

Effectiveness of the Audit Committee and its Terms of Reference

Report of the Corporate Services & Partnerships Policy Overview Committee 2011/12



Members of the Committee

Cllr Richard Lewis (Chairman)
Cllr Michael White (Vice-Chairman)
Cllr Beulah East
Cllr Neil Fyfe
Cllr Robin Sansarpuri
Cllr Raymond Graham
Cllr Shirley Harper-O'Neill
Cllr Richard Mills



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Chairman's Foreword



This review has given the Council the opportunity to review for the first time the effectiveness of the Audit Committee and its Terms of Reference, which were suggested by this Committee and endorsed by Full Council at the establishment of the Audit Committee in 2006.

It is an appropriate time to re-look at the Committee structure given the recent Government proposals on the future of local public audit and the forthcoming abolition of the Audit Commission.

As a Member also of the Audit Committee I have first hand knowledge and experience on the workings of the Audit Committee and its role in relation to governance, financial reporting and audit issues. I believe sound financial controls are essential if our residents are to receive the services they deserve, and that as elected Members we have a key role in ensuring that this Council spends its money wisely. The elected Members and independent Committee Members of the Audit Committee fulfil this vital role on behalf of the residents of Hillingdon.

I would like to sincerely thank the witnesses who gave evidence to the Committee and to the officers who so ably supported us during this review.

I am pleased to submit the review's recommendations to Cabinet for its endorsement.

A handwritten signature in blue ink, appearing to read 'R. Lewis'. The signature is written in a cursive style and is positioned above a horizontal line.

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RECOMMENDATIONS

RECOMMENDATION 1 – That the membership of the Audit Committee be increased to 8 Members, which would include 2 Independent Members.

RECOMMENDATION 2 – 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.

RECOMMENDATION 3 – That the number of substitute Members for the Audit Committee be increased to 5 and they be provided with copies of agenda to enable them to retain their expertise and knowledge.

RECOMMENDATION 4 – To ensure continuity of the membership of the Audit Committee, there be no limit on the Terms of Office of Members of the Audit Committee.

RECOMMENDATION 5 – 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.

RECOMMENDATION 6 – 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.

RECOMMENDATION 7 – 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.

RECOMMENDATION 8 – 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.

RECOMMENDATION 9 – 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.

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RECOMMENDATION 10 – That London Councils be asked to give consideration to the development of a Pan-London Network of Chairmen of Audit Committees.

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BACKGROUND

The London Borough of Hillingdon's Audit Committee was first established at the Annual Council meeting on 18 May 2006. The Council asked that the Corporate Services & Partnerships Policy Overview Committee (POC) look at the proposed terms of reference of the Audit Committee. To this end, the Committee undertook a review in 2006/7 looking at the Role of Members in Audit and suggesting Terms of Reference of the Audit Committee.

At the Cabinet meeting on 12 December 2006 the recommendations of the POC review were agreed and the Audit Committee was formally established and its Terms of Reference agreed at the Council meeting in January 2007.

On 21 July 2011 the Corporate Services & Partnerships Policy Overview Committee began its follow-up review to assess the Audit Committee's effectiveness and its Terms of Reference and in particular, the independent assurance it provided on the Council's risk management framework and associated internal control environment. In addition it looked at how effective it was in relation to governance, financial reporting and audit issues.

The review was timely in view of recent proposals launched and consultation undertaken by the Department for Communities and Local Government (DCLG) on the future of local public audit. With this proposal and the recent announcement of the abolition of the Audit Commission, the Government wished 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.

The review noted that the proposals contained in the DCLG consultation would not become legislation during the time span of the review but recognised the positives of the proposals in relation to improving local public audit.

OBJECTIVES

The main objective of the review was to assess the effectiveness of the Audit Committee and its terms of reference since it was set up by this Council at its meeting on 25 January 2007. The review also looked at the Audit Committee's role in terms of its responsibilities for audit activity, the regulatory framework and the annual statement of accounts.

