

# Audit and Governance Committee

**Date:** 11<sup>th</sup> October 2019

**Agenda No:**

<b>Title of Report:</b>	Audit and Governance Committee’s Terms of Reference
<b>Context</b>	<p>Audit committees are a key component of an authority’s governance framework. Their function is to provide an independent and high-level resource to support good governance and strong public financial management. The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes. By overseeing both internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place. The Council’s audit committee should adopt a model that establishes the committee as independent and effective. The committee should:</p> <ul style="list-style-type: none"> <li>• act as the principal non-executive, advisory function supporting those charged with governance;</li> <li>• be independent of both the executive and the scrutiny functions and include an independent member where not already required to do so by legislation;</li> <li>• have clear rights of access to other committees/functions, for example, scrutiny and service committees, corporate risk management boards and other strategic groups; and</li> <li>• be directly accountable to the authority’s governing body.</li> </ul> <p>The guidance to support those acting as audit committee members in local authorities has recently changed and currently recognises CIPFA’s publication “Audit Committees: Practical Guidance for Local Authorities and Police (2018)” as representing “proper audit committee practices”.</p> <p>This guidance defines the way in which audit committee’s should be established and undertakes its functions, including the functional reporting requirements to the governance group charged with providing independent assurance on the adequacy of the control environment, comprising risk management, control and governance.</p>
<b>Purpose of Report:</b>	<p>The purpose of this report is to present to the Committee the proposed refreshed Audit and Governance Committee’s Terms of Reference, which reflects the revised Chartered Institute of Public Finance and Accountancy (CIPFA) guidance on the function and operation of audit committees; “Audit Committees in Local Authorities and Police, 2018 edition”.</p> <p>The guidance represents CIPFA’s view of best practice for Audit Committees in local authorities throughout the UK and replaces the Position Statement of Audit Committees in Local Government issued in 2013.</p>

<b>Recommendations:</b>	That the Committee endorse the refreshed Terms of Reference as set out in Appendix 2. The Terms of Reference to be subsequently presented to the Constitution Committee for formal approval and inclusion within the Council's Constitution.
<b>Officer (s) Contact:</b>	<p>Theresa Mortimer: Head of Audit Risk Assurance (ARA) and Gloucestershire County Council's Insurance Services and Area Finance Officers Team.  Tel: 01452 328883  <a href="mailto:theresa.mortimer@gloucestershire.gov.uk">theresa.mortimer@gloucestershire.gov.uk</a></p> <p>Paul Blacker: Director of Finance  Tel: 01452 328999  <a href="mailto:paul.blacker@gloucestershire.gov.uk">paul.blacker@gloucestershire.gov.uk</a></p>
<b>Key Risks</b>	Failure to deliver effective governance will impact on the ability of the Council to achieve its vision, outcomes and priorities.
<b>Appendices</b>	<p>Appendix 1: Current Audit and Governance Committee's Terms of Reference.</p> <p>Appendix 2: Proposed refreshed Audit and Governance Committees Terms of Reference.</p>
<b>Background Documents</b>	<ul style="list-style-type: none"> <li>• Chartered Institute of Public Finance and Accountancy (CIPFA) guidance on the function and operation of audit committees; "Audit Committees in Local Authorities and Police, 2018 edition";</li> <li>• Public Sector Internal Audit Standards (PSIAS) 2017; and</li> <li>• CIPFA Local Government Application note on the PSIAS.</li> </ul>

