

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date **19 September 2016**

Report of: **Director of Finance and Resources**

Subject: **REVIEW OF FUNCTIONS OF THE COMMITTEE**

SUMMARY

This report presents the conclusion of the review of the functions of the Audit and Governance Committee. This review is completed every three years to confirm that the Council's arrangements still meet the requirements of legislation and guidance. It concludes that only minor changes are needed to the constitution in respect of the functions of the Audit Committee.

RECOMMENDATION

That this Committee proposes to Council approval of the minor changes to the constitution in respect of the functions of the Audit and Governance Committee as highlighted in [Appendix A](#).

INTRODUCTION

1. The Audit Committee was established in 2005 when it was considered good practice to have a committee and was part of the Use of Resources assessment for local Councils. Unlike in Wales and for the Police, there is still currently no legislative requirement for a local authority to have an Audit Committee in England. However, our professional body (the Chartered Institute of Public Finance and Accountancy) consider an audit committee to be a key component of an organisation's corporate governance arrangements and we would struggle to fulfil the legislative requirements in relation to the Annual Governance Statement without one.
2. The functions expected of the Committee are therefore reviewed on a three yearly basis to confirm they are still in line with the latest requirements. The last reviews carried out were in 2012, in response to the Localism Act 2011 when the Audit Committee was merged with the Standards Committee, and in 2014 when some changes were identified as part of the review of the Council's Standing Orders with Respect to Meetings.

LATEST GUIDANCE ISSUED

3. Since the last review there have been 2 pieces of updated guidance issued and these have been used for this review. They are:
 - Audit Committees – Practical Guidance for Local Authorities – Chartered Institute of Public Finance and Accountancy (CIPFA) (2013)
 - Results of the Survey of Audit Committees in Local Government - CIPFA Better Governance Forum (August 2016)

PROPOSED CHANGES

4. There are no major changes required to the functions expected of the Committee. However, it is suggested that the constitution is updated to reflect the amended wording used in the latest guidance in relation to the functions that the Committee already carries out.
5. The proposed changes to the wording is highlighted in [Appendix A](#) which include:
 - a) A revised definition for the purpose of the audit committee emphasising the financial reporting and annual governance review roles.
 - b) Additional responsibility in relation to reviewing the Council's overall approach to securing value for money as part of the Annual Governance Statement.
 - c) Expansion of the functions in relation to the internal audit service which reflects the requirements of the latest Public Sector Internal Audit Standards.
 - d) Removal of the need to consider the findings of the review of effectiveness of the systems of internal audit.

RISK ASSESSMENT

6. There are no significant risk considerations in relation to this report

Appendices:

Appendix A - Part 2 Chapter 8 of the Constitution - Functions of the Audit Committee – Proposed changes to Wording

Background Papers: None

Reference Papers:

Audit Committees – Practical Guidance for Local Authorities – Chartered Institute of Public Finance and Accountancy (CIPFA) (2013)

Helping Audit Committees to be Effective - CIPFA Better Governance Forum Audit Committee Update Issue 20 – CIPFA Survey on Audit Committees 2016

Enquiries:

For further information on this report please contact Elaine Hammell. (Ext 4344)

**Part 2 Chapter 8 of the Constitution - Functions of the Audit Committee
Proposed Changes to wording**

Function	Current Wording	Proposed New Wording
Overall Purpose	<p>The purpose of the Audit and Governance Committee is to:</p> <p>Oversee and assess the Council's risk management control and corporate governance arrangements and to provide independent advice on the adequacy and effectiveness of these arrangements.</p>	<p>The purpose of the Audit and Governance Committee is to:</p> <p>Provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.</p>
	<p>To lead on the Council's duties under Chapter 7 of the Localism Act 2011 and to design, implement, monitor, approve and review the standards of ethics and probity of the Council both for councillors and employees; and</p> <p>To promote, maintain and strengthen high standards of conduct by members and co-opted members of the Council.</p>	<p><i>No change proposed</i></p>
	<p>General</p>	
General functions	<p>The general functions and areas of responsibility of the Audit and Governance Committee are:</p> <p>To review any issue referred to it by the Chief Executive or a director or any council body.</p> <p>To seek assurance that action is being taken on risk related issues identified by auditors, inspectors or risk managers.</p> <p>To lead on the Council's duties under Chapter 7 of the Localism Act 2011 and oversee, maintain and strengthen high standards of conduct in public office.</p>	<p>The general functions and areas of responsibility of the Audit and Governance Committee are:</p> <p>To review any issue referred to it by the Chief Executive or a director or any council body.</p> <p>To monitor progress in addressing risk-related issues reported to the committee.</p> <p>To lead on the Council's duties under Chapter 7 of the Localism Act 2011 and oversee, maintain and strengthen high standards of conduct in public office.</p>

