

By: Chairman of Governance and Audit Committee
Head of Audit and Risk

To: Governance and Audit Committee – 30 April 2010

Subject: **Committee Terms of Reference**

Classification: Unrestricted

Summary: Following recent discussions of the Committee, a revised Terms of Reference have been developed that describe the committee's role in terms of responsibility rather than process.

FOR DECISION

Introduction and background

1. The original Terms of Reference for the Committee were approved by County Council in May 2005, and last updated in June 2009. In September 2009 a presentation was given by the Head of Audit and Risk and the Director of Law and Governance on the Role of and Terms of Reference for the Governance and Audit Committee. As a result of the presentation it was agreed that the Committee should take a more pro-active view of its role, and that the Chairman would discuss amendments to the agenda-setting process with the Committee's lead officers.
2. In December 2009 a proposed annual work plan that met the core requirements of the Committee's existing Terms of Reference was approved. As part of this work it was recognised that the existing Terms of Reference were in need of review to reflect the development in thinking on the role of Audit Committees published since 2005. The Committee agreed that the new Head of Audit and Risk should complete this review, with the remit to assess any gaps in coverage, and to describe the Committee's role in terms of responsibility rather than process.

Context to the work of the Committee

3. From the presentation in September members of the Committee will recall that the purpose, importance and role of an Audit Committee in relation to good governance and risk management is set out in the:
 - Smith Report, included in the Combined Code, 2003 & 2005.
 - Good Governance Standard for Public Services, 2004.
 - CIPFA SOLACE Governance Framework 2007.

4. These publications have been further supplemented by guides on the role of audit committees in the public sector, in particular:
 - The CIPFA Audit Committee Guide (2005)
 - The IPF Toolkit for Local Authority Audit Committees (2006)
 - The HM Treasury Audit Committee Handbook (2007)
 - The National Audit Office Audit Committee Self Assessment Checklist (2009)
 - Treasury Management in the Public Sector (CIPFA, 2009)

Process of developing the revised Terms of Reference

5. This guidance provides a wealth of information on realising the benefits of an effective audit committee, and has therefore formed the basis of the new Terms of Reference. Although each source of guidance provides a slightly different emphasis as to the role of an audit committee, there is a general consensus that an Audit Committee should seek assurance on the systems and processes relating to:
 - Risk Management and internal control
 - Corporate Governance
 - Internal Audit
 - External Audit
 - Financial statements and other public reporting of performance
 - Counter fraud and corruption
6. The outcomes and responsibilities of the revised Terms of Reference are therefore grouped within these themes.
7. In drafting the revised Terms of Reference it was considered useful to review the roles of audit committee in both FTSE 100 companies and in other County and Unitary Councils.
8. As expected the review of twenty five of the FTSE100 companies showed that the guidance set out in the Smith Report and the Financial Reporting Council's Combined Code is very closely adhered to. The review of eighty-two County and Unitary authorities identified a range of models and roles for audit committees, although the core theme was usually consistent with the CIPFA / IPF guides. Only two of the councils reviewed did not have a recognised audit committee, one using a Business Efficiency Board and one using an existing Overview and Scrutiny Committee.
9. Both reviews provided valuable insight into the potential responsibilities for governance and audit committees. Where good practice was identified it has been incorporated into the revised terms of reference.

Proposed terms of reference

10. The revised Terms of Reference for the committee, based on the work set out above, are attached at annex 1. Although they are longer and more detailed, they do not significantly change the role of the Committee. They do better document the outcomes to be achieved by the Committee, and the responsibilities that the Committee has in order to deliver these outcomes. It is intended that they will provide the Committee with the basis from which it can become more pro-active, and focus less on process. The existing Terms of Reference are included at annex 2.
11. To aid clarity, the document has been structured in terms of overarching purpose, desired outcomes, responsibilities in relation to these outcomes, and administrative arrangements.
12. There are three responsibilities that are not carried forward into the revised terms of reference. These relate to advising the Council on the Annual Plan, overseeing the operation of the Council's complaints procedures and approving the writing-off of debts.
13. The write off of council debt is an executive function, and therefore should not be included in the responsibilities of a committee seeking to provide assurance on processes. The statutory requirement to produce an Annual Plan that is audited by the audit Commission has been removed, and therefore this responsibility has been deleted. The remaining responsibility in relation to complaints will be covered by the general responsibility of the Committee to review regular and ad-hoc assurance reports from officers in order to assess the effectiveness of control activity.

