

REPORT OF: FINANCIAL SERVICES
FINANCIAL SERVICES MANAGER

TO: ACCOUNTS & AUDIT COMMITTEE

DATES: 22nd March 2016

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**Accounts & Audit Committee
Review of terms of reference and assessing effectiveness**

PURPOSE OF REPORT

1. The composition of the Committee changed during 2015 with a reduction in the number of Pendle councillors from 8 to 5. In addition the Council agreed to appoint 2 Independent Members. Following these developments it is considered timely to review the terms of reference for the Committee as well as to obtain feedback from the Committee on the support it may require to assess and optimise its effectiveness.

RECOMMENDATIONS

2. The Committee is recommended to:
 - (a) review its current terms of reference and provide any feedback in advance of the next review of the Council's Constitution in May 2016;
 - (b) consider the key messages arising from the Grant Thornton cross-sector review of Audit Committee effectiveness;
 - (c) have regard to the self-assessment checklist developed by CIPFA as part of its practical guidance on audit committees in local authorities; and
 - (d) indicate any initial areas of focus for member training.

ISSUE

Introduction

3. The Council agreed in July 2015 to change the composition of the Accounts and Audit Committee, reducing the number of councillors from 8 to 5 together with the appointment of 2 new independent members. The Committee met for the first time following these changes in September 2015. At that time the appointment of one independent member was confirmed. The second independent member has since been appointed.

4. At the meeting in September, an informal discussion took place on how officers can support the Committee to discharge its role including any training and development requirements. This report seeks to build on those early discussions and was deferred from the January meeting to allow more time to consider these matters.

The Committee's Terms of Reference

5. These are set out in the Council's Constitution. The Constitution is reviewed annually with any required changes identified and reported to Council for approval each year in May. The Committee's current terms of reference are set out in [Appendix A](#) (note these need updating to reflect external developments – e.g. the abolition of the Audit Commission).
6. From the current terms of reference it can be seen that the main areas of focus are:
 - *Annual Statement of Accounts* - Review and approval of the Statement of Accounts and consideration of the External Auditor's report on the accounts post their audit review;
 - *Internal Audit* – workload planning and monitoring; risk coverage, progress on audit findings, review of internal audit reports where assurance is limited; consideration of the Annual Report and Opinion from the Internal Audit Manager;
 - *External Audit* – consider reports from External Audit; review and feedback on audit plans, scope of work and associated fees;
 - *Compliance & Regulatory Work* – overview of key elements of governance (contract and financial procedure rules); scrutiny of treasury management activity; monitor work under the Council's Anti-Fraud, Theft and Corruption Strategy; review and monitor the Annual Governance Statement; arrangements for risk management and corporate governance.
7. The Committee is asked to consider its terms of reference and provide any feedback. Is the scope of the Committee's role clearly defined and understood? Are there specific training needs linked to the above areas of focus and how should these be prioritised? The appointment of external, independent members with significant relevant experience, together with the support of Grant Thornton, the Council's external auditors, provide opportunities for officers and the Committee to draw on examples of good practice elsewhere.

Review of Effectiveness

8. The update from Grant Thornton (page 12 of Item 3 on this agenda) includes reference to a recent cross-sector review undertaken by the firm on audit committee effectiveness. A copy of the full review will be provided to members of the Committee separately but the key messages are shown at [Appendix B](#). The Committee may, going forward, wish to have regard to and revisit these key messages from time to time as it develops and assesses its effectiveness.
9. The Chartered Institute of Public Finance and Accountancy (CIPFA) has published guidance on Audit Committees. This includes a self-assessment template setting out a number of 'good practice' questions. CIPFA considers that a regular self-assessment can be used to support the planning of the audit committee work programme and training plans. It can also inform an annual report on the Committee's work. A copy of the self-assessment is produced at [Appendix C](#) for information.
10. The documents appended with this report should provide a useful framework against which to assess and periodically review the effectiveness of the Committee.

