

# INTERNAL AUDIT

## Effectiveness of the Audit Committee Final Internal Audit Assurance Report 2013/14 24 July 2014

### Final Report Distribution:

Name	Job Title
Cllr George Cooper	Acting Chairman of the Audit Committee
Fran Beasley	Chief Executive & Corporate Director of Administration
Paul Whaymand	Corporate Director of Finance
Lloyd White	Head of Democratic Services

Ownership of all final Internal Audit assurance reports rests with the relevant Audit Sponsor. However, this final report will be presented to the Audit Committee at its planned meeting of 30 July 2014.



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## 1. Introduction

- 1.1 This risk based Internal Audit (IA) Assurance review forms part of the revised 2013/14 IA Plan presented to Audit Committee on 7 January 2014. **The purpose of this review is to provide assurance to Corporate Management Team and the Audit Committee over the following key risks:**
- If the Audit Committee does not effectively support the Council by reviewing the completeness of assurances to satisfy its needs and review the reliability and integrity of those assurances, the Council may be in breach of its statutory obligations which could cause reputational damage or financial loss for the Council;
  - If the Audit Committee is not suitably independent and objective and/ or each Member does not have a good understanding of the Council's objectives, priorities and risks, then Members may be unaware of their roles and responsibilities in relation to the Audit Committee, which could result in an increased likelihood of the Council not achieving its strategic priorities;
  - If the Audit Committee does not contain or have at its disposal an appropriate mix of skills, or its Members have not been adequately trained, there is a risk that Members may not be able to perform their Audit Committee duties effectively and fulfil the requirements of their role;
  - If the scope of work to be performed by the Audit Committee is not suitably defined, there is a risk that it may not encompass all the assurance needs of the Council and the Cabinet; and
  - If the Audit Committee does not fulfil its responsibilities for strategic oversight of the Council's corporate governance arrangements or it fails to engage with its key stakeholders (including IA, External Audit, CMT, and Cabinet), it may result in reputational damage or financial loss for the Council.

## 2. Background

- 2.1 An effective and independent Audit Committee is a key element in the Council's corporate governance and risk management framework. An effective Audit Committee leads to improved internal control, risk management and financial reporting. It provides a forum for discussing key issues raised by IA and External Audit, working independently to provide assurance to the Council.
- 2.2 The Audit Committee satisfies the wider requirement for sound financial management set out in the Accounts and Audit (England) Regulations 2011, 'for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which include the arrangements for the management of risk.' In addition, Section 151 of the Local Government Act 1972 requires the authority to, 'make arrangements for the proper administration of its financial affairs'. To be truly effective, the Section 151 Officer in discharging sound financial management requires an effective Audit Committee as well as an adequate and effective IA function. Both elements are enshrined in the UK Public Sector IA Standards (PSIAS) and the supporting Local Government Application Note for the UK PSIAS.
- 2.3 Best practice guidance states that in order for the Audit Committee to be fully effective and therefore able to provide meaningful advice and assurance to the Council, its Members need to be independent, diligent, knowledgeable, and receive relevant, timely and reliable information. The guidance also sets out that Audit Committee Members must be in a position to feel able to challenge Directors and the Cabinet, as well as draw attention to any significant governance weaknesses.

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- 2.4 In addition, the guidance states that the Audit Committee should have clear reporting lines and unrestricted rights of access to other Council committees and senior managers (as required/ appropriate). The Audit Committee should also have sufficient administrative support and access to all relevant and timely information.

### 3. Executive Summary

- 3.1 Overall the IA opinion is that we are able to give **REASONABLE** assurance over the key risks to the achievement of objectives for the Effectiveness of the Audit Committee. Definitions of the IA assurance levels and IA risk ratings are included at [Appendix A](#). The role of the Audit Committee and scope of its work is documented within a Terms of Reference (ToR), last updated in June 2013 (refer to [Appendix D](#)). The Audit Committee provides robust challenge and generally operates effectively. There is a good working relationship between IA and the Audit Committee, with mutual trust and support. We have also concluded that communication between the Audit Committee and External Audit and the Council's Finance team is also good.
- 3.2 Having an independent Chairman of the Audit Committee has helped the Committee remain independent and objective in line with best practice. We concluded that there are areas of good collective understanding across the Audit Committee. Nevertheless, we believe Audit Committee members may benefit from further training and development opportunities to minimise gaps in the Committee's knowledge and skill set. Furthermore, we believe that a greater focus on strategic matters in all the reports presented to Audit Committee will further help improve the effectiveness of the Committee. Particularly in its primary role of providing high level assurance in relation to the Council's arrangements for governance, managing risk and maintaining an effective control environment.
- 3.3 As part of this audit we conducted a survey of Audit Committee members and other key stakeholders. The survey composed of open questions to enable recipients to provide a full and discursive response. We received responses to 10 of the 32 questionnaires issued (31% return rate). We reviewed the comments in the survey to identify the key commonalities and overarching themes. These have been summarised within section 4.6 and [Appendix C](#) of this report.
- 3.4 The detailed findings and conclusions of our testing which underpin the above IA opinion have been discussed at the exit meeting with the Acting Chairman of Audit Committee and are set out in section four of this report. The IA recommendations raised in respect of the risk and control issues identified are set out in the Management Action Plan included at [Appendix B](#).

