

Report to the Finance and Performance Management Cabinet Committee



**Epping Forest
District Council**

Date of meeting: 20 November 2006

Portfolio: Finance and Performance Management

Subject: Audit and Governance Committee – Proposal and Draft Constitution

Officer contact for further information: Joe Akerman (01992- 56 4446)

Democratic Services Officer: Graham Lunnun (01992- 56 4244)

Recommendations/Decisions Required:

To ask the Constitution and Member Services Scrutiny Standing Panel:(a) to support the establishment of an Audit and Governance Committee based on the model set out in paragraph 5 and Appendix 1 to this report; and (b) to recommend to the Overview and Scrutiny Committee to report to the Council proposing the establishment of the new Committee, and changes to the terms of reference to The Finance and Performance Cabinet Committee as set out in Appendix 2 to this report.

Purpose:

1. The purpose of the report is to update the proposal to establish a new Audit and Governance Committee, as presented to this Committee in September. This report includes the comments of the Constitution and Members Services Scrutiny Standing Panel, and attaches a draft constitution for the proposed new Committee.

Report

2. At the meeting in September this Committee considered a report regarding the establishment of an Audit and Governance Committee. Members noted that CIPFA had, in recent years, emphasised the importance of audit committees as a key source of assurance regarding an authority's arrangements for managing risk, maintaining an effective control environment and reporting on financial and other performance. The Committee considered some of the benefits to be gained from operating an effective audit committee, including:
 - (a) raising greater awareness of the need for internal control and the implementation of audit recommendations;
 - (b) increasing public confidence in the objectivity and fairness of financial and non-financial reporting;
 - (c) reinforcing the importance and independence of internal and external audit and any other similar review processes (for example, providing a view on the statement of accounts and statement on internal control); and
 - (d) providing assurance through a process of independent and objective review.
3. The Committee gave initial consideration to the possible terms of reference, size and proportionality requirements of an audit committee. Members emphasised the need for the proposed committee to be made up of members with sufficient skills and suggested that there would be benefit in considering the appointment of one or more

co-opted members. Members also recognised that careful consideration would need to be given to the terms of reference of the proposed committee, this Cabinet Committee and the Standards Committee in order to avoid undue duplication. Members suggested that the Chairman of this Cabinet Committee should be expected to attend all meetings of the proposed committee in a non-voting capacity.

4. The Committee resolved in September as follows:

- (i) That the establishment of an Audit and Governance Committee be agreed, in principle;
- (ii) That consultation be undertaken with Overview and Scrutiny through the Constitution and Member Services Scrutiny Standing Panel; and
- (iii) That further consideration be given to the establishment of an Audit and Governance Committee at a future meeting taking account of the views of the Constitution and Member Services Scrutiny Standing Panel.

5. The consultation with the Constitution and Member Services Scrutiny Standing Panel took place on 10 October. That Committee agreed in principle with the proposal, and considered a range of issues in relation to the detailed arrangements for the new Committee. The views are summarised below:

- the Committee should comprise 5-7 members
- within the membership there should be 2-3 co-opted members (40-50%)
- there should be a quorum for both Members and co-optees
- co-optees should be sourced by advertisement
- consideration should be given to a wholly independent panel (e.g. comprising representatives from bodies such as the Audit Commission, LGA or Improvement Agency), playing a part in the co-optee appointment process
- the co-optees' allowance should be at the same rate as for Members

6. At the previous meeting of this Committee a question was asked regarding the cost of establishing the new Committee. The majority of the work of the new Committee will represent a transfer of reports from this Cabinet Committee, particularly Internal Audit and External Audit reports. Those officers who currently attend this Cabinet Committee for audit issues will therefore attend the new Committee instead and there will be no additional cost. The additional cost of the new Committee will therefore relate to Members' allowances and the cost of meetings allowances for Committee staff and any other officers who will attend both Committees. This is estimated to be in the region of £3,350 pa, including Members' Special Responsibility Allowances, Co-optees' allowances, provision for officers' attendance allowances, and provision for member and officer traveling and subsistence costs. There will also be an impact on the workload of the Committee Section in particular.

7. The draft Constitution of the Audit and Governance Committee, shown at Appendix 1, overlaps in some respects with the terms of reference of this Committee. Appendix 2 sets out in bold type those responsibilities which should be retained by this Committee. Those in ordinary type would be deleted, as an overlap with the Audit and Governance Committee must be avoided. Appendix 3 shows the current terms of reference of the Standing Scrutiny Panel on Finance and Performance Management. These are not thought to need alteration.

8. The terms of reference refer to the right of groups not represented on this Cabinet Committee, but holding seats on the Cabinet, to nominate members to serve on the Committee. This provision was included in the constitution as a result of the Cabinet seats being allocated, pro rata, between political groups.
9. Now that all Cabinet places are allocated to an alliance of two groups, it is felt that to avoid confusion, the footnote should specify that the rule outlined above will not apply in the present circumstances. The same would be appropriate if all Cabinet seats are allocated to one group only.

