

Committee Roles and Core Functions

Audit Committee,
Overview and Scrutiny Committee
and Standards Committee

May 2011
Version 1



ASHFORD
BOROUGH COUNCIL

Audit Committee

Audit committees are an essential feature of good governance. An audit committee is an additional source of assurance that systems of internal control are working effectively, that there are adequate arrangements in place for managing risk, that internal audit is operating in accordance with the Code of Practice, and that an open and honest approach to governance arrangements can be demonstrated.

Simply put, the Audit Committee exists to provide independent assurance that there are adequate controls in place to mitigate key risks and to provide assurance that the Council is operating effectively.

Core functions

- Consider the effectiveness of the authority's risk management arrangements, the control environment, whistleblowing arrangements and associated anti-fraud and anti-corruption arrangements.
- Seek assurances that action is being taken on risk-related issues identified by auditors and inspectors.
- Be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it.
- Approve (but not direct) Internal Audit's Strategy, Plan and monitor performance.
- Review summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary.
- Receive the annual report of the Head of Internal Audit Partnership.
- Consider the reports of external audit and inspection agencies.
- 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.
- Approve the financial statements, external auditor's opinion and reports to Members, and monitor management action in response to the issues raised by external audit.

Both the Audit Committee and the Scrutiny Committee deal with complex matters, sometimes requiring specialist knowledge and advice. Concentrating on their own defined areas of business, rather than a broader remit, ensures these committees are likely to be more effective.

Overview and Scrutiny Committee

Section 21 of the Local Government Act 2000 requires any Council operating executive arrangements to establish at least one Overview and Scrutiny Committee. The Act describes a threefold role for Scrutiny, firstly a power to review and scrutinise the decision and actions of the Cabinet, including the power to 'call-in' for review any Cabinet decision 'made but not implemented'. Secondly the role of mandatory consultee in relation to the development and review of the Council's Budget and Policy Framework and thirdly, the power to make reports and recommendations to the Cabinet on the development and review of policies.

The Overview and Scrutiny Committee also has the power to scrutinise and review the discharge of functions that are not the responsibility of the Cabinet (excluding the review of individual regulatory decisions). In addition, recent legislative amendments have given the Committee the power to review the effectiveness of the local Crime & Disorder Reduction Partnership as well as the power as to consider Community Calls for Action from Ward Councillors. The overall intention is to enable the Overview and Scrutiny Committee through its reviews, reports and recommendations to act as a critical friend to the Cabinet, advise the Cabinet and Council as a whole on its budget, policies and service delivery and give the community a greater say by examining matters of local concern.

Core functions

Role	How
Policy Development	Through carrying out reviews in new areas and aiding the cabinet in its policy work.
Holding the Executive to account	Through pre- and post-cabinet decision scrutiny. Pre-decision - inviting cabinet members to report to the committee on their work and making recommendations to assist policy development, and initiating reviews of services and policy. Post-decision scrutiny: scrutiny committees may call-in a cabinet or cabinet member decision, review that decision and make recommendations.
Policy Review	Keeping an eye on the policies developed by the Council and the cabinet and making recommendations where appropriate for improvement.
Performance Management	Reviewing performance management information, identifying services that are not performing and making recommendations for improvement.
External Scrutiny	Looking outside the Council at other services provided to the public.
Engaging the public	A key role for scrutiny is to engage the public in its work and give the public a voice. This can be achieved through co-option, working with the local media and seeking input from the public in terms of the scrutiny work programme.

The terms of reference for both the Audit Committee and the Overview and Scrutiny Committee are available within the Council's Constitution.

Standards Committee

The Standards Committee is a statutory committee of the Council established to promote and maintain high standards of ethical conduct by providing advice, guidance and training on the requirements of the mandatory Code of Conduct adopted by the Borough and Parish Councils established in the Ashford Borough Council area. Since 2003 the Committee has had the power to conduct hearings into complaints against Councillors referred to it by the Standards Board for England and in 2008 the Committee assumed responsibility for establishing Sub-Committees to deal with the initial assessment and investigation of all complaints against Borough, and Parish Councillors in the borough area as well as conducting hearings in those cases where the investigator considered that the Code of Conduct had been breached. In order to maintain public confidence in its integrity, the Standards Committee includes three co-opted members of the public (the independent members) one of whom must be appointed as the chairman of the Standards Committee and three Parish Council representatives. Moreover, an Assessment, Review or Hearing Sub Committee will always be chaired by an independent member.

In addition to acting as an ethical governance committee, the Standards Committee also contributes to the good governance of the Council through oversight of the Council's Constitution in relation to ethical matters and overview of the Council's Complaints Procedure and Ombudsman Investigations.

Core functions

- Promote and maintain high standards of conduct by Councillors and co-opted Members.
- Assist the Councillors and co-opted Members to observe the Members' Code of Conduct; and advise the Council on the adoption or revision of the Members' Code of Conduct.
- Monitor the operation of the Members' Code of Conduct and advise, train or arrange to train Councillors and co-opted Members on matters relating to the Members' Code of Conduct.
- Grant dispensations to Councillors and co-opted Members from requirements relating to interests set out in the Members' Code of Conduct.
- Deal with any reports from a case tribunal or interim case tribunal, and any report from the Monitoring Officer on any matter which is referred by an ethical standards officer to the Monitoring Officer.
- Overview of complaints handling and Ombudsman investigations including the power to make payments or provide other benefits in cases of maladministration.
- Oversight of the Constitution in relation to ethical matters.