### 4. Detailed Findings and Conclusions

#### 4.1 Role of the Audit Committee

- 4.1.1 The purpose of an Audit Committee is to provide to those charged with governance, independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. The Audit Committee's role is documented within its ToR which is included within the Council's Constitution. Specifically its role is to:
- Review and monitor the Council's audit, governance, risk management framework and the associated control environment, as an independent assurance mechanism;
  - Review and monitor the Council's financial/ non-financial performance to the extent that it affects the Council's exposure to risk and/ or weakens the control environment; and
  - Oversee the financial reporting process of the Council's Statement of Accounts.

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4.1.2 As defined in its ToR, the Audit Committee is required to maintain an overview of the Council's Constitution in respect of relevant policies and major changes to contract procedure rules and financial regulations. If necessary, it is also expected to bring proposed changes to the Cabinet for its consideration. We reviewed the Audit Committee meeting minutes for the last three years and have concluded that formal lines of communication do not appear to be in use between the Audit Committee and the Council and/ or the Cabinet. For example, the Council's Whistleblowing Policy was last updated in 2013 but was not presented to Audit Committee. The Audit Committee should, in line with its current ToR, formally note any significant changes to relevant Council policies or regulations. We have therefore raised a recommendation in this area (refer to **Recommendation 1** in the Management Action Plan at [Appendix B](#)).

## 4.2 Independence and Membership

4.2.1 Best practice sets out that the Audit Committee should remain apolitical and should display unbiased attitudes, treating auditors, the Cabinet and management equally. In accordance with its ToR, Audit Committee membership consists of four elected Councillors and an independent Chairman with relevant financial expertise and that the Vice-Chairman comes from the majority political group.

4.2.2 We confirmed that in the 2013/14 municipal year none of the members of the Audit Committee were Cabinet Members. This is considered good practice as it means that the Audit Committee remains independent and objective, free of any undue influence and political agenda. However, upon review we found there to be two Councillors (one Member and one Reserve) who were also Members of the Executive Scrutiny Committee. CIPFA best practice recommends that Audit Committee Members should remain completely independent of the Council's Cabinet and any Scrutiny functions.

4.2.3 Further to this, we confirmed that several years ago the Council partly adopted best practice in this area. Specifically the Council's Constitution was adopted to prohibit Audit Committee members from sitting concurrently on the Executive Scrutiny Committee. However as mentioned above, our audit has highlighted that this has happened in the 2013/14 year and in fact has occurred several times in the last few years. The Council Constitution was therefore breached on each occasion that this happened. However, no laws were broken and this aspect of the Constitution is aimed at ensuring adherence with best practice. Whilst we have raised a recommendation in this area (refer to **Recommendation 2** in the Management Action Plan at [Appendix B](#)), it is important to highlight that the Head of Democratic Services was unaware of this breach and was grateful to IA for bringing the matter to his attention. He has already taken corrective action to ensure that in future all Audit Committee membership will be in full adherence to the Council's Constitution.

4.2.4 In addition, whilst best practice in this area has been partly adopted i.e. the Council's Constitution prohibits Audit Committee members from sitting concurrently on the Executive Scrutiny Committee; we noted that Members of other scrutiny functions of the Council are able to sit concurrently on Audit Committee. Whilst this is not a major issue, we believe the Council should consider fully adopting best practice which would further improve the independence of the Audit Committee (refer to **Recommendation 5** in the Management Action Plan at [Appendix B](#)).

4.2.5 During the 2013/14 municipal year, four members of the Audit Committee were in accordance with the political balance rules; Conservative Group 3 Members and Labour Group 1 Member. The Chairman of the Audit Committee was independent of all political parties and was not an elected Member. This is in line with best practice and helps ensure that no political agenda is given a priority at Audit Committee meetings and that decisions made by the Committee are free from political influence. Benchmarking highlighted that more than 75% of other London Councils do not comply with best practice in this area.

