

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

26 January 2010

Joint Report of the Chairman of the Audit Committee and Chief Internal Auditor

Part 1- Public

Delegated

1 REVIEW OF THE EFFECTIVENESS OF THE AUDIT COMMITTEE

Summary

This report records the outcome of the self assessment against the checklist included in the CIPFA publication “Audit Committees – Practical Guidance For Local Authorities”. This self assessment was completed at an informal meeting between the Audit Committee members and the Chief Internal Auditor. Members are asked to consider the action points identified in the report and to report the outcome of this ‘self-assessment’ to Council.

1.1 Introduction

1.1.1 CIPFA published “Audit Committees – Practical Guidance For Local Authorities” in 2005. This document was used as the guidance for setting out the terms of reference of the Audit Committee.

1.1.2 The Audit Committee first met in April 2006 and during that time there has not been a review of the effectiveness of the Committee. At the previous meeting of the Audit Committee in October 2009 it was agreed that the Audit Committee should hold a meeting with the Chief Internal Auditor in order to assess the Committee against the checklist contained within the above document.

1.1.3 Prior to this meeting Members were given a copy of the checklist for consideration. The meeting took place on 8 December 2009 and the assessment and comments arising from the meeting are recorded on the attached checklist.
[Annex1]

1.2 Outcome of self assessment

1.2.1 The CIPFA Audit Guidelines were used by Tonbridge & Malling Borough Council when setting up the Audit Committee, so a majority of the checklist points were already fully complied with.

1.2.2 Discussion took place on what principles the checklist points were aiming to achieve and whether the Council met those principles.

- 1.2.3 The overall opinion of the Audit Committee Members was that the Committee was effective and complied with a majority of the points raised within the checklist. However, there were some areas where there was a robust discussion, questioning if the checklist issue was complied with and if not what is the effect on the work of the Audit Committee.
- 1.2.4 The checklist is broken into different areas of activity and the following paragraphs consider these areas and report back on the view of Audit Committee Members on points raised. Action points for consideration are highlighted in bold.

1.3 Role and remit

- 1.3.1 This area questions how and where the role of the Audit Committee is defined. When the Audit Committee was set up this guidance was used to define the role of the Audit Committee and the Constitution was used to record this. Therefore the discussion of this section of the checklist was aimed at ensuring that the principles of the checklist were complied with.
- 1.3.2 As can be seen from the checklist there was only one area where it was considered that further consideration was required.
- 1.3.3 This discussion related to the question “**Does the Audit Committee make a formal annual report on its work and performance during the year to full Council?**” The Chairman of the Audit Committee reports annually to the Audit Committee on the work of the Committee but there is no requirement to present this report beyond the Audit Committee.
- 1.3.4 The discussion considered what additional value could be gained by the organisation by a wider circulation of this report. It was felt that an annual report to Council on the work of the Audit Committee would ensure that the independent assessment of the Audit Committee would be received by all Members. In addition it would demonstrate the role of the Audit Committee to all stakeholders.

Action point 1 is to consider if the current annual report should be initially considered by the Audit Committee and then be recommended for presentation to full Council.

1.4 Membership, Induction and Training

- 1.4.1 Once again the CIPFA guidance had been used to identify what training was required so a majority of points were complied with in full. However, the question is asked “**Have all members’ skills and experiences been assessed and training given for identified gaps?**”
- 1.4.2 General training has been given for all members rather than individual needs. There has been a rolling program of training and presentations given to Audit

Committee but not through an individual assessment. Some Members of the Audit Committee felt that the role of the Audit Committee covered such a wide area that additional skills training would be useful.

- 1.4.3 Because of the wide variety of skills and experience of the Members of the Audit Committee this is clearly an individual needs assessment. There was a view that the meeting with the Chief Internal Auditor outside of Committee was useful in meeting some of these needs as there was the opportunity to answer in greater depth questions raised by Members.
- 1.4.4 It was concluded that this was an area where it was down to the individual to identify where they felt their skills to serve on the Audit Committee might require additional training.

Action point 2 is to review the programme of work presented to the Audit Committee and seek individual's assessment of skill gaps to identify potential training needs.

