

## **Audit and Governance Committee**

Meeting to be held on Monday, 31 July 2017

Electoral Division affected: (All Divisions);
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### **Actions to enhance the committee's effectiveness as an element of the Council's governance framework**

(Appendices 'A', 'B' and 'C' refer).

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#### **Executive Summary**

After 16 years of the Committee's operation and many changes to the Council, a fresh look at the Council's governance framework and this Committee's role within it is appropriate. The Internal Audit Service has recently assessed the Audit and Governance Committee's objectives in the context of the Council's governance framework and current good practice, and some actions could readily be taken to improve the committee's effectiveness within this framework, involving both councillors and officers serving the Committee.

As a first step and before any other action is taken, the Committee's terms of reference should be amended to better reflect its current role.

#### **Recommendation**

The Audit and Governance Committee is recommended to:

- (i) Consider and approve the revised terms of reference, including the proposed change of name to the Audit, Risk and Governance Committee, as set out at Appendix 'A' to this report.
- (ii) Approve further actions for the Council and in support of its own operation as set out in Appendix 'B'.

#### **Background and Advice**

In 2013 The Chartered Institute of Public Finance and Accountancy (CIPFA) issued revised guidance on audit committees in local government. This draws on a body of guidance that was first produced in response to the crises of private sector corporate governance in the 1980s and 1990s and has continued to evolve since then. Codes of corporate governance have consistently addressed the structure and composition of an organisation's governing body, the effectiveness of its oversight of internal

controls and financial reporting, and the importance of both internal and external audit. Good governance is fundamental to the operation of democratic local government, and the wider environment establishing expectations of effective corporate governance as well as CIPFA's latest specific guidance should be recognised.

Modern concepts of risk management have their genesis in the same corporate crises of the 1980s and 1990s and have similarly developed since then, and the oversight of organisations' risk management is increasingly being aligned with the role of audit committees. The Council has recently re-emphasised the importance of risk management and introduced new processes to govern this, including a role for the Audit and Governance Committee.

Legislation places some restrictions on the Council, but there is scope to clarify the committee's role in relation to other committees and elements of the Council's governance framework so that their roles are clearer and relate more coherently to one another, matching rather than overlapping each other. Risk management, treasury management and aspects of performance improvement are obvious areas where the boundaries between the committee's role and others' are unclear and should be clarified.

The Internal Audit Service has set out a framework of the objectives, risks and potential controls relating to an audit committee in local government. Within this framework it has assessed evidence of the committee's operation from its inception in 2001 to date, over the course of the last four political administrations using documentation available from the council's information systems and informed by meetings with members of the committee during 2016/17.

The objectives for the committee are set out below, and the risks and potential controls described by the Internal Audit Service are set out in Appendix 'C' to this report.

CIPFA's guidance includes suggested terms of reference for local authorities from which the committee's current terms of reference differ substantially. These suggested terms have been taken as the basis of revised terms for the committee with amendments to recognise that the Council requires it to undertake roles beyond those normally given to an audit committee, as well as recent changes to the regime appointing the external auditor.

The committee's objectives are taken to be as follows:

- The committee should be part of a wider framework of corporate governance that achieves good governance for the council as a whole.
- The committee's role and responsibilities as part of the council's wider framework of corporate governance should be clear.
- The committee should fulfil its core responsibilities completely and effectively. These are to:
  - Consider the effectiveness of the council's risk management arrangements and its risk profile.

- Assess the adequacy and effectiveness of the council's control environment.
- Assess the framework of assurance that key risks are adequately and effectively controlled.
- Consider the Code of Corporate Governance and propose its approval by the Council.
- Oversee the independence, objectivity, performance and professionalism of the internal auditors' work.
- Support the effectiveness of the internal audit process, and its use in the assurance framework.
- Consider the findings of the review of the effectiveness of the system of internal control.
- Review and approve the annual governance statement, being satisfied that it properly reflects the council's risk environment and actions to improve it.
- Review the significant financial reporting issues and judgements made in the production of the statutory statement of accounts.
- Oversee the work of the external auditors and consider the implications of their reports for governance, risk management and internal control.
- Support the effective relationships between internal and external auditors.
- Ensure that any additional responsibilities delegated to the Audit and Governance Committee in light of the council's framework of corporate governance are completely and effectively fulfilled:
  - Oversee the council's treasury management activities.
  - Oversee the council's counter fraud arrangements.
- Compliance with statutory regulations and professional guidance governing the role of the committee, or valid explanations for non-compliance.

## **Consultations**

The Chair of the Committee, Head of Legal and Democratic Services, Head of Internal Audit and Head of Corporate Finance have been consulted.

## **Implications:**

This item has the following implications, as indicated:

## **Risk management**

This report follows an assessment of the committee's role in managing the risks to the Council's objectives relating to good governance and the actions it sets out are directed to better managing these risks.

There are no financial implications.

The actions proposed have been assessed within the Council's legal framework and accord with good governance.

**Local Government (Access to Information) Act 1985**  
**List of Background Papers**

Paper	Date	Contact/Tel
Audit Committees: Practical Guidance for Local Authorities and Police, Chartered Institute of Public Finance and Accountancy (CIPFA), 2013 edition	2013	Ruth Lowry/(01772) 534898  Paul Bond/(01772) 534676

Reason for inclusion in Part II, if appropriate

N/A