

**BRISTOL CITY COUNCIL
AUDIT COMMITTEE**

16 April 2010

Report of: Strategic Director (Resources)

Title: Grant Thornton - Review of Audit Committee effectiveness

Ward: Citywide

Officer presenting report: Richard Powell, Chief Internal Auditor

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RECOMMENDATION

The Audit Committee comment, as appropriate, on the draft assessment undertaken by Grant Thornton and note the suggested areas identified to help strengthen its arrangements further in line with best practice.

The Audit Committee should also consider undertaking its own self assessment using the criteria attached to ensure that there is a shared understanding of the Committee's effectiveness.

Summary

As part of their audit plan, Grant Thornton has undertaken an initial review of the effectiveness of the Audit Committee, using the CIPFA Better Governance Forum toolkit and available best practice. This review has been informed by attending and observing the Council's Audit Committee and their wider experience in working with other committees from similar public sector bodies.

The significant issues in the report are:

Overall, the Council's Audit Committee operates effectively and demonstrates a high level of compliance against the CIPFA checklist requirements. The review has highlighted a number of areas of good practice as well as opportunities to strengthen its arrangements further.

Policy

None affected by this report. The Audit Commission has statutory responsibility for inspection and assessment at the Council. Grant Thornton are the Council's appointed external auditors. In carrying out their audit and inspection duties they have to comply with the relevant statutory requirements. In particular these are the Audit Commission Act 1998 and the Code of Audit Practice with regard to audit, and the Local Government Act 1999 with regard to best value and inspection.

Consultation

Internal: Discussions will be held with the Council's Audit Committee on the draft findings.

External: Grant Thornton has consulted with other colleagues to identify existing best practice across the public sector.

Grant Thornton's appointed auditor, John Golding, will be attending the Committee, and will be pleased to answer Members' questions.

Other Options Considered

Not applicable.

Risk Assessment

Not as a result of this report.

Equalities Impact Assessment

There are no issues arising from this report.

Legal and Resource Implications

None arising from this report.

Appendices:

Appendix 1: Review of effectiveness of Audit Committee checklist

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers: None



Bristol City Council

Review of the effectiveness of the Audit Committee

Last updated 7 April 2010

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1 Executive Summary

Introduction

- 1.1 The Council is responsible for ensuring that its financial management arrangements are adequate and effective and that it has a sound system of governance, including internal control and financial control, and internal audit which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.
- 1.2 The Audit Committee has a key role in ensuring an effective system of governance. It is good practice for audit committees to undertake a self-assessment to measure their effectiveness and this will assist the assurance gathering process in producing the 2009-10 annual governance statement and facilitating its sign off.
- 1.3 As part of our audit and inspection plan, we have undertaken a review of the effectiveness of the Audit Committee, using available best practice. This review has been informed by our own observations in attending the Council's Audit Committee and our experience in working with other committees from similar public sector bodies.

Methodology

- 1.4 A toolkit has been produced by the CIPFA Better Governance Forum to provide detailed advice, examples and suggest good practice to assist both officers and members who are involved in the establishment and operation of an audit committee. The toolkit draws on existing best practice from local government, and the wider public sector, and from the advice provided in CIPFA's Handbook for Audit Committee Members in Further and Higher Education.
- 1.5 The toolkit states that good corporate governance derives from the ability to provide independent, effective assurances about both the adequacy of financial management and reporting, and the management of other processes required to achieve the Council's corporate and operational objectives. It also states that best practice from the wider public sector indicates that these functions are best delivered by an independent audit committee. In this context, independence means that an audit committee should be independent from any other executive function.
- 1.6 Therefore, it is important that the Council has independent assurance about the mechanisms underpinning these aspects of governance. Specifically:
 - **Independent assurance** of the adequacy of the internal control environment within the Council;
 - **Independent review** of the Council's financial and non financial performance to the extent that it affects the exposure to risk and weakens the internal control environment; and
 - **Assurance** that any issues arising from the process of preparing, auditing and certifying the Council's annual accounts are properly dealt with and that appropriate accounting policies have been applied.

- 1.7 To assess whether audit committees deliver these functions effectively, the toolkit includes a Self Assessment Checklist to complete. We have prepared an initial assessment of the Bristol City Council Audit Committee against these requirements and our findings are set out in *Appendix A*.

