

ROLE OF AUDIT AND GOVERNANCE

Background

The Audit and Governance Committee at the meeting on 26 September 2012 received an Internal Audit Progress Report. During the discussion by Members of that item, Members debated the role of the committee in governance issues and asked for clarification to be provided by the Head of Legal and Democratic Services and the Head of Audit of the committee's responsibilities with regard to governance.

Terms of Reference of the Audit and Governance Committee

The current Terms of Reference of this committee are set out in the Constitution and are reproduced in Appendix A. The Terms of Reference were updated to reflect the changes in standards introduced by the Localism Act 2011 and the transfer of those responsibilities to this committee.

A committee's Terms of Reference, its remit, specify the functions with which the committee is charged and define the limits of its authority. Precision is important in framing Terms of Reference as to avoid doubt about the scope of the committee's tasks. If the terms are narrowly drawn, the committee's powers and duties may be unduly restrictive; if widely drawn there is a risk that the terms may overlap those of other committees.

What we Mean by Governance

The governing body of an organisation has overall responsibility for directing and controlling that organisation. Elected Members are collectively responsible for the governance of the Council.

- Governance is about how the Council ensures that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open and honest and accountable manner.
- It comprises the systems and processes and cultures and values, by which the Council is directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for, and used economically and efficiently.

In discharging this overall responsibility, the Council is also responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions including arrangements for the management of risk.

The discharge of governance responsibility at the Council is spread amongst the role of this Committee, General Purposes Committee and the Overview and Scrutiny Commission.

The governance role of General Purposes Committee is centred on monitoring, review and changing the Council's Constitution, election matters, political management arrangements, Members' allowances and other non-executive functions not specifically delegated to another committee. Overview and scrutiny is part of the

Council's arrangements for making sure decision making processes are transparent and robust. The governance role of Overview and Scrutiny Commission is to hold the Executive Decision makers to account. The statutory roles of the Head of the Paid Service, the Monitoring Officer and the Chief Finance Officer are described in the Constitution and each have a contribution to provide robust assurances on governance and that expenditure is lawful and in line with approved budgets and procedures. The responsibility of the Audit and Governance Committee on governance matters relates to the corporate governance framework. Internal Audit have a responsibility for ensuring that there are arrangements in place to evaluate the effectiveness of the Council's corporate governance arrangements.

Local Authorities have the freedom to make their own judgements about appropriate governance arrangements and to justify their decisions through the relevant accountability channels. However, it is important that the respective committees are clear about their roles and responsibilities and that there is a clear distinction in their terms of reference. This will avoid confusion, disputes and possible duplication. Furthermore, committees are likely to be more effective if they are required to focus on their own defined areas of business.

The focus of an Audit Committee is to oversee financial processes, audit and risk management. An Audit Committee will:

- Consider the effectiveness of the Authority's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements.
- Seek assurances that action is being taken on risk-related issues identified by auditors and inspectors.
- Be satisfied that the Authority's assurance statements properly reflect the risk environment and any actions required to improve it.
- Approve (but not direct) internal audit's strategy and plan, and monitor performance
- Review summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary.
- Receive the annual report of the head of internal audit.
- Consider the reports of external audit and inspection agencies.
- 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.
- Review the financial statements, external auditor's opinion and reports to Members, and monitor management action in response to the issues raised by external audit.

The bulk of the current work of the Committee is centred on these activities.

Good governance of an Audit Committee requires an independent, effective assurance about the adequacy of the risk management framework and associated

control environment, independent scrutiny of the Authority's financial performance, including the work of internal/external audit. The Committee's current role on governance relates to corporate governance matters and standards.

The corporate governance framework reflects both legislative and regulatory change.

The Accounts and Audit Regulations 2011 require the Council to ensure that it has in place a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for risk management. The Council is required to conduct an annual review of the effectiveness of its system of internal control and to prepare an Annual Governance Statement to accompany its Statement of Accounts.

