

# BUSINESS ASSURANCE

## Final Internal Audit Assurance Report 2018/19

### Review of the Effectiveness of the Audit Committee

14<sup>th</sup> May 2019

#### Overall IA Assurance Opinion:

**SUBSTANTIAL**

#### Recommendation Overview:

High Risk	0
Medium Risk	0
Low Risk	6
Notable Practice	2

#### Review Sponsor:

Fran Beasley

Chief Executive

#### Draft Report Distribution:

Audit Committee

All Audit Committee Members (including the Independent Chairman)

Lloyd White

Head of Democratic Services

Mark Braddock

Democratic Services Manager

Ownership of all final Internal Audit assurance reports rests with the relevant Audit Sponsor. However, we will disclose final Internal Audit assurance reports to the Audit Committee upon their specific request.



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## 1. Introduction

- 1.1 This risk based Internal Audit (IA) assurance review forms part of the 2018/19 Quarter 4 Operational IA Operational Plan, presented to Audit Committee on 21<sup>st</sup> January 2019. **The purpose of this review is to provide assurance to the Corporate Management Team (CMT) and the Audit Committee over the following key risks in relation to the Effectiveness of the Audit Committee:**
- The scope of work to be performed by the Audit Committee is not suitably defined in the Terms of Reference; therefore it may not encompass all the assurance needs of the Council and the Cabinet. There is therefore an increased risk that the Audit Committee is not performing its role and responsibilities in line with best practice guidelines;
  - The Audit Committee members are not suitably independent and objective, resulting in potential biased and ineffective decisions being made. Members may not have a good understanding of the Council's objectives, priorities, risks and strategies and therefore decision making by the committee may not be suitably aligned;
  - The Audit Committee does not contain or have at its disposal an appropriate mix of skills or its Members may not have been adequately trained. Consequently, there is a risk that Members may not be able to perform their duties effectively and fulfil the requirements of their role, which may result in reputational damage for the council;
  - The Audit Committee does not effectively support the Council by reviewing and scrutinising the completeness of key documentation to satisfy their needs, and by reviewing the reliability and integrity of documentation. As a result, the Council may be in breach of their statutory obligations which could cause reputational damage or financial loss for the Council;
  - The Audit Committee does not engage effectively with financial and performance reporting issues, and with the work of key stakeholders, primarily IA and External Audit; Further, the Audit Committee may not communicate effectively with the Council's CMT, Cabinet and other stakeholders. This may result in a loss of public money resulting in adverse public reaction and reputational loss; and
  - The Audit Committee's reputational image amongst other local authorities audit committee's is considered weak and ineffective in its role, scrutiny, decision making and therefore may result in further adverse reputational damage for the Council.
- 1.2 This report is produced on an exception basis, highlighting the key aspects from the IA assurance review to management. Further detailed findings are available upon specific request.

## 2. Background

- 2.1 An effective and independent Audit Committee is a key component of the Council's corporate governance and risk management framework. The purpose of an Audit Committee is to provide 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.
- 2.2 The Audit Committee plays a key role in assisting the Council's Cabinet to fulfil its oversight responsibilities in areas such as financial reporting, the system of internal controls, risk management framework and the IA and external audit functions.
- 2.3 The Chartered Institute of Public Finance and Accountancy (CIPFA) best practice guidance states that in order for the Audit Committee to be fully effective, and therefore able to provide meaningful advice to the Council, its Members need to be independent, diligent, knowledgeable, and receive relevant, timely and reliable information. This guidance also indicates that Audit Committee Members must be in a position to challenge Directors and the Cabinet and draw attention to any significant governance weaknesses.

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- 2.4 Best practice guidance also states the Audit Committee should have clear reporting lines and unrestricted rights of access to other Council committees and senior managers (as required). In addition, the Audit Committee will have sufficient administrative support and access to all relevant and timely information.
- 2.5 The Audit Committee currently comprises of five members including an Independent Chairman. The remainder of the Committee, in accordance with best practice, is representative of the political make up of the Council which helps to 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.

