

	<p style="text-align: center;"><b>Audit Committee</b> 24<sup>th</sup> September 2008</p> <p style="text-align: center;"><b>Report from the Director of Finance and Corporate Resources</b></p>
For Action	Wards Affected: None
<p style="text-align: center;"><b>Review of the Audit Committee</b></p>	

## 1.0 Summary

- 1.1 The establishment of the Audit Committee was agreed by Full Council in November 2006. The first meeting was held in March 2007. It was agreed that a review of the Committee's operation and effectiveness would be undertaken after a reasonable period given this was a new committee. This report is the first stage of that process and seeks direction on the main areas that should be considered.

## 2.0 Recommendations

- 2.1 The Committee consider the issues raised in the report.

## 3.0 Detail

### 3.1 Background

- 3.1.1 The Audit Committee is a committee of the Council established under section 102 of the Local Government Act 1972 and is subject to the rules on political balance. The terms of reference taken from the Council's constitution are attached as Appendix A.

- 3.1.2 The Audit Committee was set up in November 2006 in response to the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance which gave a clear recommendation that all Councils should have Audit Committees that were separate from the Executive and Overview & Scrutiny arrangements.

- 3.1.3 The Constitutional Working Group (CWG) considered the composition of the committee and recommended to Council to create an Audit Committee of 3 Members with no independent member(s).

3.1.4 The CIPFA guidance characterised a strong Audit Committee as one which had:

- Membership that is balanced, objective, independent of mind and knowledgeable.
- An ability to challenge the Executive when required.

3.1.5 The guidance also stated that its members would require the following to ensure its effectiveness:

- Experience in some or all of the key areas they are to consider:
  - o Governance
  - o Internal control assurance
  - o The Council's core activities
  - o Accounting issues
  - o Regulation and compliance
  - o Risk management
- Financial awareness
- Ability to question, probe and seek clarification about complex issues.

## 3.2 Effectiveness of the Committee

3.2.1 Most authorities have also only recently established an Audit Committee. They are therefore still developing and sharing best practice, is becoming important. Members may recall that an officer from the London Borough of Ealing attending the last meeting to observe Brent's Audit Committee.

3.2.2 In the Council's 2007/08 Use of Resources judgement, assessed by our external auditors, a Key Line of Enquiry (KLOE) within the Internal Control Section relates to the Audit Committee. The Level 3 KLOE is as follows:

*"4.2.15 – The council can demonstrate that it is effectively delivering the core functions of an audit committee, as identified in the CIPFA guidance, that it provides a challenge to the Executive when required and provides for effective leadership on governance, financial reporting and audit issues."*

3.2.3 PricewaterhouseCoopers have produced a tool for Members of an Audit Committee to assess its effectiveness. It was developed for the private sector but is equally applicable to the public sector. This is attached as Appendix B.

3.2.4 The following sections of the report set out areas which Members may wish to consider as part of the review.

## 3.3 Membership

3.3.1 The Committee consists of 3 Members. Initially there were no alternatives but these were added for the 2007/08 Municipal Year. **Members are asked to consider if they feel the current number of council members is appropriate.**

### 3.4 Training

3.4.1 To support the Committee to meet the main objectives of the Committee various training has been provided including:

- Role of the Audit Committee
- Internal and External Audit
- The Council's Statement of Accounts
- Risk Management
- Fraud Awareness

3.4.2 **Members are asked to consider what additional training would be helpful to assist in fulfilling their roles on the Committee.**

### 3.5 Appointment of an Independent Member

3.5.1 Section 13(1) of the Local Government and Housing Act 1989 allows the Council to appoint someone who is not a member of the Council to be a member of the Audit Committee. However an independent member appointed under this section will not have any voting rights. In contrast the independent members of the Standards Committee and some of the 'co-opted members' on the Children and Families Overview & Scrutiny Committee are appointed by the Council under different powers that relate specifically to those committees and which give independent members voting rights.

3.5.2 The appointment of an independent member(s) would not alter the political balance of the committee as the political balance calculation for the Audit Committee would exclude any independent members of the committee.

3.5.3 In recommending the composition of the Audit Committee the CWG considered appointing an independent member but CWG agreed that there was "no need for the appointment of an independent chair but that this could be reviewed in the future".

3.5.4 The document produced by CIPFA in 2005 "Audit Committees – practical guidance for Local Authorities" said that the appointment of independent members "may well be beneficial" and contained the following quote from a CIPFA member:

*"Having observed how effectively an experienced practitioner has participated as an independent member of an audit committee, I would urge all other authorities to consider this issue effectively."*

3.5.5 Comparing with some of our West London Alliance authorities Hillingdon has an independent Chair, Ealing intend to appoint two independent members and Harrow and Hounslow have no independent members.

3.5.6 **Members are asked to consider whether the appointment of an independent member(s) with experience and expertise in the key areas of work of the committee should be recommended.**

### 3.6 Amalgamated Committee

3.6.1 There are similarities between the work of the Audit Committee and the Standards Committee as both have a key role to play in the corporate governance regime of the Council. Amalgamating the committees would reduce the number of committees, increase the workload of the amalgamated committee and provide a variety of work. It would also provide for independent members to consider the audit related matters.

3.6.2 The Standards Committee is set up under the Local Government Act 2000 to perform specific standards related statutory functions. Section 54(3) of the Local Government Act 2000 allows the Council to allocate the Standards Committee additional functions.

3.6.3 Section 54(7) of the Local Government Act provides that the Standards Board may issue guidance with respect to the exercise of functions by standards committees. This guidance says that the Audit Committee and the Standards Committee should have complementary roles with the audit committee overseeing the financial processes and the standard committee promoting ethical conduct.

*“It is important that committees are clear about their roles and responsibilities, and that there are clear distinctions in their terms of reference. This will avoid confusion, disputes and possible duplication”*

3.6.4 This guidance does not prevent the Council from amalgamating the two committees but if the Council did want to amalgamate the committees, then it would need to acknowledge the guidance in making that decision.

3.6.5 If terms of reference of the Standards Committee were extended to encompass the functions of the Audit Committee then the independent members appointed under the Local Government Act 2000 would have voting rights over the audit functions of the new committee unlike the direct appointment of a independent member to the Audit Committee.

3.6.6 This is not a model that officers are aware has been used elsewhere. The independent members on the Standards Committee are appointed because of their independence from the Council and would not necessarily have expertise in financial matters.

3.6.7 **Members are asked to consider where amalgamation is an option they would like further information on.**

### 3.7 Next Steps

3.7.1 It is envisaged that any fundamental changes to the make up or operation of the committee would be agreed at the meeting of the Council in May 2009 considering the constitution.

3.7.2 Depending on the conclusion from tonight's discussion a further report will be brought to a future meeting.

### 4.0 **Financial Implications**

4.1 An independent Member, based on the Standards Committee would cost around £400 per annum.

4.2 Additional training, depending on how it was delivered may require some resources being utilised from the Member's training budget.

### 5.0 **Legal Implications**

5.1 These are set out in the body of the report.

### 6.0 **Diversity Implications**

6.1 None specific.

### 7.0 **Background Papers**

7.1 CIPFA – Audit Committees – Practical Guidance for Local Authorities 2005.

### 8.0 **Contact Officer(s)**

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