

AUDIT COMMITTEE

16 FEBRUARY 2010

**REPORT OF
THE DIRECTOR OF LEGAL & DEMOCRATIC SERVICES
THE DIRECTOR OF RESOURCES**

REVIEW OF AUDIT COMMITTEE

PURPOSE OF THE REPORT

- 1 To seek Members' views on the form and function of the Audit Committee for the year 2010-2011

BACKGROUND

- 2 Until now the Middlesbrough Council Audit Committee has worked on a fairly narrow remit, which has primarily involved the consideration of technical/ financial matters.
- 3 There is now an acceptance that the role of the Audit Committee has to be widened in order to encompass a broader definition of the term audit and recognise its key role in ensuring good Corporate Governance.
- 4 In order to take this work forward, there are a number of considerations which need to be taken into account and agreed by the Audit Committee and thereafter submitted to the Constitution Committee for its consideration.

MATTERS FOR CONSIDERATION

- 5 In order to recognise this wider remit of the Committee it is recommended that the name of the Committee is changed. One suggestion for the new name of the Committee is the Audit and Governance Committee.

- 6 The number of Members sitting on the Committee needs to be given fresh consideration. This is important function of the Council, which requires the consideration of a larger number of Members. It is suggested that consideration be given to increasing the membership to either seven or nine elected Members.
- 7 In addition to the elected Members, consideration might be given to the inclusion of one or two independent (that is, non-elected) members. These could be people with a background in either the public sector or the private sector but in either case at a level in the organisation that would have given them experience of corporate governance, risk management, accounts or broader aspects of audit.
- 8 If Independent Members are to be included, then it is unlikely that these could have voting rights. The basic principle is that only co-opted Members of Scrutiny committees can have voting rights, and only if the Council has adopted a scheme which gives such rights.
- 9 The elected membership of the Committee would need to comprise non-Executive Members. Executive Members cannot serve on an Audit Committee.
- 10 It has been suggested that in order to develop the expertise required, appointments to the Committee might be made on a four year duration, or up until the next Council elections, renewable on an annual basis.
- 11 As previously indicated, the remit and terms of reference of the Committee needs to be broadened. In addition to the audit of financial matters, the remit and terms of reference must clearly incorporate such issues as Corporate Governance, Risk Management, Diversity, Business Continuity Planning and ensuring that effective systems are in place to under pin the broader systems and processes of the Council.
- 12 The terms of reference of the Committee should include, but not be limited to, scrutiny of:
 - The annual statement of accounts
 - Corporate Governance Statement
 - Audit Plan
 - External Audit Plan
 - External Auditor's Report and Audit Letter
 - Internal Audit Progress Reports
 - Risk Management Progress Reports
 - Diversity Action Plan
- 13 It is the intention that in future the Audit Committee should not simply receive and agree recommendations of officers, but that it should operate more in the role of a Scrutiny Panel. This means that the Audit Committee will receive a variety of reports (written and verbal) and other evidence, and that it will in turn produce a report either to the Council or to the Executive.

- 14 It is the role of full Council to agree the Council's Policy Framework and Budget. Thereafter it is generally the role of the Executive to ensure that the policies are implemented within the budget ensuring best practice and high quality of services. It would therefore seem logical that the Audit Committee undertakes investigations and reports to the Executive.
- 15 However, the constitution currently requires that the duty to approve the Council's statement of accounts; income and expenditure and balance sheet; and record of payments and receipts; is the function of the Corporate Affairs Committee. Furthermore, the legislation states that this cannot be an Executive function.
- 16 In view of the above, further consideration will need to be given as to whether in future the Audit Committee reports to the Corporate Affairs Committee, or the Council, or to the Executive, or to any of these bodies depending on the subject matter.
- 17 In order to raise the profile of the Chair of the Audit Committee a role profile should be developed and included in the constitution.
- 18 In order to ensure effective management of meetings, and a broad approach to the audit task, consideration might be given to the annual production of a forward work plan for the year ahead, in order to ensure that all directorates are subject to consideration by the Audit Committee.
- 19 Member and Officer training will be key to the future success of the Audit Committee in undertaking the broader role envisaged in this report. Careful consideration will have to be given as to who will be best suited to provide this training, and how the training will be delivered. In addition to ongoing training, induction training will have to be provided for all new Committee Members.
- 20 Consideration should be given to the production of guides to Members and Officers supporting the Committee in relation to the main areas of work. These areas of work might include scrutinising corporate governance arrangements; scrutinising financial arrangements; scrutinising risk management, performance management; data quality; reviewing major areas of change within services; etc.
- 21 Consideration might be given to extending meetings to six per year.
- 22 Officer support to the Committee will need to be given careful consideration. In view of the fact that one of the main roles of the Committee will be ensuring the financial regularity of the Authority, it would not seem appropriate that the Lead Officer or the Support Officer is also a Senior Financial Officer. At present, it is not clear where this support would best be located.

CONCLUSIONS & RECOMMENDATIONS

- 23 Members are asked to provide their views on the above matters in respect of developing the role and practice of the Audit Committee, and that these are submitted to the Constitution Committee for its consideration.

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