

Crawley Borough Council



Report to Audit and Governance Committee 2 December 2014

Review of Terms of Reference of Audit and Governance Committee

Report of the Head of Legal and Democratic Services
Report No. LDS/084

1. Purpose

- 1.1 The Council is responsible for the establishment of Committees and any revisions to their Terms of Reference would need to be approved by the Council.
- 1.2 The Council approved the establishment and Terms of Reference of the current Audit and Governance Committee in 2008. Since that time there has been no formal review of its Terms of Reference.
- 1.3 This report reviews the Committee's current Terms of Reference and proposes a number of amendments including changing the name of the Committee from "Audit and Governance Committee" to "Audit Committee".
- 1.4 In June 2013, the Committee considered a briefing paper on "Governance" and how the Council currently discharged its governance responsibilities through this Committee and General Purposes Committee. Members of this Committee in response to the briefing paper provided ideas and suggestions regarding the allocation of governance responsibilities.
- 1.5 The current Governance role of the General Purposes Committee is centred on the Monitoring, Review and Changing the Council's Constitution, Election Matters, Political Management Arrangements and other non executive functions not specifically delegated to another Committee. Governance carries significant implications. The proposed merger of the Governance elements currently being undertaken by the General Purposes Committee with the current Governance responsibilities undertaken by this Committee will provide Governance matters in the remit of a single Committee.
- 1.6 The General Purposes Committee at its meeting on 24 November will consider a similar report in terms of changing its Terms of Reference and changing its name to that of a "Governance Committee". Members will be informed of the outcome of that meeting.

2. Recommendations

- 2.1 The Audit and Governance Committee is requested to consider the Committee's current Terms of Reference as set out in Appendix A and the proposed amendments to its Terms of Reference as set out in Appendix B to this report.
- 2.2 Subject to the approval of the report to the General Purposes Committee at its meeting on 24 November 2014, the Committee is invited to recommend to the Full Council the approval of the revised Terms of Reference for the Committee including the change of name from Audit and Governance Committee to Audit Committee as set out in Appendix B.

3. Reasons for Recommendations

- 3.1 It is good practice to review Terms of Reference of Committees so that business is transacted which is relevant for current requirements.

4. Background

- 4.1 Audit and Governance functions were originally delegated to an Audit and Governance Sub-Committee in May 2006, the Minutes of that Committee were approved by the General Purposes Committee. In May 2008 Audit and Governance functions were delegated to a main Committee of Audit and Governance and the Committee's current functions were established which are set out in Appendix A. Additional functions were added; namely to consider matters referred to the Committee in relation to petitions and standards functions following the changes to the Standards Regime under Localism Act 2011.
- 4.2 On 25 June 2013, the Committee received and considered a joint Briefing Paper from The Head of Legal and Democratic Services and the Audit and Risk Manager in respect of the Committee's responsibilities in respect of Governance issues. The Paper included reference to the Committee's current Terms of Reference and provided Members with a full explanation of what was meant by "Governance" and how the current discharge of Governance responsibilities was spread amongst this Committee, General Purposes Committee and to a limited extent, the Overview and Scrutiny Commission.
- 4.3 The current responsibility of this Committee on Governance matters relates to the Corporate Governance Framework as part of the Annual Governance Statement and functions relating to Standards matters under the Councillors' Code of Conduct. The remainder of the Terms of Reference on this Committee are centred on Financial Processes, Audit and Risk Management.
- 4.4 It is considered best practice that the Terms of Reference of Audit Committees are reviewed regularly, to ensure they remain relevant and meet current and expected future needs.

5. Description of Issue to be Resolved

- 5.1 A Briefing Paper from the Head of Legal and Democratic Services and the Audit and Risk Manager was presented to the Committee in June 2013 which is attached as Appendix C, explained that in view of the overlap of Governance functions between 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 "Governance Committee" which draws together the current Governance functions of this Committee and the Governance functions currently discharged to General Purposes Committee but that an Audit Committee would remain having the responsibility for overseeing Financial Processes, Audit and Risk Management functions.
- 5.2 Following the meeting of the Committee on 25 June 2013 Members were invited to provide ideas and suggestions regarding the future Governance regime. Views of the Members in summary were as follows:-
- Audit should be the primary focus of an Audit Committee.
 - Governance is often sidelined, but it also carries significant implications.
 - Work of General Purposes is irregular, the merger of Governance with the current roles undertaken by General Purposes by relocating responsibility with a Committee responsible for ongoing change to the Governance arrangements of the organisation would enable the Members to think more carefully about Constitutional changes on Governance.
 - A review of the work of the Performance Monitoring Scrutiny Panel should be undertaken.
 - There should be a combined Committee covering the current work of Audit and Governance and General Purposes.
 - Support for an Audit and Governance Committee to remain but with more Members as there is an over arching need to ensure that the aims and objectives of any activity is in itself legal and appropriate.
- 5.3 There is broad support from Members for the Audit responsibilities to be dealt with by an Audit Committee and for the Governance functions that are currently delegated to this Committee transferred to the General Purposes Committee.
- 5.4 In light of the report considered by Audit and Governance at the Meeting on 25 June 2013 and the feedback received from Members of that Committee, there is an opportunity to reflect on the areas of Governance that are currently distributed between the two Committees, it is proposed that the General Purposes Committee should take the lead on dealing with "Governance" matters.