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.

Supporting the Cabinet & Council's policies and objectives

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.

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

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To achieve the above objectives, Members held four meetings on 21 July, 13 September, 20 October and 10 November 2011 when background reports and evidence were received to help Members in formulating the review's findings.

The information, evidence and findings of the review are set out in the next sections under the following headings:

1. Information and analysis
2. Evidence and enquiry
3. Recommendations

INFORMATION AND ANALYSIS

The review's first meeting took place on 21 July 2011 when the Head of Audit and Enforcement provided Members with a general overview of the responsibilities of the Audit Committee. Included in this initial information gathering meeting was the existing Terms of Reference which are attached to this report as an appendix.

As a result of the initial meeting Members identified a number of key issues which the review would examine:

- Looking at how the Audit Committee fitted 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 were the assurances the Committee received from Council officers that appropriate action had 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 monitoring on governance, financial reporting and audit issues?
- To look at the workings of other local authority Audit Committees and best practise used

Government Consultation on Local Public Audit

The DCLG Consultation document on the Future of Local Public Audit contained proposals relating to the structure of audit committees and Independent Members of the Committee. In relation to the structure of an audit committee it envisaged by the Government that in the new system an audit committee could be structured in the following way:

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- The Chairman should be independent of the local public body. The vice-chairman would also be independent, to allow for the possible absence of the chairman
- The elected members on the audit committee should be non-executive, non-cabinet members, sourced from the audited body and at least one should have recent and relevant financial experience (it also recommended that a third of members have recent and relevant financial experience where possible)
- There should be a majority of members of the committee who were independent of the local public body

In relation to Independent Members of the Committee it was suggested by the Government that when choosing an Independent Member of the Committee, a person should only be considered for the position if he or she;

- has not been a member nor an officer of the local authority / public body within five years before the date of the appointment
- Is not a member nor an officer of that or any other relevant authority
- Is not a relative nor a close friend of a member or an officer of the body / authority
- Has applied for the appointment
- Has been approved by a majority of the members of the council
- Has responded to an advert for the position which has been advertised in at least one newspaper distributed in the local area and in other similar publications or on websites that the body / local authority considered appropriate

Whilst noting that these proposals would not become legislation before the end of the review, Members noted their significance and relevance to the findings of the review and these suggestions were put to witnesses to gauge their opinions.

To enable Members of the Corporate Services & Partnerships Policy Overview Committee to have a greater understanding on the role of an Audit Committee, Members were invited to attend a meeting of the Audit Committee to observe proceedings. In addition background material was provided to further help Members' knowledge of the Audit Committee. This included:

- Report to Audit Committee on 27 June 2011 on "Briefing Note on the Consultation on the Future of Local Public Audit"
- Report to Council on the Work of the Audit Committee 2010/11
- DCLG – "Consultation on Future of Local Public Audit"

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- “Practical Guidance for Local Authorities” produced by Chartered Institute for Public Finance & Accountancy (CIPFA)
- “Audit Committee Update No.5” – Issued by CIPFA better governance forum

EVIDENCE & ENQUIRY

For the witness sessions held on 13 September, 20 October and 10 November 2011, the review received evidence from:

- John Morley, Independent Chairman of LBH's Audit Committee
- Jonathan Gooding, Senior Audit Manager for the Council from Deloitte
- Councillor George Cooper, experienced Member of Hillingdon's Audit Committee
- Ian Luder, 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.

A summary of the evidence from those witnesses are included as Appendix ii to this report.

Membership of an Audit Committee

The current Membership of Hillingdon's Audit Committee is 5 Members, which consists of 1 Independent Member who is the Chairman, and 4 Members of the Council who are non-executive Members. To assist the review Members were provided with details of the memberships of other London Borough Audit Committees as follows:

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

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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

The Council's Policy Overview Committees currently each have a membership of 8 Members and the membership of the Audit Committee could be brought in line with these Committees.

