

Audit Committee – 15 April 2013

Review of Audit Committee Effectiveness

Summary of report:

To provide Audit Committee with an update on the action plan following Grant Thornton's 2009/10 review of Audit Committee effectiveness; and for Audit Committee to undertake a current evaluation of its effectiveness using CIPFA's 'A Toolkit for Local Authority Audit Committees'.

Background papers:

Grant Thornton's 2009/10 report entitled 'Review of Audit Committee effectiveness at Walsall Metropolitan Borough Council' and the agreed action plan.
CIPFA's A Toolkit for Local Authority Audit Committees.

Recommendation:

1. To note progress against the action plan following Grant Thornton's 2009/10 review of Audit Committee effectiveness at **Appendix 1**.
2. To review, self assess and comment as necessary on the current Audit Committee effectiveness evaluation checklist as detailed at **Appendix 2**.



5 April 2013

Background

Last Review of Audit Committee Effectiveness: Grant Thornton 2009/10

Grant Thornton undertook a review of the effectiveness of the council's Audit Committee as part of their annual external audit for 2009/10. The review was intended to assist the Committee in its periodic review and the self assessment of its work, in the context of continuous improvement. Grant Thornton's report was considered at Audit Committee of 28 September 2010 where it was noted and agreed that officers would prepare a draft action plan to address the issues identified. The draft action plan was agreed by the Audit Committee at its 25 October 2010 meeting. An update on progress towards the action plan was presented to Audit Committee on 17 April 2012, where it was reported that all actions had been implemented with the exception of one relating to risk management. This action has since been implemented and is detailed at **Appendix 1** for information.

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 evaluation checklist contained within CIPFA's 'A Toolkit for Local Authority Audit Committees' has been populated and is detailed at **Appendix 2**. Audit Committee are asked to review, self assess and comment as necessary on this checklist and specifically in relation to questions 13, 15, 20, 45 and 52. This should include agreeing any areas where improvements could be made.

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.

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**Last Review of Audit Committee Effectiveness: Grant Thornton 2009/10
Action Plan Update – April 2013**

Risk Management				
Ref	Recommendation	Priority	Council Comment	Status:
R7	Focus on the observation of trends rather than detail. Consider how risks are increasing or decreasing through time and assess their impact.	M	<p>Audit Committee receive the corporate risk register which identifies if risks have increased or decreased and shows the trend. In addition they also have sight of the risk matrix. Audit Committee select a number of risks for review. The ones selected are often those where it can be seen that the risk has deteriorated; have a high corporate profile or have a significant impact on the Committee discharging its assurance responsibility. Officers are asked to attend and present their risk management action plans to Committee who may challenge actions plans to ensure that the controls identified are being actioned.</p> <p>A follow up plan will, however, be introduced to enable Audit Committee to review those risks previously selected and the impact over time.</p> <p>Responsibility: Corporate Risk & Insurance Manager Timescale: 7 December 2010</p>	<p>April 2012 Update: This action has since been superceded following a recent review of the reporting arrangements for strategic risks.</p> <p>A trend analysis will be included within the next agenda item for risk for Audit Committee's consideration.</p> <p>Responsibility: Corporate Risk & Insurance Manager Timescale: 30 June 2012</p> <p>April 2013 Update: A trend analysis was included within the risk management report presented to Audit Committee on 12 June 2012 and trend is now routinely included within risk management reports to Audit Committee.</p> <p>Implemented</p>

Current Review of Audit Committee Effectiveness: Evaluation Checklist 2012/13

Question	Yes	No	Comments /Actions
Establishment, Operation & Duties Role & Remit			
1. Does the audit committee have written terms of reference?	✓		The Audit Committee's 2012/13 terms of reference was approved by Audit Committee on 12 June 2012.
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 of the authority as determined by Council with 3 co-opted 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 25 September 2012.
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 25 September 2012 and was presented to Council on 19 November 2012.
Membership, Induction & Training			
9. Has the membership of the audit committee been formally agreed and a quorum set?	✓		There are 7 members of the authority as determined by Council with 3 co-opted members (non-voting) appointed by Council. The quorum is a third of the membership subject to a minimum of two.
10. Is the chair independent of the executive function?	✓		The current Chair of the Audit Committee is not a member of the Cabinet.
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?	✓		The Chair and members of the Audit Committee received audit committee training on 9 July 2012; and risk management and statement of accounts training on 3 September 2012.
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?		X	Not formally. See 11. Proposed Action: All members' skills and experiences will be assessed and training given for identified gaps.
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?		X	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.