The terms of reference for the Standards Committee are available within the Council's Constitution.

**Prepared by: Head of Audit Partnership
Mid Kent Audit**

Audit Committee

Governance Framework summary

May 2011
Version 1



ASHFORD
BOROUGH COUNCIL

Governance Framework summary

Foreword

Good governance is important to all officers and members of Ashford Borough Council.

It is a key responsibility for the Leader and Chief Executive, and it is also important for other Members of Cabinet, full Council and Management Team, and in particular the Audit Committee who are responsible for monitoring and providing assurance on our governance arrangements.

Good management, good performance and good financial controls all lead to good governance, and enable us to engage with our public and ultimately demonstrate good outcomes for our community.

The Local Code of Corporate Governance has been prepared in line with principles of the CIPFA / SOLACE framework Delivering Good Governance in Local Government, and will be reported on through an Annual Governance Statement showing the effectiveness of our current arrangements and any improvements that can be made for the future.

Introduction

Governance is about how we ensure that we are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. Good governance leads to good management, good performance, good stewardship of public money, good public engagement and, ultimately, good outcomes for our citizens and service users.

Good governance enables us to pursue our Five Year Business Plan and corporate objectives effectively as well as underpinning these with mechanisms for the control and management of risk. Governance must be owned by all stakeholders, including senior management and members, thus forming the intrinsic core of the council. It should remain embedded in the culture of the council and applied within a transparent framework of legislative requirements, governance principles and management processes.

Principles behind Governance

The Cadbury Report (1992) identified three fundamental principles of corporate governance as openness, integrity and accountability.

The Cadbury report defined these three principles in the context of the private sector, and, more specifically, of public companies, but they are as relevant to public service bodies as they are to private sector entities.

The Nolan Committee (1995) identified and defined seven general principles of conduct which should underpin public life, and recommended that all public service bodies draw up codes of conduct incorporating these principles. These principles of public life are selflessness, integrity, objectivity, accountability, openness, honesty and leadership.

The Relevant Authorities (General Principles) order 2001 outlined three additional principles of conduct to those identified by the Nolan Committee, these being respect for others, duty to uphold the law and stewardship.

Effective Governance

An effective governance framework will demonstrate the following attributes, and more:

- A clearly communicated vision.
- Arrangements exist for measuring the quality of services for users.
- The clearly defined roles and responsibilities for the executive, non-executive, scrutiny and officer functions.
- Codes of Conduct for members and staff.
- Regularly reviewed standing orders, standing financial instructions, scheme of delegation and supporting procedure notes/manuals.
- An effective Audit Committee.
- Corporate compliance is evident.
- A Whistleblowing Policy is in place and well publicised.
- Development needs for members and senior officers are identified.
- Open consultation is encouraged with all sections of the community and other stakeholders.
- Governance arrangements for major partnerships are monitored.

Annual Governance Statement

The Chief Executive, Deputy Chief Executive (S151 Officer), the Head of Legal and Democratic Services (Monitoring Officer), Internal Audit and managers across the authority will have a role to play in this process. The overall assurance given is not a pass or fail. It is a narrative statement pointing to the council's strengths and weaknesses.

- The Annual Governance Statement will include sections on the scope of responsibility, the purpose of the governance framework, the governance framework, a review of the effectiveness and detail any significant governance issues. It will also detail any improvements made within the timeframe referred to.

Completion of the statement should flow from the normal business planning and review processes of the council, Audit Committee, Standards Committee and the planned work of Internal Audit. The Service Plan is one of the central mechanisms for each Head of Service managing their own area of activity and therefore sits at the centre of the governance process.

