

<b>Audit Committee Meeting</b>	<b>Agenda Item:</b>
--------------------------------	---------------------

<b>Meeting Date</b>	19 September 2012
<b>Report Title</b>	Review of Audit Committee
<b>Portfolio Holder</b>	Cllr Dewar-Whalley – Finance
<b>SMT Lead</b>	Mark Radford – Director of Corporate Services
<b>Head of Service</b>	Brian Parsons – Head of Audit Partnership
<b>Lead Officer</b>	Brian Parsons – Head of Audit Partnership
<b>Key Decision</b>	No
<b>Classification</b>	Open

<b>Recommendations</b>	1. The Committee is asked to note the actions shown on the schedule at Appendix I and reconfirm its requirements for the ongoing future development of the Committee.
	2. The Committee is asked to confirm its requirements for training.
	3 The Committee is asked to consider the self-assessment of effectiveness (appendix II) and agree any actions arising.

## **Purpose of Report and Executive Summary**

- 1.1 The report provides an update on the actions taken to implement the findings of the Local Government Improvement and Development (LGID) review of the Audit Committee, which was initially reported to the Committee in December 2010.
- 1.2 One key aspect in ensuring the effectiveness of the Committee is for members to receive relevant training on the issues that the Committee has responsibility for. Suggested areas for training are set out in the report.
- 1.3 A 'self- assessment of effectiveness' checklist is attached for consideration by the Committee.
- 1.4 The Committee is asked to give consideration to each of these three aspects in order to complete the LGID action plan, agree a training programme and assess its effectiveness.

## **2 Background**

- 2.1 A review of the four Mid Kent Council Audit Committees was jointly commissioned by Ashford, Maidstone, Swale and Tunbridge Wells Borough Councils and included interviews and discussions with councillors, officers and partners.
- 2.2 The objective for the review was to allow each Audit Committee to be benchmarked against examples of best practice and help the Committee to become more effective in undertaking its functions.

## **3 Proposal**

### **Areas for Development**

- 3.1 Local Government Improvement and Development provided a report to the Council setting out their findings and in particular, setting out 'areas for development'. The report was provided to a meeting of the Audit Committee on 15 December 2010. The areas for development were listed as:
- Committee agendas [tend to be] shaped by Audit Commission cycles; there could be greater balance between core and local agenda items
  - Committee members need further training around governance assurance
  - Skills of the committee could be bolstered through the appointment of co-opted non-voting members
  - Senior officers and members need to promote the role and importance of the Audit Committee (e.g. earlier sight of final set of accounts)
  - [There should be] greater forward planning of the Audit Committee agenda
  - Committee should produce an annual report of its activities and effectiveness
  - Committee to do more on risk assurance – risk management is an area that is underdeveloped across the council
  - Terms of reference could be developed to meet the CIPFA standard.
- 3.2 Following the formal meeting of the Committee, the members met informally to discuss the actions that they wished to take. The agreed actions are shown at Appendix I.
- 3.3 In preparation for tonight's meeting, the 'action' column has been completed to set out what has happened since that meeting.
- 3.4 The Committee is asked to note the actions shown on the schedule at Appendix I and reconfirm its requirements for the ongoing future development of the Committee.

### **Training and Development**

- 3.5 One key aspect in ensuring the effectiveness of the Committee is for members to receive relevant training on the issues that the Committee has responsibility for.

- 3.6 The CIPFA Guidance for Local Authorities on Audit Committees suggests that all audit committee members need to be familiar with:
- a) Governance – an understanding of the requirements of legislation and of local arrangements
  - b) Risk management – principles and practices
  - c) Internal control assurance
  - d) The organisation’s core activities
  - e) Accounting issues
  - f) Regulation and compliance
- 3.7 The Guidance goes on to suggest that, for members who are not familiar with these aspects, appropriate and timely training will help to overcome this and build upon the key attributes of independence, a risk-focused attitude, and balanced approach that members will already possess. The Guidance states that induction training should be provided for all new committee members and cover:
- The role of the committee
  - The terms of reference
  - An overview of council activities
  - The financial and risk environment
- 3.8 Further regular and specific audit committee training should also be provided in:
- Financial reporting
  - Governance
  - Understanding financial statements
  - The regularity framework
  - The role of internal and external audit
  - The importance of risk management
- 3.9 CIPFA suggest that this training can be provided in a variety of ways, including:
- Conferences
  - Formal courses
  - Internally arranged sessions
  - Briefings from external visitors
- 3.10 Members are asked to consider and agree a broad framework for future training in terms of how and when they would like the training to be delivered and in particular the topics that they wish to be included in the training plan.
- 3.11 A provisional date, 13 December 2012, has been set aside for the first training session, with three provisional topics, 'Treasury Management', 'An introduction to Internal Audit' and 'The Audit Process'.
- 3.12 The ongoing training process will be supplemented by an 'induction pack' which will set out:

- Audit Committee – Member Guidance
- Audit Committee – Terms of Reference (currently being reviewed)
- Governance Framework
- Committee Roles and Core Functions - Audit Committee, Overview and Scrutiny and Standards Committee (currently being reviewed/ revised)

It is anticipated that this will be particularly helpful to new members of the committee but can be used as a reference by established members.