The Council produces an Annual Governance Statement which is based on the CIPFA /Solace Delivering Good Governance: Framework. A new framework has been introduced to take into account changes in legislation, the transparency agenda and changes to Local Authority governance structures.

The six core principles remain:

- a) Focusing on the purpose of the Authority and on outcomes for the community and creating and implementing a vision for the local area;
- b) Members and Officers working together to achieve a common purpose with clearly defined functions and roles;
- c) Promoting values for the Authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
- d) Taking informed decisions which are subject to effective scrutiny and managing risk;
- e) Developing the capacity and capability of Members and officers to be effective; and
- f) Engaging with local people and other stakeholders to ensure robust public accountability.

The Council's Audit and Governance Committee has a strategic role to ensure that the Council's corporate assurance framework is operating effectively and has responsibility for overseeing, considering, commenting and approving the Annual Governance Statement and Code of Corporate Governance. This statement explains how the Council has complied with its Local Code and also meets the requirements of the Accounts and Audit Regulations 2003. The Committee is charged with looking at the corporate governance function of the Authority.

The Annual Governance Statement is the formal statement that recognises, records and publishes an Authority's governance arrangements. It is designed not only to give an opportunity for Authorities to consider the robustness of their governance arrangements but also to provide a representation of arrangements in place and to identify areas where improvement may be required.

Sound corporate governance is crucial if the Council is to provide leadership, direction and control. The publication of the Annual Governance Statement provides an opportunity for the Council to assess and report transparency to the public on how

it ensures that it is doing the right things in the right way for the right people in a timely, inclusive, open and honest and accountable manner.

The Annual Government Statement will be considered by this Committee at the September meeting.

Review of Terms of Reference of Committees

The current Terms of Reference of the Audit and Governance Committee should be reviewed on a regular basis. The Committee's Terms of Reference should be reviewed so as to reflect current guidance and requirements. Further changes may also be required as a result of the Local Audit and Accountability Bill.

In view of the overlap of governance functions between the General Purposes Committee and this Committee and the fact that this Committee has a considerable workload dealing with the Council's Audit and Accounts activities, for the efficient discharge of governance matters, the Council may wish to consider the appointment of a single committee called a "Governance Committee" which draws together the current governance functions of this committee and the governance functions currently discharged to General Purposes Committee. A single Audit Committee would remain.

APPENDIX A

RESPONSIBILITY FOR COUNCIL FUNCTIONS AUDIT AND GOVERNANCE COMMITTEE

The powers and duties of the Council relating to the functions set out below are delegated to the Audit and Governance Committee
Membership: Not more than one member shall be a Cabinet member and that Member shall not Chair the -Committee

Councillors: A J E Quirk (Chair), I T Irvine (Vice Chair), C R Eade, P K Lamb and L A Walker (Substitutes: L A M Burke and G Thomas)

Functions of the Audit and Governance Committee

- (1) Review the Internal Audit Strategic Plan (currently 3-year work plan) based on governance and risk assessments made.
- (2) Review the key findings from the work of Internal Audit and seek assurance that action has been taken by relevant managers.
- (3) Review the effectiveness of the Council's:
 - risk management arrangements
 - internal control framework
 - anti-fraud and anti-corruption arrangements (including bribery), including the Council's whistle-blowing guidelines
 - local codes of corporate governance and standards and the implementation of improvements
- (4) Seek assurances that action is being taken on risk-related issues identified by auditors.

Delegation of Functions (concurrently with the Audit and Governance Committee)

The following function is delegated to the Chief Executive, a Director, a Head of Service, the Monitoring Officer, the Deputy Monitoring Officer, the Corporate Fraud Manager or the Audit Manager
Referral of cases of fraud to the police.