<p>Audit and Governance Committee</p> <p>9 County Councillors</p> <p>The Chair of the Audit and Governance Committee to be drawn from outside the group or groups forming the administration.</p>	<p>(1) Advise on the adequacy and effectiveness of the Council's corporate governance arrangements and internal control environment.</p> <p>(2) Monitor the adequacy and effectiveness of the Council's governance arrangements including:</p> <ul style="list-style-type: none"> <li>• Monitoring the effectiveness of the Chief Officer's responsibility for ensuring an adequate internal control environment;</li> <li>• Monitoring the arrangements for the identification, monitoring and control of strategic and operational risk within the Council;</li> <li>• Monitoring the adequacy and effectiveness of the arrangements in place for combating fraud and corruption;</li> <li>• Providing an annual report to the County Council that its systems of governance are operating effectively;</li> <li>• Reviewing and approving the annual Statement of Accounts and Annual Governance Statement;</li> <li>• The Chief Internal Auditor has the right of independent access to the Committee and its Chair;</li> <li>• Being responsible for the implementation and undertaking regular monitoring of the Council's treasury management policies and practices;</li> <li>• Formulating and keeping under review a Code of Conduct to promote high ethical standards amongst Officers and doing anything that is calculated to promote and maintain high standards of conduct by Officers;</li> <li>• Formulating and keeping under review the Council's 'whistle-blowing' policy; and</li> <li>• Formulating and keeping under review the Council's arrangements for handling complaints and investigations by the Local Government Ombudsman.</li> </ul> <p>(3) To promote, maintain and assist the achievement of high standards of conduct by County Councillors and co-opted members in accordance with the Council's Code of Conduct for Members.</p> <ul style="list-style-type: none"> <li>• To monitor the operation of the Code of Conduct for Members;</li> <li>• To advise the Council on any amendment or revision of the Code;</li> <li>• To secure adequate and appropriate training of County Councillors and co-opted Members on the Code of Conduct for Members;</li> </ul>
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	<ul style="list-style-type: none"><li>• To give general guidance and advice to County Councillors on Members' interests and keep under review the Register of Members' Interests maintained by the Monitoring Officer; and</li><li>• To give general guidance and advice to County Councillors and employees on gifts and hospitality.</li></ul> <p>(4) Monitor the adequacy and effectiveness of the Council's External Audit service and respond to its findings. Specifically:</p> <ul style="list-style-type: none"><li>• Considering the nature and scope of the External Audit of the Council's services and functions;</li><li>• Receiving and considering External Audit Reports including the Annual Audit Letter and Governance Report; and</li><li>• Monitoring management's response to the External Auditor's findings and the implementation of External Audit recommendations.</li></ul> <p>(5) Monitor the adequacy and effectiveness of the Internal Audit service. Specifically:</p> <ul style="list-style-type: none"><li>• Approving the internal audit charter;</li><li>• Approving the annual risk based internal audit plan;</li><li>• Receiving communications from the Chief Internal Auditor on the internal audit activity's performance relative to its plan and other matters, including the annual report and opinion;</li><li>• Receiving and considering major Internal Audit findings and recommendations;</li><li>• Monitoring management's response to Internal Audit findings and the implementation of the recommendations;</li><li>• Making appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scope and resource limitations;</li><li>• Agreeing the scope and form of the external assessment as part of the quality assurance and improvement plan;</li><li>• Receiving the results of internal and external assessments of the quality assurance and improvement programme, including areas of non-conformance with professional standards; and</li><li>• Approving significant consulting services not already included in the audit plan, prior to acceptance of the engagement, if this materially impacts on core assurance activity.</li></ul>
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	<p>(6) To grant dispensations to County Councillors and co-opted Members related to interests specified in the Code of Conduct for Members following written requests to the proper officer (Chief Executive) by a Member or Co-opted Member under section 33 of the Localism Act 2011, when the Council:</p> <ul style="list-style-type: none"> <li>• Considers that without the dispensation, the number of persons prohibited by section 31(4) from participating in any particular business would be so great a proportion of the body transacting the business as to impede the transaction of the business;</li> <li>• Considers that without the dispensation the representation of different political groups on the body transacting any particular business would be upset as to alter the likely outcome of any vote relating to the business;</li> <li>• Considers that granting the dispensation is in the interests of persons living in the authority's area;</li> <li>• Considers that without the dispensation each member of the authority's executive would be prohibited by section 31(4) from participating in any particular business to be transacted by the authority's executive, or</li> <li>• Considers that it is otherwise appropriate to grant a dispensation.</li> </ul> <p>(7) To establish a Sub-Committee known as the Hearings Panel to hear allegations that Members have failed to comply with the Authority's Code of Conduct.</p> <ul style="list-style-type: none"> <li>• To assess and review allegations of Member misconduct; and</li> <li>• To determine allegations of Member misconduct.</li> </ul> <p>Note: the committee has the right to require the attendance of any Council officers or members in order to respond directly to any issue under consideration.</p>
<p>Hearings Panel Sub-Committee</p> <p>5 County Councillors proportional to the political composition of the Council. Quorum of 3 members present for its duration</p>	<p>(1) To receive reports referred from the Monitoring Officer following investigations into complaints and other steps associated with that function.</p> <p>(2) To conduct standards hearings and all other steps associated with that function, including taking into account the advice of the Independent Person.</p> <p>(3) If the panel determines that a breach of the Authority's Code of Conduct has occurred, the panel can impose one or more of the following if appropriate:</p>