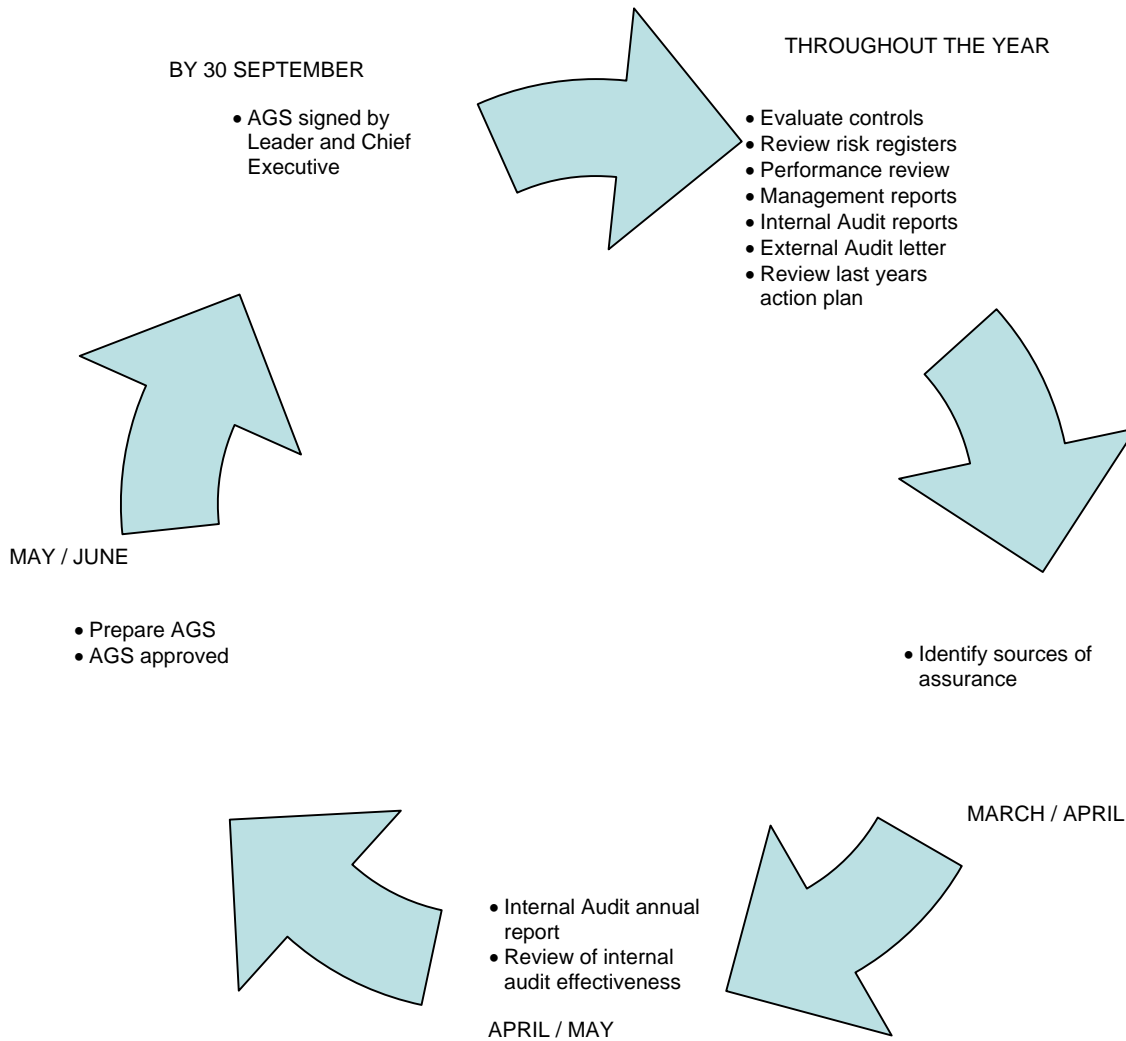
Governance is integral to the whole business management process and not an add-on. Hence it uses existing documents and procedures and the risks and control framework. In particular, it links to performance reporting as good governance promotes good service but poor service performance reflects a failure of governance. Effective internal controls are an important part of the governance process. Through their audit assurance work, Internal Audit will provide an opinion on the effectiveness of the systems of internal control.

Annual Governance Statement Preparation

The draft Annual Governance Statement will be prepared, based on the internal control framework, core and supporting principles, internal and external reviews and audit evidence provided. This will be considered by the Governance Group including the Chief Executive, and then Audit Committee will provide the final review, evaluation and approval for signature.

The Audit Committee will monitor the overall governance process and ensure that the process is robust and agreed actions identified are properly implemented. The final statements will then be signed before the end of September by the Leader and Chief Executive based on a clear evidence trail.

Annual Governance Statement Timetable



Annual Review and Reporting

The Section 151 Officer and Monitoring Officer have been given responsibility to oversee the implementation and monitor the operation of the Local Code of Corporate Governance, and through the Governance Group and the Mid Kent Audit Partnership, will periodically review these arrangements and each will contribute to the annual assessment process. The review of our governance arrangements is an ongoing process.

**Prepared by: Head of Audit Partnership
Mid Kent Audit**

Audit Committee

Member guidance

May 2011
Version 1



ASHFORD
BOROUGH COUNCIL

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Introduction

The aim of this guidance is to recognise the importance of the Audit Committees work, not only to the council as a whole but also to the communities of Ashford who benefit from good governance in their local authority.

It will also inform any potential or existing elected member of the Borough Council as to what will be expected of them should they be appointed to serve on the Audit Committee.

Finally it serves as a reminder to those councillors who already fulfil the role of member of the Audit Committee, helping them to explain their function, assess their own performance and benchmark with others in similar positions.

Statement of Purpose

The Audit Committee comprises 8 members of the Council.

The purpose of the Audit Committee is to provide independent assurance of the adequacy of the risk management framework and 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.

The Audit Committee is an essential element of good governance. An effective Audit Committee can assist in raising the profile and importance of internal control, risk management and financial reporting arrangements within the authority. It can also act as a forum for the discussion of issues raised by internal (Mid Kent Audit Partnership) and external (Audit Commission) audit.

Core Functions

The main issues that the Audit Committee can effectively deal with are:

- Consider the effectiveness of the authority's risk management arrangements, the control environment and associated counter fraud and corruption arrangements;
- Seek assurances that action is being taken on risk-related issues identified by auditors and inspectors;
- Be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the governance environment and any actions required to improve it;
- Approve (but not direct) Internal Audit's Strategies and plans;
- Review summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary;
- Receive the annual report of the Head of Internal Audit;
- Consider the reports of external audit and inspection agencies,
- 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;
- Approve the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.

Features

Good audit committees are characterised by strong chairmanship – displaying a depth of skills and interest. An interest and level of knowledge in financial and risk management, accounting concepts and standards and the regulatory regime are also essential. There needs to be unbiased attitudes – treating auditors, Cabinet and Management Team (MT) equally, as well as having the ability to challenge the Cabinet /MT when required. The Audit Committee should have a membership that is balanced, objective, independent of mind and knowledgeable.

Other features of an effective committee include:

- meetings characterised by free and open discussions by all members without political influences being displayed;
- prompt decisions on all matters put before the committee;
- financial understanding displayed by one or more of the members when considering issues;
- the committee displays a role of monitoring and, where necessary, chasing managers for responses to audit recommendations.