There have been some issues regarding the present Audit Committee being quorate for some meetings as the rules for the Audit Committee regarding a quorum are that 4 Members (out of the 5 Members) have to be present to ensure business can be transacted at a meeting. This is a particularly high figure when compared to say the quorum rules for the Council's Policy Overview Committees, whereby the rules state that no business can be transacted unless half of the number of Committee Members are present. (Policy Overview and Scrutiny Procedure Rules – Schedule E of the Council's Constitution).

The consensus of opinion of all witnesses was that 5 Members for LBH's Audit Committee was a small number by comparison to other local authorities and a more realistic number would be around 7-9 Members. This would bring the Audit Committee in line with the Council's Policy Overview Committees.

Increasing the membership of the Audit Committee to 8 Members and bringing the rules on a quorum in line with the rules for Policy Overview Committees, would reduce the risk of meetings being inquorate.

In addition having more Members on the Audit Committee would spread the knowledge and expertise needed for oversight in the areas of financial and operational control, risk management and fraud.

Independent Members on Audit Committees

Independent Members are neither elected Members nor officers of the Authority. The current Chairman of the Audit Committee is an Independent Member. This has strengthened the Audit Committee and has ensured the transparency and impartiality of its working. However, having just one Independent Member places an over reliance on one person's expertise, which would be absent were he not able to attend.

Although the terms of office of the present Independent Member is not time limited, having one Independent Member could create a problem in relation to succession planning.

The DCLG consultation on the Future of Local Audit does propose that local authority Audit Committees should have more than one Independent Member and this approach was supported by all witnesses during the review. The consultation also proposes that the Vice-Chairman of the Audit Committee should also be an Independent Member, to allow for the possible absence of the Chairman.

By way of comparison, at the time this review took place, this Authority's Standards Committee had three Independent Members, which included both the Chairman and Vice-Chairman of the Committee and this approach could be applied to the Audit Committee. In the private sector, Audit Committees also include Independent Members who have no connection with the body concerned.

RECOMMENDATION 1 – That the membership of the Audit Committee be increased to 8 Members, which would include 2 Independent Members.

RECOMMENDATION 2 – 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

Substitute Members

The Audit Committee under its present guise also has 4 substitute Members who are appointed to the Committee at the Annual Meeting of Council. These substitute Members only attended the Audit Committee meetings when

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required to attend as substitutes, however it was raised during the review that these Members should also be invited to attend meetings as observers to enable them to understand the workings of the Committee. The review was informed that the Head of Audit and Enforcement did provide training to substitute Members but it was felt that the best way for Members to become sufficiently skilled, would be to receive agenda and reports, and to attend the occasional meeting.

To further spread the audit and financial management expertise and skills, the review felt that the number of substitute Members be increased to five Members. This would also reduce the risk of an absent Member not finding a suitable Member to substitute for him or her.

RECOMMENDATION 3 – That the number of substitute Members for the Audit Committee be increased to 5 and they be provided with copies of agenda to enable them to retain their expertise and knowledge.

Terms of Office

When the Audit Committee was set up it was agreed that the terms of office of elected Members should be for a fixed period and the Council's Constitution does state that Members should not serve for longer than four years. However, during this review, a number of witnesses talked about the need for the continuity of service of Members to ensure that the knowledge and expertise that they had built up was not lost.

An option for this could be to stagger the terms of office of Members to ensure that there was not a risk of losing all Members with relevant experience of the Audit Committee. This was a strategy used by local authorities who had regular local elections which meant there was a risk that experienced Members could lose their seats on the Council. This was not the case for Hillingdon as Council elections were held every four years when all Members of the Council contested their seats.

Another option considered was the general rotation of a group of Members to ensure that there was a wide group of Members with suitable skills and expertise to fulfil their duties as an Audit Committee Member and to provide the Council with a larger number of Members with relevant experience.