### 3. Executive Summary

- 3.1 Overall, the IA opinion is that we are able to give **SUBSTANTIAL** assurance over the key risks to the achievement of objectives for the Review of the Effectiveness of the Audit Committee. Definitions of the IA assurance levels and IA risk ratings are included at **Appendix C**.
- 3.2 This audit has been conducted in reference to the CIPFA Practical Guidance for Local Authorities and Police 2018. This guidance provides a comprehensive list of what a 'good' Audit Committee looks like. As a result of our testing, we are pleased to report that no **HIGH** or **MEDIUM** risk recommendations have been raised. We have issued **6 LOW** risk recommendations that are best practice for management consideration and **2 NOTABLE PRACTICE** observations which highlight good practice; re the appointment of an Independent Chairman; and attendance at Audit Committee meetings over the last 3 years.
- 3.3 During testing we noted that the Audit Committee has not fully adopted the recommended best practice in relation to the Member's right to call other officers into their meeting. However, the impact of this practice is considered on an annual basis and reported through the Audit Committee's Annual report. According to the latest report for 2017/18, there have been no occasions during that year where the Audit Committee believed the lack of this power has hindered its effectiveness in any way. Inviting officers from across the Council gives Members a better understanding of risks and controls in specific areas, although we note this has not impaired the effectiveness of the Audit Committee.
- 3.4 Following discussions with Democratic Services, it was noted that all Members from across the Council (including Audit Committee Members) have rights of access to other committees, functions and individual officers via an established 'Members Enquiries' protocol. This gives Members an opportunity to contact officers outside of their meeting. We are satisfied that this control helps to further manage the minor risk identified in para 3.3.
- 3.5 Good practice suggests that the Audit Committee should periodically review their Terms of Reference (ToR) for appropriateness, which we confirmed is taking place. The Audit Committee's ToR includes a requirement for an annual independent review of its effectiveness. However, it was confirmed that this does not reflect current practice, whereby the review is performed on a cyclical basis every 2-3 years. We have therefore raised a low risk recommendation to address this.
- 3.6 The CIPFA guidance recommends regular self-assessment by Audit Committee Members to support the planning of their work programme and training plans. This is not currently in place at the Council but might be something that the Committee may wish to consider as part of their training and development programme.
- 3.7 According to CIPFA guidance the Audit Committee should operate at a resolutely strategic level. Whilst it was noted that the Council's Audit Committee has a well-planned agenda and an experienced Independent Chairman, co-ordination of the challenge by Members would provide an additional mechanism for prioritising key areas. We have therefore raised a low risk recommendation to support and help facilitate this.

- 3.8 Part of our testing involved performing a benchmarking exercise where we compared our Audit Committee against 9 other local authorities. One of our findings related to the way Committees utilise Part I (public) and Part II (private) agenda items. Currently, the Council's Corporate Risk Register (CRR) is discussed as a Part II item, this is because of the commercial and legal sensitivity of some of the risks (specifically risks relating to Heathrow and HS2). CIPFA does not make a recommendation about how risks are reported and therefore we support the Council's view to report these under Part II. Should these risks no longer feature in the CRR then the Committee may wish to discuss the CRR under Part I.
- 3.9 A review of the last 4 Audit Committee meetings found that it took between 2 to 7 calendar days (average of 4.5 days) for the first set of draft minutes to be sent to Officers for review. The reviewed minutes had to be sent back within a further 7 days, which meant that draft minutes would have been ready for publication between 9 to 14 calendar days. Whilst there is no statutory requirement to publish draft minutes of meetings promptly, the ICSA's (the Governance Institute) "The practice of minuting minutes" guidance states that minutes should be available within a week/ 5 working days. For this to happen minutes need to be reviewed promptly and the 'Business Management Daily' recommends that the minute-takers should circulate the first draft of meeting minutes as soon as possible and preferably within 24 hours. We have therefore raised a low priority recommendation to consider this best practice suggestion.
- 3.10 Other areas where we showed compliance against the CIPFA guidance include the skills matrix, declarations of interest, frequency of the Audit Committee meetings, distribution of the papers and composition of its membership. In comparison with 9 other authorities we noted that only 1 other had an Independent Chairman. Although, the Chairman's appointment is not fixed term, as per best practice guidance, there are provisions in place for early termination if that became required. However, having one Independent Member could become an issue in relation to succession planning. It was also noted that during 2018/19 the Vice-Chairman was unable to attend 50% (2 out of the 4) Audit Committee meetings.
- 3.11 As recorded within the Audit Committee's ToR, an Annual Report is required to be submitted to Full Council on the activities of the Committee. It was confirmed that the last one was completed on 5<sup>th</sup> July 2018.
- 3.12 We verified that the Committee has met quarterly for the last 3 years and that the quorate requirement has been met at all meetings reviewed, although some meetings were attended by Substitute Members. In line with best practice, there are arrangements in place for the Chairman to have private meetings with the Head of Internal Audit, external auditors and the Corporate Director of Finance on a rotational basis.
- 3.13 Following verification testing of the previous audit recommendations (raised in Nov'16) we noted that they have been successfully implemented with the exception of the Members rights to invite officers to Audit Committee meetings, which has been raised in this report.
- 3.14 The detailed findings and conclusions of our testing which underpin the above IA opinion have been discussed at the exit meeting with the Head of Democratic Services and are available to management upon specific request. The key findings and IA recommendations raised in respect of the risk and control issues identified are set out in the Management Action Plan included at **Appendix A**. Good practice suggestions and notable practices are set out in **Appendix B** of the report.