Structure and Administration

Although no single model of committee is prescribed, it should be independent in its attitude and approach. It should have clear reporting lines and rights of access to other committees and functions, for example scrutiny committee and other strategic groups.

There must be terms of reference which are reviewed on an annual basis, taking into account relevant governance developments and how the Audit Committee integrates with other committees within the council.

Regular attendees to Audit Committee meetings should include the Deputy Chief Executive (with S151 responsibility) and the Head of Audit Partnership. The committee should also have the right to call any other officers or agencies of the council as required.

The Benefits

The Audit Committee will bring the following benefits to the authority:

- reduce the risks of illegal or improper acts;
- reinforce the importance and independence of internal and external Audit;
- increase confidence in the objectivity and fairness of financial reporting.

Stricter internal control and the establishment of an Audit Committee can never eliminate the risks of serious fraud, misconduct or misrepresentation of the financial position. However, it will:

- give additional assurance through a process of independent and objective review; and
- raise awareness of the need for internal control and the implementation of audit recommendations.

Committee authority

The Audit Committee is vested with sufficient authority to act with independence. It is constituted as a sub-committee of full Council and the terms of reference are contained within the council's Constitution. The Committee has explicit authority to receive full access to information and the ability to investigate any matters within its terms of reference.

Frequency of meetings

The frequency of meetings needs to be driven by the nature and timing of the business to be considered, any complementary work conducted by other committees and any work that can be carried out between meetings. This all needs to be determined at the outset of the financial year so that the Committee is not considering unnecessary issues, reacting to foreseeable events or commenting on matters that can no longer be influenced.

It is expected that the Audit Committee will meet 5 times per year but the Committee can decide to increase this, if it is felt necessary, to ensure that the Committee meets its terms of reference. The quorum for the Committee is 2 Members.

Substitutions

Substitutions at the Audit Committee should be aware of the requirements of the Committee and have the necessary understanding to be able to contribute to the Committee's roles and functions.

Substitutes should also have attended any specific training provided for the meeting they are attending, especially in the case of approving the council's Statement of Accounts. Substitutes will also be responsible for feeding back to the member they are attending for.

It shall be the responsibility of the member unable to attend the Audit Committee meeting to appoint a substitute member and inform the Senior Member Services & Scrutiny Support Officer.

Training

Existing members of the Committee will be updated regularly on changes of legislation and procedures and receive refresher training as necessary.

A training programme will be developed during the current financial year (2011/12).

When considering areas for training the Committee are advised to refer to the programme of reports to help inform the training requirements.

Assurance Framework

The majority of assurances to the Committee should come from management and auditors, who provide a critical element of independent assurance. In this context robust systems of risk management and application of an assurance framework should be at the core of any committee's review process.

To this end the Audit Committee will need to liaise closely with any management and other committees involved in dealing and managing risk, to minimise any duplication or overlap. The Audit Committee's role is not to manage risks, but rather to ensure that the overall system is in place and effective, leaving the operational management to Management Team.

Some assurances will be external to the organisation (such as the Audit Commission). The committee members should task the Deputy Chief Executive and the Head of Mid Kent Audit Partnership to make them aware of relevant reports and recommendations. Others will be internal to the organisation and the Committee may wish to understand the nature of their work and the relative appropriateness of their source of assurance.

Key Questions

This list of questions is not intended to be exhaustive or restrictive, nor should it be treated as a tick list substituting for detailed consideration of the issues it raises. Rather it is intended to act as a “prompt” to help the Audit Committee ensure that their work is comprehensive.

Strategic processes:

- How is the organisational risk management culture generated and is it appropriate?
- Is there a comprehensive process for identifying and evaluating risk and for deciding what levels of risk are tolerable?
- Is the risk register an appropriate reflection of the risks facing the organisation?
- Is appropriate ownership of risk in place?
- How are these risks being managed?
- What are the areas of greatest risk to the achievement of the committee’s aims and objectives?
- What areas in the internal control system give management the greatest concern and why?
- How does management know how effective internal control is?
- Is risk management carried out in a way that really benefits the organisation or is it treated as a box ticking exercise?
- Is the organisation as a whole aware of the importance of risk management and of the organisation’s risk priorities?
- Does the system of internal control provide indicators of things going wrong?
- How meaningful is the Annual Governance Statement and what evidence underpins it?
- Does the Annual Governance Statement appropriately disclose action to deal with material problems?
- Have the implications of the results of the effectiveness review been discussed at Management Team level?
- Have any major changes been made in internal controls in the past year? Were these made in order to improve existing controls or were they new controls established due to changes in operating systems?
- Are appropriate procedures in place to ensure adequate user involvement in the development of new systems and major system changes, including the design of control checks and balances?
- What were the most significant internal control weaknesses uncovered by internal and external auditors during the period?
- What is the auditors’ view on the balance between the risk of error in the present internal control system and the cost of additional controls?

Planned activity:

- Is the internal audit strategy appropriate for delivery of a positive reasonable assurance on the whole of risk, control and governance?
- Will the periodic audit plan achieve the objectives of the internal audit strategy, and in particular is it adequate to facilitate a positive, reasonable assurance?
- Does internal audit have appropriate resources, including skills, to deliver its objectives?
- Are there any issues arising from management not accepting internal audit recommendations and are agreed internal audit recommendations appropriately actioned?
- What assurance is there about the quality of internal audit’s work?
- Is there appropriate co-operation between the internal and external auditors?