It was therefore felt on balance, that the fixed time limit on membership be removed to enable the skills and expertise of the limited number of Members to be retained. This would require an amendment to Article 8 – Council Committees and Bodies – 8.07 – Audit Committee Membership and the

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removal of “No elected Member may serve for more than four consecutive years on the Audit Committee.”

RECOMMENDATION 4 – To ensure continuity of the membership of the Audit Committee, there be no limit on the Terms of Office of Members of the Audit Committee.

Terms of Reference

The present Terms of Reference of the Audit Committee are attached to this report as Appendix i.

They are largely based on the guidance on Audit Committees which was produced by The Chartered Institute of Public Finance & Accountants (CIPFA). The guidance stressed that Audit Committees have a key role in corporate governance and therefore should be clearly integrated into a local authority’s governance framework.

The main purposes of an Audit Committee include giving independent assurance to Members and the public, scrutinising financial management and reporting and providing challenges across the Council. In addition to internal and external audit, the Audit Committee also has functions in relation to a number of control strategies such as risk management, the authority’s governance and assurance statements and anti-fraud and anti-corruption arrangements.

During the witness sessions for the review discussion took place on the appropriateness of the Audit Committee’s Terms of Reference. Overall the consensus of opinion was that the Terms of Reference helped the Committee fulfil their role and duties effectively; however, there were a couple of areas where this effectiveness could be strengthened.

The Council’s Internal Audit service is mainly provided by an in-house team. High levels of assurance are important to the Head of Audit and Enforcement’s assurance statement, which in turn supports the Council’s Annual Governance Statement. The acceptance and implementation of audit recommendations is a key element of improving overall financial controls.

At present during the year, the Audit Committee receives regular updates on performance and summaries of Internal audit reports which also include the main recommendations as suggested by the Head of Audit and Enforcement. The Committee plays an important role in raising the profile of Internal Audit by supporting it in its role of assisting management in the Council.

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In the main this works very well, and the Committee receives excellent summary reports and explanations from the Head of Audit and Enforcement. However, it was suggested that consideration should be given to the provision of more detailed full Internal Audit reports, if requested by the Committee.

This could be in relation to any high risk or unsatisfactory assurance levels which had been received to any internal audit. The counter argument to this would be that Internal Audit reports were very detailed and the Committee would find it difficult to scrutinise these highly detailed and complex audits. However, provision should be contained within the Committee's Terms of Reference to allow the Committee to request full reports, if required and on an occasional rather than consistent basis.

RECOMMENDATION 5 – 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.

The present arrangements for the Audit Committee are that where the Committee are not satisfied with the implementation of outstanding audit recommendations and do not receive satisfactory assurance levels, Corporate Director and Head of Services are invited to attend the Audit Committee to answer Members' questions. This arrangement on the whole has worked very well and the Audit Committee has received sufficient assurance from senior officers on outstanding recommendations but this arrangement is not specifically included in the Audit Committee's Terms of Reference.

The review was informed that there are powers which are included in Part 4, Schedule B of the Council's Constitution, whereby the Audit Committee can require relevant Cabinet Members and officers to attend the Committee to answer questions. The review agreed that for completeness the Audit Committee's Terms of Reference should explicitly include this power under its "Audit Activity" responsibility.

RECOMMENDATION 6 – 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.

Overall, from the evidence received, there seemed to be general agreement with the existing Terms of Reference of the Audit Committee and that the

Committee was working effectively to ensure the financial management of the Council was to the required standard.

External Audit

Another role of the Audit Committee is to receive and consider the work of the Council's external auditor. Included in this is the Audit Committee's contribution to the Council's response to the External Auditor's annual audit and inspection letter, reports and opinion. Hillingdon's external auditors attend each of the meetings of the Audit Committee and an excellent relationship has been built up between the Head of Audit and Enforcement and the Audit Manager of the external auditors.

