

**REPORT FOR: GOVERNANCE, AUDIT  
AND RISK  
MANAGEMENT AND  
STANDARDS  
COMMITTEE**

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**Date of Meeting:**

5 December 2018

**Subject:**

**Audit Committee Review**

**Responsible Officer:**

Dawn Calvert – Director of Finance

**Exempt:**

No

**Enclosures:**

Appendix A – The draft Internal Audit report  
Appendix B – The Committee’s Self-  
Assessment  
Appendix C – The Committee’s current Terms  
of Reference  
Appendix D – The proposed updated Terms of  
Reference

## **Section 1 – Summary and Recommendations**

This report outlines the draft findings and recommendations of the Internal Audit review of the audit committee as agreed as part of the 2018/19 Internal Audit Plan.

**Recommendations:**

The Committee is requested to:

- Review the draft Internal Audit report;
- Agree the report’s recommendations; and
- Review the proposed updated Terms of Reference for the Committee for referral to Council so that it may be included in the constitution.

## Section 2 – Report

### Background

- 2.1. As part of the 2017/18 annual governance review it was identified that the audit committee role, undertaken by the GARMS Committee, has not been specifically reviewed against best practice, as contained in CIPFA guidance, for several years. This was identified as a minor governance gap and to address this an Internal Audit review of the audit committee was included in the 2018/19 Internal Audit Plan, as agreed by the GARMS Committee on 17/07/18.
- 2.2 A Terms of Reference for the review, was agreed with the Chair of GARMS, and presented to the last meeting of the Committee for information along with the CIPFA Audit Committees/Practical Guidance for Local Authorities on which the review was based.

### Overview of CIPFA Guidance

- 2.3 The CIPFA guidance incorporates *CIPFA's Position Statement: Audit Committees in Local Authorities and Police (2018)* ('the Position Statement'), which sets out CIPFA's view of the role and functions of an audit committee.
- 2.4 The Position Statement emphasises the importance of audit committees being in place in all principal local authorities and recognises that audit committees are a key component of governance.
- 2.5 It states that the purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.
- 2.6 Audit committees in local authorities are necessary to help satisfy certain statutory requirements. For example in England, the Accounts and Audit (England) Regulations 2015 state that a local authority is responsible "for a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective and includes effective arrangements for the management of risk". In addition, in England, Section 151 of the Local Government Act 1972 requires every local authority to "make arrangements for the proper administration of its financial affairs".
- 2.7 The chief financial officer (CFO) has overarching responsibility for discharging the requirement for sound financial management. To be truly effective, the CFO requires an effective audit committee to provide support and challenge. An essential role for the audit committee is to oversee internal audit, helping to ensure that it is adequate and effective. Both these elements are now enshrined in the Public Sector Internal Audit Standards (PSIAS) and the supporting Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards (LGAN).

- 2.8 The guidance states that best practice dictates that governance, risk management and strong financial controls be embedded in the daily and regular business of an organisation. The existence of an audit committee does not remove responsibility from senior managers, members and leaders, but provides an opportunity and resource to focus on these issues.
- 2.9 As well as the Position statement the guidance (provided in full at the last meeting) covers:
- The purpose of audit committees;
  - The core functions of an audit committee;
  - Possible wider functions of an audit committee;
  - Independence and accountability;
  - Membership and effectiveness;
  - Sector and devolved government guidance;
  - Suggested terms of reference;
  - Audit committee members – knowledge and skills framework;
  - Self-assessment of good practice; and
  - Evaluating the effectiveness of the audit committee.

## **Review Findings**

- 2.10 Appendix A is the draft Internal Audit report outlining the findings of the review. Overall an Amber/Green assurance has been given to the performance of the Audit Committee (GARMS) against the good practice principles outlined in the CIPFA Guidance indicating that the committee is soundly based and has in place a knowledgeable membership. Overall 71% of the good practice was found to be in place and operating or substantially operating effectively. 11 recommendations have been made to address the areas identified as only partially or not operating, 8 are rated as medium risk and 3 are rated as low risk.
- 2.11 Appendix B documents the self-assessment undertaken by the Committee at the last meeting that underpins the report's findings.
- 2.12 Appendix C is the current terms of reference of the Committee and indicates what has and has not been included in the updated terms of reference. Appendix D is the proposed updated Terms of Reference for the Committees consideration.

## **Further Information**

Once the Committee has approved the updated terms of reference it will go to full Council for approval.

## **Financial Implications**

There are no financial implications to this report.

## Equalities implications

None

## Corporate Priorities

The Internal Audit and Corporate Anti-Fraud Service contribute to all the corporate priorities by enhancing the robustness of the control environment and governance mechanisms that directly or indirectly support these priorities.

## Section 3 - Statutory Officer Clearance

Name: Dawn Calvert	<input checked="" type="checkbox"/>	on behalf of the Chief Financial Officer
Date: 21/11/18		
Name: Jessica Farmer	<input checked="" type="checkbox"/>	on behalf of the Monitoring Officer
Date: 21/11/18		

## Section 4 - Contact Details and Background Papers

**Contact:** Susan Dixson, Head of Internal Audit & Corporate Anti-Fraud,  
Tel: 0208 424 1420

**Background Papers:** None