Policies of the organisation:

- Is there an appropriate counter-fraud policy in place and are losses suitably recorded?
- Are suitable processes in place to ensure accurate financial records are kept?
- Does financial control, including the structure of delegations, enable the organisation to achieve its objectives with good value for money?
- Have any cases of fraud or illegal, questionable or unethical activities been uncovered which might affect the accounts or which could cause embarrassment?
- Are issues raised by the external auditors given appropriate attention?

Response to audit activity:

- Are agreed procedures in place for monitoring progress with the implementation of recommendations?
- If management reject audit recommendations, which the auditors stand by, are suitable resolution procedures in place?

Assurances:

- Do the assurances available facilitate the drafting of a meaningful Annual Governance Statement?
- Do those producing the assurances understand fully the scope of the assurance they are being asked to provide and the purpose to which it will be put?
- What mechanisms are in place to ensure the assurances are reliable?
- Are the assurances 'positively' stated (ie – premised on sufficient, relevant evidence to support them)?
- Do the assurances draw out material weaknesses or losses, which should be addressed?

The Audit Committee itself:

- How does the Audit Committee know if it is being effective in achieving its terms of reference and adding value to corporate governance and control systems of the organisation?
- Is the Audit Committee content that it has received sufficient training and has the appropriate skills mix?
- Is the Audit Committee content with its level of understanding of the purpose and work of the organisation?
- Is the Audit Committee content that it has sufficient time to give proper consideration to its business?
- Is the Audit Committee content that it is avoiding any conflict of interest?
- Is there evidence of the Audit Committees advice having an impact on the organisation?

Audit Committee

Terms of Reference

Revised May 2011

Version 1



ASHFORD
BOROUGH COUNCIL

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The quorum for the Committee is 2 Members.

Terms of Reference

Membership 8 Members

The purpose of an Audit 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 (Minute No. 408/12/06 refers).

Audit Activity

1. The Head of Internal Audit's Annual Report and Opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the Council's Corporate Governance arrangements.
2. The summary of internal audit reports issued in the previous period.
3. Reports on the management and performance of the Audit Partnership Agreement.
4. Reports from the Head of Internal Audit on agreed recommendations not implemented within a reasonable timescale.
5. The External Auditor's Annual Management Letter and relevant reports.
6. Any detailed responses to the External Auditor's Annual Letter.
7. Specific reports as agreed with the External Auditor.
8. The scope and depth of external audit work and to ensure it gives value for money.
9. Liaison with the Audit Commission on the appointment of the Council's External Auditor.
10. The commissioning of work from internal and external audit.

Regulatory Framework

11. An overview of the Council's Constitution in respect of Contract Procedure Rules and Financial Regulations.
12. The effective development and operation of financial management, risk management and those elements of corporate governance within the remit of the Audit Committee.
13. Council policies on "raising concerns at work" ie whistle-blowing in the context of the Anti-Fraud and Anti-Corruption Strategy and the Council's complaints process.
14. To recommend the Authority's Annual Governance Statement for approval to the Executive. (Minute No. 531/5/10).
15. The Council's compliance with its own and other published financial standards and controls.

16. The External Auditor's report on issues arising from the Audit of the Accounts.
17. The ability to refer matters to the Overview and Scrutiny Committee for their consideration (Minute No. 62/6/09).

Note: The Overview and Scrutiny Committee has a similar provision to refer matters to the Audit Committee.

Accounts

18. The approval of the Annual Statement of Accounts in line with the statutory requirements including those relating to the publishing deadlines. 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.

**Prepared by: Head of Audit Partnership
Mid Kent Audit**

Corporate Governance

7 June 2011



ASHFORD
BOROUGH COUNCIL

Principles of corporate governance are founded on the following context over the past 20 years:

➤ **'Cadbury Report' - Committee on the Financial Aspects of Corporate Governance, 1992**

Set down arrangements for company boards and accounting systems to mitigate corporate governance risks post Maxwell 1990

➤ **'The Nolan Committee' – The Committee on Standards in Public Life, 1997**

Extended the principles of Cadbury to the public sector following a three year review post the 'cash for questions' scandal

➤ **Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) – 'Delivering good governance in local government', 2007**

Provides a structure to help individual authorities with their own approach to governance

Extracts from our Local Code of Corporate Governance (last revised 2009)

The Principles of Corporate Governance

Ashford Borough Council recognises and embraces the principles of public life as set out by the Committee on Standards and Public Life (The Nolan Committee) in 1995. These are:

Selflessness – holders of public office should take decisions solely in terms of the public interest. They should not do so in order to gain financial or other material benefits for themselves, their family or their friends.

Integrity – holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might influence them in the performance of their official duties.

Objectivity – in carrying out public business, including making public appointments, awarding contracts or recommending individuals for rewards and benefits, holders of public office should make choices on merit.

Accountability – holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.

Openness – holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and actions and restrict information only when the wider public interest clearly demands.

Honesty – holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.

Leadership – holders of public office should promote and support these principles by leadership and example.”

