

# FAREHAM

## BOROUGH COUNCIL

### **Report to Audit and Governance Committee**

**Date:** 23 September 2019

**Report of:** Deputy Chief Executive Officer

**Subject:** REVIEW OF THE FUNCTIONS OF THE AUDIT AND GOVERNANCE 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 some changes are needed to the constitution in respect of the functions of the Audit and Governance Committee.

#### **RECOMMENDATION**

That this Committee proposes to Council approval of the 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 review was carried out in 2016, when there were some amendments made to the wording in the constitution on the functions that the Committee should carry out, to reflect the latest guidance (2013/2016), available at that time

## LATEST GUIDANCE ISSUED

3. Since the last review there has been 1 piece of updated guidance issued and this has been used for this review. This was:
  - Audit Committees – Practical Guidance for Local Authorities and Police – Chartered Institute of Public Finance and Accountancy (CIPFA) (2018)
4. A full audit for how well the council complies with this guidance was carried out as part of the 2018/19 audit plan. Following on from this work, this report seeks to adopt the updated list of functions suggested in the guidance, where it is appropriate to do so for the Council.

## PROPOSED CHANGES

5. The proposed changes to the functions for the Committee is detailed in [Appendix A](#). The following sections highlight the most significant changes proposed.

### Major Change - Partnerships

6. There is one major change required to the functions expected of the Committee. This is to adopt the following additional function for the committee:

*The Audit and Governance Committee's areas of responsibility for partnerships are to review the governance and assurance arrangements for significant partnerships or collaborations.*
7. Work is programmed later in the year to identify how this new responsibility can best be fulfilled.

### Splitting Core and Wider Functions

8. The guidance makes a distinction between the Core Functions of an Audit Committee and other functions which the Committee acting as an independent assurance body for those charged with governance (i.e. the Full Council) may be required to undertake as part of an organisation's constitution.

9. It is therefore proposed to make a distinguish between these in the terms of reference, by splitting them out into different sections. The wider functions included in the FBC constitution fall under the headings of:
- a) Standards and ethics
  - b) Treasury management
  - c) Key policy review
  - d) Considering other matters
10. There is also the following function included in the terms of reference for the Audit and Governance Committee which is not mentioned in the guidance but is still considered to be appropriate to the Committee's Counter Fraud responsibilities:

*To review the policies and measures in place to prevent fraud and corruption.*

### **Internal and External Audit Responsibilities**

11. The responsibilities in respect to audit have been expanded to include:
- a) *reviewing proposals made in relation to the appointment of external providers of **internal audit**;*
  - b) *considering any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the head of internal audit;*
  - c) *considering reports on the results of the Quality Assurance and Improvement Plan (QAIP);*
  - d) *providing free and unfettered access to the audit committee chair for the head of internal audit, including the opportunity for a private meeting with the committee;*
  - e) *supporting the independence of **external audit** through consideration of the **external auditor's** annual assessment of its independence and review of any issues raised by Public Sector Audit Appointments (PSAA).*
12. The work programme for the committee already includes items which will cover these responsibilities.

### **Changes NOT Proposed for Inclusion**

13. The following functions included in the guidance's standard list have not been recommended for adoption as these would represent additional work for the Committee, potentially at an additional cost, and are considered to be discretionary activities in relation to the main purposes of the committee:
- a) *The Committee should contribute to the Quality Assurance and Improvement Plan and in particular, to the external quality assessment of internal audit that takes place at least once every five years. (The Committee does get a summary of the findings from the annual Quality Assurance and Improvement Plan update as part of the Head of Audits Annual Opinion. The Council does not intend to carry out the external quality assessment against the standards as recommended in the standards. However, we will be giving further consideration on how we can expand external assurances on the reliance that can be placed on the work of the internal audit team).*
  - b) *The Committee can commission work from internal and external audit and should consider specific reports as agreed with the external auditor, and summaries of specific internal audit reports as requested. (The Committee already has the opportunity to make recommendations on the audit assignments included in the risk-based audit plan, or*

request further information relating to issues arising from audit assignments. Additional work requests from internal or external audit are likely to have financial implications).

