

REPORT TO CONSTITUTION AND ACCOUNTS COMMITTEE

REPORT OF: Corporate Head of Finance & Resources

REPORT NO.: CHFR34

DATE: 26 February 2006

TITLE:	Establishment of Governance and Audit Committee
FORWARD PLAN ITEM:	N/A
DATE WHEN FIRST APPEARED IN FORWARD PLAN:	N/A
KEY DECISION OR POLICY FRAMEWORK PROPOSAL:	N/A

COUNCIL AIMS PORTFOLIO HOLDER:	Corporate Governance Cllr L. Neal
CORPORATE PRIORITY:	Use of Resources
CRIME AND DISORDER IMPLICATIONS:	N/A

FREEDOM OF INFORMATION ACT IMPLICATIONS:	This report is publicly available on the Councils Website www.southkesteven.gov.uk via the local democracy link	
INITIAL EQUALITY IMPACT ASSESSMENT	Carried out and appended to report? Not Applicable	Full impact assessment required? No
BACKGROUND PAPERS:		

1. INTRODUCTION

In the action plan for 2005/06 Statement of Internal Control, the authority identified an action under a constitution and financial regulations, "To assess the need for an Audit Committee"

As part of the corporate improvement plan the authority also wishes to achieve a level 3 in the Audit Commissions Use of Resources Assessment. The key lines of enquiry for level 3 relating to internal control, include "the council has arrangements in place to maintain sound system of internal control". It is further described as meeting the following requirement:

"The council can demonstrate that it is effectively delivering the core functions of an audit committee, as identified in the CIPFA guidance, that it has provided for the ability to challenge the executive when required and provide for effective leadership on government, financial reporting and audit issues". This paper identifies the requirements for and the benefits for establishing an audit committee.

2. RECOMMENDATIONS

It is recommended that the Constitution and Accounts Committee:-

- 1) recommend to Council the establishment of a Governance and Audit Committee and agree the terms of reference contained in Appendix 1.
- 2) The Governance and Audit Committee comprise of a minimum of 5 members and will be subject to political balance with the Chairman retaining a casting vote. The Committee will also co-opt an external individual as a member of the committee with voting rights.
- 3) Membership of the Committee will be subject to having the appropriate skills as set out in Appendix 2 and there will be a requirement for mandatory training of members of the Committee.
- 4) Recommend to council that the role and function of the Constitution and Accounts Committee, as set out in article 10 of the constitution be amended to delete points f) to j) and the name of the committee to be changed to 'Constitution Committee'

3. BACKGROUND

3.1 Current Arrangement

Currently, the functions and for the Audit Committee are broadly carried out by the Resources Development and Scrutiny Panel and the Constitution and Accounts Committee. Whilst such arrangements have worked there is danger that the Audit Committee function becomes diluted by the pressure of other business and as a result of the separation of the functions between the two forums. The CIPFA guidance on Audit Committees expressly states that "to be effective the Audit Committee needs to be independent from the Executive and Scrutiny Functions".

The main role of scrutiny is to review policy and challenge whether the executive has made the right decision to deliver policy goals. Whereas the role of an Audit Committee is to provide an independent assurance on the adequacy of governance, risk management and internal control environment, and reporting on financial and non financial performance.

3.2 Core Functions of an Audit Committee

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. However, it must be stressed as an Audit Committee has a key role in Corporate Governance and should be clearly integrated within the authority's governance framework.

The CIPFA guidance list the core functions of an Audit Committee as:

- To consider the effectiveness of the authority's risk management arrangements. The controlled environment in associated, anti-fraud, anti-corruption and whistle-blowing arrangements.
- To seek assurance that action is being taken on risk related issues identified by the auditors and inspectors.
- To be satisfied that the authority's assurance statements, include in the statement of internal control, properly reflect the risk environment and any actions required to improve it.
- To approve (but not direct) internal audit strategy, plan and monitor performance.
- To review internal audit reports and the main issues arising, and seek assurance that actions are being taken where necessary.
- To receive the Internal Audit annual reports.
- To consider the reports of external audit and inspection agencies.
- To ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted.
- To review the financial statements, external auditors opinion and to report to members, and monitor management actions in response to the issues raised by external audit, featuring on:
 - Suitability of accounting policies and treatments.
 - Any changes in accounting policies and treatments.
 - Major judgemental areas e.g. provisions.
 - Significant adjustments and material weaknesses in the internal control reported by the district auditor.
- To review local codes of corporate governance, standards and behaviour.

It is also suggested that on a local basis the Governance and Audit Committee should include receiving a review of the ombudsman's enquiries and review any actions required in response to the issues raised. Appendix 1 to this report contains proposed terms of reference for the Governance and Audit Committee.

3.3 Membership of the Governance and Audit Committee

An Audit Committee needs the ability to challenge the executive and to report to it on major issues and contraventions. In order to remain independent, the CIPFA guidance recommends that the Chair of the Audit Committee should be a non executive member and that the membership of the Audit Committee should be balanced, objective and knowledgeable.