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- 4.2.6 The 2013/14 Audit Committee Chairman stepped down from his role in June 2014, after seven years in post having overseen a successful tenure. We reviewed the advert for the new independent Audit Committee Chairman and found that it explicitly states "...To ensure independence, people who are currently elected Members or officers, or have been an elected Member or an officer of Hillingdon Council within the last five years will not be eligible to apply. In addition neither relatives nor close friends of any Member or officers of Hillingdon Council will be considered and nor will anyone associated with any political party or local government association." Until a new Chairman has been formally appointed (which is expected to be confirmed in the next two months), the Vice-Chairman (Conservative Member and Deputy Mayor of Hillingdon) will be the acting Chairman of the Audit Committee.
- 4.2.7 The Audit Committee's ToR clearly outlines its role and responsibilities in relation to IA, External Audit, the governance framework, accounts and annual review/ reporting. The last review of the ToR took place at the Audit Committee meeting on 25 June 2013. The ToR is presented on the front sheet of every meeting agenda for the Committee, with declarations of interests a standing agenda item to ensure the continued objectivity of the Committee.
- 4.2.8 In relation to this Council, it is clear that the body responsible for leading on governance, policy and decision-making is the Cabinet. The Audit Committee's ToR has been issued at an operational level, but its priorities in terms of the overarching values and strategic priorities for the Council have not been clearly defined. Linked to this, it is our judgement that the Audit Committee ToR does not provide sufficient clarity over its responsibility for strategic oversight of the Council's governance arrangements. As a result there is a minor risk that the Audit Committee ToR is not aligned to the Council's objectives at a strategic level (refer to **Recommendation 6** in the Management Action Plan at [Appendix B](#)).

### **4.3 Training & Development**

- 4.3.1 In March 2014 a draft training and development plan for Audit Committee members was produced by IA. The purpose of the plan is to provide a comprehensive list of short refresher training courses to assist Audit Committee members improve their understanding of core areas within their remit. This includes IA, External Audit, Anti Fraud and Anti Corruption, Corporate Governance (including the Annual Governance Statement), Risk Management and Financial Statements/ Financial Reporting requirements including Treasury Management. Our testing found minimal evidence of past training specifically for Audit Committee members and as a result we have raised a recommendation aimed at strengthening controls in this area (refer to **Recommendation 3** in the Management Action Plan at [Appendix B](#)).
- 4.3.2 In addition, we found that the Audit Committee members do not individually have a skills matrix in place which sets out their relevant skills, qualifications and experience. Without a skills matrix it can be difficult to identify any training or development needs for Audit Committee members. In line with good practice, skills matrices can aid succession planning as well as improve the efficiency and effectiveness of Audit Committee meetings. As a result we have raised a minor recommendation in this area (refer to **Recommendation 7** in the Management Action Plan at [Appendix B](#)).

### **4.4 Scope of Work**

- 4.4.1 The scope of the Audit Committee has been defined within its ToR. However, as noted above, this could be further enhanced to fully align with best practice guidance. The Audit Committee is stated as being responsible for reviewing and monitoring the Council's audit, governance, risk management framework and the associated control environment. The Committee, as an independent assurance mechanism, reviews and monitors the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and/ or weakens the control environment.

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- 4.4.2 The Audit Committee provides assurance to the Council over IA, External Audit, the governance framework and oversees the financial reporting process of the Statement of Accounts. The Audit Committee also carries out an independent review of its effectiveness on an annual basis. However, upon reviewing the Audit Committee's ToR (refer to [Appendix D](#)) we found several statements which did not fully align with CIPFA best practice guidance. For example, best practice would advise that the Chairman or the Vice Chairman of the Audit Committee should be part of the process for the recruitment and removal of the Council's External Auditor and Head of Internal Audit.
- 4.4.3 In addition, the Audit Committee's role specifically in relation to value for money, counter-fraud and partnerships could be clarified in its ToR. Linked to any review of its ToR, the Audit Committee may want to consider how it could further improve its effectiveness, whilst at the same time upholding its independence. This could include greater collaboration with its key stakeholders including the Leader of the Council, the Cabinet, CMT, IA, External Audit and officers in Finance/ other governance functions of the Council. Therefore to help improve the Audit Committee's overall effectiveness, we have raised a best practice recommendation for the Council to consider (refer to [Recommendation 8](#) in the Management Action Plan at [Appendix B](#)).
- 4.4.4 In addition, we identified that paragraph 17 of the Audit Committee's ToR refers to the authority's "*Statement of Internal Control*". This statement is no longer applicable and was replaced with the Annual Governance Statement in 2007/08, therefore the ToR should be updated to reflect this (refer to [Recommendation 9](#) in the Management Action Plan at [Appendix B](#)).