Supporting Objectives

- 1. Focusing on the purpose of the Authority and on outcomes for the community and creating and implementing a vision for the local area*
- 2. Members and officers working together to achieve a common purpose with clearly defined functions and roles*
- 3. Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour*
- 4. Taking informed and transparent decisions which are subject to effective scrutiny and managed risk*
- 5. Developing the capacity and capability of Members and officers to be effective*
- 6. Engaging with local people and other stake holders to ensure robust public accountability*

Making an impact – the effective audit committee

Presentation to Ashford Borough Council



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- Audit Committees – Overview
- Regulatory Requirements & guidance
- What makes a good audit committee
- ...and the not so good
- Future developments
- Some challenges for you
- Options to consider

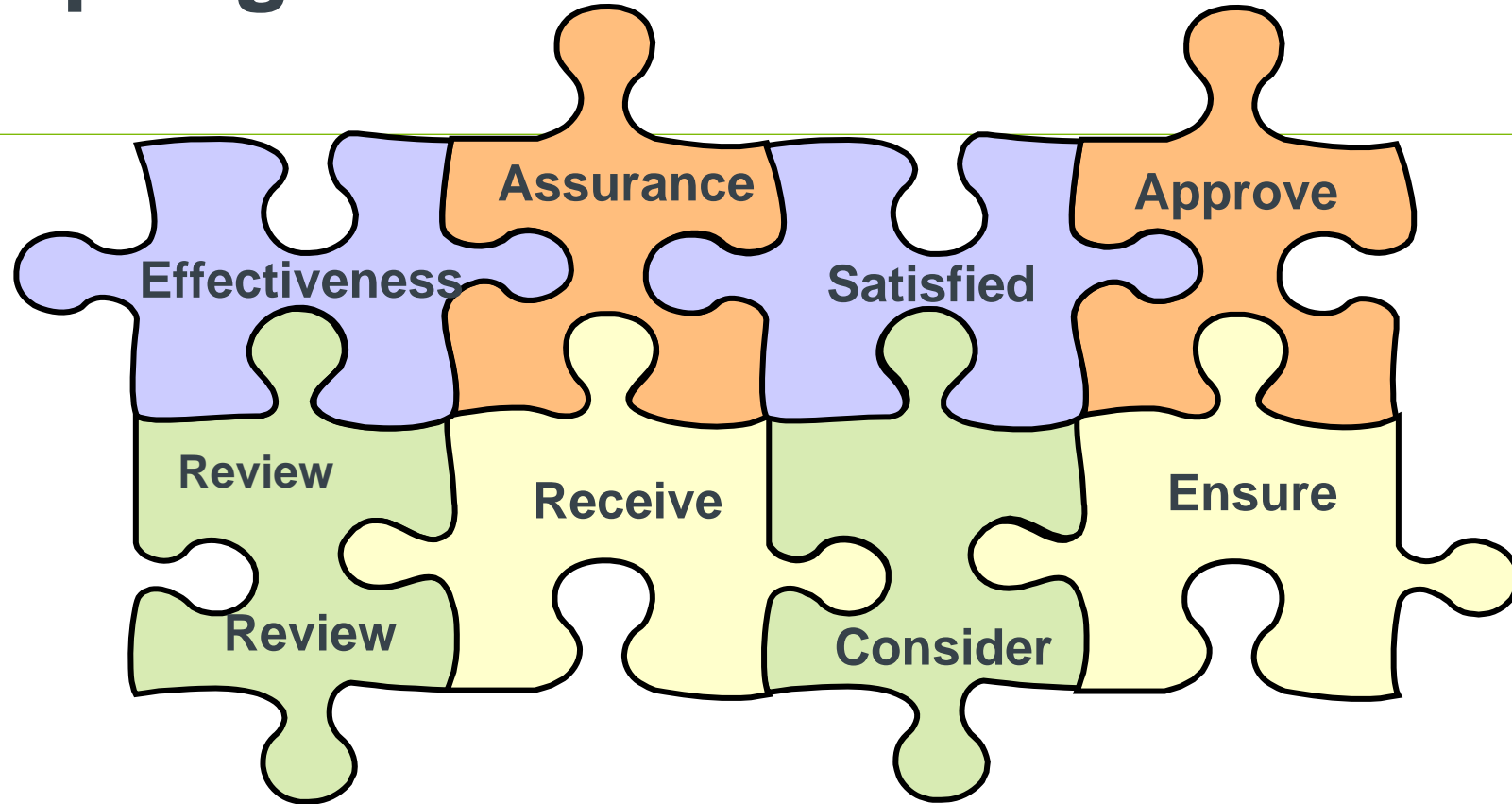
Audit Committees – overview

- A key element of the governance framework
- A source of assurance
- A champion of the audit process
- A “critical friend”

Regulatory requirements/guidance

- Local Government Act 1972
- Accounts and Audit Regulations 2003
- CIPFA Audit Committee Guidance for Local Authorities 2005
- CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006

Cipfa guidance – Core Functions



What makes a good Audit Committee

- Clear terms of reference
- Charged with governance
- A focused work programme
- Appropriate skill sets
- Prepared to challenge
- “Change not blame” – and follow up

What makes a good Audit Committee (2)

- Free and open meetings – no “politicking”
- “The big picture”
- Regular meetings
- Good officer support
- Status with Council & Cabinet
- Support for the auditors (IA & external)
- Self assessment

...And the not so good

- No status in the authority
- No focus – health & safety, scrutiny, risk (low level)
- No governance responsibilities
- Political forum
- “Star chamber”
- No self assessment
- No officer support

Future developments

- In March 2011 the DCLG published a consultation paper on the future of local audit
- The government's aim is to replace the current regime – managed by the Audit Commission – with a decentralised regime
- The Director of Finance is drafting a response on behalf of the Council, to be agreed with Members.