Conclusion

14. The revised Terms of Reference will provide the basis through which the Committee can effectively deliver its overall purpose. However, the Terms of Reference must also be supported by a forward work programme that ensures that all of the new responsibilities are being achieved and by a training programme tailored to the needs of the members.

Recommendations

15. Members of the committee are asked to:
 - Recommend to full Council that, together with consequential changes to the Constitution, the revised Terms of Reference at annex 1 be approved.

David Tonks
Head of Audit and Risk
Ext: 4614

Governance and Audit Committee

Terms of Reference

Overarching Purpose

The purpose of the Governance and Audit Committee is to:

1. ensure the Council's financial affairs are properly and efficiently conducted, and
2. review assurance as to the adequacy of the risk management and governance framework and the associated control environment.

Objectives of the Committee

On behalf of the Council the Governance & Audit Committee will ensure the following outcomes:

- Risk Management and Internal Control systems are in place that are adequate for purpose and effectively and efficiently operated.
- The Council's Corporate Governance framework meets recommended practice (currently set out in the CiPFA / SOLACE good governance framework), is embedded across the whole Council and is operating throughout the year with no significant lapses.
- The Council's Internal Audit function is independent of the activities it audits, is effective, has sufficient experience and expertise and the scope of the work to be carried out is appropriate.
- The appointment and remuneration of the External Auditors is approved in accordance with relevant legislation and guidance, and the function is independent and objective.
- The external audit process is effective, taking into account relevant professional and regulatory requirements, and is undertaken in liaison with Internal Audit.
- The Council's financial statements (including the Pension Fund Accounts) comply with relevant legislation and guidance and the associated financial reporting processes are effective.
- Any public statements in relation to the Council's financial performance are accurate and the financial judgements contained within those statements are sound.
- Accounting policies are appropriately applied across the Council.
- The Council has a robust counter fraud culture backed by well designed and implemented controls and procedures which define the roles of management and Internal Audit.

Responsibilities

Risk Management and Internal Control

- Review annually the Council's Risk Management Strategy and Policy to ensure it remains up to date and relevant.
- Review the Council's Strategic Risk Register to assess the effectiveness of the systems established by senior officers to identify, assess, control and monitor financial and non-financial risks.

- Review regular and ad-hoc assurance reports from officers in order to assess the effectiveness of the control activity in relation to significant risks identified.
- Commission investigations into any matter of concern within the Terms of Reference of the Committee, consider the findings thereof and make appropriate recommendations to the Council.
- Ensure appropriate action is taken in response to recommendations arising from any external audit, internal audit, operational compliance or business risk report and to monitor such action, making appropriate recommendations to the Council.
- Ensure that any partnership that the Council enters into has proportionate Governance and Risk Management arrangements, and that any risk to the Council from the Partnership is minimised.
- Consider the Annual Risk Management Report and assess the impact of the findings on the Annual Governance Statement.
- Review regular monitoring reports on treasury management activity and significant risks.

Corporate Governance

- Ensure that the Annual Governance Statement (including the list of significant issues for action in the ensuing year) is prepared in accordance with the statutory requirements and guidance, properly reflects the risk environment, and monitor progress on the significant issues and actions identified in the Statement.
- Review the Council's key financial governance procedures, i.e. Financial Regulations, Schemes of Delegation, the Procurement Policy and the Treasury Management Policies, and recommend any necessary amendments.
- Review the Council's Code of Corporate Governance and make recommendations to Council to ensure that it remains relevant to the Council's work and remains in compliance with best practice and legislation.
- Consider issues referred by the Group Managing Director, Director of Finance, Monitoring Officer, any Council body or appropriate external party within the remit of these terms of reference.
- Monitor the Council's compliance with its own published standards and controls.
- Make recommendations to the Council on amendments to the Constitution to ensure compliance with standards of financial probity and stewardship.
- Review arrangements made by the Superannuation Fund Committee for effective governance of the Kent Pension Fund.

Internal Audit

- Review annually the Internal Audit Strategy ensuring that its Annual Plan addresses the key risks of the Council, recommending changes and additions as necessary.
- Review at each meeting of the Committee progress against, and changes to, the Annual Plan.
- Review at each meeting of the Committee the findings of Internal Audit work and the adequacy of management response to their findings.

- Review at each meeting of the Committee the implementation by officers of agreed “Critical” and “High” Internal Audit recommendations, seeking explanations from those responsible where implementation has not been achieved.
- Consider the results of the annual benchmarking and Key Performance Indicator results for Internal Audit.
- Assess the implications of the Internal Audit Annual Report on the Council’s risk management, control and governance processes.
- Annually assess the co-operation between External and Internal Audit and other inspection agencies or relevant bodies.
- Approve the Terms of Reference and Charter of Internal Audit.