## 4.5 Reporting

- 4.5.1 On 25 June 2013, the Audit Committee prepared an Annual Report to Council for the 2012/13 financial year, providing all Council Members with details of how it has undertaken its responsibilities for reviewing and scrutinising the key areas within its remit. The report contained the performance statistics and targets for the Audit Committee and specifically provides assurance over internal control, risk management, IA, anti fraud, annual accounts and External Audit. We have concluded that the Audit Committee made a significant contribution to ensuring that the key elements of the Council's governance framework were given proper consideration and were appropriately challenged in 2012/13.
- 4.5.2 In 2013/14 the Audit Committee has continued to develop its role and contribute to strengthening the internal control, risk management and governance framework across the authority. Standing agenda items on the Audit Committee agendas include declarations of interests, IA progress reports and the future work programme of the Committee. There are also regular External Audit reports, Finance reports as well as six monthly risk management and anti fraud reports.
- 4.5.3 Following amendments to the Audit Committee's ToR in June 2013, concern was expressed at the June meeting that followed regarding the removal of power that the Audit Committee had to require senior managers of the Council to attend meetings. At the time, it was noted by the External Auditors that it was very unusual for the Audit Committee of a local authority not to have this power. As a consequence of this constitutional change, the ToR of the Audit Committee does not comply fully with best practice. Furthermore, it potentially inhibits management's accountability to the Audit Committee on governance matters which could affect the effectiveness of the Audit Committee.
- 4.5.4 However, we noted that during the 2013/14 year there have been no occasions where the lack of this power has hindered the effectiveness of the Audit Committee. Nevertheless, we believe this issue should be reconsidered by the Council to enable full alignment of the ToR with CIPFA's Audit Committee guidance (refer to [Recommendation 8](#) in the Management Action Plan at [Appendix B](#)). Any potential change of the Audit Committee ToR may want to

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clearly set out that officers can be requested to attend Audit Committee **only where it is appropriate to do so**.

- 4.5.5 We reviewed the reports being presented to the Audit Committee during the last three years and found that a large number of these were very long and detailed. This conflicts with the Audit Committee's role of strategic overview of the Council's governance framework. A number of the reports being presented to Audit Committee contained, in our opinion, too much operational information and insufficient clarity for Audit Committee members on the outcomes of what is being reported to them. We noted that the survey responses, as detailed at [Appendix C](#), also raised the lack of strategic reporting to Audit Committee as an issue.
- 4.5.6 Further, in terms of transparency, all 'Part 1' reports to Audit Committee are accessible to the public and our view is that a number of past reports presented to the Audit Committee were confusing and would be difficult to comprehend by the public. We believe the Council is therefore missing an opportunity to help facilitate transparency with the public on the Council's audit, risk and governance arrangements. It would also provide the Audit Committee with the reports it needs to help it be fully effective in its strategic role. We have therefore recommended that in future all reports being presented to the Audit Committee are formally reviewed at draft stage by a Director, before they are finalised and presented to Audit Committee (refer to **Recommendation 4** in the Management Action Plan at [Appendix B](#)). This should help ensure that going forward all reports presented to the Audit Committee are of a more strategic and appropriate nature.
- 4.5.7 In addition, we found that officer reports to the Audit Committee on Risk Management and Fraud were both being provided on a six monthly basis. In line with good practice, it is more common for these types of reports to be communicated to the Audit Committee on a quarterly basis. This allows the Audit Committee to maintain an ongoing oversight of these areas rather than potentially hearing about a new corporate risk or the outcome of a major investigation after six months. As a result we have raised this issue in the 2013/14 Risk Management and Corporate Anti Fraud and Anti Corruption IA reports respectively. In addition, a low priority recommendation was raised within the 2013/14 Risk Management audit report to consult the Audit Committee regarding the level of information it requires in the Risk Management reports it receives.
- 4.5.8 Further, under the current arrangements the Corporate Fraud Investigations Team reports its progress to the Audit Committee (as mentioned above, every six months). This report predominantly covers benefit fraud with some reference to other types of counter fraud investigations. As a result there is a risk that the Audit Committee has insufficient oversight of the Council's other anti fraud and anti corruption arrangements that are not within the remit of the Corporate Fraud Investigations Team i.e. Whistleblowing, Money Laundering, etc. As a consequence, a medium risk recommendation has been raised in the 2013/14 Corporate Anti Fraud and Anti Corruption IA report to strengthen the reporting arrangements in this area.

#### **4.6 Audit Committee Survey**

- 4.6.1 As part of our review we asked members of the Audit Committee and a selection of key stakeholders of the Committee to complete a brief survey to provide their views on the effectiveness of the Audit Committee's operations. This helped to highlight any areas where the Committee's effectiveness may be enhanced further.
- 4.6.2 Although the response rate from both Members and other stakeholders was only 31%, we note that the respondents were asked to complete the survey in a tight timescale. Ten surveys were issued to existing and reserve Audit Committee members with 3/5 surveys completed by Audit Committee members (60% return rate) and 1/5 were completed by a reserve (20% return rate). In addition, 22 surveys were issued to a selection of key

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stakeholders including Directors, Heads of Service and External Audit, of which 6 were completed (27% return rate).

