

## Audit Committee – 4 January 2015

### Review of Audit Committee Effectiveness

#### Summary of report:

Audit Committee to undertake a current evaluation of its effectiveness using CIPFA's 'A Toolkit for Local Authority Audit Committees'.

#### Background papers:

Audit Committee report 'Review of Audit Committee Effectiveness' 24 June 2013 and the minutes of 24 June 2013 Audit Committee.

CIPFA's A Toolkit for Local Authority Audit Committees.

#### Recommendation:

1. To review, self assess and comment as necessary on the current Audit Committee effectiveness evaluation checklist as detailed at **Appendix 1**.



10 December 2015

## Background

### Current Review of Audit Committee Effectiveness

CIPFA recommends that an assessment exercise is undertaken regularly by the Audit Committee to ensure that its effectiveness is regularly reviewed. CIPFA recommend that this can be achieved by using an evaluation checklist such as CIPFA's 'A Toolkit for Local Authority Audit Committees'. The previous assessment exercise was endorsed by the Audit Committee at its meeting on 24 June 2013.

The evaluation checklist contained within CIPFA's 'A Toolkit for Local Authority Audit Committees' has been populated and is detailed at **Appendix 1**. Audit Committee are asked to review, self assess and comment as necessary on this checklist and specifically in relation to questions 13, 20, 45 and 52. This should include agreeing any areas where improvements could be made. A self assessment questionnaire has been issued to all members of the audit committee to assist with the response to question 12 of the evaluation checklist.

**Resource and legal considerations:**

None directly related to this report.

**Performance and risk management issues:**

Performance and risk management are features of the checklist.

**Equality Implications:**

None directly arising from this report.

**Consultation:**

Self assessment by Audit Committee on the attached toolkit.

## Review of Audit Committee Effectiveness: Evaluation Checklist 2015/16

Question	Yes	No	Comments /Actions
<b>Establishment, Operation &amp; Duties Role &amp; Remit</b>			
1. Does the audit committee have written terms of reference?	✓		The Audit Committee's 2014/15 terms of reference was approved by Audit Committee on 20 July 2015.
2. Do the terms of reference cover the core functions of an audit committee as identified in the CIPFA guidance?	✓		The Audit Committee's terms of reference are based on the CIPFA model.
3. Are the terms of reference approved by the council and reviewed periodically?	✓		The Audit Committee's terms of reference are part of the constitution which is approved by Council. The terms of reference are reviewed each year.
4. Has the audit committee been provided with sufficient membership, authority and resources to perform its role effectively and independently?	✓		There are 7 members (one vacancy) of the authority as determined by Council with 3 co-opted independent members (non-voting) appointed by Council. The Audit Committee's authority is contained within its terms of reference and is appropriately resourced.
5. Can the audit committee access other committees and full council as necessary?	✓		As part of the Audit Committee's terms of reference, it can call officers and / or chairs of other committees to assist it in its work.
6. Does the authority's annual governance statement include a description of the audit committee's establishment and activities?	✓		The annual governance statement (AGS) includes reference to the Audit Committee's work. The AGS was approved by Audit Committee on 23 September 2015.
7. Does the audit committee periodically review its own effectiveness?	✓		This self assessment provides evidence of this.
8. Does the audit committee make a formal	✓		The Audit Committee's annual report was

Question	Yes	No	Comments /Actions
annual report on its work and performance during the year to full council?			approved by Audit Committee on 20 July 2015 and was presented to Council on 21 September 2015.
<b>Membership, Induction &amp; Training</b>			
9. Has the membership of the audit committee been formally agreed and a quorum set?	✓		There are 7 members (one vacancy) of the authority as determined by Council with 3 co-opted independent members (non-voting) appointed by Council. The quorum is three.
10. Is the chair independent of the executive function?	✓		The current Chair of the Audit Committee is an independent member i.e. is not a member of the Authority.
11. Has the audit committee chair either previous knowledge of, or received appropriate training, on financial and risk management, accounting concepts and standards, and the regulatory regime?	✓		Audit Committee receive a comprehensive training session prior to the commencement of their business year. A training session was held on 25 June 2015. Further training briefings on treasury management were made available to members on 11 <sup>th</sup> Nov, 12 <sup>th</sup> Nov, 13 <sup>th</sup> Nov, 14 <sup>th</sup> November 2014 and 4 <sup>th</sup> Nov, 5 <sup>th</sup> Nov, 6 <sup>th</sup> November 2015. Risk management training was offered in 2014 and risk training is available for December 2015.
12. Are new audit committee members provided with an appropriate induction?	✓		As 11.
13. Have all members' skills and experiences been assessed and training given for identified gaps?			<b>Initial Evaluation:</b> Not formally. See 11. Previously Audit Committee members have undertaken a self assessment and training has been provided for identified gaps. A Skills Self Assessment form has been sent to each committee member. The outcome will be used

