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## **Audit and Governance Committee**

21 December 2009

Report of the Assistant Director of Resources (Customer Service & Governance)  
and the Interim Head of Civic, Democratic & Legal Services

### **Review of the Audit & Governance Committee's Terms of Reference (Articles & Functions)**

#### **Summary**

1. This paper asks Audit & Governance members to consider changes to the Committee's Terms of Reference (TOR) as contained in the council's Constitution (described as Articles and Functions) and shown in Annex A. If agreed the changes will be forwarded to full Council for final approval. Council has already approved the Committee's recommendation for an independent adviser as discussed at the meeting of this committee on 21 September 2009. These changes brings the Committee's operation in line with best practice set down by CIPFA and the Audit Commission. The Articles & Functions are contained in the annex to this report with the additions and deletions clearly shown. Most of the recommended changes are minor, although there is one major proposed change which is to remove amendment of the Constitution from Audit and Governance Committee's terms of reference.

#### **Background**

2. The Committee has specific responsibilities under the Accounts and Audit Regulations 2003, (as amended) for producing a Statement on the System of Internal Control within the Council. The Chartered Institute for Public Finance & Accountancy (CIPFA) has produced best practice guidance on audit committees to support this responsibility.
3. Under the Comprehensive Area Assessment, in the Organisational Assessment (Use of Resources Key Lines of Enquiry), a 'performing well' local authority will have an audit committee which:  
*"is balanced in membership, objective, independent and knowledgeable. The audit committee can demonstrate the positive impact of its work through providing effective challenge across the organisation. This includes providing assurance on the council's arrangements for:*
  - *risk management;*
  - *maintaining effective internal control; and*

- *reporting on financial and other performance.*

*The audit committee can demonstrate it is effectively monitoring progress against any actions to address significant internal control concerns. This includes taking appropriate action to address issues highlighted in internal and external audit reports and other inspectorate reports. The audit committee ensures it is aware of the work undertaken by other committees, for example the scrutiny committee, so it can take account of any significant internal control issues.”*

4. It is with these ‘Level 3’ requirements in mind that the Articles and Functions of the Committee have been reviewed.

### **Recommended Changes**

5. The amendment of paragraph 1.1 of Article 9 relates to the Council decision made on 15 October 2009, to approve the appointment of an independent advisor to the Committee. A person specification for this role is being constructed and a recruitment plan will be discussed with the Chair in time for the start of the 2010/11 municipal year.
6. Further minor amendments reflect that the Assistant Director of Resources (Customer Service & Governance) no longer is the Chief Internal Auditor for the council, in producing the Annual Internal Audit Plans, Reports and related annual opinion. This is now delegated to the Head of Internal Audit who manages the shared internal audit provider, Veritau Ltd.
7. Members are asked to consider a more significant change to the role and responsibilities of the committee in terms of its responsibility to recommend changes to the Constitution to Council as prescribed in paragraph 20. The paragraph has previously been highlighted as unclear (at the meeting of the Committee on 21 September 2009) and as a minimum should be clarified.
8. Audit Commission and CIPFA guidance referred to in paragraphs 2 and 3 above defines an audit committee’s role which is to assess the council’s internal control system objectively and independently. The responsibility in relation to all changes to the Constitution, tends to add volume to the agenda and experience suggests that considerable debate takes place, which can detract the committee from its core business and its ‘independent’ status.
9. To bring the terms of reference in line with best and recommended practice, the proposal therefore is that the constitutional elements of the Audit and Governance Committee is transferred to the Staffing & Urgency Committee which has senior member and proportionate representation. The Audit & Governance Committee would retain responsibility for recommending to Council amendments to Financial Regulations, Contract Procedure Rules and changes to the Policy Framework which relates to the Committee’s functions such as Risk Management Policy & Strategy.