## **RISK ASSESSMENT**

14. 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 and Governance Committee – Proposed changes to Wording

**Background Papers:** None

### **Reference Papers:**

Audit Committees – Practical Guidance for Local Authorities and Police – Chartered Institute of Public Finance and Accountancy (CIPFA) (2018)

Report to the Audit and Governance Committee 19/09/16 – Review of Functions of the Committee

### **Enquiries:**

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

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

Current Wording	Nature of Change	Proposed New Wording (changes highlighted in bold and orange)
<b>OVERALL PURPOSE</b>		<b>OVERALL PURPOSE</b>
<p>The purpose of the Audit and Governance Committee is to:</p> <p>a) 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>b) 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>c) To promote, maintain and strengthen high standards of conduct by members and co-opted members of the Council.</p>	<p><i>Wording changed to a) to expand the overall purpose.</i></p> <p><i>Purposes b) and c) moved to the wider functions section</i></p>	<p><b>The Audit and Governance committee is a key component of Fareham Borough Council's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.</b></p> <p>The purpose of our audit committee is to:</p> <p><b>Provide independent assurance to those charged with governance (the Full Council) of the adequacy of the risk management framework and the internal control environment.</b></p> <p><b>Provide independent review of Fareham Borough Council's governance, risk management and control frameworks and oversee the financial reporting and annual governance processes.</b></p> <p><b>Oversee internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.</b></p>
<b>General</b>		
<p>The general functions and areas of responsibility of the Audit and Governance Committee are:</p> <p>a) To review any issue referred to it by the Chief</p>	<p><i>Section now deleted.</i></p> <p><i>Function a) moved to the wider functions section – considering</i></p>	

Current Wording	Nature of Change	Proposed New Wording (changes highlighted in bold and orange)
<p>Executive or a director or any council body.</p> <p>b) To monitor progress in addressing risk-related issues reported to the committee.</p> <p>c) 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><i>other matters.</i></p> <p><i>Function b) moved to Risk Management and Internal Control</i></p> <p><i>Function c) deleted in favour of wording in Standards and Ethics section</i></p>	
	<p><i>New section added</i></p>	<p><b>ACCOUNTABILITY</b></p>
	<p><i>New section</i></p>	<p><b>The Audit and Governance Committee should report to those charged with governance (the Full Council) on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements, and internal and external audit functions.</b></p> <p><b>The Audit and Governance Committee should publish an annual report on the work of the committee including details of coverage against the purposes of the Committee.</b></p>
<p><b>GOVERNANCE, RISK AND CONTROL</b></p>		<p><b>GOVERNANCE, RISK AND CONTROL</b></p>
<p><b>Corporate Governance</b></p>		<p><b>Corporate Governance</b></p>
<p>The Audit and Governance Committee's areas of responsibility for Corporate Governance are:-</p> <p>a) To review the Council's arrangements for</p>	<p><i>Function a) expanded to include the Local Code of Corporate Governance</i></p> <p><i>Functions c) and d) moved to wider functions section –Key Policy</i></p>	<p>The Audit and Governance Committee's areas of responsibility for Corporate Governance are:-</p> <p><b>a) To review the Council's arrangements for corporate governance, <b>against the good governance</b></b></p>