Question	Yes	No	Comments /Actions
			to inform the members training agenda.
14. Has each member declared his or her business interests?	✓		Members are required to declare their business interests on induction and declaration of interests is a standard item on each Audit Committee agenda.
15. Are members sufficiently independent of the other key committees of the council?	✓		Some members of the Audit Committee serve on other committees such as scrutiny panels. To ensure independence, members are required to declare an interest and remove themselves from consideration of an agenda item, should such conflicts arise.
<b>Meetings</b>			
16. Does the audit committee meet regularly?	✓		The Audit Committee met 7 times during the 2014/15 municipal year and has had 5 meetings in the 2015/16 municipal year up to and including the meeting on the 9 November 2015.
17. Do the terms of reference set out the frequency of meetings?	✓		The terms of reference state that the Audit Committee will meet six weekly, or thereabouts.
18. Does the audit committee calendar meet the authority's business needs, governance needs and the financial calendar?	✓		The Audit Committee work plan, as approved by the Audit Committee on 20 July 2015 is designed to meet the authority's business and governance needs as well as the financial calendar.
19. Are members attending meetings on a regular basis and if not, is appropriate action taken?	✓		Members have regularly attended the Audit Committee. A system is in place to manage non attendance should such an eventually

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			occur.
20. Are meetings free and open without political influences being displayed?	✓		This was discussed at the Audit Committee meeting of 15 April 2013 and members felt that they were sufficiently apolitical.
21. Does the Section 151 officer or deputy attend all meetings?	✓		The Chief Finance Officer and Audit Manager are present at all meetings.
22. Does the audit committee have the benefit of attendance of appropriate officers at its meetings?	✓		As 21. Appropriate senior officers deliver agenda items to the Audit Committee.
<b>Internal Control</b>			
23. Does the audit committee consider the findings of the annual review of the effectiveness of the system of internal control including the review of the effectiveness of the system of internal audit?	✓		The Audit Committee considered the AGS which includes the review of the effectiveness of the council's systems of internal control and internal audit on 23 September 2015.
24. Does the audit committee have responsibility for review and approval of the AGS and does it consider it separately from the accounts?	✓		The Audit Committee are tasked to receive, consider and approve the AGS and this is a separate agenda item to the statement of accounts. Both were presented at the 23 September 2015 meeting of the Audit Committee.
25. Does the audit committee consider how meaningful the AGS is?	✓		The Audit Committee are asked to receive, consider and approve the AGS as part of their consideration of this agenda item.
26. Does the audit committee satisfy itself that the system of internal control has operated effectively throughout the reporting period?	✓		The Audit Committee's work plan includes receiving progress reports from internal and external audit; risk management and other inspection regimes. The Audit Committee routinely receives internal audit reports which have received a no or limited assurance opinion, as well as follow up audit reports on

