

**Audit Committee - Task and Finish group to review consider and clarify
the role of the Committee**

Review of the Audit Committee Terms of Reference

- 1.1 Best practice dictates that governance, risk management and strong financial controls be embedded in the day to day business of the Council. The existence of the Audit Committee does not remove responsibility from senior managers or Members but provides an opportunity and resource to focus on these issues.
- 1.2 In order to support the Committee in performing effectively, a review was undertaken to match the current terms of reference against the CIPFA suggested terms of reference (Audit Committees – Practical Guidance for Local Authorities and Police 2013). The review also included benchmarking against other members of the SWLAP.
- 1.3 CIPFA revised it's practical guidance in 2013 updating the core functions of the audit committee in relation to governance, risk management, internal control and audit and identifying other areas where audit committees could take a wider role in supporting their authorities (see CIPFA Position Statement in Local Authorities at Appendix B).
- 1.4 The detailed results of this review are attached at Appendix C and a revised Terms of Reference included for consideration at Appendix D to this report.

Findings

- 1.5 The Terms of Reference for the Audit Committee is not subject to annual review. Although the Audit Committee undertake an annual review of their effectiveness, this does not include a review of its Terms of Reference.
- 1.6 The Audit Committee does not currently receive regular reports on follow up work undertaken by Internal Audit and therefore does not have assurances that recommendations have been implemented within agreed timescales. Officers are not currently asked to attend Audit Committee either where significant control issues are identified or where recommendations remain outstanding. This is a practice followed by other Audit Committees in the partnership and allows the Audit Committees to hold these officers to account.
- 1.7 The Public Sector Internal Audit Standards (PSIAIS) require that the internal audit activity is formally defined in an internal audit charter. This is a formal document which establishes the internal audit activity's position within the organisation, authorises access to records, personnel and physical properties and defines the scope of activities. The strategy covers how the service will be developed and delivered, together with the appropriate resourcing; an assessment of the risks which the audit service itself faces; how internal audit will rely on the assurance provided by other providers, and how the service will measure its performance and quality assurance its services. An Internal Audit Charter and Strategy is established and reviewed by the

South West London Audit Partnership on an annual basis. This is not currently reviewed by Audit Committee.

- 1.8 In accordance with the PSIAS, Internal Audit is required to undertake an annual review of its effectiveness against these standards. This is normally undertaken as a self-assessment however the service must be subject to external review at least once every 5 years. Although the outcome of this review is included within the Annual Internal Audit report, a detailed report of the findings is not reported to include a Quality Assurance Improvement Plan which identifies actions to be taken to ensure compliance with the PSIAS – see Revised Terms of Reference at Appendix D.
- 1.9 Fraud update reports are provided to Audit Committee however the Committee does not have sight of the Anti-fraud policies and framework. Other Audit Committees in the partnership have reviewed and endorsed these on an annual basis before approval by full Council (where policies such as the Anti-fraud Strategy and Whistleblowing Policy form part of the Council's Constitution). The revised Terms of Reference includes the requirement to monitor the counter fraud strategy and policies.
- 1.10 The CIPFA suggested Terms of Reference requires that the Audit Committee "review the assessment of fraud risks and their impact and ensure that fraud resources are directed at areas of highest risk". Although the Committee reviews the annual audit plan, a fraud plan has not been established and agreed identifying where resources will be focused. This is currently only provided to the Richmond and Kingston Audit Committees.
- 1.11 The Committee takes on the wider role for reviewing and monitoring treasury management arrangements. It receives quarterly Treasury Management reports but is not involved in the endorsement of the Treasury Management Strategy before approval by full Council. In order to fulfil this role effectively, Audit Committee should ensure that they are satisfied that the strategy meets the requirements of the CIPFA Treasury Management Code of Practice and adequately manages risks.
- 1.12 The Audit Committee receives an annual report on risk management which includes the Corporate Risk Register. The Risk Management Strategy is not reviewed or approved by this Committee and there is no detailed review of individual corporate risks to give additional assurance that risks are being sufficiently mitigated. The Risk Management Strategy is approved by Audit Committee across 3 of the partners and detailed reports on risks provided for 2 of the Committees.
- 1.13 A number of recommendations have been made as a result of this review to improve the effectiveness of the Audit Committee and these are summarised below and in Appendix C:

Recommendations

- 1.14 The Terms of Reference for the Audit Committee should be reviewed on an annual

basis as part of the review of the effectiveness of this Committee and this should feed into the annual review of the Council's constitution.