### **CIPFA Self-Assessment Checklist – Measuring the Effectiveness of the Audit Committee**

- 3.13 The CIPFA Guidance for Local Authorities on Audit Committees contains a self assessment checklist to allow Audit Committee members to make their own assessment of the effectiveness of their committee.
- 3.14 The checklist is reproduced at Appendix II. It contains a number of elements and questions relating to key aspects of an Audit Committee’s function.
- 3.15 The checklist has been completed to reflect the development of the Committee to date. Members are asked to consider the checklist and to confirm their requirements for further development/action.

## **4 Alternative Options**

- 4.1 In order to continue to be effective, it is important that the Committee periodically reviews itself against best practice and where appropriate, takes the necessary action to improve its effectiveness. Training is an essential aspect of remaining effective. No other action could be recommended.

## **5 Consultation Undertaken or Proposed**

- 5.1 The Committee was consulted on the ‘areas for development’ identified in the report from Local Government Improvement and Development. The current report provides a further opportunity to consider those areas. In addition, the current report seeks to consult members on a future training programme and the effectiveness of the committee.

## **6 Implications**

<b>Issue</b>	<b>Implications</b>
Corporate Plan	<i>none identified at this stage</i>
Financial, Resource and	<i>none identified at this stage</i>

Property	
Legal and Statutory	<i>none identified at this stage</i>
Crime and Disorder	<i>none identified at this stage</i>
Risk Management and Health and Safety	<i>none identified at this stage</i>
Equality and Diversity	<i>none identified at this stage</i>
Sustainability	<i>none identified at this stage</i>

## **7 Appendices**

7.1 The following documents are to be published with this report and form part of the report

- Appendix I: Agreed Action Plan - LGID recommended areas for Audit Committee development.

## **8 Background Papers**

8.1 Report to Audit Committee – 15 December 2010 – Review of Audit Committee.

CIPFA: Audit Committees: Practical Guidance for Local Authorities - 2005

LGID recommended areas for Audit Committee development **APPENDIX I**

<b>LGID recommended areas for development</b>	<b>Agreed Action</b>	<b>Action</b>
<p>Audit Committee agendas should comprise a greater balance between core and local agenda items rather than being shaped by Audit Commission cycles.</p> <p>The role and importance of the Audit Committee should be promoted</p> <p>Improvements should be made to forward planning arrangements for the Committee</p>	<ol style="list-style-type: none"> <li>1. Improve understanding of the Audit Committee's role and raise the profile of the Committee, particularly to Cabinet and Scrutiny Committees</li> <li>2. Reinforce the role of the Committee – Not just responsible for Finance /Accounts but also for Risk and Governance</li> <li>3. Implement an Audit Committee Forward Plan to ensure that its work programme is aligned to key corporate objectives and priorities, including a focus on wider partnership activities and non-financial risks</li> <li>4. The Forward Plan should include 'gaps' for ad hoc issues to be considered or officer briefings to be provided- e.g. Budget Strategy Risks</li> <li>5. The Committee wants/needs to remain non-political</li> </ol>	<p>Further action required?</p> <p>Further action required?</p> <p>A 'Future Work Programme' was introduced from 19 September 2011 and has appeared on the agenda for all meetings of the Committee since that date.</p> <p>The future work programme can be amended or added to as required by Members.</p> <p>The Committee has remained non-political</p>
<p>Audit Committee Role and Skills are underdeveloped</p>	<ol style="list-style-type: none"> <li>1. Prepare a skills matrix for Audit Committee Members setting out mandatory and voluntary skills and experience needed to fulfil the role</li> <li>2. Committee Members to complete a skills gap assessment to identify individual and group training needs</li> <li>3. Governance Guides/Briefing Notes to be prepared and issued to Committee Members to provide information and guidance on:</li> </ol>	<p>Still to be actioned</p> <p>Still to be actioned</p> <p>Notes are being prepared for issue.</p>

