

BRECKLAND DISTRICT COUNCIL

Report of: Interim Executive Director Commercialisation and S151 Officer

To: Full Council, 19 January 2017

Author: Emma Hodds, Internal Audit Consortium Manager

Subject: Governance and Audit Committee - Terms of Reference Review

Purpose: To approve the updated Terms of Reference as recommended by the Governance and Audit Committee to incorporate best practice.

Recommendation(s):

- 1) That Council approves and adopts the proposed purpose and Terms of Reference for the Governance and Audit Committee, subject to any amendments
- 2) That Council approves and adopts the restrictions to be placed on Members of the Governance and Audit Committee, subject to any amendments.

1.0 BACKGROUND

1.1 At the meeting on the 2 September 2016 the Chairman of the Governance and Audit Committee noted that the Committee had changed its name and asked that the terms of reference be reviewed to reflect the change and what was now expected from the Committee.

1.2 At the meeting on the 9 December the Committee discussed the report of the Executive Director Commercialisation and Section 151 Officer and this report incorporates the comments made at that meeting.

1.3 The report comments on; the frequency of the meetings, purpose of the Committee, membership of the Committee, changes to the terms of reference and proposed revised terms of reference.

1.4 Frequency of meetings

1.4.1 Currently the Committee meets quarterly to discuss items of business, it is proposed that the four meetings remain, however with the early closedown of the accounts in future years and the desire of the Committee to see the draft statement of accounts this may need to be revisited.

1.5 Purpose of the Committee

1.5.1 The current purpose of the Committee is defined with the terms of reference and currently states:

“The purpose of the Governance and Audit Committee is to oversee the work of the internal and external audit functions and provide independent assurance of the effectiveness of governance arrangements, risk management and financial management processes.”

- 1.5.2 It is proposed that these are amended as follows to cover the breadth of the role of the Committee and to reflect the best practice requirements;

“The purpose of the Governance and Audit Committee is to monitor governance, risk management and internal control arrangements at the Council, to provide independent assurance that these are effective and efficient. This is achieved through key regular items received by the Committee in relation to, but not limited to; internal and external audit, key finance items, governance reviews and strategic risk management reporting”.

- 1.5.3 The Governance and Audit Committee plays a key role in overseeing the Council’s governance, risk management and internal controls at a corporate level. Operational matters are scrutinised by the Council’s Overview and Scrutiny Commission.

1.6 Membership of the Committee

- 1.6.1 Current membership is six members, politically balanced, and two lay members, it is not proposed to change this. However there is no restriction on membership to this Committee, and it is recommended to consider introducing this in line with other Councils and best practice guidance. The proposed restrictions will be noted within the proposed terms of reference.
- 1.6.2 Ultimately members on the Governance and Audit Committee must be independent enough from the Executive function i.e. Cabinet to be able to objectively review the items received for consideration.
- 1.6.3 The restrictions to the membership of the Governance and Audit Committee are recommended as follows:
- Cabinet members do not serve on the Governance and Audit Committee;
 - The Chairman of the Governance and Audit Committee does not also serve on the Scrutiny Committee and;
 - No more than two members can also sit on Scrutiny Committee.
- 1.6.4 It should also be formally recorded that the lay members of the Governance and Audit Committee are full members, albeit without the ability to vote, of this Committee and are privy to all reports received.

1.7 Changes to the terms of reference

- 1.7.1 The current terms of reference of the Committee are attached at Appendix A to this report.
- 1.7.2 Some of the wording has been slightly amended to make the reference more specific but there has been no change to the meaning inferred within these references/
- 1.7.3 The specific changes are as follows:
- “To consider and approve the external audit fee.” – this has always caused much discussion as to whether the Committee can approve this and what would happen if we disagreed the fee. With the upcoming activity to procure the new external audit contracts and the updated standards that need to be followed this has been removed from the terms of reference. The charge for external audit will be set through the national procurement activity.
 - “To monitor the effective development and operation of risk management in the Council” – it has been made clear in the proposed terms of reference the focus that is required by the Committee in this regard as follows: “To review the strategic risks that the Councils faces and ensure that these are being appropriately managed, monitored and mitigated.”

- The terms of reference have also been displayed slightly differently to make it clear which areas terms refer to; internal audit, external audit, accounts / finance, risk management and governance.

1.8 Proposed (revised) terms of reference

1.8.1 In light of the changes mentioned above the proposed terms of reference are attached at Appendix B to this report.

2.0 **OPTIONS**

2.1 To review the terms of reference in light of the comments made at the September meeting.

2.2 To do nothing; this was not chosen as an option as the Committee has requested the review.

3.0 **REASONS FOR RECOMMENDATION(S)**

3.1 The terms of reference of the Committee have been reviewed to ensure that best practice is followed and that comments made by Members and Officers can be incorporated into the review.

4.0 **EXPECTED BENEFITS**

4.1 That the revised terms of reference for the Committee will ensure that best practice continues to be followed by the Committee and that these are more reflective of the work undertaken by the Committee.

5.0 **IMPLICATIONS**

5.1 **Constitution & Legal**

5.1.1 Amendments will be needed to the Constitution if the proposed terms of reference are approved by Full Council.

5.2 **Corporate Priorities**

5.2.1 The Governance and Audit Committee, through the report that it receives, ensures that Officers outcomes and actions help the Council to meet its Corporate Priorities.

