages and disadvantages of the Audit Committee having an independent Chairman?

6. How does the Audit Committee provide effective challenge across the Council, independent assurance on the risk management framework and associated internal control environment and effective leadership on governance, financial reporting and audit issues?
7. Is the agenda for the Audit Committee looking at the right things and does the Committee receive assurance on everything it needs?

PAPERS WITH THE REPORT

Scoping Report (Appendix 1).

Existing Terms of Reference of the Audit Committee (Appendix 2)

SUGGESTED COMMITTEE ACTIVITY

1. Question the witness
2. Highlight issues for further investigation
3. To make a note of possible recommendations for the review