6. Information & Analysis Supporting Recommendation

- 6.1 The current Governance role of General Purposes Committee is centred on the Monitoring, Review and Changing the Council's Constitution, Election Matters, Political Management Arrangements and other non executive

functions not specifically delegated to another Committee. Governance carries significant implications, the merger of the Governance elements currently being undertaken by the General Purposes Committee with the current Governance responsibilities undertaken by this Committee will provide Governance matters in the remit of a single Committee.

- 6.2 The General Purposes Committee at its meeting on 24 November 2014 will consider a similar report in terms of changing its Terms of Reference and changing its name to that of a "Governance Committee".
- 6.3 The proposal is to transfer Standards functions and Corporate Governance activities which are currently the remit of the Audit and Governance Committee to the General Purposes Committee and to rename that Committee "Governance Committee". It is important to note that whilst the Council's Annual Governance Statement can be considered by the proposed new Governance Committee, the formal approval of the Annual Governance Statement (AGS) forms part of the Council's Annual Accounts which will remain the responsibility of this Committee.
- 6.4 The current role and responsibilities of the Audit and Governance Committee have been reviewed with a specific purpose for reflecting Audit and Risk Management matters;
- 6.5 The proposed amendments to the Terms of Reference of this Committee includes:
 - (i) A general description of the responsibilities of the Committee.
 - (ii) A transfer of Corporate Governance activities (Annual Governance Statement), Standards matters and matters relating to the Regulation of Investigatory Powers Act 2000.
 - (iii) A change in the name of the Committee from Audit and Governance Committee to Audit Committee.
- 6.6 The current Terms of Reference of the Audit and Governance Committee and functions are set out in Appendix A.
- 6.7 The proposed revised Terms of Reference and functions of the new Committee including its change of name are set out in Appendix B.

7. Implications

- 7.1 There are no financial, staffing or equality implications arising directly from this report.
- 7.2 Section 101 of the Local Government Act 1972 enables a Council to discharge any of their functions to a Committee, Sub-Committee or an Officer of the Authority.

- 7.3 There are no significant risks arising from this report. A review of the Terms of Reference of the Committee is considered to be best practice so that they remain relevant and cover current requirements.

8. Background Papers

- 8.1 Minute (4) of Audit and Governance Committee 25 June 2013 on the Role of Audit and Governance.

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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: I T Irvine (Chair), L A Walker (Vice Chair), R D Burrett, T Lunnon and K Sudan (Substitutes: C A Cheshire and C R Eade)

Functions of the Audit and Governance Committee

Delegation of Functions (concurrently with 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.

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, e.g. 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.

**RESPONSIBILITY FOR COUNCIL FUNCTIONS
AUDIT COMMITTEE**

The role of the Audit Committee will be to review and assess the adequacy of the Council's internal audit and risk management arrangements.

The powers and duties of the Council relating to the functions set out below are delegated to the Audit Committee

Membership: Not more than one member shall be a Cabinet member and that Member shall not Chair the -Committee

Councillors: I T Irvine (Chair), L A Walker (Vice Chair), R D Burrett, T Lunnon and K Sudan (Substitutes: C A Cheshire and C R Eade)

Functions of the Audit Committee

- (1) Consider and review the adequacy of the Internal Audit Budget and Resource Plan.
- (2) Approve the Internal Audit Plans ensuring that appropriate risk assessments have been carried out when formulating these; and to monitor performance against the plan.
- (3) Review Internal Audit Progress Reports which outline the main issues arising, and seek assurance from management, directly or via the Audit and Risk Manager, that appropriate action has been taken where necessary.
- (4) Review the effectiveness of the Council's Risk Management

Delegation of Functions (concurrently with the Audit Committee)

Functions of the Audit Committee

Arrangements

- (5) Receive the Annual Report of the Audit and Risk Manager.
- (6) Seek assurance that there is effective liaison between external and internal audit and other relevant bodies.
- (7) Consider the effectiveness of the Council's Counter Fraud and Anti-corruption arrangements.
- (8) Approve the Council's Financial Statements and seek assurances from the Governance Committee that the Annual Governance Statement properly reflects the risk environment and any actions required to improve it.
- (9) To consider matters referred to the Committee in relation to petitions submitted under the Crawley Borough Council Petitions Scheme.

Delegation of Functions (concurrently with the Audit Committee)

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

ROLE OF AUDIT AND GOVERNANCE **(Report - Audit & Governance Committee 25 June 2013)**

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.