Current Wording	Nature of Change	Proposed New Wording (changes highlighted in bold and orange)
<p>corporate governance and consider annual governance reports and assurances.</p> <p>b) To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.</p> <p>c) To review and make recommendations to Council on its Financial Regulations and Contract Procurement Rules.</p> <p>d) To review and make recommendations to Council on the Constitution's Standing Orders with Respect to Meetings</p>	<p><i>review</i></p>	<p><b>framework, including the ethical framework, and consider the local code of governance.</b></p> <p>b) To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.</p>
<p>Annual Governance Statement</p>		<p>Annual Governance Statement</p>
<p>To review the Council's Annual Governance Statement, prior to approval, and consider whether it properly reflects the risk environment and supporting assurances.</p>	<p><i>Function expanded</i></p>	<p>To review the Council's Annual Governance Statement, prior to approval, and consider whether it properly reflects the risk environment and supporting assurances, <b>taking into account internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.</b></p>
<p>Risk Management and Internal Control</p>		<p>Risk Management and Internal Control</p>
<p>The Audit and Governance Committee's areas of responsibility for Risk Management and Internal Control are:</p> <p>a) To monitor the effective development and operation of risk management in the Council.</p> <p>b) To consider reports on the effectiveness of internal controls and monitor the implementation of agreed</p>	<p><i>Wording amended from previous 'corporate governance' section b)</i></p>	<p>The Audit and Governance Committee's areas of responsibility for Risk Management and Internal Control are:</p> <p>a) To monitor the effective development and operation of risk management in the Council.</p> <p>b) To monitor progress in addressing risk-related issues reported to committee.</p>

Current Wording	Nature of Change	Proposed New Wording (changes highlighted in bold and orange)
actions.		c) To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
Value for Money		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.	<i>No change</i>	To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
Counter Fraud		Counter Fraud
<p>The Audit and Governance Committee's areas of responsibility for counter fraud are:-</p> <p>a) To review the policies and measures in place to prevent fraud and corruption.</p> <p>b) to review the assessment of fraud risks and potential harm to the council from fraud and corruption.</p> <p>c) to monitor the counter-fraud strategy, actions and resources.</p>	<p><i>No change</i></p> <p><i>Function a) is an FBC addition to the standard terms of reference.</i></p>	<p>The Audit and Governance Committee's areas of responsibility for counter fraud are:-</p> <p>a) <b>To review the policies and measures in place to prevent fraud and corruption.</b></p> <p>b) To review the assessment of fraud risks and potential harm to the council from fraud and corruption.</p> <p>c) To monitor the counter-fraud strategy, actions and resources.</p>
	<i>New section</i>	<b>Partnerships</b>
	<i>New section</i>	<b>The Audit and Governance Committee's areas of responsibility for partnerships are to review the governance and assurance arrangements for significant partnerships or collaborations.</b>
AUDIT		AUDIT



Current Wording	Nature of Change	Proposed New Wording (changes highlighted in bold and orange)
Internal Audit		Internal Audit
<p>The Audit and Governance Committee's areas of responsibility for Internal Audit are:-</p> <ol style="list-style-type: none"> <li>a) To approve the internal audit charter.</li> <li>b) 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.</li> <li>c) To approve significant interim changes to internal audit plan and resource requirements.</li> <li>d) To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.</li> <li>e) 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.</li> <li>f) 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.</li> <li>g) 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.</li> </ol>	<p><i>Wording expanded</i></p> <p><i>Expanded wording not proposed for adoption:</i></p> <p><i>To contribute to the QAIP and in particular, to the external quality assessment of internal audit that takes place at least once every five years.</i></p> <p><i>To consider summaries of specific internal audit reports as requested.</i></p>	<p>The Audit and Governance Committee's areas of responsibility for Internal Audit are:-</p> <ol style="list-style-type: none"> <li>a) To approve the internal audit charter.</li> <li><b>b) To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.</b></li> <li><b>c) To approve the risk-based internal audit plan, including internal audit's resource requirements, <del>the use of external suppliers of audit services, and the approach to using other sources of assurance</del> and any work required to place reliance upon those other sources.</b></li> <li>d) To approve significant interim changes to internal audit plan and resource requirements.</li> <li>e) To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.</li> <li><b>f) To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the head of internal audit. To approve and periodically review safeguards to limit such impairments.</b></li> <li><b>g) To consider reports from the head of internal audit on internal audit's performance, including the performance of external providers of internal audit services. These will include:</b> <ul style="list-style-type: none"> <li>• updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work.</li> <li>• <b>Reports on the results of the Quality Assurance</b></li> </ul> </li> </ol>

