

CORPORATE SERVICES & PARTNERSHIPS POLICY OVERVIEW

COMMITTEE REVIEW OF THE EFFECTIVENESS OF THE AUDIT COMMITTEE AND ITS TERMS OF REFERENCE

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Cabinet Portfolio	Finance, Property and Business Services
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Papers with report	Corporate Services & Partnerships Policy Overview Committee review of the Effectiveness of the Audit Committee and its Terms of Reference

HEADLINE INFORMATION

Purpose of report	To receive the Corporate Services & Partnerships Policy Overview Committee's report providing recommendations on the review undertaken on the Effectiveness of the Audit Committee and its Terms of Reference
Contribution to our plans and strategies	The Audit Committee is responsible for independently reviewing the adequacy of the arrangements for the financial management of the Council and its system of internal control. This also includes consideration of risk management issues that are covered under the Cabinet's responsibility. The Audit Committee executes its review role independently from the Cabinet and other Committees of the Council.
Financial Cost	The remuneration for the proposed additional Independent Member.
Relevant Policy Overview Committee	Corporate Services & Partnerships Policy Overview Committee
Ward(s) affected	N/A.

RECOMMENDATIONS

That Cabinet:

1. Welcomes the report from the Corporate Services & Partnerships Policy Overview Committee (as in Appendix 1) on the review into the Effectiveness of the Audit Committee and its Terms of Reference and
2. Notes that the Leader of the Council and Cabinet Member for Finance, Property and Business Services will fully consider the recommendations of the Policy Overview Committee and, where appropriate, present proposals to a future meeting of Council for approval.

PART I - MEMBERS, PUBLIC & PRESS

Policy Overview Committee Recommendations

- a) That the membership of the Audit Committee be increased to 8 Members, which would include 2 Independent Members.**
- b) That the quorum rules for the Audit Committee be changed so that no business can be transacted unless half of the number of Committee Members are present, which is in line with the quorum rules for Policy Overview Committees.**
- c) That the number of substitute Members for the Audit Committee is increased to 5 and they be provided with copies of agenda to enable them to retain their expertise and knowledge.**
- d) To ensure continuity of the membership of the Audit Committee, there is no limit on the Terms of Office of Members of the Audit Committee.**
- e) That the Terms of Reference of the Audit Committee be amended to include the receipt of full Internal Audit reports, if requested by the Committee.**
- f) That the Terms of Reference of the Audit Committee be amended to include the power to invite relevant Heads of Service, Corporate Directors and Cabinet Members to answer questions on the implementation of outstanding audit recommendations where satisfactory assurance levels have not been received.**
- g) That the Terms of Reference of the Audit Committee be amended to include reference to both the external auditor and the Head of Audit and Enforcement meeting separately and in private with the Audit Committee.**
- h) That the Terms of Reference of the Audit Committee be amended to include the role of the Audit Committee in the effective scrutiny of the Council's Treasury Management function.**
- i) That a skills audit be carried out on the membership of the Audit Committee on an annual basis to ascertain the relevant experiences to feed into any future decisions on the membership of the Committee.**
- j) That London Councils be asked to give consideration to the development of a Pan-London Network of Chairmen of Audit Committees.**

Reasons for recommendation

The Audit Committee and its Terms of Reference were agreed by the Council at its meeting on 25 January 2007. This stemmed from a review by the Corporate Services & Partnerships Policy Overview which looked at the role of Members in Audit and suggested Terms of Reference for the Audit Committee, which Council agreed.

This follow up review assessed the Audit Committee's effectiveness and its Terms of Reference and in particular how effective the Committee was in relation to governance, financial reporting and audit issues. The review was also timely in view of the recent proposals contained in the Department for Communities and Local Government (DCLG) consultation on the future of local public audit, whereby the Government wishes to refocus the audit of public bodies and give local people the power to hold public bodies to account for local spending decisions.

Alternative options considered / risk management

The Cabinet could decide to reject some or all of the Committee's recommendations.

Supporting Information

1. The Terms of Reference of the review were as follows:

- 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.

2. The DCLG proposals, whilst not yet enacted, were considered significant and relevant to the review and allied to this were the practical experiences which the various witnesses reported to the Committee.

3. The review took place between July 2011 and November 2011 and received evidence from the Independent Chairman of the Audit Committee at Hillingdon, an experienced Member from the Audit Committee at Hillingdon, the Head of Audit and Enforcement at Hillingdon, the Senior Audit Manager from the Council's External Auditor and from an Independent Member of the Royal Borough of Kensington & Chelsea's Audit Committee and Vice-Chairman of the City of London's Audit and Risk Management Committee.

4. Subject to Cabinet's endorsement of the review's recommendations a) to h) which relate to changes to the Terms of Reference to the Audit Committee and changes to the Council's Constitution, Council will be recommended to approve the changes at the Annual Council meeting to be held on 12 May 2012.
5. Implementation of Recommendation i) which relates to carrying out a skills audit on the membership of the Audit Committee on an annual basis to ascertain the financial experience of Members would be carried out by the Head Audit and Enforcement after each Annual Council, when the membership of the Audit Committee is determined. This would be useful and would provide a guide for officers on the areas of expertise of Members, and the gaps in expertise (if any) which existed. This would identify any training needs or requirements for membership and would provide a record of relevant financial experience.
6. In relation to recommendation j) and the setting up a Pan-London Network of Chairmen of Audit Committees, the review heard from witnesses who commented that it would be very useful for Chairmen of London Borough Audit Committees to meet and exchange views. London Councils would be best placed to facilitate this and subject to Cabinet endorsement, officers will approach London Councils with this request.
7. This review has the support of the Head of Audit & Enforcement, who participated significantly in this review.

Financial Implications

There are no direct financial implications within this report other than the additional cost associated with appointing a further independent committee member (£2-3k). Such costs would be contained within existing revenue budgets and will be offset by a reduction in external audit fee following the abolition of the Audit Commission.

EFFECT ON RESIDENTS, SERVICE USERS & COMMUNITIES

What will be the effect of the recommendations?

The effectiveness of the Audit Committee in relation to its role on governance, financial reporting and audit issues will be increased further with the implementation of these recommendations.

Consultation Carried Out or Required

The Committee took evidence from a number of witnesses.

CORPORATE IMPLICATIONS

Corporate Finance

Corporate Finance has closely liaised in the authorship of this report and concurs with the financial implications outlined above. Following the publication of the DCLG consultation 'Future of Local Public Audit' in March 2011 it became clear that the role of Local Authorities audit committees would become increasingly focussed on providing local and independent audit scrutiny and it is towards facilitating this that the Policy Overview Recommendations are made.

Legal

The main purpose of an Audit Committee, in general terms, is to provide independent assurance to Members and the public of the Council's risk management framework, to provide independent scrutiny of the Council's financial and non-financial performance and to oversee the Council's financial reporting process.

The Audit Committee is a non-executive Committee and its functions are delegated to it by full Council. The Audit Committee's current terms of reference can be found at Paragraph 8.08 of Article 8 of the Council's Constitution.

The Corporate Services and Partnerships Policy Overview and Scrutiny Committee has carried out an in-depth review into the effectiveness of the Audit Committee and its terms of reference.

Cabinet will note that the DCLG has issued a Consultation document on the Future of Local Public Audit. Although the proposals contained within the Consultation Document have yet to be translated into legislation, this has not precluded the Policy Overview Committee from taking them into account as part of its overall review.

The first eight recommendations of the Policy Overview Committee would require a change to the Council's Constitution and they would therefore have to be formally agreed by full Council.

BACKGROUND PAPERS

None.