



Purpose: For Decision

## Committee report

Committee	<b>AUDIT COMMITTEE</b>
Date	<b>THURSDAY, 25 SEPTEMBER 2014</b>
Title	<b>REVIEW OF AUDIT COMMITTEE EFFECTIVENESS</b>
Report of	<b>BUSINESS IMPROVEMENT MANAGER</b>

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### EXECUTIVE SUMMARY

1. This report is concerned with the annual review of the committee's effectiveness. The committee plays a key role in overseeing the council's financial affairs, governance and risk management arrangements.

### BACKGROUND

2. In keeping with recommended best practice, the committee is invited each year to carry out a review of the way it operates and its effectiveness in meeting its own terms of reference. The committee should play a key role in helping the council to secure sound governance over its financial and operational activities.
3. The committee's role stems directly from its terms of reference (which are reproduced at Appendix A). They are kept under continuous review to ensure that they remain fit for purpose. They cover, at the very least, the minimum requirements from a statutory perspective. As well as its role in overseeing the work of both internal and external auditors, in reviewing and approving the council's financial statements and overseeing the council's risk management arrangements, the committee also reviews procurement activity (including the use of waivers) and reviews the council's treasury management policy and strategy.
4. The committee's workplan covers the main activities of its remit, and it is important that the various issues are considered at the appropriate time throughout the year to meet both the requirements of statutory obligations and the council's business needs. The external auditor has previously commented that, in terms of it addressing all the issues and roles that it should, the committee does well and certainly compares well with other audit committees that he attends.
5. The operation of the committee has also been compared to the recommended practice included in CIPFA's 'A Toolkit for Local Authority Audit Committees'. The checklist is provided at Appendix B. In general, the committee scores well against the questionnaire, meeting 87% of the recommended requirements. Those issues where some consideration of change is needed are highlighted in the checklist shown at Appendix B.

6. One of the key aspects of the annual governance review and which leads to an opinion in the Annual Governance Statement is whether the committee performs the core functions of an audit committee. (Note that the council is not required by statute to have an audit committee). The CIPFA toolkit sets out those core functions and Appendix C compares the committee's current terms of reference with those expectations. As can be seen from the evaluation, the committee's activities and terms of reference match the expectations very closely.
7. The committee held its annual away day in both December 2013 and recently in September 2014 hosted by PricewaterhouseCooper LLP. This event is a particularly valuable way of the committee being able to examine how it operates and what changes are needed. Feedback on previous year's events has always been very positive.
8. The Council's risk management arrangements which are a key responsibility of the committee have recently been reviewed by internal audit as part of the 2014/15 audit plan. The results of that review are covered elsewhere on today's agenda, and the committee will be particularly interested in comments made about the role of elected members in risk management. The section of the report dealing with that is re-produced in full at Appendix D.
9. The Government has now enacted the Local Accountability Act 2014 which sets out among other issues, the requirement for local authorities to make new arrangements to appoint its external auditors. As previously reported to the committee, there will in future be a requirement to appoint an independent panel which will be asked to recommend to the council the appointment of its external auditors. Historically, the council's auditors had been appointed by the Audit Commission, but are currently appointed following an audit commission-led competitive process in 2012. The council will in future have to make such arrangements, but not for some time yet.  
Full details of the requirements of the Local Audit and Accountability Act 2014 can be seen at : <http://www.legislation.gov.uk/ukpga/2014/2/contents>

## STRATEGIC CONTEXT

10. The committee plays an important part in the council achieving effective governance over its operations which is fundamental to its success in delivering key priorities.

## CONSULTATION

11. There has been no consultation regarding this review.

## FINANCIAL / BUDGET IMPLICATIONS

12. There are no direct financial implications of this report.

## LEGAL IMPLICATIONS

13. Whilst the council has statutory obligations under the Accounts and Audit (England) Regulations 2011, there is no requirement for it to have an Audit Committee. However, the council has determined that the requirements in relation to the accounts and financial governance will be the responsibility of this committee.

## EQUALITY AND DIVERSITY

14. The Council has a legal duty under the Equality Act 2010 to seek to eliminate discrimination, victimisation and harassment in relation to age, disability, gender re-assignment, pregnancy and maternity, race, religion, sex, sexual orientation and marriage and civil partnership. It is considered that there are no direct equality and diversity implications of this report for any of the protected groups.

## RISK MANAGEMENT

15. The key risk associated with this review is that it fails to address some needed improvements (although minor) in the committee's operations and that the committee does not play the very important role that it has in achieving effective governance.

## RECOMMENDATION

16. The Committee:
- a) considers the committee's terms of reference at Appendix A and agrees that they remain fit for purpose
  - b) considers any changes highlighted at Appendix B arising from the CIPFA checklist
  - c) notes the assessment of the committee against the core functions of audit committees as set out at Appendix C
  - d) notes the evaluation undertaken by the council's internal auditors of members involvement in risk management shown at Appendix D and considers any actions it needs to take arising therefrom.

## APPENDICES ATTACHED

17. [Appendix A](#) – Audit Committee – Terms of Reference  
[Appendix B](#) – Audit Committee – self assessment checklist  
[Appendix C](#) – Core Functions of Audit Committees  
[Appendix D](#) – Extract from Internal Audit Report – Members involvement in risk management.

Contact Point: Bob Streets, Business Improvement Manager,  
☎ 01983 821000 e-mail [bob.streets@iow.gov.uk](mailto:bob.streets@iow.gov.uk)

DAVE BURBAGE  
*Managing Director*

COUNCILLOR IAN STEPHENS  
*Leader of the Council*