- 4.6.3 The survey results were discrete and therefore the results are able to be presented in a graph as detailed at [Appendix C](#). Respondents were also asked to expand on their answers detailing how they thought the Committee may further enhance its effectiveness. The responses received were positive and constructive; the main themes were around the strong leadership of the Chairman; Members highlighted the limited focus and challenge on Risk Management, on Fraud and on the performance and delivery of the Treasury Management Strategy. The respondents indicated they would like a greater strategic emphasis in the reports presented to Audit Committee. They believed Audit Committee Members would benefit from tailored training and would be even more effective as a Committee if it had the authority to call-in officers to encourage accountability in line with best practice.
- 4.6.4 The points raised above have been detailed in earlier findings in the main body of the report and recommendations have been raised where appropriate.

## 5. Acknowledgement

- 5.1 We would like to formally thank all of the officers contacted during the course of this review for their co-operation and assistance. In particular the Chairman of the Audit Committee whose advice and help to us was gratefully appreciated.

## 6. Internal Audit Contact Details

This audit was led by: Sarah Hydrie CMIIA  
**Principal Internal Auditor**

This audit was reviewed by: Muir Laurie ACCA, CMIIA  
**Head of Internal Audit**

Thank you,





**INTERNAL AUDIT ASSURANCE LEVELS AND DEFINITIONS**

<b>Assurance Level</b>	<b>Definition</b>
<b>Substantial</b>	There is a <b>good level of assurance</b> over the management of the key risks to the Council objectives. The control environment is robust with no major weaknesses in design or operation. There is <b>positive assurance that objectives will be achieved</b> .
<b>Reasonable</b>	There is a <b>reasonable level of assurance</b> over the management of the key risks to the Council objectives. The control environment is in need of some improvement in either design or operation. There is a misalignment of the level of residual risk to the objectives and the designated risk appetite. There remains <b>some risk that objectives will not be achieved</b> .
<b>Limited</b>	There is a <b>limited level of assurance</b> over the management of the key risks to the Council objectives. The control environment has significant weaknesses in either design and/or operation. The level of residual risk to the objectives is not aligned to the relevant risk appetite. There is a <b>significant risk that objectives will not be achieved</b> .
<b>No</b>	There is <b>no assurance</b> to be derived from the management of key risks to the Council objectives. There is an absence of several key elements of the control environment in design and/or operation. There are extensive improvements to be made. There is a substantial variance between the risk appetite and the residual risk to objectives. There is a <b>high risk that objectives will not be achieved</b> .

- 1. Control Environment:** The control environment comprises the systems of governance, risk management and internal control. The key elements of the control environment include:
  - establishing and monitoring the achievement of the authority's objectives;
  - the facilitation of policy and decision-making;
  - ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded in the activity of the authority, how leadership is given to the risk management process, and how staff are trained or equipped to manage risk in a way appropriate to their authority and duties;
  - ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness;
  - the financial management of the authority and the reporting of financial management; and
  - the performance management of the authority and the reporting of performance management.
- 2. Risk Appetite:** The amount of risk that the Council is prepared to accept, tolerate, or be exposed to at any point in time.
- 3. Residual Risk:** The risk remaining after management takes action to reduce the impact and likelihood of an adverse event, including control activities in responding to a risk.

**INTERNAL AUDIT RECOMMENDATION RISK RATINGS AND DEFINITIONS**

<b>Risk Rating</b>	<b>Definition</b>
<b>HIGH</b> ●	The recommendation relates to a <b>significant threat or opportunity</b> that impacts the Council's corporate objectives. The action required is to mitigate a substantial risk to the Council. In particular it has an impact on the Council's reputation, statutory compliance, finances or key corporate objectives. <b>The risk requires senior management attention.</b>
<b>MEDIUM</b> ●	The recommendation relates to a <b>potentially significant threat or opportunity</b> that impacts on either corporate or operational objectives. The action required is to mitigate a moderate level of risk to the Council. In particular an adverse impact on the Department's reputation, adherence to Council policy, the departmental budget or service plan objectives. <b>The risk requires management attention.</b>
<b>LOW</b> ●	The recommendation relates to a <b>minor threat or opportunity</b> that impacts on operational objectives. The action required is to mitigate a minor risk to the Council as a whole. This may be compliance with best practice or minimal impacts on the Service's reputation, adherence to local procedures, local budget or Section objectives. <b>The risk may be tolerable in the medium term.</b>
<b>NOTABLE PRACTICE</b> ●	The activity reflects current <b>best management practice</b> or is an innovative response to the management of risk within the Council. <b>The practice should be shared with others.</b>