Current Wording	Nature of Change	Proposed New Wording (changes highlighted in bold and orange) and Improvement Plan (QAIP)
		<ul style="list-style-type: none"> <li>• conformance to the Public Sector Internal Audit Standards and <del>Local Government Application Note</del>, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement, <b>and whether this affects the reliability of the conclusions of internal audit.</b></li> <li>h) 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.</li> <li>i) <b>To receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.</b></li> <li>j) <b>To provide free and unfettered access to the audit committee chair for the head of internal audit, including the opportunity for a private meeting with the committee.</b></li> </ul>
External Audit		External Audit
<p>The Audit and Governance Committee's areas of responsibility for External Audit are:-</p> <ol style="list-style-type: none"> <li>a) To comment on the scope and depth of external audit work and to ensure it gives value for money.</li> <li>b) To consider the external auditor's annual letter, relevant reports, and the report to those charged</li> </ol>	<p><i>Wording expanded</i></p> <p><i>Expanded wording not proposed for adoption:</i></p> <p><i>To commission work from internal and external audit</i></p> <p><i>To consider specific reports as agreed</i></p>	<p>The Audit and Governance Committee's areas of responsibility for External Audit are:-</p> <ol style="list-style-type: none"> <li>a) <b>To support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by Public Sector Audit Appointments (PSAA).</b></li> </ol>

Current Wording	Nature of Change	Proposed New Wording (changes highlighted in bold and orange)
<p>with governance.</p> <p>c) To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies</p>	<p><i>with the external auditor.</i></p>	<p>b) To comment on the scope and depth of external audit work and to ensure it gives value for money.</p> <p>c) To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance <b>(the Full Council)</b>.</p> <p>d) To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies</p>
<p><b>FINANCIAL REPORTING</b></p>		<p><b>FINANCIAL REPORTING</b></p>
<p>The Audit and Governance Committee's areas of responsibility for the Council's Financial Reporting are:</p> <p>a) 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>b) To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.</p>	<p><i>No change</i></p>	<p>The Audit and Governance Committee's areas of responsibility for the Council's Financial Reporting are:</p> <p>a) 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>b) To consider the external auditor's report to those charged with governance <b>(the Full Council)</b> on issues arising from the audit of the accounts.</p>
	<p><i>New section amalgamating functions given to the committee on top of the pure audit committee functions</i></p>	<p><b>WIDER FUNCTIONS OF THE AUDIT AND GOVERNANCE COMMITTEE</b></p>
		<p><b>The Audit and Governance Committee is responsible for carrying out wider functions for the Council in relation to:</b></p>

Current Wording	Nature of Change	Proposed New Wording (changes highlighted in bold and orange)
		<p>a) <b>Standards and ethics</b>  b) <b>Treasury management</b>  c) <b>Key policy review</b>  d) <b>Considering other matters</b></p>
STANDARDS	<i>Change of title</i>	<b>Standards and Ethics</b>
<p>The Audit and Governance Committee's areas of responsibility for Standards are:-</p> <p>a) Advise on an internal framework of probity and standards of conduct that should be followed by members and officers.</p> <p>b) Formulate, monitor and revise, as necessary, Local Codes of Conduct for members and officers.</p> <p>c) Formulate, monitor and revise, as necessary, a protocol for member/officer relationships.</p> <p>d) Issue guidance and best practice advice with regard to probity and ethics including the following:</p> <ul style="list-style-type: none"> <li>• the declaration and registration of members'</li> </ul>	<p><i>Wording in purpose parts b) and c) moved to this section</i></p>	<p><b>The Audit and Governance Committee's purpose is also to:</b></p> <p>a) 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>b) To promote, maintain and strengthen high standards of conduct by members and co-opted members of the Council.</p> <p>The Audit and Governance Committee's areas of responsibility for Standards and Ethics are:-</p> <p>a) Advise on an internal framework of probity and standards of conduct that should be followed by members and officers.</p> <p>b) Formulate, monitor and revise, as necessary, Local Codes of Conduct for members and officers.</p> <p>c) Formulate, monitor and revise, as necessary, a protocol for member/officer relationships.</p> <p>d) Issue guidance and best practice advice with regard to probity and ethics including the following:</p> <ul style="list-style-type: none"> <li>• the declaration and registration of members'</li> </ul>