CIPFA guidance on Audit Committees for local authorities includes reference to there being an opportunity for the Audit Committee to meet privately and separately with the external auditor, independent of the presence of those officers with whom the auditor must retain a working relationship. This already takes place in Hillingdon and it was suggested during the review that this should be identified in the Committee's Terms of Reference. In addition, the Audit Committee also meets in private and separately with the Head of Internal Audit and Enforcement and again the review agreed that this should also be included in the Committee's Terms of Reference.

RECOMMENDATION 7 – 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.

The Annual Treasury Management Strategy is agreed by Council as part of Budget setting each February. The strategy is also considered by the Audit Committee in advance of it being taken to Council in order to allow greater scrutiny of it. This particular role which the Audit Committee has in relation to the Treasury Management strategy is not contained within its terms of reference and the review agreed that for completeness this be added to the Audit Committee's Terms of Reference.

RECOMMENDATION 8 – 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.

Financial Experience and training

Members of the Audit Committee have a key role in ensuring that the Council has sound financial controls in place to provide the services which residents deserve.

It was acknowledged during the witness sessions that local government finance and the accounting process were complex and different from the private sector, and having some Members of the Audit Committee with a financial background would be advantageous. However it was also acknowledged that other skills such as business acumen, IT skills, accountancy, audit, risk management and governance, etc were also important.

The DCLG proposals in the consultation on the “Future of Local Audit” envisaged that the structure of the Audit Committee should compose of at least one third of elected Members having recent and relevant financial experience. The present membership of the Audit Committee fulfils these requirements.

The review received details of the level of training which all Members of the Audit Committee received. The Head of Audit and Enforcement ensures that any new Member of the Audit Committee who had been appointed by Annual Council, receives, as an introduction to the Audit Committee and the work of Internal Audit, a one to one session to identify possible training needs.

In Hillingdon, throughout the Municipal Year training sessions take place at Audit Committee meetings to add further to Members’ knowledge. Sessions had taken place on the Treasury Management Strategy and the International Financial Reporting Standards and last year, the Committee held a workshop which looked at the effectiveness of the workings of the Audit Committee. The point was made at one of the witness sessions that attendance at Audit Committee meetings provided practical training for Members and that through the Municipal Year Members would build up a knowledge base to enable them to carry out their duties effectively.

It would be useful for a skills audit to be carried out for Audit Committee Members which could provide details on the skills and knowledge of Members and 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 a membership and would provide a record of relevant financial experience.

RECOMMENDATION 9 – 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.

Pan-London Network of Chairmen of Audit Committees

During the review, a number of witnesses made the comment that it would be useful for Chairmen of London Borough Audit Committees to have the opportunity to meet and exchange views and to develop best practise in the field of local authority Audit Committees. It was suggested that London Councils be approached to consider the setting up a Pan- London Network of Chairmen of Audit Committees.

RECOMMENDATION 10 – That London Councils be asked to give consideration to the development of a Pan-London Network of Chairmen of Audit Committees.

Appendix i

Terms of Reference of the Audit Committee

This Committee will be responsible for ensuring that the financial management of the Council is adequate and effective and that the Council has a sound system of internal control. This Committee will also consider risk management issues and performance reports.

The Constitution defines the terms of reference for the Audit Committee as:

Statement of Purpose

The purpose of Audit Committee is to:

- provide independent assurance of the adequacy of the Council's risk management framework and the associated control environment
- provide 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
- oversee the financial reporting process.

Audit Activity

The Audit Committee will:

1. Approve but not direct Internal Audit's strategy and plans, ensuring that work is planned with due regard to risk, materiality and coverage. This will not prevent Cabinet directing Internal Audit to review a particular matter.
2. Review the Head of Internal Audit's Annual Report and Opinion and Summary of Internal Audit Activity (actual and proposed) and the level of assurance this can give over the Council's corporate governance arrangements.
3. Review summaries of Internal Audit reports and the main recommendations arising.
4. Review a report from Internal Audit on agreed recommendations not implemented within a reasonable timescale.