**Management Action Plan**

No.	Recommendation	Risk	Risk Rating	Management Response	Risk Owner & Implementation date
1	The Audit Committee should, in line with its current Terms of Reference, have sight of any significant changes to the Council's Constitution in respect of relevant policies, contract procedure rules and financial regulations. Where necessary the Audit Committee should bring suggested proposals to the Cabinet for their consideration/ development (para ref 4.1.2).	<i>If the Audit Committee does not have sight of significant changes to these key governance documents there is a risk that the Committee is not delivering against its terms of reference. This may adversely affect the effectiveness of the Audit Committee and their overview of the Council's Governance Framework.</i>	<b>MEDIUM</b> ●	Any significant changes to the Council's Constitution in respect of relevant policies, contract procedure rules and financial regulations will in future be presented to the Audit Committee for their information as soon as possible following approval by Full Council. <b>Where relevant and appropriate</b> , the Audit Committee will put forward suggested proposals to the Cabinet for its consideration.	Lloyd White, Head of Democratic Services  <b>Immediate</b>
2	The Council should ensure that membership of the Audit Committee is in adherence to the Constitution (para ref 4.2.3).	<i>There is a risk that membership of the Audit Committee breaches the Council's Constitution.</i>	<b>MEDIUM</b> ●	The Head of Democratic Service is grateful to IA for bringing this matter to his attention. He has already taken corrective action to ensure that in future all Audit Committee membership will be in full adherence to the Council's Constitution.	Lloyd White, Head of Democratic Services  <b>Immediate</b>

Management Action Plan

No.	Recommendation	Risk	Risk Rating	Management Response	Risk Owner & Implementation date
3	There should be a clear and regularly updated training and development programme in place for Audit Committee members to help support them in carrying out their duties effectively (para ref 4.3.1).	<i>Where there is no clear training and development programme in place this may impact Member's ability to effectively carry out their responsibilities in relation to the Audit Committee.</i>	<b>MEDIUM</b> ●	A draft training and development programme for Audit Committee Members was produced by Internal Audit in March 2014. This will be used by Democratic Services to form the basis of an Audit Committee Member training and development programme (as part of the wider Member Development Programme). This will be discussed with the Audit Committee (including the new Chairman) before being finalised.	Lloyd White, Head of Democratic Services  <b>30 November 2014</b>
4	In line with the Audit Committee Terms of Reference, the quality of reports and the items being reviewed and discussed by the Audit Committee should have a greater focus on strategic issues and less focus on detailed operational matters. This could be achieved by the reports being formally reviewed at draft stage by a Director (para ref 4.5.6).	<i>Where reports are only focused on operational matters there is a risk that the Audit Committee does not spend sufficient and proportionate focus on strategic matters impacting the achievement of objectives.</i>	<b>MEDIUM</b> ●	All reports to Audit Committee will be reviewed by at least one of the CMT Directors in advance of being published. Democratic Services will also liaise with relevant officers in advance to help ensure this happens.	Lloyd White, Head of Democratic Services  <b>Immediate</b>

**Management Action Plan**

No.	Recommendation	Risk	Risk Rating	Management Response	Risk Owner & Implementation date
5	The Council should consider ensuring all Audit Committee Members and Reserves are independent of the Cabinet and all Scrutiny functions of the Council in accordance with CIPFA best practice (para ref 4.2.4).	<i>If the Audit Committee are Members of the Cabinet and/or Scrutiny function there is a risk that the independence of the Audit Committee could be compromised.</i>	<b>LOW</b> ●	The Constitution already has in place a requirement that a Cabinet Member or Member of the Executive Scrutiny Committee may not also sit concurrently on Audit Committee. However, in terms of adopting best practice for all Scrutiny functions, the Council has considered the guidance but believes that the current arrangements do not impair the overall effectiveness of the Audit Committee and suit Hillingdon at this time.	Cllr George Cooper, Acting Chairman of Audit Committee  <b>No further action proposed</b>