1.5 Meetings

- 1.5.1 This section covers the frequency of Audit Committee meetings and the access to information for the Audit Committee to form an opinion on governance matters. It was considered that the checklist was complied with in all areas except for the following question: - **“Do the terms of reference set out the frequency of meetings?”**
- 1.5.2 Within the Constitution provision is made for full Council to determine the annual programme of meetings. This timetable ensures that the Audit Committee fits in with the annual work cycle. Although Audit Committee Members were satisfied that this process worked satisfactorily it should be discussed further whether there was any merit in progressing this point.

Action point 3 is to discuss whether there needs to be a minimum number of meetings of the Audit Committee stipulated in the Constitution.

1.6 Internal Control

- 1.6.1 Members considered that this part of the checklist was complied with fully. The reporting formats used had evolved to a level where the Members were satisfied that they had sufficient information to form an overall opinion on the level of governance within the organisation.
- 1.6.2 It was considered that the recent improved Risk Register reporting had enhanced this process further.

1.7 Financial Reporting and Regulatory Powers

- 1.7.1 The first question that is asked in this section is **“Is the Audit Committee’s role in the consideration and/or approval of the annual accounts clearly defined?”** Although the answer to this question is yes there was a debate on the role of the Audit Committee in the accounts approval process and the role of the General Purposes Committee where the accounts are approved following consideration by the Audit Committee.
- 1.7.2 There are a number of authorities where this role is undertaken solely by the Audit Committee and a view was sought from the Audit Committee Members on how they felt this process worked. The Members felt that their role was an independent appraisal function in relation to the accounts. It was felt that the General Purposes Committee had the advantage of being a larger Committee with a number of Members with a wider range of skills to consider the accounts. Therefore they felt that the current system did not require change.
- 1.7.3 With regard to write-offs, one area that was questioned was in relation to major write-offs. These are currently considered and approved by the Executive although the Audit Committee will be aware of them when they appear in the notes to the accounts.

Action point 4 is would there be any merit in the Audit Committee considering write-offs prior to reporting them to the Executive?

- 1.7.4 There was a further question in this section where the answer was no. This was **“Does the audit committee review management’s letter of representation?”**
- 1.7.5 This is provided by General Purposes as a governance Committee although it is reported to Audit Committee following the approval of accounts. This process fits in with the accounts approval process and it is considered that this does not require change.

1.8 Internal Audit

- 1.8.1 Members felt that all areas of this section were complied with. It was agreed at the meeting discussing this exercise that further periodic private meetings between the Audit Committee and Chief Internal Auditor should take place.
- 1.8.2 It was felt that Members had the opportunity to seek more detailed explanations than would be available at Committee. However, it was also considered that there would still need to be a level of questioning at Committee to demonstrate that openness still existed.

- 1.8.3 With regard to the relationship between internal and external audit Members asked how the protocol document had progressed and were informed that the Audit Commission intended to supply one in early 2010.

1.9 External Audit

- 1.9.1 This section was also considered to be compliant with one exception. The Audit Committee Members do not have periodic private meetings with the external auditors. It was considered that this would be useful in helping them consider overall governance of the organisation.

Action point 5 is to contact the Audit Commission to see if these are required. (The Audit Commission have already agreed that this would be useful and have agreed consider how these can be arranged to fit in with Audit Committee meetings.)

1.10 Administration

- 1.10.1 The final section of the checklist considered the Administrative support given to the Audit Committee and this was felt to meet all of the points raised in the checklist.

1.11 Legal Implications

- 1.11.1 If it was decided that there were changes required to the Terms of Reference of the Audit Committee this would require changes to the Council's Constitution.

1.12 Financial and Value for Money Considerations

- 1.12.1 There are no direct costs involved with this report.

1.13 Risk Assessment

- 1.13.1 This exercise has resulted in Members of the Audit Committee being assured that they comply with CIPFA Guidance. There were no significant weaknesses identified as the result of this exercise.

1.14 Recommendations

- 1.14.1 It is recommended that the action points in this report are considered and the final result of the self-assessment is reported to Council in due course.

Background papers:

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CIPFA - Audit Committees – Practical Guidance For
Local Authorities

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