Statement in support of recommended action:

10. The proposal to establish an Audit and Governance Committee has regard to current best practice in governance arrangements, and the improvement areas identified by the Audit Commission in its 'Use of Resources' Key Lines of Enquiry relating to internal control and the management of significant business risks. At EFDC, the functions of an audit committee are presently performed by the Finance and Performance Management Cabinet Committee. However this arrangement does not accord with good practice, as the Committee is clearly not independent from the Executive Cabinet function.

Options for action:

11. To promote the establishment of a new Audit and Governance Committee on the basis outlined in this report or on a revised basis, or to recommend no action on this matter at the present time.

Consultation undertaken:

12. The Audit Commission has been consulted on the proposal.

Resource implications: As set out in paragraph 6.

Budget provision: Within existing Service budgets.

Personnel: As set out in paragraph 6.

Land: Not applicable.

Community Plan/BOP reference: None

Relevant statutory powers: Not applicable

Background papers: Audit Commission's Use of Resources Audit Score Feedback
Copa's Guidance for Local Authorities on Audit Committees

Environmental/Human Rights Act/Crime and Disorder Act Implications: Not applicable

Key Decision reference (if required): Not applicable

AUDIT AND GOVERNANCE COMMITTEE – DRAFT CONSTITUTION

1. Title

The Committee should be entitled “Audit and Governance Committee” of Epping Forest District Council.

2. Purpose

The purpose of the Audit and Governance Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority’s financial and non-financial performance to the extent that it affects the authority’s exposure to risk and weakens the control environment, and to oversee the financial reporting process.

3. Authority

The Committee is authorised by the Council to:

- (a) Investigate, or cause to be investigated, any activity within its terms of reference;
- (b) Seek any information that it requires from any Member or employee of the Council, and require all Members and employees to co-operate with any request made by the Committee;
- (c) Meet for despatch of its business, adjourn and otherwise regulate its business as it shall see fit, including approving items of business by the written resolution procedure set out in the Council’s Constitution.

4. Role and Responsibilities

The Audit and Governance Committee will have the following role and function:-

- (a) To consider the effectiveness of the Council's Risk Management arrangements, the control environmental and associated anti-fraud and anti-corruption arrangements.
- (b) To seek assurances that action is being taken on risk related issues, identified by Auditors and Inspectors.
- (c) To be satisfied that the Council's Assurance Statements, including the Statement on Internal Control, properly reflect the risk environment and any actions required to improve it.
- (d) To approve the Council's Internal Audit Strategy Plan, Annual Audit Plan and monitor performance against all associated plans.
- (e) To review summary Internal Audit reports and the main issues arising and seek assurance that action has been taken where necessary.
- (f) To receive an Annual Report from the Chief Internal Auditor.
- (g) To 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.

- (h) To review financial statements, including the Council's Statement of Accounts, External Auditor's opinion and reports to Members, and monitor management action in response to the issues raised by External Audit.
- (i) Review, and challenge where necessary, the actions and judgements of Management, in relation to the Council's Statement of Accounts, paying particular attention to:
 - (i) critical accounting policies and practices, and any changes to them;
 - (ii) decisions requiring a major element of judgement;
 - (iii) the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed;
 - (iv) significant adjustments resulting from the audit; and
 - (v) any material weakness in internal control reported by the Internal or External Auditor.
- (j) Consider other reports of External Audit and inspection agencies which are relevant to the functions of the Committee.
- (k) For the Committee to meet privately and separately at least once a year with the External Auditor and Chief Internal Auditor.
- (l) To have the right to call any Members or officers of the Council as required.
- (m) To consider performance and best value issues to the extent that they relate to the audit and control environment and risk management issues of the Council.

5. Membership

- 5.1 The Committee shall comprise [5-7] members, including [3-4] Councillors and [2-3] co-opted persons.
- 5.2 All members of the Committee shall be appointed at the annual Council meeting of Epping Forest District Council for a term of office of one year and shall be eligible for re-appointment for further terms of office.
- 5.3 Casual vacancies on the Committee which occur shall be filled at the next available Council meeting with a term of office expiring on the date of the next annual Council meeting.

6. Eligibility for membership

6.1 Councillor members

Councillors appointed to the Audit and Governance Committee may not also be members of the Cabinet, any Cabinet Committee, the Overview and Scrutiny Committee or any panel appointed by the Overview and Scrutiny Committee with responsibility for reviewing the Council's finances or financial procedures.

6.2 Co-opted members

Co-opted members shall be appointed by the Council on the basis of their professional expertise, experience and background as relevant to the role and responsibilities of the Audit and Governance Committee. Initial appointments of co-opted members and the filling of casual vacancies shall be made following public advertisement and interviews, the latter conducted in accordance with arrangements agreed by the Audit and Governance Committee. If the number of suitable applicants exceeds the number of co-opted places on the Committee, the Committee shall keep a waiting list of suitable applicants should casual vacancies occur.

7. Chairman

7.1 The Chairman of the Audit and Governance Committee shall be appointed at each annual meeting of the Epping Forest District Council from the District Councillors appointed as members of the Committee.