External Audit

- Approve on behalf of the Council the appointment of the External Auditor selected by the Audit Commission.
- Approve the annual External Audit plan and fee, ensuring that non-mandated work is proportionate, relates to recognised risks of the Council and is takes account of the work of Internal Audit or other assurance activities.
- Review at each meeting of the Committee progress against, and changes to, the External Audit plan and fee.
- As “those charged with governance” receive the Annual Governance Report and the Annual Audit Letter and monitor the Council’s response to the External Auditor’s findings and the implementation of external audit recommendations.

Financial Reporting

- Approve the Statement of Accounts on behalf of the Council, specifically considering the suitability of accounting policies and treatments and any changes to these; areas of major judgement; and any significant issues or amendments resulting from the audit.
- Ensure that the Kent Pension Fund Accounts, and summary extracts in the Council’s Accounts, have been prepared in accordance with recommended practice.

Fraud

- Regularly review the Council’s Anti-Fraud and Anti-Corruption strategies.
- Regularly review the Council’s procedures for handling allegations from whistleblowers.
- Receive details of the findings of investigations resulting from either detected fraud or allegations made under the whistleblowing arrangements.

Membership

The membership of the Committee shall be 13 non-executive Members (Conservative 12; Liberal Democrat 1).

Reporting

The Minutes of the Governance and Audit Committee will be reported to Council after each meeting.

The Committee will produce an Annual Report immediately after the financial year end, timed to support the Annual Governance Statement, summarising the conclusions drawn from the work it has done in the year.

Rights and Access

The Committee may procure specialist ad-hoc advice from officers or from suitably qualified external sources.

The Head of Audit and Risk and the representative of External Audit will have unrestricted and confidential access to the Chairman of the Committee.

Meetings

The Committee will meet at least four times a year. The Chairman may convene additional meetings if required.

The quorum for Committee meetings is one third of its total voting membership.

The Committee may still validly exercise its functions even if Members have not been appointed to all the places on it.

Attendees

The Committee will normally be attended by the Director of Finance, the Director of Law and Governance, the Head of Audit and Risk and a representative of External Audit.

The Committee may request that any other Member or Officer attend to assist it with its discussions on any particular issues.

Work of other Committees

In all of the above, the Committee will strive to develop effective liaison with the following:

- the Standards Committee with regard to matters of ethical governance;
- the Policy Overview and Scrutiny Committees - to complement but not to duplicate the exercise of their role in checking compliance with Council processes and policies and in reviewing decisions and actions;
- Cabinet Members, in particular the Leader and the Cabinet Members for Finance Corporate Support Services & Performance Management, whose portfolios include executive functions related to the matters covered by these terms of reference
- the Council, especially when developing the Council's Code of Corporate Governance

Training and development

The work of the Members of the Council will be supported by a training and development programme consistent with the responsibilities to be discharged.

This Committee has responsibility for:

- (a). monitoring the Council's compliance with its own published standards and controls and with other standards, and considering any proposals for changes to Financial Regulations and the Code of Practice on Tenders and Contracts;
- (b). liaising with the Audit Commission over the appointment of the Council's external auditor;
- (c). discussing with the external auditor and Cabinet the basis of the annual audit, including the overall level and composition of the fee and the content of performance work;
- (d). receiving all reports by the external auditor including all performance reports and the Annual Management Letter;
- (e). overseeing the Internal Audit activity of the Council;
- (f). advising the Council on the Annual Plan proposed by the Leader in relation to statutory requirements and guidance; and considering and responding to reports from the external auditor and Best Value Inspectorate;
- (g). monitoring the response of the Cabinet and Council Committees to audit reviews and investigations and the implementation of agreed recommendations;
- (h). overseeing the operation of the Council's complaints procedures, including the response of the Cabinet or a Council Committee to any report by the local Government Ombudsman;
- (i). approving the annual accounts on behalf of the Council;
- (j). approving the writing-off of debts from the Council's accounts (except those agreed by the Strategic Director (Resources) as provided for in Financial Regulations);
- (k). monitoring the operation of borrowing and investment policies and Treasury Management activity;
- (l). agreeing the risk management policy with the Cabinet and reviewing the effectiveness of risk management and monitoring insurance arrangements;
- (m). keeping under review the Council's arrangements for corporate governance and agreeing from time to time necessary actions to ensure compliance with best practice.