The guidance suggest that membership would be between three and five members with an appropriate quorum set within the terms of reference. Many organisations have found it beneficial to co-opt an external individual as a member of the Audit Committee, as this provides an external view and fresh approach. The co-opted member need not be granted voting rights. The Audit Committee should have a clear right of access to full council, of their council groups and committees.

Taking account of the nature of the role to be performed by the Audit Committee it is recommended that members of the Governance and Audit Committee are selected on the basis of the skills identified in Appendix 2 to this report as being requirement to ensure that the Governance and Audit Committee is able to undertake its functions mandatory training would be required to undertake a role on this committee.

3.4 Meetings of the Governance and Audit Committee

Meetings should take place at least four times a year.

- One meeting to set the programme, agreeing audit plans and preparing for the year ahead.
- Three meetings for monitoring to sit with the cycle of assurance and financial statement, to include, say
 - before the approval of the accounts to review the financial statement and statement of internal control
 - a meeting after the approval of accounts to receive the audit report to those charged with governance.

Private meetings between the Audit Committee and internal and external auditors should take place at least once a year.

Appropriate officers of the council along with the internal and external auditors should be included as regular attendees of the meeting. Appropriate officers would include Chief Executive, Corporate Head of Finance and Resources, Finance and Risk Management, Service Manager and the Monitoring Officer.

3.5 Benefits of an effective Governance and Audit Committee

There are a number of benefits to be obtained from having an effective Governance and Audit Committee function. These include raising awareness of the need for internal control and the importance of audit and other review functions. A effective Governance and Audit Committee can also increase public confidence in the objectivity and fairness of financial and other reporting. A Governance and Audit Committee can provide the executive with an opinion

on how well they are supported in decision taking and in discharging their accountability (particularly in respect of financial reporting). Separating the Audit Committee's function from that of Resources Development Scrutiny Panel would enable both functions to be performed in a more effective and efficient manner.

Whilst the legislation does not require an Governance and Audit Committee, a Council is required to ensure that its financial management is adequate and effective and that it has sound system of internal control which facilitates the effects the size of its functions. Also in the Section 151 of the local government act 1972 requires the council to make arrangements for the proper administration of its financial affairs, and a Governance and Audit Committee would support a council in making these arrangements.

4. COMMENTS OF SECTION 151 OFFICER

Contained within the body of the report.

5. COMMENTS OF MONITORING OFFICER

The Monitoring Officer and the Deputy Monitoring Officer have been consulted and have confirmed their support of the proposals.

As a sub-committee of Full Council making recommendations to Council on issues, I can confirm the need for political balance in respect of members to be appointed to such a committee.

6. CONTACT OFFICER

S J Marshall
Corporate Head of Finance & Resources
s.marshall@southkesteven.gov.uk
01476 406511

Governance and Audit Committee Terms of Reference

Audit Activity

- a) To consider the internal audit's annual report and opinion, and a summary of internal audit active (actual and proposed) and the level of assurance it can give over the Council's corporate governance arrangements.
- b) To consider summaries of specific internal audit reports as requested.
- c) To consider reports dealing with the management and performance of the providers of internal audit services.
- d) To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale.
- e) To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
- f) To consider specific reports as agreed with the external auditor.
- g) To comment on the scope and depth of external audit work and to ensure it gives value for money.
- h) To liaise with the Audit Commission over the appointment of the council's external auditor.
- i) To commission work from internal and external audit.

Regulatory Framework

- j) To maintain an overview of the Council's constitution in respect of internal control for example contract procedure rules, financial regulations and codes of conduct and behaviour.
- k) To review any issue referred to it by the Chief Executive, Director, Corporate Head or any Council body.
- l) To monitor the effective development and operation of risk management and corporate governance in the Council.
- m) To monitor council policies on 'Whistleblowing' and the anti-fraud and anti-corruption strategy and the Council's complaints process.
- n) To oversee the production of the authority's Statement on Internal Control and to recommend its adoption.
- o) To consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

- p) To consider the Council's compliance with its own and other published standards and controls.

Accounts

- q) To review 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 Council.
- r) To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

Ombudsman

- s) To consider the Monitoring Officer's annual report on the outcomes of Ombudsman enquiries.
- r) To consider specific reports from the Ombudsman as required.

Skills and Experience of Governance & Audit Committee Members

Skills

- Ability to question, probe and seek clarification about complex issues.

Experience

- Familiar with the requirements of legislation and local arrangements for governance
- Familiar with the Council's core activities
- Broad understanding of financial and accounting issues.
- Broad understanding of risk management control
- Familiar with regulation and compliance.

Recommended Mandatory Training Requirements

Induction Training

- Role of the committee
- Terms of reference
- Time input required of members
- Overview of council activities
- Financial and risk environment

Specific Training

- Financial reporting
- Governance
- Understanding financial statements
- Regulatory framework
- Role of internal and external audit.
- Importance of risk management