	<ul style="list-style-type: none"> <li>a) Censure;</li> <li>b) Report to Council;</li> <li>c) Recommend actions to the Leader of the Council;</li> <li>d) Recommend actions to Group Leader;</li> <li>e) Removal from Outside Bodies;</li> <li>f) Withdrawal of facilities, such as Council email/website/internet access;</li> <li>g) Exclusion from the Council offices or other premises with the exception of meeting rooms as necessary for attending Council, Committees or Sub-Committees and/or nominating a single point of contact; and/or</li> <li>h) Requesting the Member to undertake actions deemed appropriate e.g. training, issue of an apology.</li> </ul> <p>(4) To set-up when necessary an interview panel comprising of the lead members of each party to shortlist and interview candidates for the role of Independent Person.</p> <ul style="list-style-type: none"> <li>• To recommend successful candidates to the County Council to be chosen by a majority of Councillors.</li> </ul>
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<p>Audit and Governance Committee</p> <p>11 County Councillors</p> <p>The Chair of the Audit and Governance Committee to be drawn from outside the group or groups forming the administration.</p> <p>To include an Independent Member who is not a councillor or an officer of the Council.</p>	<p><b>(1) Statement of Purpose</b></p> <ul style="list-style-type: none"> <li>• The Audit and Governance Committee is a key component in the Council's corporate governance structure ensuring compliance and maintenance of high ethical standards. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.</li> <li>• The purpose of the committee is to provide independent assurance to Council of the adequacy of the risk management framework and the internal control environment. It provides independent review of the Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.</li> </ul> <p><b>(2) Governance, Risk and Control</b></p> <ul style="list-style-type: none"> <li>• To review the Council's corporate governance arrangements against the good governance framework, including the ethical framework and consider the local Code of Corporate Governance.</li> <li>• To review and approve the Annual Governance Statement (AGS) and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.</li> <li>• To consider the Council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.</li> <li>• To consider the adequacy of Council's framework of assurance i.e. the Three Lines of Defence model.</li> <li>• Undertaking regular monitoring of the Council's treasury management policies and practices.</li> <li>• To monitor the effective development and operation of risk management in the Council and to monitor progress in addressing risk-related issues reported to the committee.</li> <li>• To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.</li> <li>• To review the governance and assurance arrangements for significant partnerships or collaborations.</li> </ul>
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	<ul style="list-style-type: none"><li>• To review the assessment of fraud risks and potential harm to the Council from fraud and corruption.</li><li>• To monitor the counter-fraud strategy, actions and resources.</li><li>• Formulating and keeping under review the Council's 'whistle-blowing' policy.</li><li>• Formulating and keeping under review the Council's arrangements for handling complaints and investigations by the Local Government Ombudsman.</li></ul> <p><b>(3) Internal Audit</b></p> <ul style="list-style-type: none"><li>• To approve the Internal Audit Charter and Code of Ethics.</li><li>• To review proposals made in relation to the appointment of external providers of internal audit services.</li><li>• To review and approve the risk-based internal audit plan.</li><li>• To approve significant interim changes to the risk-based internal audit plan and resource requirements, including significant consulting services not already included in the audit plan, prior to acceptance of the engagement, if this materially impacts on core assurance activity.</li><li>• To make appropriate enquiries of both management and the Head of Internal Audit to determine if there are any inappropriate scope or resource limitations.</li><li>• To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the Head of Internal Audit. To approve and periodically review safeguards to limit such impairments.</li><li>• To contribute to the Quality Assurance and Improvement Programme (QAIP) and in particular, to the external quality assessment of internal audit that takes place at least once every five years.</li><li>• To consider reports from the Head of Internal Audit on internal audit's performance during the year, including the performance of external providers of internal audit services.</li><li>• To consider the Head of Internal Audit's annual report and the opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control together with the summary of the work supporting the opinion, this will support the AGS.</li></ul>