10. Whether this proposal is approved or rejected:

- the Audit & Governance Committee would still have a contribution to make in respect of any proposed changes to a number of Codes, Protocols and Procedures that affect corporate governance such as those contained in paragraphs 12 and 16 in the annex (for example Financial Regulations, Contract Procedure Rules, risk and fraud-related policies).
- The chosen Committee would have the authority to:  
**‘consider proposals to change the council's constitution referred to it by the Executive and officers and where it agrees that amendments to the Constitution are required, to make recommendations to Council as appropriate.’** This would be the replacement for paragraph 20 at Annex A. The intention of this redrafting is to avoid a situation where an individual member can make a recommendation direct to Council without there being any consideration of the impact of the proposed change. Members are under a duty to act on the advice of the s151 and Monitoring Officer and it is important that in something as fundamental to the governance of the Council as the Constitution that changes are not made without due consideration of the impact

### **Consultation**

11. The advice in this report is partly based on Audit Commission/CIPFA guidance as well as officer experience elsewhere where such moves have contributed to the effectiveness, focus and independence of the audit committee. A short survey of audit committee roles and responsibilities was conducted through professional networks and the results shown in Annex B.

### **Options**

12. Members can choose to recommend to full Council to accept/reject any of the individual changes or proposals.

### **Analysis**

13. Not relevant for the purpose of the report.

### **Corporate Priorities**

14. This report contributes to the overall effectiveness of the council's governance and assurance arrangements contributing to an 'Effective Organisation' and seeks to further improve the system of internal control in line with professional audit best practice

### **Implications**

15.  
(a) **Financial** - There are no implications

- (b) **Human Resources (HR)** - There are no implications
- (c) **Equalities** - There are no implications
- (d) **Legal** - Legal implications have been included in the report
- (e) **Crime and Disorder** - There are no implications
- (f) **Information Technology (IT)** - There are no implications
- (g) **Property** - There are no implications

### **Risk Management**

16. In having its Audit & Governance Committee continue to deal with constitutional amendments, the council may not be seen to have in place adequate independent scrutiny of its internal control environment and governance arrangements. It will also fail to properly follow best practice requirements, and its Use of Resources score in future CAA assessments could be adversely affected.

### **Recommendations**

17. (a) That Members agree to recommend to Council the amendment to Article 9 in paragraphs 5 and 6 above and that the Interim Head of Civic Democratic and Legal services is delegated to make the necessary drafting changes.

*Reason*

*To ensure the Committee's Articles and Functions properly and accurately reflect its responsibilities, and those specifically delegated by Council.*

- (b) That Members consider whether to recommend to Council that the Constitution is amended to:

i) transfer responsibility for amending the Constitution from Audit and Governance to Staffing and Urgency Committee.

ii) For Audit and Governance to retain responsibility for proposing amendments to Financial Regulations, Contract Procedure Rules and changes to the Policy Framework which relates to the Committee's functions such as the Risk Management Policy & Strategy, and that the Interim Head of Civic Democratic and Legal services is delegated to make the necessary drafting changes.

*Reason*

*To ensure that the function of the Committee reflects and meet best practice and professional requirements.*

(c) that whether or not members agree to recommend this change, they agree to amend the existing paragraph 20 of the current terms of reference of Audit & Governance Committee to read: '**consider proposals to change the council's constitution referred to it by the Executive and officers and where it agrees that amendments to the Constitution are required, to make recommendations to Council as appropriate.**' If members agree to recommend the change in responsibility, this change would transfer to the terms of reference to the Staffing and Urgency Committee.

Reason

*To remove the current ambiguity in the interpretation of this paragraph*

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**Report Approved**



**Date** 11 December 2009

**Specialist Implications Officers**

Head of Civic, Democratic & Legal Services

**Wards Affected:** Not applicable

**All**

**For further information please contact the author of the report**

**Background Papers:**

Use of Resources 2009/10 – Auditors Guidance (Audit Commission)

**Annexes**

Annex A - Extract from Constitution Parts 2 and 3C (amended)  
Annex B – Audit Committee Remit at Other Councils