Question	Yes	No	Comments /Actions
			the same. The Audit Committee receives the AGS and the annual report of the Head of Internal Audit on the overall adequacies of the internal control environment.
27. Has the audit committee considered how it integrates with other committees that may have responsibility for risk management?	✓		The Audit Committee's terms of reference include consideration of 'the effectiveness of the council's risk management arrangements'. See also 5.
28. Has the audit committee or the full council adopted managing the risk of fraud – actions to counter fraud and corruption?	✓		The Audit Committee's terms of reference includes consideration of the council's anti fraud and anti corruption arrangements. Anti fraud and corruption arrangements were an item on the 20 April 2015 agenda.
29. Does the audit committee ensure that actions to counter fraud and corruption are being implemented?	✓		As 28 above.
30. Is the audit committee made aware of the role of risk management in the preparation of the annual internal audit plan?	✓		The Audit Committee approved the final audit work plan on 23 February 2015, which included the role of risk management in preparation of the plan.
31. Does the audit committee review the authority's strategic risk register at least annually?	✓		The strategic risk register was presented to Audit Committee on 23 September 2015.
32. Does the audit committee monitor how the authority assesses its risk?	✓		Risks are routinely reported to the Audit Committee. Audit Committee were trained in the authority's risk assessment methodology on 27 August 2013. Training was offered in 2014 and risk training is available for December 2015.
33. Do the audit committee's terms of reference include oversight of the risk management process?	✓		As 27.

Question	Yes	No	Comments /Actions
<b>Financial Reporting &amp; Regulatory Matters</b>			
34. Is the audit committee's role in the consideration and / or approval of the annual accounts clearly defined?	✓		The Audit Committee's terms of reference includes 'review the financial statements, external auditor's opinion and reports to members and monitor management action in response to the issues raised by external audit'. This was undertaken on 23 September 2015
35. Does the audit committee consider specifically: <ul style="list-style-type: none"> <li>the suitability of accounting policies and treatments</li> <li>major judgements made</li> <li>large write offs</li> <li>changes in accounting treatment</li> <li>the reasonableness of accounting estimates</li> <li>the narrative aspects of reporting</li> </ul>	✓		As 34.
36. Is an audit committee meeting scheduled to receive the external auditor's report to those charged with governance including a discussion of proposed adjustments to the accounts and other issues arising from the audit?	✓		This was considered by Audit Committee on 23 September 2015.
37. Does the audit committee review management's letter of representation?	✓		As 36.
38. Does the audit committee annually review the accounting policies of the authority?	✓		Accounting polices 2013/14 were submitted to Audit Committee on 17 April 2014 and Accounting polices 2014/15 were submitted to Audit Committee on 20 April 2015
39. Does the audit committee gain an understanding of management's procedures	✓		See 11.



Question	Yes	No	Comments /Actions
for preparing the authority's annual accounts?			
40. Does the audit committee have a mechanism to keep it aware of topical legal and regulatory issues, for example by receiving circulars and through training?	✓		See 11. Audit Committee briefing updates are also circulated to members as and when they are received.
<b>Internal Audit</b>			
41. Does the audit committee approve annually and in detail the internal audit strategic and annual plans including consideration of whether the scope of internal audit work addresses the authority's significant risks?	✓		The Audit Committee approved the final internal audit work plan on 23 February 2015. The audit plan includes an allocation of time for assurance on the council's strategic risks as well as key financial and operational areas of audit activity.
42. Does internal audit have an appropriate reporting line to the audit committee?	✓		The Audit Manager reports to the Chief Finance Officer but also has unfettered access to the Chair / Audit Committee.
43. Does the audit committee receive periodic reports from the internal audit service including an annual report from the head of internal audit?	✓		The Audit Committee receives 6 monthly summaries of internal audit work undertaken and routinely receives audit reports and follow up reports where a no or limited assurance / progress opinion has been given.  The annual report of the Head of Internal Audit on the overall adequacies of the internal control environment was presented to Audit Committee on 20 July 2015.
44. Are follow up audits by internal audit monitored by the audit committee and does the audit committee consider the adequacy of implementation of recommendations?	✓		As 43 above. Where an audit report has received a limited progress follow up opinion; executive directors are called to account at the next meeting of the Audit Committee.