Functions of the Audit and Governance Committee

- (5) Consider reports received from External Audit and other external inspection agencies.
- (6) Contribute to the Council's response to the External Auditor's (Audit Commission):
 - Annual audit and inspection letter to the Council
 - Opinion and reports to members
- (7) Approve the Council's annual Financial Statements having considered the
 - Suitability of accounting policies and treatments
 - Changes in accounting policies and treatments
 - Major judgemental areas, eg year-end provisions
- (8) To consider matters referred to the Committee in relation to petitions submitted under the Crawley Borough Council Petitions Scheme

Standards Functions

- (9) Duty to promote and maintain high standards of conduct by:
 - (a) Members and Co-opted Members of the Council and
 - (b) Employees
- (10) *Duty to adopt a Code of Conduct dealing with the Conduct expected of Members and Co-opted Members of the Council when acting in that capacity and including provision in respect of the registration and disclosure of (a) pecuniary interests and (b)

Delegation of Functions (concurrently with the Audit and Governance Committee)

Functions of the Audit and Governance Committee

interests other than pecuniary interests.

- (11) *Power to revise the existing Code of Conduct or adopt a replacement Code of Conduct.
- (12) * Duty to appoint one or more Independent Persons for the following purposes:-
 - (a) To give the Council views on any allegations it has decided to investigate, before a decision is reached;
 - (b) At the discretion of the Council, to give the Council views on any other allegations; and
 - (c) At the discretion of a Member or Co-opted Member to give the Member views on any allegations relating to the behaviour of the Member
- (13) *Power to make Standing Orders to provide for the exclusion of a Member or Co-opted Member of the Council from a meeting while any discussion or vote takes place in which that person may not participate.
- (14) Power to grant a Member or Co-opted member a dispensation from the restriction on speaking and/or voting when any matter in which that person has a disclosable pecuniary interest is to be considered at a meeting of the Council or any of its committees, sub-committees, joint committees or joint sub-committees.

Delegation of Functions (concurrently with the Audit and Governance Committee)

The following functions are delegated to the Monitoring Officer

- (a) Receipt of written applications for Dispensations under Section 33 of the Localism Act 2011.
- (b) To grant applications for Dispensations pursuant to the provisions in Section 33 of the Localism Act 2011.
- (c) the discretion to refer applications for Dispensations to the Audit and Governance Committee if considered appropriate following consultation with the Independent Person.

Functions of the Audit and Governance Committee

- (15) To provide advice, guidance and to ensure that all Members and employees have access to training in all aspects of their respective Code of Conduct. That this training is actively promoted and that Members are aware of the Standards expected of Members under the Code of Conduct.
- (16) To establish and maintain a Register of Interests.
- (17) Power to exclude the details of sensitive interests from the register of interests
- (18) To consider any application for officer exemptions from political restriction (under Section 3A of The Local Government and Housing Act 1989) or give directions to include a post in the list and adjustment to the list of politically restricted posts to reflect changes in salary level and to reflect changes in responsibilities.

Delegation of Functions (concurrently with the Audit and Governance Committee)

The following functions are delegated to the Monitoring Officer

- (a) Duty to establish and maintain a register of interests of Members and Co-opted Members of the Council
- (b) Power to remove entries from the register of interests once the person concerned no longer had the interest or is no longer a Member or Co-opted Members of the Council
- (c) Duty to make a register of interests available to public inspection and publish on Council's website
- (d) Duty to register disclosable pecuniary interests which are notified by a Member or Co-opted Member to the Monitoring Officer pursuant to section 31 of the Localism Act 2011 after arising and being declared at a meeting.

The following function is delegated to the Monitoring Officer

Power to exclude the details of sensitive interests from the register of interests

The following function is delegated to the Head of People and Technology

To consider any application for officer exemptions from political restriction (under Section 3A of The Local Government and Housing Act 1989) or give directions to include a post in the list and adjustment to the list of politically restricted posts to reflect changes in salary level

Functions of the Audit and Governance Committee

NB (a) items above marked * although can be considered by this Committee they can only be discharged by the Full Council

Delegation of Functions (concurrently with the Audit and Governance Committee)

and to reflect changes in responsibilities.