**Management Action Plan**

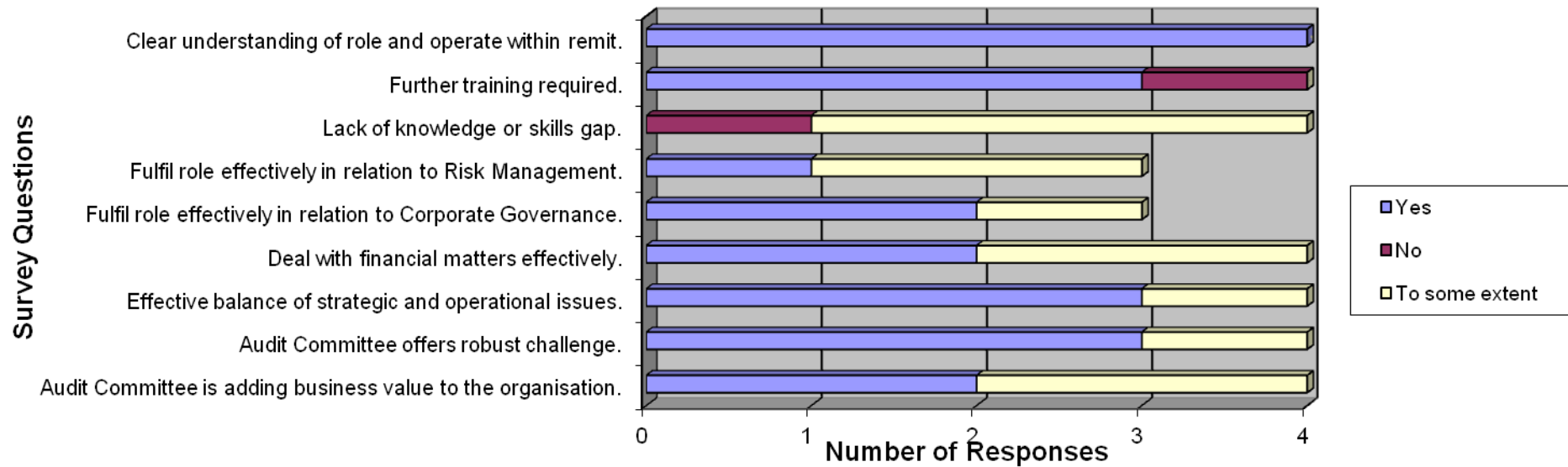
No.	Recommendation	Risk	Risk Rating	Management Response	Risk Owner & Implementation date
6	The Audit Committee's Terms of Reference (ToR) should provide greater clarity over responsibility of those charged with governance. This will enhance the golden thread which outlines the Council's values and strategic objectives and will help ensure alignment to the ToR for the Audit Committee (para ref 4.2.8).	<i>If the Audit Committee terms of reference do not clearly identify both Officers and Members charged with governance, there is a risk that the Audit Committee's work will not help the Council achieve its strategic objectives.</i>	<b>LOW</b> ●	The Council is clear that the Cabinet is the Member body responsible for the Council's governance arrangements. CMT are the collective officer body which lead's on the Council's governance arrangements and the Audit Committee has responsibility for strategic oversight of the Council's governance arrangements. However, the Audit Committee's ToR will be reviewed to seek to provide greater clarity over responsibility of those charged with governance.	Lloyd White, Head of Democratic Services  <b>30 September 2014</b>
7	In line with best practice, consideration should be given to introducing a skills matrix which maps the relevant qualifications and experience of all Audit Committee members (para ref 4.3.2).	<i>If there is no skills matrix in place it would be difficult to identify any gaps for further training and for succession planning purposes.</i>	<b>LOW</b> ●	The Council has considered the best practice guidance in this area, but believes that the current arrangements do not impair the overall effectiveness of the Audit Committee and actually suit the local arrangements at Hillingdon.	Lloyd White, Head of Democratic Services  <b>No further action proposed</b>

Management Action Plan

No.	Recommendation	Risk	Risk Rating	Management Response	Risk Owner & Implementation date
8	<p>The Council should consider fully aligning the Audit Committee Terms of Reference with CIPFA best practice guidance. As part of this process the Council may want to consider:</p> <ul style="list-style-type: none"> <li>- Granting the Audit Committee with the direct power to require senior managers to attend Audit Committee <b>where it is appropriate to do so</b>; and</li> <li>- Including the Chairman or Vice Chairman of the Audit Committee as part of the process for appointing and removing the Council's External Auditors and Head of Internal Audit.</li> </ul> <p>(para refs. 4.4.3 and 4.5.4).</p>	<p><i>Where the terms of reference are not in accordance with best practice there is a risk that the Audit Committee is not discharging its responsibilities effectively.</i></p>	<p><b>LOW</b> ●</p>	<p>The Council has considered the best practice guidance in this area, but believes that the current arrangements do not impair the overall effectiveness of the Audit Committee and actually suit the local arrangements at Hillingdon.</p>	<p>Lloyd White, Head of Democratic Services</p> <p><b>No further action proposed</b></p>
9	<p>References made to the "Statement of Internal Control", in the Audit Committee's Terms of Reference, should be replaced with the "Annual Governance Statement" which is in line with current legislation (para ref 4.4.4).</p>	<p><i>If the Audit Committee terms of reference is not up to date and does not accurately reflect current practice there is a risk that the Committee are not effectively discharging their responsibilities.</i></p>	<p><b>LOW</b> ●</p>	<p>The Audit Committee Terms of Reference will be updated to reflect this minor change, in line with current legislation.</p>	<p>Lloyd White, Head of Democratic Services</p> <p><b>30 September 2014</b></p>