Question	Yes	No	Comments /Actions
45. Does the audit committee hold periodic private discussions with the head of internal audit?	✓		It was agreed at 15 April 2013 meeting of the Audit Committee that the facility for the Audit Committee to have private discussions as required and if necessary with the Head of Internal Audit and the External Auditor be made available after the conclusion of each meeting.
46. Is there appropriate co-operation between internal and external auditors?	✓		The Audit Manager and Senior Manager, Ernst & Young meet regularly to update on current audit issues and to ensure the risk of audit work replication is minimised.
47. Does the audit committee review the adequacy of internal audit staffing and other resources?	✓		Assurance is gained from the Audit Manager as part of internal audit's 6 monthly progress reporting.
48. Has the audit committee evaluated whether its internal audit service complies with the Public Sector Internal Audit Standards (PSIAS) which were introduced 1 April 2013.	✓		Internal audit's compliance with the CIPFA code of practice is produced annually by the Head of Internal Audit and is reviewed independently. West Midlands Ambulance Service will be carrying out a peer assessment review in January 2016.
49. Are internal audit performance measures monitored by the audit committee?	✓		Internal audit's performance measures are reported as part of internal audit's 6 monthly progress reports. These were reported on 20 July 2015 and 9 November 2015.
50. Has the audit committee considered the information it wishes to receive from internal audit?	✓		As part of internal audit's agenda items, Audit Committee makes suggestions and recommendations as appropriate.
<b>External Audit</b>			
51. Do the external auditors present and discuss their audit plans and strategy with the audit	✓		Ernst & Young, the new external auditor for 2015/16, presented their audit strategy for

Question	Yes	No	Comments /Actions
committee (recognising the statutory duties of external audit)?			year ending 31/03/16 to the Audit Committee, on 9 November 2015.
52. Does the audit committee hold private periodic discussions with the external auditor?	✓		There is the facility for the Audit Committee to have private discussions as required and if necessary with the Audit Manager and the External Auditor (Ernst & Young) to be made available after the conclusion of each meeting.
53. Does the audit committee review the external auditor's annual report to those charged with governance?	✓		This was presented to 23 September 2015 Audit Committee.
54. Does the audit committee ensure that officers are monitoring action taken to implement external audit recommendations?	✓		Recommendations are followed up by external audit and progress is reported to Audit Committee.
55. Are reports on the work of external audit and other inspection agencies presented to audit committee?	✓		Examples include the Foods Standards Agency audit of Walsall Council which was presented to Audit Committee 11 November 2013; OFSTED improvement plan update reports which were presented to Audit Committee on 25 February 2013 and 2 September 2013.
56. Does the audit committee assess the performance of external audit?	✓		Audit Committee may comment on external audit's performance on consideration of external audit's agenda items. External audit have their own quality performance review regime on which the Audit Committee may seek and obtain assurance.
57. Does the audit committee consider and approve the external audit fee?	✓		As 51.

Question	Yes	No	Comments /Actions
<b>Administration</b>			
<b>Agenda Management</b>			
58. Does the audit committee have a designated secretary from committee / member services?	✓		The Committee Business and Governance Manager from Democratic services provides this resource.
59. Are agenda papers circulated in advance of meetings to allow adequate preparation by audit committee members?	✓		Papers are circulated in compliance with access to information legislation.
60. Are outline agendas planned one year ahead to cover issues on a cyclical basis?	✓		The Audit Committee work plan, as approved by the Audit Committee on 20 July 2015, details the Audit Committee's activity for the forthcoming year to cover issues on a cyclical basis.
61. Are inputs for any other business formally requested in advance from committee members, relevant officers, internal and external audit?	✓		Items are formally requested in advance from Audit Committee members, relevant officers, internal and external audit, as well as matters referred from the Chief Executive or another Committee.
<b>Papers</b>			
62. Do reports to the audit committee communicate relevant information at the right frequency, time and in a format that is effective?	✓		A corporate standard format for Committee reports is maintained. See 59.
63. Does the audit committee issue guidelines and / or a proforma concerning the format and content of the papers to be presented?	✓		As 62.
<b>Actions Arising</b>			
64. Are minutes prepared and circulated promptly to the appropriate people?	✓		Minutes are circulated to key officers for comment.
65. Is a report on matters arising made and minuted at the audit committee's next meeting?	✓		All matters arising are included within the minutes and followed up at subsequent Audit Committees.

Question	Yes	No	Comments /Actions
66. Do action points indicate who is to perform what and by when?	✓		Actions are set out within the minutes and followed up at subsequent Audit Committees.