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5. Consider reports dealing with the management and performance of the providers of internal audit services.
6. Receive and consider the External Auditor's annual letter, relevant reports and the report to those charged with governance.
7. Monitor management action in response to issues raised by External Audit.
8. Receive and consider specific reports as agreed with the External Auditor.
9. Comment on the scope and depth of External Audit work and ensure that it gives value for money.
10. Liaise with the Audit Commission over the appointment of the Council's External Auditor.
11. Commission work from Internal and External Audit, following a formal request by the Committee to and a joint decision from the Leader of the Council and Cabinet Member for Finance & Business Services.
12. Ensure that there are effective arrangements for ensuring liaison between Internal and External audit.

Regulatory Framework

The Audit Committee will:

1. Maintain an overview of the Council's Constitution in respect of contract procedure rules, financial regulations and codes of conduct and behaviour. And, where necessary, bring proposals to the Cabinet and/or Council for their development.
2. Review any issue referred to it by the Chief Executive or a Director, or any Council body.
3. Approve and regularly review the Authority's risk management arrangements, including regularly reviewing the corporate risk register and seeking assurances that action is being taken on risk related issues.

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4. Review and monitor Council policies on 'Raising Concerns at Work' and anti-fraud and anti-corruption strategy and the Council's complaints process.
5. Oversee the production of the Authority's Statement of Internal Control and recommend its adoption.
6. Review the Council's arrangements for corporate governance and agree necessary actions to ensure compliance with best practice.
7. Consider the Council's compliance with its own and other published standards and controls.

Accounts

The Audit Committee will:

1. 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 financial statements or from the auditor that need to be brought to the attention of the Council.
2. Consider the External Auditor's report to those charged with governance on issues arising from the audit of the accounts.

Summary of views from witnesses

John Morley – Chairman of LBH’s Audit Committee

- Audit Committees in the public sector was a relatively new phenomena, although the NHS and Universities had had Audit Committees for considerably longer than local authorities
- The membership of the Audit Committee should be larger and consideration should be given to the appointment of an additional Independent Member. This would balance up the Committee and would fit in with the proposals contained in the Department for Communities and Local Government consultation on the future of local public audit which included a proposal for an Independent Vice-Chairman
- Reference was made to the recent problems with a meeting of the Audit Committee which would have been inquorate due to the absence of three Members. Increasing the membership, the number of substitute Members and making the quorum rules less restrictive would eradicate this problem
- Reference was made to some sectors where Audit Committees had developed much further and Audit Committees looked at strategic risks. Hillingdon’s Audit Committee did not get involved in detailed reviews of Council departments
- Members of Audit Committees should preferably have a financial background which would help Members in their role on the Audit Committee. This should be extended to substitutes.
- Training was given to substitute Members as well as to newly appointed Members of the Audit Committee and this should be continued
- There should be continuity of service with the membership of the Audit Committee to ensure Members were sufficiently skilled to carry out their duties, particularly as local authority accounts were complex
- The Audit Committee received a summary of Internal Audit reports as full reports would contain too much detail to enable Members to scrutinise effectively
- Consideration could be given to providing more than a summary of Internal reports if requested by the Committee
- The Audit Committee invited officers to their meetings if unsatisfactory levels of assurance were received for internal audits. This, however was not written into the Committee’s Terms of Reference although officers always attended if asked to do so. It was agreed that a recommendation of the review could be adding to the Audit Committee’s Terms of Reference, the invitation of officers to meetings to be questioned on unsatisfactory assurance levels received from Internal Audit

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- Peer reviews were useful tools to assess the effectiveness of the Audit Committee and the Head of Audit at Southend on Sea Borough Council had carried one out on this authority's Audit Committee
- A national forum of Chairmen of local authority Audit Committees could help in terms of networking and best practice
- Consideration needed to be given to where the Audit Committee fitted into the Council's Committee structure and which Council decision making body scrutinised Audit Committee minutes
- The Audit Committee met in private, both with the External Auditors and the Head of Audit and Enforcement which was good practice and should be written into the Committee's Terms of Reference