5.3 **Reputation**

5.3.1 By following best practice the Governance and Audit Committee ensures that the reputation of the Council remains high.

5.4.1 **Risk Management**

5.4.1 Risk Management is a key consideration in of the Committee, through many of the reports it receives.

6.0 **ACRONYMS**

6.1 CIPFA – The Chartered Institute of Public Finance and Accountancy

Background papers:- None

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Key Decision: No

Exempt Decision: No

This report refers to a Mandatory Service

Appendices attached to this report:

Appendix A Current Terms of Reference for Governance and Audit Committee
Appendix B Proposed Terms of Reference for Governance and Audit Committee

Appendix A - Current Terms of Reference for Governance and Audit Committee

(6 Members and 2 substitutes politically balanced) Plus 2 nonvoting Lay Advisors (appointed by the Committee)

(Quorum 3)

Delegations 16 -19 do not apply to the Lay Advisors

1. To consider and approve the external audit fee.
2. To consider and approve annually the Internal Audit Strategic and Annual Plans and the audit plans of the External Auditor, and to monitor subsequent performance against these plans.
3. To consider Internal and External Audit reports and letters, including the Annual Letters and reports.
4. To comment on the scope and depth of Internal and External Audit work in addressing the authority's significant risks, and reviewing the authority's programme and processes for achieving value for money.
5. To commission ad-hoc work from Internal and External Audit.
6. To satisfy itself that the system of internal control has operated effectively throughout the year.
7. To consider and comment upon the effectiveness of the system of internal and external audit.
8. To review the Council's arrangements to counter fraud and corruption.
9. To consider the extent of the Council's compliance with its own and other published financial standards and controls.
10. To review and approve the Annual Statement of Accounts.
11. To monitor the effective development and operation of Risk Management in the Council.
12. To make a formal annual report on the Committee's work and performance during the year to full Council.
13. To hold annual private discussions with the Head of Internal Audit and the External Audit to review working relationships with Auditees, etc.
14. To assess the Committee's own effectiveness on an annual basis.
15. To implement and monitor the Council's Treasury Management Strategy and Policies.

(The following do not apply to lay advisors)

16. The promotion and maintenance of high standards of conduct within the Council.
17. To advise the Council on the adoption or revision of its Code of Conduct and its arrangements for dealing with complaints against Members.

18. To monitor and advise the Council on the operation of its Code of Conduct in the light of best practice or changes in legislation.

19. Functions relating to standards of conduct of members under the adopted arrangements. The Monitoring Officer will constitute a Hearing Panel comprising 3 member of the Audit Committee when necessary to deal with hearings arising from standards issues under the adopted arrangements.

Appendix B - Proposed Terms of Reference for Governance and Audit Committee

The purpose of the Governance and Audit Committee is to monitor governance, risk management and internal control arrangements at the Council, to provide independent assurance that these are effective and efficient.

This is achieved through key regular items received by the Committee in relation to, but not limited to; internal and external audit, key finance items, governance reviews and strategic risk management reporting.

Internal Audit

To consider and approve annually the Internal Audit plan of work, considering the scope and depth of the work in addressing the Council's significant risks and issues.

To consider the outcomes of the internal audit plan of work and to monitor management's progress in implementing agreed audit recommendations.

To consider and approve the Annual Report and Opinion of the Head of Internal Audit, ensuring that the systems of internal control, governance and risk management have been effective and efficient over the course of the year.

To consider the performance of the internal auditors in relation to the adherence to the Public Sector Internal Audit Standards.

External Audit

To consider annually the External Audit plan of work.

To consider External Audit reports and letters.

Accounts / Finance

To consider the extent of the Council's compliance with its own and other published financial statements and controls.

To review and approve the annual Statement of Accounts and the Annual Governance Statement contained therein.

To approve the Council's Treasury Management Strategy & Policy and subsequent performance against this.

Risk Management

To review the strategic risks that the Councils faces and ensure that there are being appropriately managed, monitored and mitigated.

Governance

To review the Council's arrangements for governance, with particular regard to the Local Code of Corporate Governance.

To review the Council's arrangements to counter fraud and corruption, with particular regard to the policies on: Counter Fraud, Whistleblowing and Money Laundering.

To hold periodic private discussion with the Head of Internal Audit and the External Auditors to review working relationships and discuss any pertinent issues.

To commission ad-hoc work from internal and external audit.

To report annually to Full Council on the Committee's work and performance during the financial year.

To assess the Committee's own effectiveness on an annual basis against best practice.

The following does not apply to the Lay Advisors. NB no changes proposed.

The promotion and maintenance of high standards of conduct within the Council

To advise the Council on the adoption or revision of its Code of Conduct and its arrangements for dealing with complaints against members.

To monitor and advise the Council on the operation of its Code of Conduct in the light of best practice or changes in legislation.

Functions relating to standards of conduct of members under the adopted arrangements. The Monitoring Officer will constitute a hearing Panel comprising three members of the Audit Committee when necessary to deal with hearings arising from standards issues under the adopted arrangement.

Restrictions to membership of the Governance and Audit Committee:

- Cabinet members do not serve on the Governance and Audit Committee;
- The Chairman of the Governance and Audit Committee does not also serve on the Scrutiny Committee and;
- No more than two members can also sit on Scrutiny Committee.

The lay members of the Governance and Audit Committee are full members of this Committee and are privy to all reports received.