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	<ul style="list-style-type: none"><li>• To receive reports outlining the action taken where the Head of Internal Audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.</li><li>• To provide free and unfettered access to the audit committee chair for the Head of Internal Audit, including the opportunity for a private meeting with the committee.</li></ul> <p><b>(4) External Audit</b></p> <ul style="list-style-type: none"><li>• To support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by Public Sector Audit Appointments Ltd (PSAA) or the authority's auditor panel as appropriate.</li><li>• To consider the external auditor's annual letter, relevant reports and the report to those charged with governance.</li><li>• To monitor management's response to the External Auditor's findings and the implementation of External Audit recommendations.</li><li>• To commission work from internal and external audit and to advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.</li></ul> <p><b>(5) Financial Reporting</b></p> <ul style="list-style-type: none"><li>• To review and approve the annual Statement of Accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.</li><li>• To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.</li></ul> <p><b>(6) Accountability Arrangements</b></p> <ul style="list-style-type: none"><li>• To report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements, and internal and external audit functions.</li><li>• To publish an annual report on the work of the committee.</li></ul>
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	<ul style="list-style-type: none"> <li>• To report to full council on an annual basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.</li> </ul> <p><b>Note:</b> the Committee has the right to require the attendance of any council officers or members in order to respond directly to any issue under consideration. The Committee also has clear rights of access to other committees/functions, for example, scrutiny committees and other strategic groups.</p> <p><b>(7) Ethical Conduct</b></p> <p>(i) To promote, maintain and assist the achievement of high standards of conduct by County Councillors and co-opted members in accordance with the Council's Code of Conduct for Members.</p> <ul style="list-style-type: none"> <li>• To monitor the operation of the Code of Conduct for Members;</li> <li>• To advise the Council on any amendment or revision of the Code;</li> <li>• To secure adequate and appropriate training of County Councillors and co-opted Members on the Code of Conduct for Members;</li> <li>• To give general guidance and advice to County Councillors on Members' interests and keep under review the Register of Members' Interests maintained by the Monitoring Officer; and</li> <li>• To give general guidance and advice to County Councillors and employees on gifts and hospitality.</li> </ul> <p>(ii) To grant dispensations to County Councillors and co-opted Members related to interests specified in the Code of Conduct for Members following written requests to the proper officer (Chief Executive) by a Member or Co-opted Member under section 33 of the Localism Act 2011, when the Council:</p> <ul style="list-style-type: none"> <li>• Considers that without the dispensation, the number of persons prohibited by section 31(4) from participating in any particular business would be so great a proportion of the body transacting the business as to impede the transaction of the business;</li> <li>• Considers that without the dispensation the representation of different political groups on the body transacting any particular business would be upset as to alter the likely outcome of any vote relating to the business;</li> </ul>
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