The Impact of the DCLG proposals

Potential changes to Audit Committees

- Independent membership
- Responsible for appointment of auditors
- Separation between scrutiny and sign off of accounts

Likely timetable: Post 2012

Some challenges for you

- Integrating new Members of the committee
- Balance between detail and bigger picture
- Ensuring your work makes impact
- Interplay with the Executive and with Scrutiny
- Maintaining the committee's distinct identify
- CLG requirements re Independent Membership?

Options to consider

- Set objectives
- Responding to peer review
- Annual report

- Questions?

The Future of Local Public Audit

(CLG consultation until end of June)

Summary of main points and our initial response

7 June 2011



ASHFORD
BOROUGH COUNCIL

Background

A CLG consultation, published on 31 March 2011, takes forward the Coalition Government's commitment to abolish the Audit Commission by 2012.

The paper therefore sets out options and preferences for how external audit will be performed, its scope, and its regulation. The paper also sets out proposals for the future of Audit Committees. There are 85 questions in the paper.

Main points

<i>Issue</i>	<i>Proposals or choices where stated</i>	<i>Our initial response</i>
Design principles	Localism, transparency, lower audit fees, high standards of auditing	Agree, but we say some of the proposals fall short of meeting the principles (see below).
Design of external audit code, national regulation and oversight	National Audit Office and the Financial Reporting Council	Agree.
Commissioning	Local authorities, but for small public bodies (e.g. parish councils) county councils (in the case of two tier areas) to commission 'independent examinations' on behalf of parishes etc.	Agree LAs should procure their own external audit (subject to following guidance), agree this can be done jointly with others if felt appropriate, but disagree that county councils should commission IE for parish councils – ABC proposes that this be a District/Borough responsibility carried out in consultation with parishes.
Scope of external audit work	Four options ranging from narrow audit focused on financial statements only to an opinion on financial statements plus regularity/governance, financial resilience and value for money.	Preference for an opinion on the financial statements plus a conclusion on value for money. This mean that other aspects of current external audit work will need to be picked up by the Audit or Overview and Scrutiny Committees (for example financial resilience, risk reviews, regularity and governance audit).

<p>Parish Council audit</p>	<p>Proposes Independent Examination, rather than a full audit. This will be fairly similar to the current 'limited audit' carried out by the Audit Commission.</p> <p>Proposes four levels of IE depending on scale of PC spend/income.</p> <p>Proposes that county councils procure IEs on behalf of PCs.</p> <p>Proposes that IEs may refer PC local elector objections or other matters of material concern to the IE to the county council (its S151 Officer or Audit Committee).</p>	<p>Agree, except we propose that District Internal Audit teams should be allowed to carry out IE for parishes given the worry that PCs have over cost, if handled by a private sector firm.</p> <p>Agree.</p> <p>Disagree, we propose that District and Boroughs should commission in liaison with PCs.</p> <p>Agree, except to use District or Borough S151 Officer or Audit Committee.</p>
<p>Audit committees</p>	<p>Proposes to make Audit Committees a statutory requirement for all councils, with the possible exception of PCs.</p> <p>Proposes that the majority of audit committee members be non-elected representatives.</p> <p>Proposes that the chair and vice chairs of audit committees be held by non-elected representatives.</p>	<p>Agree.</p> <p>Disagree, the case is not well made and the role and track record of local authority audit committees appears not to be taken into account.</p> <p>We propose therefore that elected members should make up the core of an audit committee, but that councils have the statutory option to appoint co-opted non-voting members to bring expertise where needed.</p> <p>Disagree for reasons above.</p>