#### 4. Acknowledgement

- 4.1 Business Assurance 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 Democratic Services Officer and the Democratic Services Manager, whose advice and help were gratefully appreciated.

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## 5. Business Assurance Contact Details

This audit was led by: Jenia Islentsyeva FCCA, CISA  
**Principal Internal Auditor**

This audit was reviewed by: Sarah Hydrie CMIIA, CIA  
**Head of Internal Audit & Risk Assurance**

Thank you,



Sarah Hydrie CMIIA, CIA  
**Head of Internal Audit & Risk Assurance**

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## **APPENDIX A**

### **Management Action Plan**

No.	Key Finding
	No <b>HIGH</b> or <b>MEDIUM</b> risk recommendations have been raised in this report.

*\*Please refer to **Appendix C** for Risk definitions.*

## APPENDIX B

### Good Practice Suggestions & Notable Practices Identified

No.	Key Finding	Observation / Suggestion	Risk / Rationale	Risk Rating*
1	To be fully effective, an Audit Committee may need to engage with a wide range of officers (other than representatives from Finance and Internal/External Audit). While it is for each Audit Committee to determine who attends its meetings, it may be helpful to invite representatives to explain their work programme or recent reports. During our fieldwork we noted that the Council's Audit Committee does not have the right to call any other officers into the meeting. Nevertheless, according to the latest annual Audit Committee report for 2017/18, there have been no occasions where the Audit Committee believed the lack of this power has hindered its effectiveness in any way.	Management may wish to consider annually a review of the current arrangements for the Members rights to invite other officers to Audit Committee meetings, to ensure the Audit Committee is effective and fit for purpose.	<i>Lack of the Members right to call other senior officers to attend an Audit Committee meeting, may result in poor relationships between the committee and the executive or senior officers, which may hinder the effectiveness of the Audit Committee, which in turn could lead to reputational damage for the Council.</i>	LOW ●
2	Although the current Independent Chairman has not missed a single meeting since his appointment, having just one Independent Member places an over-reliance on their expertise, which would be absent if he could not attend.	In line with emerging recommended practice, Management may wish to consider having an Independent Vice-Chairman of the Audit Committee to allow for the possible absence of the Chairman.	<i>Where there is only one Independent Member of the Audit Committee, there is a risk that one person's expertise is not available if they are not able to attend which could compromise the effectiveness of the Audit Committee.</i>	LOW ●
3	The Audit Committee Terms of Reference includes a requirement for an annual independent review of their effectiveness. However, it was confirmed that this does not reflect the current practice, whereby the review is performed on a cyclical basis every 2-3 years.	Management to consider amending the Terms of Reference to reflect the current practice of cyclical review of the Audit Committee effectiveness.	<i>Where the content of the Terms of Reference does not accurately reflect the practice in place, there is a risk that expectations will not be met and users/readers misinformed, potentially leading to reputational damage for the Council.</i>	LOW ●

\*Please refer to **Appendix C** for Risk definitions.