Key messages

- 1.8 Overall the Council's Audit Committee operates effectively and demonstrates a high level of compliance against the CIPFA checklist requirements. The review has highlighted a number of strengths and areas of good practice in the operation and effectiveness of the Committee:
- The Committee provides robust, effective challenge to officers on issues relating to internal control, risk management and financial reporting;
 - The Committee has continued to emphasise the importance of implementing Internal Audit's recommendations and actively supports Internal Audit in its work to ensure control weaknesses are dealt with effectively;
 - A formal work programme is in place setting out the forward plan for the committee for the year;
 - The Audit Committee prepares an annual report on its effectiveness and reports this to Council;
 - The Audit Committee scrutinises the accounts and asked detailed questions prior to approval;
 - The Audit Committee has appointed two independent members to broaden the expertise and skill-set of the committee and preserve its independence; and
 - An extensive review process is in place to consider the Annual Governance Statement (AGS). This includes a joint meeting with the Standards Committee to discuss the AGS in line with best practice set by the Standards Board for England.
- 1.9 Overall, we consider the Audit Committee to be delivering its role effectively. However, there is scope to strengthen its arrangements further, in line with best practice. The review highlighted the following key areas for further consideration by the Committee and the Council. In particular the Committee should:
- formalise a training programme for audit committee members informed by a review of members' skills and experiences;
 - ensure that discussions of Audit Committee business are seen to be politically neutral;
 - explore the opportunity to introduce a formal review process for the performance of external audit, through member self assessment and/or monitoring against specific performance indicators;
 - explore further the Committee's relationship with the Overview and Scrutiny Commission and the Resources Scrutiny Commission to ensure duplication is avoided but to promote complementary joint working;

- consider whether the Chair of each of the committees noted above should formally meet on a periodic basis to discuss forward plans to ensure that there are no gaps in the respective roles and responsibilities of each committee;
- prepare a matters arising list/action plan to be discussed at the start of each agenda. This will provide committee members with appropriate assurance that actions have been taken by the Council to address specific issues identified;
- review the format of agendas to consider assigning designated time limits for discussion of agenda items;
- challenge the need to add 'ad-hoc' items to the Committee's agenda to ensure that the annual work programme remains manageable; and
- ensure report preparers undertake a thorough review of cover sheets to provide appropriate focus on the key messages and specific actions required by the committee.

Next steps

- 1.10 Members are asked to consider the outcomes of the initial self assessment prepared and to discuss any specific actions arising where further improvements in governance arrangements can be implemented to ensure that the Audit Committee follows best practice.
- 1.11 The Audit Committee should consider undertaking its own self assessment using the criteria attached to ensure that there is a shared understanding of the Committee's effectiveness.

A Audit Committee Checklist

ESTABLISHMENT, OPERATION AND DUTIES			
Role and remit			
Priority	Issue	Yes, No or N/A	Comment/action
1	Does the audit committee have written terms of reference?	Yes	Contained within the Council's Constitution.
1	Do the terms of reference cover the core functions of an audit committee as identified in the CIPFA guidance?	Yes	
1	Are the terms of reference approved by the Council and reviewed periodically?	Yes	The terms of reference are reviewed by the committee on an annual basis.
1	Has the audit committee been provided with sufficient membership, authority and resources to perform its role effectively and independently?	Yes	Membership is proportionate to political composition. Audit Committee has all the powers expected on an Audit Committee and has officer support.
1	Can the audit committee access other committees and full council as necessary?	Yes	
1	Does the authority's Annual Governance Statement include a description of the audit committee's establishment and activities?	Yes	Set out in paragraph 4.2 of the statement.
2	Does the audit committee periodically assess its own effectiveness?	Partial	The committee comments on its effectiveness as part of its annual report. However a formal assessment under this checklist should be carried out on a periodic basis.
2	Does the audit committee make a formal annual report on its work and performance during the year to full council?	Yes	Annual Report is considered by Council.

Membership, induction and training			
Priority	Issue	Yes, No or N/A	Comment/action
1	Has the membership of the audit committee been formally agreed and a quorum set?	Yes	
1	Is the chair independent of the executive function?	Yes	
1	Has the audit committee chair either previous knowledge of, or received training on, financial and risk management, accounting concepts and standards, and the regulatory regime?	Yes	
1	Are new audit committee members provided with an appropriate induction?	Yes	
1	Have all members' skills and experiences been assessed and training given for identified gaps?	Partial	A selection of training courses have been delivered to the Audit Committee on areas such as CAA, risk management and the Statement of Accounts. However a formal assessment of skills gaps for committee members has not been undertaken.
1	Has each member declared his or her business interests?	Yes	
2	Are members sufficiently independent of the other key committees of the council?	No	Some members of the Audit Committee are also members of the Resources Scrutiny Committee and have gained benefits from the wider understanding of financial issues. Representations have been made to CIPFA seeking a revision to guidance in relation to total separation from scrutiny.
Meetings			
Priority	Issue	Yes, No or N/A	Comment/action
1	Does the audit committee meet regularly?	Yes	The Committee meets 7 times a year. This includes a joint meeting with Standards Committee.
1	Do the terms of reference set out the frequency of the meetings?	Yes	Is contained within the Constitution.