Audit Committee Survey - Graphical Analysis of Survey Results

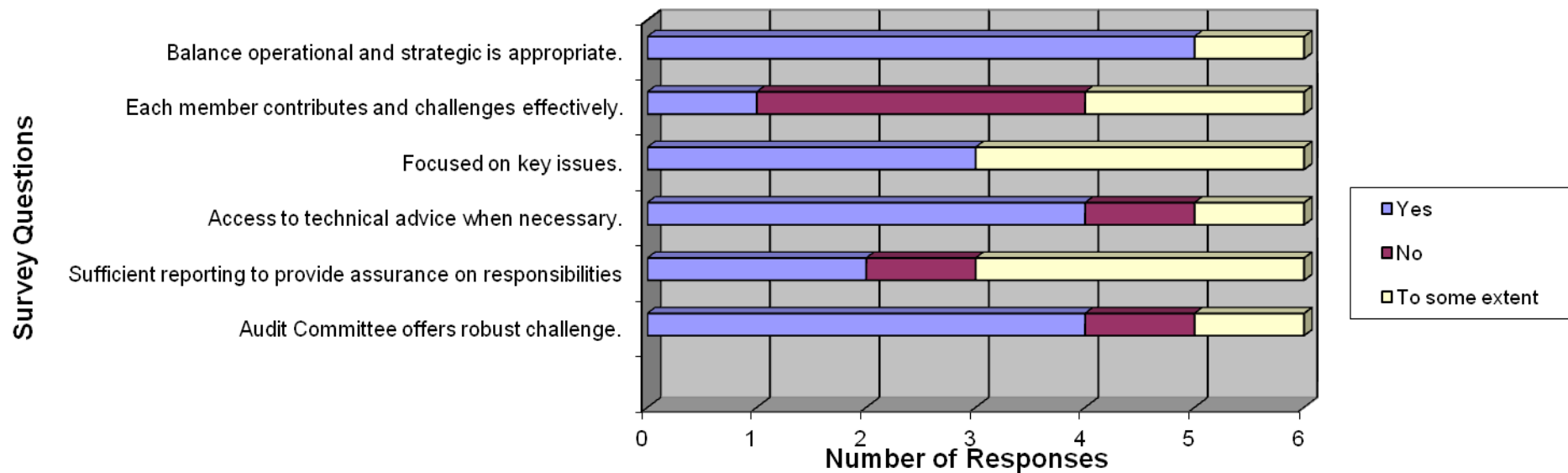
### Survey Results of Audit Committee Members





Audit Committee Survey - Graphical Analysis of Survey Results

Survey Results of Non-Audit Committee Members



## TERMS OF REFERENCE

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

### Introduction

The Audit Committee's role will be to:

- Review and monitor the Council's audit, governance, risk management framework and the associated control environment, as an independent assurance mechanism;
- Review and monitor the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and/or weakens the control environment;
- Oversee the financial reporting process of the Statement of Accounts.

Decisions in respect of strategy, policy and service delivery or improvement are reserved to the Cabinet or delegated to Officers.

### Internal Audit

1. Review and monitor, but not direct, Internal Audit's work programmes, summaries of Internal Audit reports, their main recommendations and whether such recommendations have been implemented within a reasonable timescale, ensuring that work is planned with due regard to risk, materiality and coverage.
2. Make recommendations to the Leader of the Council and Cabinet Member for Finance, Property and Business Services on any changes to the Council's Internal Audit Strategy and plans.
3. Review the 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.
4. Consider reports dealing with the management and performance of internal audit services.
5. Following a request to the Corporate Director of Finance, and subject to the approval of the Leader of the Council and Cabinet Member for Finance, Property and Business Services, to commission work from Internal Audit.

### External Audit

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, making any recommendations to the Corporate Director of Finance.
10. Be consulted by the Corporate Director of Finance over the appointment of the Council's External Auditor.
11. Following a request to the Corporate Director of Finance, and subject to the approval of the Leader of the Council / Cabinet Member for Finance, Property and Business Services, to commission work from External Audit.
12. Monitor effective arrangements for ensuring liaison between Internal and External audit, in consultation with the Corporate Director of Finance.

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## **Governance Framework**

13. Maintain an overview of the Council's Constitution in respect of contract procedure rules and financial regulations. And, where necessary, bring proposals to the Leader of the Council or the Cabinet for their development.
14. Review any issue referred to it by the Chief Executive, a Deputy Chief Executive, Corporate Director, or any Council body.
15. Monitor and review, but not direct, 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.
16. Review and monitor Council policies on 'Raising Concerns at Work' and anti-fraud and anti-corruption strategy and the Council's complaints process, making any recommendations on changes to the Leader of the Council and the Deputy Chief Executive and Corporate Director of Residents Services.
17. Oversee the production of the authority's Statement of Internal Control and recommend its adoption.
18. Review the Council's arrangements for corporate governance and make recommendations to the Corporate Director of Finance on necessary actions to ensure compliance with best practice.
19. Where requested by the Leader of the Council, Cabinet Member for Finance, Property and Business Services or Corporate Director of Finance, provide recommendations on the Council's compliance with its own and other published standards and controls.

## **Accounts**

20. 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.
21. Consider the External Auditor's report to those charged with governance on issues arising from the audit of the accounts.

## **Review and Reporting**

22. Undertake an annual independent review of the Committee's effectiveness and submit an annual report to Council on the activity of the Audit Committee.