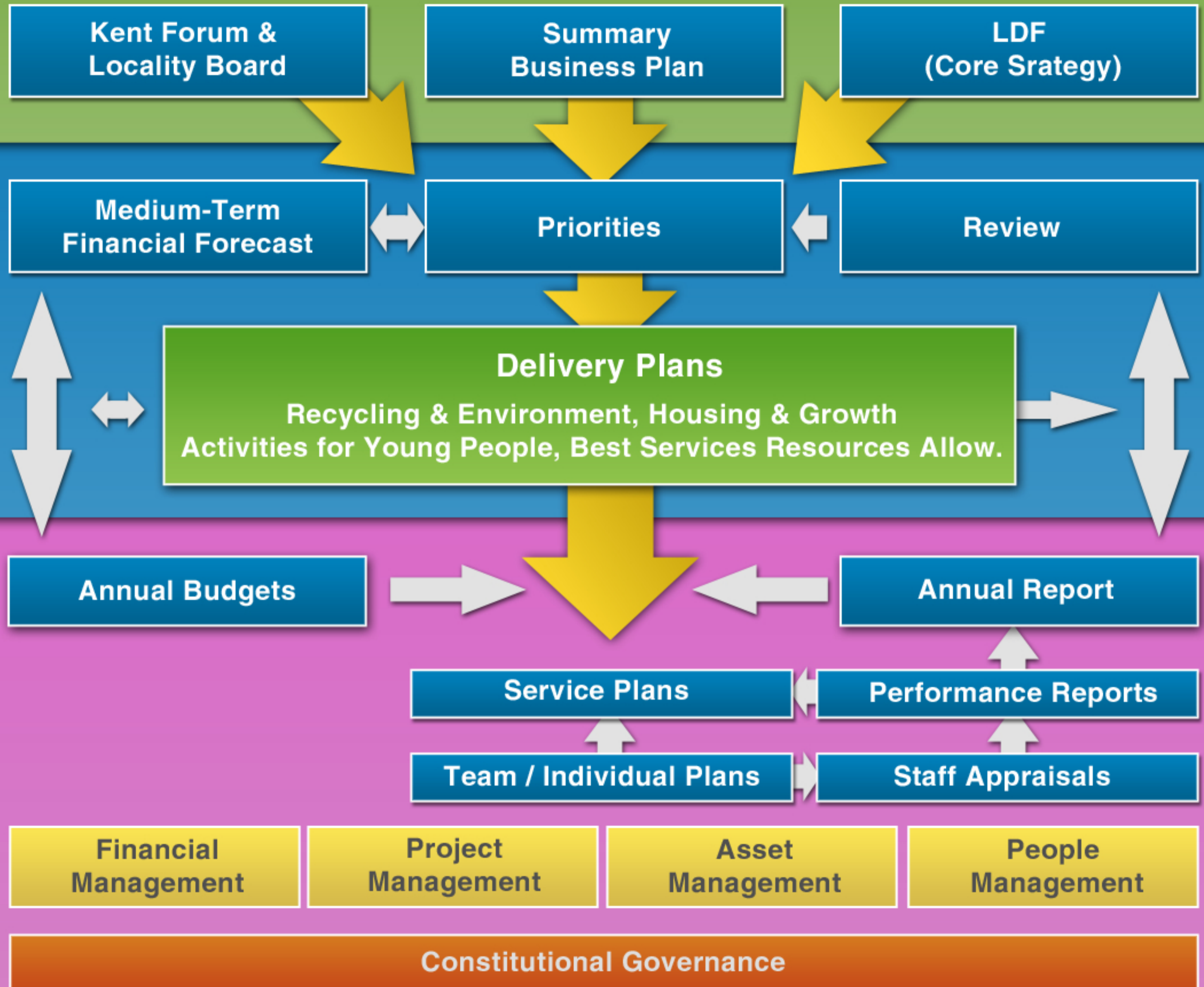
Governance Structure Summary

Long Term
Beyond 3 years

Medium Term
During Three Years

Short Term
Current Year

Communication & Consultation



Decision Making, Scrutiny and Audit

The 'Responsible Finance Officer'

(Chief Financial Officer or the Section 151 Officer)

7 June 2011



ASHFORD
BOROUGH COUNCIL

The statutory framework

<p><i>Section 151 Local Government Act 1972</i></p> <p>Establishes the 'Responsible Financial Officer' as a statutory requirement</p>	<p>'...every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs.'</p>
<p><i>Accounts and Audit Regulations 2003 Reg 5</i></p> <p>Places responsibility for accounting procedures and control systems with the RFO</p>	<p>'...that officer (the RFO) shall determine on behalf of the body, its —</p> <p>(a) accounting records, including the form of accounts and supporting accounting records; and</p> <p>(b) accounting control systems'</p>
<p><i>Accounts and Audit Regulations 2003 Reg 6 (as amended 2011)</i></p> <p>Makes the whole council (i.e. Members) responsible for an adequate internal audit system</p>	<p>'...A relevant body shall undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices'</p>
<p><i>Accounts and Audit Regulations 2003 Reg 4</i></p> <p>Makes the whole council responsible for reviewing the effectiveness of financial management and internal control systems</p>	<p>'...the relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control'</p>

<p>Section 114 Local Government Act 1988</p> <p>Makes the RFO responsible for reporting unlawful expenditure decisions or potential decisions to the whole council</p>	<p>‘...the chief finance officer of a relevant authority shall make a report under this section if it appears ...</p> <ul style="list-style-type: none"> (a) that the authority has made or is about to make a decision which involves or would involve the authority incurring expenditure which is unlawful (b) has taken or is about to take a course of action which, if pursued to its conclusion, would be unlawful and likely to cause a loss or deficiency on the part of the authority, or (c) is about to enter an item of account the entry of which is unlawful.’
<p>Section 25 Local Government Act 2003</p> <p>Makes the RFO responsible for reporting on the robustness of its budget and the adequacy of balances</p>	<p>‘the chief finance officer of the authority must report to it on the following matters:</p> <ul style="list-style-type: none"> (a) the robustness of the estimates made for the purposes of the calculations, and (b) the adequacy of the proposed financial reserves.’

The professional requirements and guidance:

Chartered Institute of Public Finance and Accountancy (CIPFA)

'The role of the chief finance officer in local government' (latest version 2010)

Principle 1 (management team role)	The CFO is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the authority's strategic objectives sustainably and in the public interest.
Principle 2 (influence, and robust balanced assessments)	The CFO in a local authority must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, in alignment with the authority's overall financial strategy.
Principle 3 (stewardship and safeguarding of public funds)	The CFO in a local authority must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently, and effectively.
Principle 4 (an effective finance function)	The CFO in a local authority must lead and direct a finance function that is resourced to be fit for purpose.
Principle 5 (qualified and continuing professional development)	The CFO in a local authority must be professionally qualified and suitably experienced.

The key delivery components

Effective teams	In particular, Finance (Accountancy and Exchequer) and Internal Audit
Effective relationships	Management Team, services, Members, and external partners/stakeholders (including external audit)
Effective systems	The operating processes and systems (including IT) Financial and budgetary procedures Internal control arrangements
Effective governance and scrutiny	The governance framework and audit/scrutiny arrangements
Effective organisational learning and personal commitment to professional development	Ongoing training of finance and audit staff, and staff and managers across services Effective analysis and implementation of externally influenced/forced change Flexibility
Effective problem solving, solution identification, coupled with robust risk management	Analysis, forecasting and foresight Awareness and innovation Strong approach to risk identification and management