1	Does the audit committee calendar meet the authority's business needs, governance needs and the financial calendar?	Yes	
1	Are members attending meetings on a regular basis and if not, is appropriate action taken	Yes	All relevant members attend the Committee on a regular basis. In exceptional circumstances where members cannot attend, substitutes are provided.
1	Are meetings free and open without political influences being displayed?	Partial	Meetings are held in public. Previous observations at committee have identified political influences being displayed.
1	Does the authority's s151 officer or deputy attend all meetings?	Yes	The Strategic Director of Resources or Service Director (Finance) has been present at all meetings over the last year.
2	Does the audit committee have the benefit of attendance of appropriate officers at its meetings?	Yes	Relevant officers from the Council will attend the committee to present and respond to relevant reports.

INTERNAL CONTROL

Priority	Issue	Yes, No or N/A	Comment/action
1	Does the audit committee consider the findings of the annual review of the effectiveness of the system of internal control (as required by the Accounts & Audit Regulations) including the review of the effectiveness of the system of internal control?	Yes	Will also be considered as part of the Governance Statement.
1	Does the audit committee have responsibility for review and approval of the Annual Governance Statement (AGS) and does it consider it separately from the accounts?	Yes	This is reviewed at the joint meeting with standards committee and finalised at the Final Accounts committee each June.
1	Does the audit committee consider how meaningful the AGS is?	Yes	
1	Does the audit committee satisfy itself that the system of internal control has operated effectively throughout the reporting period?	Yes	
1	Has the audit committee considered how it integrates with other committees that may have responsibility for risk management?	Yes	The Audit Committee has principle responsibility for risk management.

1	Has the audit committee (with delegated responsibility) or the full council adopted “Managing the Risk of Fraud – Actions to Counter Fraud and Corruption?”	Yes	A report was presented to the January 2010 committee which considered the Audit Commission's national report on 'Protecting the public purse' and the CIPFA guidance on 'managing the risk of fraud'. This report included a self assessment against Audit Commission checklist.
1	Does the audit committee ensure that the “Actions to Counter Fraud and Corruption” are being implemented?	Yes	An action plan was set out in the January 2010 fraud report to Committee. A gap analysis of suggested best practice in the CIPFA guidance is currently being undertaken.
2	Is the audit committee made aware of the role of risk management in the preparation of the internal audit plan?	Yes	Internal Audit plan focuses upon the principle risk areas.
2	Does the audit committee review the authority’s strategic risk register at least annually?	Yes	
2	Does the audit committee monitor how the authority assesses its risk?	Yes	
2	Do the audit committee’s terms of reference include oversight of the risk management process?	Yes	
FINANCIAL REPORTING AND REGULATORY MATTERS			
Priority	Issue	Yes, No or N/A	Comment/action
1	Is the audit committee’s role in the consideration and/or approval of the annual accounts clearly defined?	Yes	This is set out in the Committee's Terms of Reference.

1	Does the audit committee consider specifically: <ul style="list-style-type: none"> • the suitability of accounting policies and treatments • major judgements made • large write-offs • changes in accounting treatment • the reasonableness of accounting estimates • the narrative aspects of reporting 	Yes	A briefing paper is provided to committee members alongside the draft statement of accounts to highlight the key considerations and changes in accounting treatments from previous years.
1	Is an audit committee meeting scheduled to receive the external auditor's report to those charged with governance including a discussion of proposed adjustments to the accounts and other issues arising from the audit?	Yes	This is presented to the Committee in September each year.
1	Does the audit committee review management's letter of representation?	Yes	Yes, this is included as part of external audit's report to those charged with governance.
2	Does the audit committee annually review the accounting policies of the authority?	Partial	Any material changes in accounting policies are highlighted in the Annual Accounts report to the Committee. However, the Committee should consider separate consideration of these prior to the preparation of the draft accounts.
2	Does the audit committee gain an understanding of management's procedures for preparing the authority's annual accounts?	Yes	This is outlined in the briefing paper provided to members that accompanies the draft accounts.
2	Does the audit committee have a mechanism to keep it aware of the topical legal and regulatory issues, for example by receiving circulars and through training?	Yes	Regular members newsletters and briefings are provided.