Question	Yes	No	Comments /Actions
Meetings			
16. Does the audit committee meet regularly?	✓		The Audit Committee met 7 times during the 2012/13 municipal year.
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 12 June 2012 (the start of the municipal year) 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 attend the Audit Committee. A system is in place to manage non attendance should such an eventually occur.
20. Are meetings free and open without political influences being displayed?			Members to self assess.
21. Does the Section 151 officer or deputy attend all meetings?	✓		The Chief Finance Officer and / or Head of Finance and / or Head of Audit are present at 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.
Internal Control			
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 25 September 2012.
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

Question	Yes	No	Comments /Actions
			accounts. Both were presented at the 25 September 2012 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 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 are an item on this, the 15 April 2013 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 proposed and final audit work plan on 14 January 2013 and 25 February 2013, which included the role

Question	Yes	No	Comments /Actions
			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 25 September 2012.
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 3 September 2012
33. Do the audit committee's terms of reference include oversight of the risk management process?	✓		As 27.
Financial Reporting & Regulatory Matters			
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 25 September 2012
35. Does the audit committee consider specifically: <ul style="list-style-type: none"> • the suitability of accounting policies and treatments • major judgements made • large write offs • changes in accounting treatment • the reasonableness of accounting estimates • the narrative aspects of reporting 	✓		As 34.
36. Is an audit committee meeting scheduled to receive the external auditor's report to those charged with governance including a	✓		This was considered by Audit Committee on 25 September 2012.

Question	Yes	No	Comments /Actions
discussion of proposed adjustments to the accounts and other issues arising from the audit?			
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 2011/12 were submitted to Audit Committee on 17 April 2012.
39. Does the audit committee gain an understanding of management's procedures for preparing the authority's annual accounts?	✓		See 11.
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.
Internal Audit			
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 proposed and final internal audit work plan on 14 January 2013 and 25 February 2013, respectively. 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 Head of Internal Audit 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.

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			The annual report of the Head of Internal Audit on the overall adequacies of the internal control environment was presented to 3 September 2012 Audit Committee.
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.
45. Does the audit committee hold periodic private discussions with the head of internal audit?		X	Not formally, although the facility and opportunity for this exists. Proposed Action: to facilitate periodic private discussions between the Audit Committee and Head of Internal Audit.
46. Is there appropriate co-operation between internal and external auditors?	✓		The Head of Internal Audit and Senior Manager, Grant Thornton 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 Head of Internal Audit as part of internal audit's 6 monthly progress reporting.
48. Has the audit committee evaluated whether its internal audit service complies with the CIPFA code of practice for internal audit in local government in the UK?	✓		Internal audit's compliance with the CIPFA code of practice is produced annually by the Head of Internal Audit and is reviewed independently. In addition Grant Thornton, the council's external auditors provide a review of internal audit. The results were reported to Audit Committee in the AGS on 25 September 2012.
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 12 June 2012 and 12 November 2012.

Question	Yes	No	Comments /Actions
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 make suggestions and recommendations as appropriate.
External Audit			
51. Do the external auditors present and discuss their audit plans and strategy with the audit committee (recognising the statutory duties of external audit)?	✓		Grant Thornton, the external auditor, presented their audit plan to 13 March 2012 Audit Committee, which includes their fee.
52. Does the audit committee hold private periodic discussions with the external auditor?		X	Not formally, although the facility and opportunity for this exists. Proposed Action: to facilitate periodic private discussions between the Audit Committee and external auditor.
53. Does the audit committee review the external auditor's annual report to those charged with governance?	✓		This was presented to 25 September 2012 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 OFSTED improvement plan which was presented to Audit Committee on 12 November 2012 and 25 February 2013. Improvements in this area are being made.
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
Administration			
Agenda Management			
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 12 June 2012, 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.
Papers			
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.
Actions Arising			
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.