## APPENDIX B (cont'd)

### Good Practice Suggestions & Notable Practices Identified

No.	Key Finding	Observation / Suggestion	Risk / Rationale	Risk Rating*
4	At present, all relevant officers receive their papers in advance of the AC meeting and raise questions without prior consultation with other Members or the Chairman. In line with best practice a pre-meet between AC Members may be beneficial.	Consideration should be given to conducting a pre-meeting for all Audit Committee Members to ensure an appropriate level of focus, sufficient constructive challenge and improved overall assurances.	<i>Without the ability for Members to pre-meet and discuss the papers, there is a risk that the AC may not be able to focus on material issues and spends too much time on minor risks, leading to inefficient use of Committee time.</i>	LOW ●
5	CIPFA Practical Guidance for Local Authorities and Police 2018 recommends a regular self-assessment by Audit Committee Members to support the planning of their work programme and training plans, which is not in currently place.	Consideration should be given to introducing regular (i.e. annual) self-assessment by the Audit Committee Members against the CIPFA guidance to assess whether they are fulfilling their ToR and that adequate consideration has been given to all core areas.	<i>Without a regular self-assessment, there is a risk that the Committee may become inefficient, leading to poor coverage and value to the Council and its residents.</i>	LOW ●
6	A review of the last 4 meetings found that it took between 2 to 7 calendar days (average of 4.5 days) for the first set of AC minutes to be sent to officers for review. The reviewed minutes had to be sent back within a further 7 days, which meant that draft minutes would have been ready for publication between 9 to 14 calendar days. Whilst there is no statutory requirement to publish draft minutes of meetings promptly, the ICSA's (the Governance Institute) "The practice of minuting minutes" guidance states that minutes should be available within 5 days. For this to happen minutes need to be reviewed promptly and the 'Business Management Daily' recommends that the minute-takers should circulate the first draft of meeting minutes as soon as possible and preferably within 24 hours.	Consideration be given to ensuring that draft Audit Committee minutes are published within 5 days of the meeting taking place.	<i>If there is delay to distribution of the minutes, there is a risk that the notes taken are not an accurate representation of the items discussed/agreed during the meeting which in turn may lead to inaccuracies in the minutes which may never get resolved.</i>	LOW ●

\*Please refer to **Appendix C** for Risk definitions.



## **APPENDIX B (cont'd)**

### **Good Practice Suggestions & Notable Practices Identified**

<b>No.</b>	<b>Key Finding</b>	<b>Observation / Suggestion</b>	<b>Risk / Rationale</b>	<b>Risk Rating*</b>
7	The Council was one of the 2 out of 10 authorities which had an Independent Chairman. Further, the Chairman has attended all required meetings since his appointment.	A strong and suitably experienced and skilled Independent Chairman is one of the characteristics of a good Audit Committee.	<i>The activity reflects current good practice or is an innovative response to the management of risk which has been shared with others.</i>	<b>NOTABLE PRACTICE</b> ●
8	Through review of the published Audit Committee papers, it was confirmed that the committee has met quarterly for the last 3 years and that the quorate requirement has been met at all meetings reviewed, although some were attended by the Substitute Members.	In line with best practice, for the Audit Committee to be effective it should meet regularly and at least 4 times a year. Further, to be able to make decisions a quorate is required. Both requirements have been met by the Council's Audit Committee every quarter over the last 3 years.	<i>The activity reflects current good practice or is an innovative response to the management of risk which has been shared with others.</i>	<b>NOTABLE PRACTICE</b> ●

\*Please refer to **Appendix C** for Risk definitions.

**INTERNAL AUDIT ASSURANCE LEVELS AND DEFINITIONS**

ASSURANCE LEVEL	DEFINITION
<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</b> that objectives will be achieved.
<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</b> that objectives will not be achieved.
<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</b> that objectives will not be achieved.
<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</b> that objectives will not be achieved.

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.

## **APPENDIX C (cont'd)**

### **RISK RESPONSE DEFINITIONS**

<b>RISK RESPONSE</b>	<b>DEFINITION</b>
<b>TREAT</b>	The probability and / or impact of the risk are reduced to an acceptable level through the proposal of positive management action.
<b>TOLERATE</b>	The risk is accepted by management and no further action is proposed.
<b>TRANSFER</b>	Moving the impact and responsibility (but not the accountability) of the risk to a third party.
<b>TERMINATE</b>	The activity / project from which the risk originates from are no longer undertaken.

### **INTERNAL AUDIT RECOMMENDATION RISK RATINGS AND DEFINITIONS**

<b>RISK</b>	<b>DEFINITION</b>
<b>HIGH</b> ●	The recommendation relates to a <b>significant threat</b> or opportunity 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</b> or opportunity 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 <b>reflects current 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>