

AUDIT COMMITTEE

Agenda Item 51

Brighton & Hove City Council

Subject:	Review of the Effectiveness of the Audit Committee		
Date of Meeting:	20th December 2011		
Report of:	Director of Finance		
Contact Officer:	Name:	Catherine Vaughan Ian Withers	Tel: 29-1333 29- 1323
	Email:	Catherine.vaughan@brighton-hove.gov.uk ian.withers@brighton-hove.gov.uk	
Ward(s) affected:	All		

FOR GENERAL RELEASE

1. SUMMARY AND POLICY CONTEXT:

- 1.1 Strong and effective governance arrangements contribute to the achievement of the council's priorities and the Audit Committee has a key role to play in this. .
- 1.1 Best practice now suggests that there should be a regular review of the effectiveness of the Audit Committee. This report is the first stage in conducting that review and sets out the key issues to explore based on a preliminary evaluation against the National Audit Office publication entitled "The Audit Committee Self-Assessment Checklist". It is proposed that those findings form the basis for further assessment undertaken directly by members of the Audit Committee itself.

2. RECOMMENDATIONS:

- 2.1 That the Audit Committee considers the preliminary findings against "The Audit Committee Self-Assessment Checklist".
- 2.2 That a workshop of Audit Committee Members be set up to explore the key issues raised in more detail.
- 2.3 That a report be brought to the meeting of the Audit Committee on 21 February 2012 that feeds back from that workshop, concludes the review, and incorporates an action plan to enhance the effectiveness of the Audit Committee.

3. RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:

3.1 There is no statutory obligation for a local authority to establish an audit committee. However there is a wide range of guidance and best practice which shapes and informs the operation of this committee including the Combined Code on Corporate Governance (2003) and the Good Governance Standard for Public Services (2004).

3.2 CIPFA (The Chartered Institute of Public Finance & Accountancy) produced a Toolkit for Local Authority Audit Committees in 2006. In that document it states:

“Good corporate governance requires independent, effective assurance about both the adequacy of corporate, operational and financial management and reporting, and the management of other processes required to achieve the organisation’s corporate and service objectives. Effective audit committees help raise the profile of internal control, risk management and financial reporting issues within an organisation, as well as providing a forum for the discussion of issues raised by internal and external auditors. CIPFA believes that these functions are best delivered by an audit committee separate from executive functions.”

3.3 A formal review of the effectiveness of the audit committee has not previously been undertaken. However when the Audit Committee was established, replacing the previous Audit Panel in 2008, best practice at the time was taken into account. It is timely therefore to undertake this review, particularly in the context of the consideration being given to the council’s overall constitution in the light of the power given to local authorities under the Localism Act 2011 to adopt a committee system of governance.

3.4 The National Audit Office produced The Audit Committee Self-Assessment Checklist in 2009 (“The Checklist”). It was designed to help Audit Committees in central government assess how well they apply good practice. While this document is not specific to local government and indeed needs some contextualising to make it relevant to our circumstances it is a more recent publication than the CIPFA equivalent toolkit. It also has a style that is particularly suited to self-assessment, workshop style discussion, and continuous improvement. It is therefore recommended that this checklist be the starting point for the Review of Effectiveness of the Audit Committee. A range of other information can be drawn on to supplement and support it.

3.5 A preliminary review has been conducted against the Checklist. The findings are summarised in Appendix 1. The key issues to explore arising from that review are:

- Should there be an agreed frequency for the Audit Committee to formally review its effectiveness?
- Should the Audit Committee’s terms of reference be reviewed and updated annually?
- How might the relationship between the Audit Committee and the Executive be enhanced?*

- What might be the ideal number of members on the Audit Committee to ensure effectiveness?*
- Should the Audit Committee broaden its skills mix through the appointment of independent members or co-optees?*
- Should any elements of training and induction for members of the Audit Committee be compulsory and what is the best style and method of delivering that training?
- Should the Annual Report of the Audit Committee to Full Council be assurances based rather than activities based?
- Should there be a more formal opportunity for members to contribute to agenda planning?

* Within the constraints of the council's constitution

3.6 CIPFA has recently conducted a survey of local authority audit committees (including Brighton & Hove) and some of its findings are relevant to this review; they are attached at Appendix 2. The government has recently consulted on the Future of Local Public Audit and this also has relevance. While a response has been issued in relation to arrangements for the provision of external audit, there has been no response as yet to some of the other issues brought up by the consultation including for example issues of audit committee independence.

3.7 It is suggested that a workshop for members of the Audit Committee who are interested in exploring these issues further be scheduled for January 2012. That workshop could also consider other relevant guidance and best practice as desired. It is proposed to then report back to the next meeting of this committee to finalise the review, including an action plan where appropriate.

4. COMMUNITY ENGAGEMENT AND CONSULTATION

4.1 A workshop for Audit Committee members is proposed for January 2012 to explore this topic further.

5. FINANCIAL & OTHER IMPLICATIONS:

Financial Implications:

5.1 There are no direct financial implications arising from the recommendations. The Audit Committee supports the Council to maintain financial integrity through its assurance role.

Finance Officer Consulted: Name Anne Silley

Date: 06/12/11

Legal Implications:

5.2 As indicated in paragraph 3.3 above, the Localism Act 2011 gives the council the option of adopting a committee system of governance from May 2012. Should full Council pass a resolution to that effect, a review of council committee terms

of reference will take place as part of broader constitutional amendments to support the new form of governance. The proposed review of the effectiveness of the Audit Committee will feed into this wider constitutional review.

Lawyer Consulted: Oliver Dixon

Date: 07/12/11

Equalities Implications:

- 5.3 No direct equalities implications.

Sustainability Implications:

- 5.4 No direct sustainability implications.

Crime & Disorder Implications:

- 5.5 No direct crime and disorder implications.

Risk and Opportunity Management Implications:

- 5.6 An effective audit committee will ensure that the council has adequate arrangements for risk and opportunity management.

Public Health Implications:

- 5.7 No direct crime and disorder implications.

Corporate / Citywide Implications:

- 5.8 An effective audit committee is an essential part of good corporate governance.

6. EVALUATION OF ANY ALTERNATIVE OPTION(S):

- 6.1 There are a range of tools that could be used to evaluate the effectiveness of the Audit Committee.

7. REASONS FOR REPORT RECOMMENDATIONS

- 7.1 To ensure that there is an effective audit committee contributing to the effective governance of the council.

SUPPORTING DOCUMENTATION

Appendices:

1. Appendix 1 – Preliminary findings against the NAO “Audit Committee Self Assessment Checklist”
2. Appendix 2 – CIPFA Results of the Audit Committee Survey

Background Documents

1. NAO The Audit Committee Self-Assessment Checklist 2009