Current Wording	Nature of Change	Proposed New Wording (changes highlighted in bold and orange)
<p>interests</p> <ul style="list-style-type: none"> <li>• claims for members' allowances and expenses</li> <li>• acceptance of, or dealing with, offers of hospitality and gifts made by third parties</li> <li>• the provision to members of hospitality, goods, services and facilities by the Council</li> <li>• the undertaking of travel and foreign visits.</li> </ul> <p>e) Advise on such other matters of a similar kind that may be referred to the Committee.</p> <p>f) Issue advice and guidance to members representing the Council on outside bodies.</p> <p>g) Receive, consider and, where necessary, act on reports guidance and advice from the Council's Monitoring Officer and the Local Government Ombudsman.</p> <p>h) Provide appropriate training for members and officers with regard to any of the above and the ethical governance of the Council generally.</p> <p>i) Appoint such sub-committees, panels or working parties as are deemed appropriate to undertake specific parts of these Terms of Reference.</p> <p>j) Consider complaints against members' conduct and assess allegations of breaches of the Code of Conduct for Members to determine such complaints.</p> <p>k) Monitor and review members' training and development.</p> <p>l) To establish a Standards Sub-Committee to investigate and determine appropriate actions in respect of alleged breaches of the Members' Code</p>		<p>interests</p> <ul style="list-style-type: none"> <li>• claims for members' allowances and expenses</li> <li>• acceptance of, or dealing with, offers of hospitality and gifts made by third parties</li> <li>• the provision to members of hospitality, goods, services and facilities by the Council</li> <li>• the undertaking of travel and foreign visits.</li> </ul> <p>e) Advise on such other matters of a similar kind that may be referred to the Committee.</p> <p>f) Issue advice and guidance to members representing the Council on outside bodies.</p> <p>g) Receive, consider and, where necessary, act on reports, guidance and advice from the Council's Monitoring Officer and the Local Government Ombudsman.</p> <p>h) Provide appropriate training for members and officers with regard to any of the above and the ethical governance of the Council generally.</p> <p>i) Appoint such sub-committees, panels or working parties as are deemed appropriate to undertake specific parts of these Terms of Reference.</p> <p>j) Consider complaints against members' conduct and assess allegations of breaches of the Code of Conduct for Members to determine such complaints.</p> <p>k) Monitor and review members' training and development.</p> <p>l) To establish a Standards Sub-Committee to investigate and determine appropriate actions in respect of alleged breaches of the Members' Code of Conduct.</p>

Current Wording	Nature of Change	Proposed New Wording (changes highlighted in bold and orange)
of Conduct.		
Treasury Management	<i>Moved from Governance, Risk and Control section</i>	Treasury Management
The Audit and Governance Committee's area of responsibility for Treasury Management is to oversee the implementation of the Council's Treasury Management Strategy and Policy	<i>Wording expanded</i>	<b>The Council nominates the Audit and Governance Committee to be responsible for ensuring effective scrutiny</b> of the implementation of the Council's Treasury Management Strategy and Policy.
	<i>New section</i>	<b>Key Policy Review</b>
	<i>Wording amended from previous 'corporate governance' section c) and d)</i>	The Audit and Governance Committee is responsible for reviewing and making recommendations to Council on its <b>Constitution including</b> Financial Regulations and Procurement and Contract Rules.  <b>In carrying out this work the committee should advocate the principles of good governance and help ensure that there are appropriate governance, risk, control and assurance arrangements in place.</b>
	<i>New section</i>	<b>Considering Other Matters Referred to the Committee</b>
	<i>Wording amended from previous 'general' section a)</i>	<b>Occasionally the Audit and Governance Committee may be requested</b> to review an issue referred to it by <b>another committee or a statutory officer.</b>