



# HILLINGDON

LONDON

## Corporate Services & Partnerships Policy Overview Committee Review Scoping Report 2011/12

### **OBJECTIVE**

#### **THE EFFECTIVENESS OF THE AUDIT COMMITTEE AND ITS TERMS OF REFERENCE**

##### **Aim of review**

This review will assess the effectiveness of the Audit Committee and its terms of reference since it was set up by this Council in January 2007 and review the Committee's role in terms of its responsibilities for audit activity, the regulatory framework and the annual statement of accounts.

##### **Terms of Reference**

- To review the Terms of Reference of the Audit Committee and whether they are fit for purpose and have delivered the recommendations arising from the original Policy Overview Committee review of 2006
- To fully examine the Department for Communities and Local Government's (DCLG) recent proposals on the Future of Local Public Audit and the likely impact on local authority Audit Committees
- To assess the value (or otherwise) that the Audit Committee adds to this Council's financial and non-financial performance, the financial reporting process, financial compliance, governance and risk management procedures.
- To examine the role of the Audit Committee within the Council's decision making structure and reporting arrangements.
- To examine the roles and responsibilities of Officers advising the Committee and the External Auditor.
- To investigate best practice in Audit arrangements in the private sector and public sector.
- To make recommendations to Cabinet on the outcome of this review, and where there are any constitutional changes required, onto full Council following Cabinet approval.

## **Reasons for the review**

The Council at its meeting in May 2006 agreed to the establishment of an Audit Committee and asked the Corporate Services & Partnerships Policy Overview Committee to look at the Committee's role and scope. The results of the review were reported to Cabinet in December 2006 when the Audit Committee's role and scope, together with the terms of reference of the Committee were agreed.

Some four years after its formation, the time is ripe to review the effectiveness of the Audit Committee. The review will assess the Committee's effectiveness in relation to the independent assurance it provides on the Council's risk management framework and associated internal control environment. In addition it will look at how effective it is in relation to leadership on governance, financial reporting and audit issues.

A review would also be timely in view of recent proposals launched and consultation undertaken by the Department for Communities and Local Government on the future of local public audit. With this proposal and the recent announcement of the abolishment of the Audit Commission, the Government wants to refocus the audit of public bodies and give local people the power to hold local public bodies to account for local spending decisions.

The Government's proposals are for a new audit framework which would be designed to be more closely aligned with the statutory arrangements, professional ethical and technical standards that currently apply to the private sector.

However, it should be noted that the proposals contained in the DCLG consultation will not become legislation during the time span of the review.

## **Supporting the Cabinet & Council's policies and objectives**

The Audit Committee is responsible for independently assuring that the financial management of the Council is adequate and effective and that the Council has a sound system of internal control. This also includes consideration of risk management issues and performance reports that are covered under the Cabinet's responsibility.

It executes much of its role independently from the Cabinet and other Committees of the Council. It provides an annual report to full Council each year.

## **INFORMATION AND ANALYSIS**

### **Key Issues**

- To examine the Audit Committee's terms of reference and to look at how the Audit Committee fits into the Council decision-making structure
- The independence of the Audit Committee and the experience of the members of the Committee

- The implications of the DCLG consultation on the Future of Local Public Audit on the role of local audit, particularly in relation to the Audit Committee having a role in the appointment and monitoring of the External Auditors
- The transparency of the audit process within the Council and giving careful consideration to whether the results of local audit work was easily accessible
- How effective is the assurance the Committee gets from Council officers that appropriate action has been taken to address risk and control issues and to respond to issues raised by the external auditor
- 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?
- To look at the workings of other local authority Audit Committees and best practise used

### **Remit - who / what is this review covering?**

The review will be looking at the financial controls within the Council, with emphasis on Internal Audit. Also the External Auditor of the Council. Other local authorities.

The Cabinet Member for Finance, Property and Business Services but other Cabinet Members if appropriate.

### **Connected work** (recently completed, planned or ongoing)

The Corporate Services and Partnerships Policy Overview Committee Final Report on "Members' Role in Audit: Terms of Reference for the Audit Committee – Approved by Cabinet – 12 December 2006

Report to Audit Committee on 27 June 2011 on Briefing Note on the Consultation on the Future of Local Public Audit

### **Key information required**

DCLG – Consultation on Future of Local Public Audit

Guidance produced by Chartered Institute for Public Finance & Accountancy (CIPFA)  
The Chartered Institute of Public Finance and Accountancy (CIPFA) Scotland and the Financial Reporting Council

Surveys of other London Borough Council's and their Audit Committee arrangements

Written reports from Head of Audit and Enforcement, Deputy Director of Finance etc  
CIPFA/SOLACE framework – "delivering good governance in local Government"

Requirements of the Accounts and Audit Regulations 2011

## **EVIDENCE & ENQUIRY**

### **Witnesses**

Head of Audit and Enforcement – LBH

Chairman of Audit Committee and other Committee Members- LBH

Corporate Services & Partnerships POC 20 October 2011

PART 1 – MEMBERS, PUBLIC & PRESS

---

Deputy Director of Finance – LBH  
Deloitte – External Auditors  
Officers from other Local Authorities  
A representative from CIPFA  
A Chairman of an Audit Committee in the private sector

### **Intelligence**

*Are there existing surveys, intelligence or feedback from service users or residents that can be used? (Seek advice from Customer Engagement Team / Policy Team).*

*There should also be reference made to relevant literature and websites for background reading for Members.*

### **Consultation and Communications**

Survey / questionnaire to other LAs  
London Democratic Services Forum survey

### **Lines of enquiry**

1. What is Audit? Please describe its purpose, scope and function.
2. What are the key linkages between Audit and other business disciplines and processes such as accounting, financial management, business planning, risk management and performance management?
3. What is the role of Members in Audit?
4. What are the advantages of Hillingdon having a separate Audit Committee?
5. Is the scope of Hillingdon's Audit Committee sufficient to enable it to function effectively?
6. What are the powers that Hillingdon's Audit Committee have in relation to (a) Council, Cabinet and other Member-level committees and (b) officers?
7. 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?
8. What are the advantages and disadvantages of the Audit Committee having an independent Chairman? What would the advantages be of the Audit Committee consisting of a majority of independent Members?
9. How effective is the relationship that Audit Committee has with the External Auditors?
10. What level of training do Audit Committee Members require?

## **PROPOSALS**

*Are there any early ideas or recommendations emerging from the Committee to meet the objective of this review? This section will, of course, be fleshed out in more detail towards the end of the review.*

## **LOGISTICS**

### **Proposed timeframe & milestones**

<b>Meeting Date *</b>	<b>Action</b>	<b>Purpose / Outcome</b>
21 July 2011	Agree Scoping Report	Information and analysis
13 September 2011	Witness Session 1	Evidence & enquiry
20 October 2011	Witness session 2	Evidence & enquiry
10 November 2011	Witness session 3	Evidence & Enquiry and consideration of initial recommendations

*\* Specific meetings can be shortened or extended to suit the review topic and needs of the Committee*

### **Risk assessment**

There are no high risk factors that have been identified which might hinder the success of the review, however it should be noted that there are proposals contained within the “Future of Local Public Audit” consultation which when enacted will change the arrangements for local audit. The review should bear this in mind when reaching its conclusions.

### **Equality Implications**

The Council has a public duty to eliminate discrimination, advance equality of opportunity and foster good relations across protected characteristics according to the Equality Act 2010. Our aim is to improve and enrich the quality of life of those living and working within this diverse borough. Where it is relevant, an impact assessment will be carried out as part of this review to ensure we consider all of our residents' needs.