INTERNAL AUDIT			
Priority	Issue	Yes, No or N/A	Comment/action
1	Does the audit committee approve, annually and in detail, the internal audit strategic plans including consideration of whether the scope of internal audit work addresses the authority's significant risks?	Yes	The Internal Audit plan is approved by the Audit Committee annually.
1	Does internal audit have an appropriate reporting line to the audit committee?	Yes	
1	Does the audit committee receive periodic reports from the internal audit service including an annual report from the Head of Internal Audit?	Yes	
1	Are follow-up audits by internal audit monitored by the audit committee and does the committee consider the adequacy of implementation of recommendations?	Yes	
1	Does the audit committee hold periodic private discussions with the Head of Internal Audit	No	It has not been found necessary to have private discussions. However, if this was required this would be available.
1	Is there appropriate cooperation between the internal and external auditors	Yes	Internal and External audit have a programme of regular liaison meetings in place to promote collaboration of audit work.
1	Does the audit committee review the adequacy of internal audit staffing and other resources	Yes	Through monitoring the performance of internal audit.
1	Has the audit committee evaluated whether its internal audit service complies with CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom	Yes	The committee relies on assurances provided by the external auditors who review IA against the CIPFA requirements as part of its annual use of resources assessment.
2	Are internal audit performance measures monitored by the audit committee	Yes	Progress against the internal audit plan is monitored quarterly by the Committee.

2	Has the audit committee considered the information it wishes to receive from internal audit?	Yes	
EXTERNAL AUDIT			
Priority	Issue	Yes, No or N/A	Comment/action
1	Do the external auditors present and discuss their audit plans and strategy with the audit committee (recognising the statutory duties of external audit)?	Yes	Annual fee letter and financial statements plan is presented in April and November each year.
1	Does the audit committee hold periodic private discussions with the external auditor?	No	It has not been found necessary to have private discussions. However, if this was required this would be available.
1	Does the audit committee review the external auditor's annual report to those charged with governance?	Yes	This report is presented to the September committee annually.
1	Does the audit committee ensure that officers are monitoring action taken to implement external audit recommendations?	Yes	Regular update papers are provided to the Committee.
1	Are reports on the work of external audit and other inspection agencies presented to the committee, including the Audit Committee's annual audit and inspection letter?	Yes	
1	Does the audit committee assess the performance of external audit?	No	We will discuss with the committee specific examples of performance arrangements we have put in place at other bodies. These include an assessment checklist and introducing specific performance metrics.
1	Does the audit committee consider and approve the external audit fee?	Yes	Annual audit fee letter is reported to the committee in April each year.

ADMINISTRATION			
Agenda management			
Priority	Issue	Yes, No or N/A	Comment/action
1	Does the audit committee have a designated secretary from Committee/Member Services?	Yes	
1	Are agenda papers circulated in advance of meetings to allow adequate preparation by audit committee members?	Yes	
2	Are outline agendas planned one year ahead to cover issues on a cyclical basis?	Yes	Work programme is provided at each meeting and reviewed on a regular basis.
2	Are inputs for Any Other Business formally requested in advance from committee members, relevant officers, internal and external audit?	N/A	“Any Other Business” does not form part of the agenda. However requests for reports to future committees are raised during the committee discussions. The Audit Committee needs to challenge the need to add 'ad-hoc' items to the Committee's agenda to ensure that the annual work programme remains manageable
Papers			
1	Do reports to the audit committee communicate relevant information at the right frequency, time, and in a format that is effective?	Yes	
2	Does the audit committee issue guidance and/or a proforma concerning the format and content of the papers to be presented?	No	No specific guidance has been issued for reports to the audit committee but a general format for committee reports is in place. So that the committee's discussions remain focussed on action planning, report preparers should ensure that they undertake a thorough review of cover sheets to provide appropriate focus on the key messages and specific actions required by the committee.

Actions arising			
1	Are minutes prepared and circulated promptly to the appropriate people?	Yes	
1	Is a report on matters arising made and minuted at the audit committee's next meeting?	Partial	Key outcomes of committee discussions are disclosed in the minutes from the previous meeting. However a matters arising report is not specifically prepared. See additional comments on action planning below.
1	Do action points indicate who is to perform what and by when?	Partial	Actions are discussed in the meetings however these need to be more explicitly set out in an action plan, setting out recommendation, responsible officer and timescale and should be monitored for progress at each meeting.