Jonathan Gooding – Senior Audit Manager for the Council (Deloitte)

- The External Auditor's partnership with the Audit Committee was effective and there was a good relationship
- Deloitte was primarily responsible for auditing the Council's Statement of Accounts and considering whether the Council was delivering value for money. The Audit Committee reviewed the External Auditor's reports
- The accounting process for local authorities was complex and different to the private sector and the NHS. Local authorities found it a challenge to appoint Independent Members with the knowledge of local government finance
- The External Auditor reviewed the work of Internal Audit and used the work of Internal Audit to inform their audit and to assess where the risks were
- The membership of Audit Committee of five members was low in comparison to other Audit Committees

Councillor George Cooper – Member of LBH's Audit Committee from January 2007 to present

- 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

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Corporate Services & Partnerships Policy Overview Committee

Final Report on the Effectiveness of the Audit Committee and its Terms of Reference

- 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 when required

Ian Luder – 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

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Corporate Services & Partnerships Policy Overview Committee

Final Report on the Effectiveness of the Audit Committee and its Terms of Reference

- Kensington & Chelsea's Audit Committee consisted of 4 Council Members and 3 Independent Members
- The 3 Independent Members did not have the same terms of office which provided continuity and experience
- It was important for Independent Members to have a good understanding of the workings of an Authority. At Kensington & Chelsea (K & C) copies of agenda, including Cabinet agenda were sent out to Independent Members of the Audit Committee
- There should be provision within the Audit Committee's Terms of Reference for Members to commission reports
- Audit Committees should have effective means of challenge
- Summaries of Internal Audit reports were seen by K & C's Audit Committee. However, if there were high risk / unsatisfactory assurance levels received, Members would expect to see full reports
- The Audit Committee had the authority to invite the relevant Cabinet Member to the Committee if unsatisfactory assurance levels were received and if there was conflict between the Head of Audit and the department, both the relevant Cabinet Member and office holder would be invited to attend the Audit Committee
- The skills required for Audit Committee Members included business acumen, audit governance, IT, Internal Controls and accountancy. A skills audit should take place on those Members elected to an Audit Committee
- At K & C, Independent Members could not be residents of the Royal Borough or have been a Member or officer of the Council in the previous 5 years. This requirement would perhaps not work for all Local Authorities
- The terms of office of Members were staggered to ensure that the expertise and knowledge of the membership would not be lost with local elections and the possibility of Members losing their seats on the Council
- The training of Audit Committee Members was important to ensure the skills and knowledge base was good to enable Members to carry out their duties effectively
- At the City of London Authority interviews would be taking place shortly for another Independent Member, and Members of the Audit Committee would be interviewing candidates
- Reference was made to getting the balance right in terms of training and providing briefings for Independent Members, to ensure they remained impartial and not part of the Authority
- Reference was made to the Department for Communities and Local Government consultation on the Future of Local Audit and the proposal for Audit Committees to have more than one Independent Member
- An appropriate membership of Audit Committee would be 7-9 Members
- A positive development could be a Pan-London network of Chairmen of Audit Committees which would enable an exchange of views and best

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practise to be discussed. Such an idea could be discussed with London Councils

- With regard to Risk Management, K & C's Audit Committee looked at two strategic risks with the risk holder at each meeting
- A possible option for the membership of Audit Committees could be rotation of Members on Cabinet and on the Audit Committee or just a general rotation of a Group of Members. This would increase the skills and knowledge base and would provide a diversity of Member views
- Reference was made to elections which take place in Hillingdon every four years which potentially could mean that a number of experienced Members could lose their seats. Increasing the knowledge base with a number of Members could mitigate this