IMPLICATIONS

Policy

11. There are no new policy implications arising from this report.

Financial

12. There are no financial implications arising from this report.

Legal

13. There are no legal implications arising from this report.

Risk Management

14. There are no risk management implications arising from this report.

Health and Safety

15. There are no health and safety implications arising from this report.

Sustainability

16. There are no sustainability issues arising from this report.

Community Safety

17. There are no community safety issues arising from this report.

Equality and Diversity

18. There are no equality and diversity issues arising from this report.

APPENDICES

Appendix A: Current terms of reference for the Committee

Appendix B: Key messages from Grant Thornton review of Audit Committee Effectiveness

Appendix C: CIPFA Self-assessment checklist re Audit Committees

CURRENT TERMS OF REFERENCE FOR THE ACCOUNTS & AUDIT COMMITTEE***Accounts***

- To review and approve the annual Statement of Accounts. Specifically to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Executive/Council.
- To consider the External Auditor's report to those charged with governance on issues arising from the audit of the accounts.

Audit Activity

- To approve the Strategic Internal Audit Plan (and Annual Internal Audit Plan) and monitor performance against the agreed Strategy.
- To consider the Audit and Performance Manager's Annual Report and opinion and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the Council's corporate governance arrangements.
- To consider summaries of specific internal audit reports as requested and all Limited Assurance Audits.
- To consider a report from Internal Audit on the implementation of recommendations and to act as a forum to ensure the rapid delivery and implementation of audit recommendations once agreed, ensuring that auditors and officers collaborate effectively.
- To consider the External Auditor's Annual Letter, relevant reports and the report to those charged with governance.
- To consider specific reports as agreed with the External Auditor.
- To comment on the scope and depth of external audit work and to ensure that it gives value for money.
- To liaise with the Audit Commission over the appointment of the Council's External Auditor.
- To commission work from Internal and External Audit.

Regulatory Framework

- To maintain an overview of the Council's Contract Procedure Rules, Financial Procedure Rules and make recommendations in this respect to the Executive and/or Council.
- To monitor the procedures for the development and operation of risk management and corporate governance and make recommendations to the Council and the Executive
- To monitor the implementation of the Council's Anti-Fraud, Theft and Corruption Strategy.
- To comment on the Council's Annual Governance Statement and agree the necessary actions to ensure compliance with best practice.
- To scrutinise the Council's Treasury Management Strategy and treasury performance and make recommendation to the Executive and Council as appropriate.

Key messages arising from a cross-sector review by Grant Thornton entitled “Knowing the Ropes – Audit Committee Effectiveness Review”



The full report can be viewed at:

<http://www.grantthornton.co.uk/en/insights/knowning-the-ropes--audit-committee-effectiveness-review-2015/>

Extract from CIPFA Guidance on Audit Committees for Local Authorities (2013)

Self-assessment of Good Practice

This appendix provides a high-level review that incorporates the key principles set out in CIPFA's Position Statement: Audit Committees in Local Authorities and Police and this publication. Where an audit committee has a high degree of performance against the good practice principles then it is an indicator that the committee is soundly based and has in place a knowledgeable membership. These are the essential factors in developing an effective audit committee.

A regular self-assessment can be used to support the planning of the audit committee work programme and training plans. It can also inform an annual report.

Good practice questions		Yes	Partly	No
Audit committee purpose and governance				
1	Does the authority have a dedicated audit committee?			
2	Does the audit committee report directly to full council? (Applicable to local government only.)			
3	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?			
4	Is the role and purpose of the audit committee understood and accepted across the authority?			
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?			
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?			
Functions of the committee				
7	Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?			
	■ good governance			
	■ assurance framework			
	■ internal audit			
	■ external audit			
	■ financial reporting			
	■ risk management			

Good practice questions		Yes	Partly	No
	<ul style="list-style-type: none"> ■ value for money or best value ■ counter-fraud and corruption. 			
8	Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?			
9	Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?			
10	Where coverage of core areas has been found to be limited, are plans in place to address this?			
11	Has the committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its core purpose?			

Membership and support

12	<p>Has an effective audit committee structure and composition of the committee been selected?</p> <p>This should include:</p> <ul style="list-style-type: none"> ■ separation from the executive ■ an appropriate mix of knowledge and skills among the membership ■ a size of committee that is not unwieldy ■ where independent members are used, that they have been appointed using an appropriate process. 			
13	Does the chair of the committee have appropriate knowledge and skills?			
14	Are arrangements in place to support the committee with briefings and training?			
15	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?			
16	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?			
17	Is adequate secretariat and administrative support to the committee provided?			

Good practice questions		Yes	Partly	No
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Effectiveness of the committee

18	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?			
19	Has the committee evaluated whether and how it is adding value to the organisation?			
20	Does the committee have an action plan to improve any areas of weakness?			