7.2 The Chairman of the Audit and Governance Committee shall be appointed for an initial term of one year expiring on the date of the next annual Council meeting but will be eligible for reappointment for further terms of office.

7.3 Casual vacancies in the position of Chairman shall be filled in the same way as required in respect of members of the Committee (see paragraph 5.3 above).

8. Vice-Chairman

8.1 The Vice-Chairman of the Audit and Governance Committee shall be appointed at the annual Council meeting from among the co-opted members appointed to the Committee.

9. Meetings of the Committee

9.1 The Committee shall meet at least four times each year.

9.2 All meetings shall be open to the press and public except where the Committee resolves that exempt or confidential business must be considered in private session.

9.3 The Committee shall be entitled to require Cabinet members and Heads of Service to attend their meetings in order to discuss any matters under discussion including the annual audit programme.

10. Quorum

10.1 No business may be transacted at a meeting of the Committee unless there are two Councillor members and one co-opted member present.

11. Decision Making

11.1 Only the Councillors serving on the Committee shall be entitled to vote.

11.2 Co-opted members shall not be entitled to vote but, in all other respects, shall be entitled to all documents, advice and facilities relevant to their membership of the Committee.

12. Other requirements

- 12.1 All members of the Committee shall respect the confidentiality of information considered at the meeting.
- 12.2 All co-opted members of the Committee shall be required to make a statutory registration of interests in the same form as those required of serving councillors and to be aware at all times of the requirement to clear any interest relating to their work on the Committee.
- 12.3 All members of the Committee are required to acknowledge the confidentiality of information and discussions which take place in the Audit and Governance Committee and not to disclose these to outside persons except in circumstances which comply with legal requirements or directions of the Committee.

FINANCE AND PERFORMANCE MANAGEMENT COMMITTEE – TERMS OF REFERENCE

- 1.1 To advise and make recommendations to the Cabinet on the annual budget for Council services, the Capital Programme and the setting of the Council tax.**
- 1.2 To monitor expenditure by the Cabinet and other Committees within the framework of the Council's budgetary policy and financial objectives and to keep the Cabinet informed of the Council's overall position.**
- 1.3 To receive reports from District Audit (including the Audit Management letter) from time to time received by the Council and to make recommendations thereon to the Cabinet.
- 1.4 To receive reports from the Council's Internal Audit Service from time to time, to consider the work programme of Internal Audit including the views of Overview and Scrutiny Committees and to make recommendations thereon to the Cabinet.
- 1.5 To advise and make recommendations to the Cabinet on risk management and insurance issues.**
- 1.6 To be responsible for corporate performance management and the preparation of the Best Value Performance Plan.**
- 1.7 This Committee comprises 5 Cabinet members and is chaired by the Portfolio Holder for Finance and Performance Management. A Vice-Chairman will also be appointed by the Council from members of the Cabinet.**

NB In the event that the Council's Cabinet is constituted according the pro rata membership requirements of the Local Government & Housing Act 1989, any political group not having representation on the Committee by virtue of one of the named Cabinet portfolios shall nominate one member of the Cabinet to serve on this Committee.

In the event that seats on the Cabinet are allocated by the Council solely to one political group, or to an alliance of one or more groups forming an administration, seats on the Sub Committee shall only be allocated to members of that group or alliance who have seats on the Cabinet.

TERMS OF REFERENCE FOR STANDING PANEL

Title: Finance and Performance Management

Status: Standing Panel

Terms of Reference:

Performance Management

1. To review Best Value Performance Indicator (BVPI) and Local Performance Indicator (LPI) outturns for the previous year at the commencement of each municipal year, and to determine the following on an annual basis:
 - (a) The criteria for deciding which BVPIs and LPIs should be formally monitored by the Panel throughout the remainder of the year, based upon the 'traffic light' system of performance reporting. Comprehensive Performance Assessment improvements, and existing Council and member priorities;
 - (b) A 'basket' of priority BVPIs and LPIs, performance against which will be reported to the panel throughout the year;
 - (c) The monitoring frequency of those priority BVPIs and LPIs identified by the Panel; and
 - (d) Arrangements for the wider member reporting and monitoring of performance against those BVPIs and LPIs that are not contained in the Panel's 'basket' of high priority indicators.
2. To consider proposals and make recommendations for corrective action in relation to poorly performing BVPIs and LPIs.

Best Value Performance Plan

3. To consider and make recommendations as appropriate on the format and content of the Council's annual Best Value Performance Plan.

Council Plan

4. To undertake a full review of the existing Council Plan and to make recommendations to the Cabinet on the overall strategic vision to be adopted, within the context of how the authority intends to prioritise resources and develop services in the medium term.

Public Consultation

5. To develop arrangements to directly engage the community in commenting on and shaping the future direction of services to make them more responsive to local needs, including the development of proposals for effective consultation through an annual community conference; and
6. To annually review the consultation exercises undertaken by the Council over the previous year.

Finance

7. To consider the draft budgets for each portfolio and in so doing to evaluate and rank proposals for either enhancing or reducing services. Members will need to ensure consistency between wider policy objectives and financial demands.
8. To consider financial monitoring reports on key areas of income and expenditure for each portfolio.