

Report to the Council

Committee: Cabinet

Date: 20 February 2007

Portfolio Holder: Councillor Mrs D Collins

Item: 10(b)

1. AUDIT AND GOVERNANCE COMMITTEE

Recommending:

- (1) That an Audit and Governance Committee be appointed at the Annual Council meeting in May 2007.

Attached as an Appendix to this report is a supplementary report and further recommendations (2) – (8) prepared by officers which seek to clarify some points of detail in relation to the proposed new Committee. The Council is invited to adopt these additional recommendations.

Summary

- 1.1 We are recommending the establishment of an Audit and Governance Committee from the Annual Council meeting in May 2007, having considered proposals made by the Finance and Performance Management Cabinet Committee following consultation with the Constitution and Members Services Scrutiny Standing Panel.

Background

- 1.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) provides advice and guidance on financial management, risk management and governance for public services, and also sets the professional standards in these areas. Where appropriate the Council operates in accordance with the formal CIPFA Codes of Practice and seeks to comply with CIPFA guidance on best practice.
- 1.3 CIPFA has, 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.
- 1.4 These issues are key components of corporate governance and it is essential for authorities to have in place robust and independent mechanisms for managing their own finances.
- 1.5 The Audit Commission has updated its Use of Resources assessment model, to assist in their evaluation of how well authorities manage and use their financial resources. It is a more stringent test than the score of judgements that formed part of the Comprehensive Performance Assessment framework up to 2004. The four-point scale has been modified so that "adequate performance" (at minimum requirements) will score 2. This Council has been assessed at this level for the Internal Control Category, and is targeting the next level. One of the improvements

needed to move to Level 3 is the establishment of a "specific member group (such an Audit Sub-Committee or Member Panel), which has audit and governance issues as the principal responsibility in its terms of reference".

- 1.6 Some of the benefits to be gained from operating an effective Audit Committee are:
- (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 statements of accounts and statement on internal control); and
 - (d) providing assurance through a process of independent and objective review.
- 1.7 CIPFA has published a guidance document that seeks to help those authorities that do not already have an Audit Committee to implement one effectively, and to help those authorities that have an Audit Committee to assess whether they are as effective as they need to be in order to contribute to good governance. The guidance is not prescriptive and seeks to help authorities to develop Audit Committees that suit their needs whilst adhering to the fundamental principles. The guidance recognises the diversity of local government arrangements, which means there can be no single model for all Audit Committees.

Current arrangements

- 1.8 At this Council, the functions of an Audit Committee are presently performed by the Finance and Performance Management Cabinet Committee. However, as this Committee is not independent from the executive function the arrangement does not comply with CIPFA guidance on best practice.

Proposals

- 1.9 The Council has a number of strategies in place to regulate its activities and demonstrate the robustness of its governance arrangements. One of the functions of the new Audit and Governance Committee would be to take a view on whether these strategies have been properly formulated and remain effective, in order to provide independent assurance to the Council on the adequacy of the internal control and risk management frameworks. The areas covered include:
- (a) the assurance framework including the production of the annual Statement on Internal Control;
 - (b) the local Code of Corporate Governance, incorporating risk management, internal control, standards of conduct and accountability, excluding matters within the terms of reference of the Standards Committee;
 - (c) the review of corporate arrangements in place for ensuring Value for Money; and
 - (d) to ensure that anti-fraud arrangements are in place;

- (e) to receive a summary report annually on anti-fraud measures and prosecutions.
- 1.10 The new Committee would also review and comment on the statutory Statement of Accounts and recommend their adoption by the Council under the accounts and audit regulations. The Audit Committee's remit would focus on:
- (a) the suitability of accounting policies from treatments;
 - (b) any changes in accounting treatments and policies;
 - (c) major judgemental areas and significant adjustments. e.g. provisions; and
 - (d) any material weakness in internal control reported by the internal or external Auditor.
- 1.11 The Finance and Performance Management Cabinet Committee would continue to review the Statement of Accounts, that Committee would focus on the financial management aspects, including issues such as levels of income and expenditure, analysis of significant variations from budget, and levels of revenue balances.
- 1.12 CIPFA advice is that membership of an Audit Committee should be independent of the Cabinet, the Overview and Scrutiny Committee. However, we feel that by excluding all members of the Overview and Scrutiny Committee, it might be difficult to appoint sufficient members to the new Committee with the necessary experience. We are proposing, therefore, that only members of the Cabinet, any Cabinet Committee or any Panel appointed by Overview and Scrutiny with responsibility for reviewing the Council's finances or financial procedures be excluded from membership of the Audit and Governance Committee.
- 1.13 An Audit and Governance Committee would be deemed an "advisory Committee". There is a duty under the Local Government and Housing Act 1989 to allocate the number of seats between the political groups and the Council based on their number of seats.
- 1.14 Some authorities who have already established Audit Committees have appointed co-opted members to their Committee. The Council has powers under the Local Government Act 1972 to co-opt persons who are not Councillors onto any Committee. This is subject to the proviso that the Committee concerned is not responsible for controlling the Council's finances etc. If the seat or seats are designated as seats for co-opted persons, these are disregarded for pro rata purposes. Normally, the co-optees would not have voting rights. Co-opted persons can be eligible for a co-optee's allowance but only as part of the Council's Remuneration Scheme and after a report has been made by the Independent Remuneration Panel to the Council. Co-optee's allowance is currently available to, and in some cases claimed by, members of the Standards Committee.
- 1.14 We have considered proposals for the new Committee comprising between five and seven members, including two or three co-opted persons and have asked the officers to make specific recommendations to the Council within these numbers. For a Committee with three councillors, seats would be allocated as follows on current group strengths:

For a Committee with four councillors, seats would be allocated as follows on current group strengths:

- 1.16 We are proposing that the co-opted members be appointed on the basis of their professional expertise, experience and background as relevant to the role and responsibilities of the Committee. Initial appointments of co-opted members and the filling of casual vacancies will be made following public advertisements and interviews, and in the event of suitable applicants exceeding the number of co-opted places, a waiting list of suitable applicants would be maintained in order to fill any casual vacancies which might occur.

Finance and Performance Management Cabinet Committee

- 1.17 Some of the responsibilities proposed for the new Committee are currently within the terms of reference of the Finance and Performance Management Cabinet Committee. Appropriate adjustments will need to be made within the Constitution to reflect this change. It should be noted, however, that the other key responsibilities of the Finance and Performance Management Cabinet Committee, in relation to the Council's Financial Strategy, annual Budget, Council Tax setting, Capital Programme, Risk Management Strategy and Corporate Performance Management, will remain unaffected.
- 1.18 There will be less of an impact of the new Committee on the Finance and Performance Management Scrutiny Panel but the effect is something which the Overview and Scrutiny Committee may wish to consider.
- 1.19 We recommend as set out at the commencement of this report.