	<ul style="list-style-type: none"> <li>➤ Roles and Responsibilities – including differing roles of Cabinet and Scrutiny Committees</li> <li>➤ Audit Committee Terms of Reference – which is aligned to CIPFA standards</li> <li>➤ Governance Framework and responsibilities</li> <li>➤ Audit Committee Work Programme</li> </ul> <p>4. Ad hoc training needs e.g. Finance Briefings to be timely and relevant</p> <p>5. Consideration to be given to arranging training in association with other Local Council Audit Committee Member training</p> <p>6. Training events to be scheduled to take place for approximately 45 mins-1 hour prior to a scheduled meeting rather than at a separate date.</p>	<p>Yes</p> <p>Yes</p> <p>Yes (see above)</p> <p>Ad hoc briefings have been provided.</p> <p>Difficult logistically but will be done where possible.</p> <p>A draft training programme needs to be agreed by Members.</p>
<p>Skills of the Committee could be 'bolstered' through the appointment of co-opted, non-voting members</p>	<ol style="list-style-type: none"> <li>1. This is not considered to be required at this time (December 2010)</li> <li>2. The opportunity to appoint a co-opted Member to the Audit Committee to be reconsidered annually</li> </ol>	<p>No action taken.</p> <p>To be reconsidered?</p>
<p>The Committee should produce an annual report of its activities and effectiveness</p>	<ol style="list-style-type: none"> <li>1. An Annual Report should be prepared to promote the role of the Committee and provide a short appraisal of the Committee's activity, successes and challenges. The report should include a Committee self-assessment against CIPFA Standards</li> <li>2. The assessment and report should be used to support the Council's Annual Governance Statement</li> <li>3. Future Peer Reviews should be considered every 2-4 years. Reviews could be carried out with other Partner Audit Committee Members but must remain objective, accurate and useful</li> </ol>	<p>The first Annual Report was prepared for the meeting of the Committee on 19 June 2012. It was provided to a meeting of the Council on 18 July 2012. The AGS was on the same agenda.</p> <p>To be considered in 2013?</p>

<p>The Committee should play a greater Risk Assurance Role</p>	<p>1. The Committee will continue to consider the effectiveness of the Council's Strategic and Operational Risk Management arrangements</p>	<p>A revised Strategic Risk Register has been prepared and will be reported to the Committee. Thereafter an annual report will be made to the Committee to provide assurance on the adequacy of the Council's risk management arrangements.</p>
----------------------------------------------------------------	---------------------------------------------------------------------------------------------------------------------------------------------	-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------



APPENDIX II

**CIPFA – Audit Committees - Practical Guidance for Local Authorities**

**Self- assessment Checklist – Measuring the Effectiveness of the Audit Committee**

Issue	Yes	No	N/A	Comment
<b>Terms of Reference</b>				
Have the committee's terms of reference been approved by full council?	Y			
Do the terms of reference follow the CIPFA model?		N		The T o R incorrectly shows 'core functions' instead of Terms of Reference. Revised T of R are being developed.
<b>Internal Audit Process</b>				
Does the committee approve the strategic audit approach and the annual programme?	Y			
Is the work of internal audit reviewed regularly?	Y			
Are summaries of quality questionnaires from managers reviewed?			N/A	Internal Audit provides clients with a questionnaire after every audit and carries out an annual survey of senior management. The results of these client surveys are referred to in the annual Internal Audit report to the Audit Committee.
Is the annual report, from the head of audit, presented to the committee?	Y			
<b>External Audit Process</b>				
Are reports on the work of external audit and other inspection agencies presented to the committee?	Y			
Does the committee input into the external audit programme?	Y			The external auditors provide their annual work programme to the Audit Committee.

Issue	Yes	No	N/A	Comment
Does the committee ensure that officers are acting on and monitoring action taken to implement recommendations?	Y			
Does the committee take a role in overseeing: <ul style="list-style-type: none"> <li>• risk management strategies</li> <li>• internal control statements</li> <li>• anti-fraud arrangements</li> <li>• whistle-blowing strategies?</li> </ul>	Y Y Y Y			The Committee review the Annual Governance Statement  An annual fraud report is provided to the Committee  The current whistle blowing strategy is being reviewed and updated. It will be provided to a future meeting of the Committee.
<b>Membership</b>				
Has the membership of the committee been formally agreed and a quorum set?	Y			
Is the chair free of executive or scrutiny functions?	Y			
Are members sufficiently independent of the other key committees of the council?	Y			One member of the Committee is also a member of Cabinet.
Have all members' skills and experiences been assessed and training given for identified gaps?		N		
Can the committee access other committees as necessary?	Y			

Meetings				
Does the committee meet regularly?	Y			
Are separate, private meetings held with the external auditor and the internal auditor?			N/A	Separate, private meetings can be held if Members wish this to happen – however so far this has been considered to be unnecessary.
Issue	Yes	No	N/A	Comment
Are meetings free and open without political influences being displayed?	Y			Members sometimes have different views but express them without showing political influence.
Are decisions reached promptly?	Y			
Are agenda papers circulated in advance of meetings to allow adequate preparation by members?	Y			
Does the committee have the benefit of attendance of appropriate officers at its meetings?	Y			
Training				
Is induction training provided to members?		N		Induction training has not been provided in the past; however a training plan will be developed.
Is more advanced training available as required?		N		More advanced training will be included in the training plan.
Administration				
Does the authority's s151 officer or deputy attend all meetings?	Y			
Are the key officers available to support the committee?	Y			