- 1.15 The Audit Committee should review the current work plan and give consideration to including the following going forward:
- 6 monthly reports on follow up work undertaken
 - Annual review and approval of the Internal Audit Charter and Strategy
 - Annual review of the Effectiveness of Internal Audit against the Public Sector Internal Audit Standards
 - Annual review and endorsement of the Anti-fraud framework/policies
 - Review and approval of the annual Fraud Plan
 - Annual review and endorsement of the Treasury Management policy
 - Annual review and endorsement/approval of the Risk Management strategy
 - Detailed reports for a sample of corporate risks to provide assurances on how these risks are being properly mitigated and controlled.
- 1.16 Officers should be asked to attend Audit Committee where Members feel it would be useful to be given additional assurance that appropriate action is being taken to address significant control weaknesses or to hold them to account where recommendations have not been implemented within agreed deadlines.

Consideration of Audit Committee and Scrutiny Roles

- 1.17 CIPFA's view is that audit committee functions can be most effectively delivered by a dedicated audit committee because combining audit with other committees can create confusion about the role and dilute focus. A local authority's audit committee should not seek to replicate the role undertaken by Scrutiny but should focus on the oversight of governance, risk and control and the audit process. To this end, this fits with the current roles of the Audit and Scrutiny Committees within the Council. CIPFA's position statement states that Audit committee must be independent from both executive and scrutiny functions but have clear rights of access to other committees and functions including scrutiny, service committees and other strategic groups where appropriate.
- 1.18 The task group established that although Audit Committee members might refer issues to Scrutiny and vice versa, this was not general practice and there was no formal protocol in place to ensure that this worked effectively. Furthermore, work plans across the two Committees were not coordinated to avoid duplication or to pick up on issues that might be of interest to the other Committee. This is of particular importance where Scrutiny may be undertaking a detailed review of a service or partnership arrangement which may have been subject to a recent audit review or was due to be audited. This also works conversely. The task group recognised that without closer working between the two functions, there was a risk of duplication or working in silo.

Recommendation

- 1.19 A formal protocol should be established for reporting between the Audit and Scrutiny

Committees. This should include sharing work plans as part of agenda setting arrangements.

Determining the effectiveness of Audit Committee

- 1.20 An annual review of the Audit Committee is undertaken and reported back to Audit Committee and full Council. This is not currently fed into the annual internal audit report. Sutton's Audit Committee is the only one in the partnership to undertake this review despite this being in line with CIPFA best practice.
- 1.21 The task group determined that a questionnaire to key stakeholders should be rolled out to assess how effective Audit Committee were viewed across the organisation. Responses to this questionnaire are currently being collected.
- 1.22 In accordance with CIPFA best practice, the task group agreed that Audit Committee members should be assessed against the CIPFA knowledge and skills framework. A self-assessment template has been established and this is to be rolled out to Committee members. Once completed, the Committee will need to assess whether there are any gaps in knowledge and determine whether there are any specific training needs. Consideration should also be given to the appropriateness of having an Independent Member who may be able to fill these gaps and provide alternative experience and skills which will complement the core skills of current members. Both Richmond and Kingston have had independent members for a number of years.

Recommendations

- 1.23 The outcome of the annual review of the effectiveness of the Audit Committee should be included within the annual internal audit report.
- 1.24 A programme of training should be established and delivered to address any gaps in knowledge or skills identified by the self-assessment against the CIPFA framework. Consideration should also be given by Audit Committee members of the benefits of having an independent member.