	Governance Framework	Governance, Risk and Control
Corporate Governance	<p>To oversee the Council's arrangements for corporate governance and agree necessary actions to ensure compliance with best practice.</p> <p>To review and make recommendations to Council on its Financial Regulations and Contract Procurement Rules.</p> <p>To review and make recommendations to Council on the Constitution's Standing Orders with Respect to Meetings.</p>	<p>To review the Council's arrangements for corporate governance and consider annual governance reports and assurances.</p> <p>To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.</p> <p>To review and make recommendations to Council on its Financial Regulations and Contract Procurement Rules.</p> <p>To review and make recommendations to Council on the Constitution's Standing Orders with Respect to Meetings.</p>
Annual Governance Statement	To oversee the production of the Council's annual governance statement and to recommend its adoption.	To review the Council's Annual Governance Statement, prior to approval, and consider whether it properly reflects the risk environment and supporting assurances.
Risk Management and Internal Control	<p>To consider the effectiveness of the Authority's risk management arrangements and the systems of internal control.</p> <p>To review the adequacy of the Council's corporate risk registers.</p>	<p>To monitor the effective development and operation of risk management in the Council.</p> <p>To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.</p>
Value for Money		To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
Counter Fraud	To review the policies and measures in place to prevent fraud and corruption.	<p>To review the assessment of fraud risks and potential harm to the council from fraud and corruption.</p> <p>To monitor the counter-fraud strategy, actions and resources.</p>
Treasury Management	To oversee the implementation of the Council's Treasury Management Strategy and Policy	<i>No change proposed</i>
	Audit Activity	Internal Audit

<p>Internal Audit</p>	<p>To review Internal Audit's strategy, plans and performance.</p> <p>To review summary internal audit reports and the main issues arising and seek assurance that action has been taken where necessary.</p> <p>To consider the Head of Audit and Assurance's annual report and opinion and a summary of internal audit activity (actual and proposed) and review the level of assurance it can give over the Council's corporate governance arrangements.</p> <p>To consider the findings of the review of effectiveness of the systems of internal audit.</p>	<p>To approve the internal audit charter.</p> <p>To approve the internal audit plan, including internal audit's resource requirements, the use of external suppliers of audit services, and the approach to using other sources of assurance.</p> <p>To approve significant interim changes to internal audit plan and resource requirements.</p> <p>To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.</p> <p>To review updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work.</p> <p>To consider the head of internal audit's annual report and opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion.</p> <p>To consider reports from the head of internal audit on internal audit's performance, including conformance to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement.</p>
	<p>External Audit and Inspection</p>	<p>External Audit</p>
<p>External Audit</p>	<p>To comment on the scope and depth of external audit work and to ensure it gives value for money.</p> <p>To consider the external auditor's annual audit letter, the annual governance report and any other specific reports of external audit and inspection agencies as deemed appropriate to the committee role and responsibilities.</p> <p>To monitor the arrangements for effective co-operation</p>	<p>To comment on the scope and depth of external audit work and to ensure it gives value for money.</p> <p>To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.</p> <p>To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.</p>

	between internal audit, external audit and other review bodies.	
	Accounts	Financial reporting
Financial Statements	<p>To approve the Authority's Statement of Accounts, income and expenditure and balance sheet or record of receipts and payments (as the case may be), in accordance with The Accounts and Audit Regulations.</p> <p>To consider whether appropriate accounting practices have been followed and whether there are concerns arising from the financial statement or from the audit that need to be brought to the attention of the Council.</p> <p>To consider the External Auditor's report on issues arising from the audit of accounts.</p> <p>Oversee the Council's financial stability and bring to the attention of Council any concerns arising from the Statement of Accounts or reports issued by the external auditors</p>	<p>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.</p> <p>To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.</p>
	Standards	Standards
Standards	<p>Advise on an internal framework of probity and standards of conduct that should be followed by members and officers.</p> <p>Formulate, monitor and revise, as necessary, Local Codes of Conduct for members and officers.</p> <p>Formulate, monitor and revise, as necessary, a protocol for member/officer relationships.</p> <p>Issue guidance and best practice advice with regard to probity and ethics including the following:</p> <ul style="list-style-type: none"> • the declaration and registration of members' interests • claims for members' allowances and expenses • acceptance of, or dealing with, offers of hospitality and 	<i>No change proposed</i>

- gifts made by third parties
- the provision to members of hospitality, goods, services and facilities by the Council
- the undertaking of travel and foreign visits.

Advise on such other matters of a similar kind that may be referred to the Committee.

Issue advice and guidance to members representing the Council on outside bodies.

Receive, consider and, where necessary, act on reports guidance and advice from the Council's Monitoring Officer and the Local Government Ombudsman.

Provide appropriate training for members and officers with regard to any of the above and the ethical governance of the Council generally.

Appoint such sub-committees, panels or working parties as are deemed appropriate to undertake specific parts of these Terms of Reference.

Consider complaints against members' conduct and assess allegations of breaches of the Code of Conduct for Members to determine such complaints.

Monitor and review members' training and development.

To establish a Standards Sub-Committee to investigate and determine appropriate actions in respect of alleged breaches of the Members' Code of Conduct.