

## **First Major Review – Effectiveness of the Audit Committee and its Terms of Reference – Third Witness Session**

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### **REASON FOR ITEM**

This is the third 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 areas and issues explored with witnesses in the other two witness sessions.

### **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. This is the third witness session of this Committee's review into the Effectiveness of the Audit Committee and its Terms of Reference. For this meeting Ian Luder, an experienced Independent Member of the Royal Borough of Chelsea and Kensington's Audit Committee, and the Vice-Chairman of the City of London's Audit and Risk Management Committee has kindly agreed to attend the meeting to pass on his experience of Audit Committees, particularly as an Independent Member.
2. Ian is a Chartered Accountant and Chartered Tax Adviser, and a partner in the London Office of Grant Thornton UK LLP. Ian was President of the Chartered Institute of Taxation in 1994/95. Prior to this Ian was a Member of Bedford Borough Council for 23 years, including 5 as Chairman of its Policy Committee. It will be interesting for the review to gain his perspective on the role of the Audit Committee within a local authority from both Member and Independent Member perspectives.
3. In addition, John Morley, this Council's Independent Chairman of the Audit Committee has been invited to attend this meeting.
4. For the benefit of Members, below is a brief summary of some of the issues and areas which have been covered in the previous two witness sessions:

**John Morley, Independent Chairman of this Authority's Audit Committee and Jonathan Gooding of Deloitte**

- 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.

**Councillor George Cooper, Member of this Authority's Audit Committee**

- The Audit Committee had an important role to play and provided reassurance that procedures were in place to protect the Council
- For example in relation to the Corporate Risk Register, the Audit Committee's role was to scrutinise the processes behind the risk register and to ensure processes were in place to protect the Council
- Reference was made to the Internal Audit service within the Council which tried to identify internal weaknesses before weaknesses were exposed. This was an important role of the Audit Committee
- It was important that Audit Committee Members were trained to ensure that they could carry out their duties efficiently
- Training needed to be on-going and the use of Internal Audit case studies would be a good means of giving Members practical training
- Audit Committee substitutes had an important role to play and they also required training

- It would be beneficial for Substitute Members of the Audit Committee to attend Audit Committees, and to receive agenda, to ensure they were up-to-date on the workings of the Committee
  - Reference was made to the importance of building up a number of suitably trained Substitute Members
  - The membership of the Audit Committee, in relation to both Council and Independent Members could be increased
  - A second Independent Member would balance up the membership of the Audit Committee and would also ensure that the task of succession planning was much easier should the present Independent Chairman step down
  - The Chairmen of each of the Policy Overview Committees could be Members of the Audit Committee. Chairmen would have the knowledge and understanding of the service areas under their Policy Overview Committee remit which would be beneficial in their role as Members of the Audit Committee
  - Reference was made to the proposal contained in the Department for Communities and Local Government consultation on the Future of Local Public Audit whereby local Audit Committees would be responsible for the appointment of External Auditors. An additional Independent Member would provide further impartiality for this task
  - It would be preferable for Members (and Independent Members) to have auditing skills or a similar background
  - The Audit Committee was reliant on the professionalism of the Audit officers who worked on a daily basis on audit issues. Therefore the balance was correct in terms of officers providing the agenda for the Audit Committee for Members to monitor and oversee
  - The Audit Committee did receive sufficient assurances from officers on internal audit matters and there were occasions where Corporate Directors and Heads of Service attended Audit Committees to update Members on agreed recommendations from Internal Audit findings and opinion, which had not been implemented
  - The summary of Internal Audit reports was sufficient in detail for the Audit Committee to scrutinise as full reports would be too detailed for the Audit Committee to scrutinise. Officers provided more detail if required
  - The Audit Committee worked very well and made challenges to the Head of Audit and Enforcement
5. Attached to this report is the Audit Committee present Terms of Reference (**Appendix 1**) and the review's scoping report (**Appendix 2**). For the purpose of the review it would be beneficial for Members to discuss the Terms of Reference to assess the appropriateness of them and where necessary to suggest amendments or changes.

## **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. In relation to other Authorities Audit Committee Terms of Reference, which areas of good practice could Hillingdon adopt?
4. Is the scope of Hillingdon's Audit Committee's Terms of Reference sufficient to enable it to function effectively? If it is not sufficient, what changes could be made to make it more effective?
5. 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?
6. What are the advantages and disadvantages of the Audit Committee having Independent Members and should there be a balance of Elected Members and Independent Members on an Audit Committee?
7. How does the Audit Committee at other Authorities provide effective challenges 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?
8. Where does the Audit Committee fit into the Decision Making Structure other Authorities? Where do the Minutes / decisions of Audit Committee go?

## **PAPERS WITH THE REPORT**

Existing Terms of Reference of the Audit Committee (Appendix 1)  
Scoping Report (Appendix 2).

## **SUGGESTED COMMITTEE ACTIVITY**

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