

AUDIT AND GOVERNANCE COMMITTEE

15 February 2010

NORTH EAST PUBLIC SERVICE AUDIT COMMITTEE CHAIRS' FORUM

Report of the Chairman

1. Purpose of Report

- 1.1 The Audit Commission facilitate a forum which allows the Chairs of NHS Audit panels to meet and discuss emerging issues and share experiences. This opportunity was recently offered to Chairs of Audit Committees in Local Government and the first meeting was attended by myself on 20th January 2010. At the forum, the role of Audit Committees was discussed and how this was being fulfilled by each body. Following the event I discussed the differences in approach being adopted by the Audit Committee Chairs at the meeting, with the Director of Financial Resources. He has set out below some context and issues which I thought it might be useful to discuss at this meeting so that we, as a Committee, can consider whether any further developments are desirable within Sunderland.

2. Background

- 2.1 At the forum, the general scope of work undertaken by the Audit Committees was discussed. Whilst the current role of the Audit and Governance Committee in Sunderland is similar to the others in attendance at the forum, the scope of work / reports received is not as broad as in some cases. For example, the Audit Committee at one Authority considers the performance of specific service areas and questions senior service managers as they deem appropriate. It is not known whether this is due to a lesser degree of assurance being received from other sources, e.g. Comprehensive Area Assessment, Annual Audit Letter, the work of the scrutiny function within that Local Authority.
- 2.2 Members will recall that a workshop was held in July 2009 to assess the Committee's remit and the effectiveness with which this remit is being carried out. During the workshop it was recognised that there were some areas for development and the following actions were agreed:
- a. The Terms of Reference to be updated for the opportunity for the head of internal audit and external auditor to meet privately with the Audit and Governance Committee periodically.
 - b. An informal meeting to take place at the end of a committee meeting each year with the head of internal audit and external auditor but no other officers of the Council.

- c. The Terms of Reference to be updated with the requirement for an assessment to be undertaken of the remit and effectiveness of the Committee every three years.
 - d. The Committee to be consulted by the head of internal audit at an early stage in relation to the key issues to be considered as part of preparing the following years Internal Audit Plan.
 - e. Updates to Anti-Fraud and Whistle Blowing policies to be presented to the Committee in future.
 - f. The Committee to be consulted by the Audit Commission at the same time as Internal Audit on their future plans.
 - g. Additional briefings to be arranged to cover topical issues.
 - h. Members to be asked that at the first meeting of each year they be invited to register whether or not they require any further training / refresher sessions to be arranged.
 - i. Officers should consider the format and content of the reports presented to the Committee with the view of making them more focussed and reducing duplication.
 - j. An annual forward plan of reports to be presented and agreed by the Committee.
 - k. An Annual Report be prepared and presented to Cabinet, to report on the work of the Committee.
- 2.3 Members will be aware that recently additional reports / briefings have already been provided on issues such as the Council's vision and priorities and further briefings have been requested on the development of Economic Masterplan.

3. Role of the Audit and Governance Committee – Performance

- 3.1 It is important that the Terms of Reference of the Audit and Governance Committee be considered in the context of the role and work undertaken by other committees of the Council, before considering if there should be any revision. The current Terms of Reference are shown at Appendix 1. It can be seen within the Statement of Purpose that the Committee does have a role in relation to the independent scrutiny of the authority's financial and other performance to the extent that it reflects the authority's exposure to risk and weakens the control environment.
- 3.2 Members will already be aware that assurance in relation to performance is obtained from various sources, including reports from the internal and external auditors, the work of independent inspectorates, and the work of the scrutiny function within the Council. So far as the Audit and Governance

Committee is concerned, the Committee receives a range of reports including the Annual Internal Audit Report, the Annual Audit Letter and the Use of Resources report submitted by the Audit Commission. In addition, the annual review of Corporate Governance draws together information from a wide variety of sources, including other inspectorates, to provide a statement on the overall governance arrangements in place within the Council and the Corporate Risk Profile gives an holistic analysis of major strategic risks facing the Council and sets our actions which are being taken to mitigate and manage these risks to best effect.

- 3.3 In accordance with best practice professional guidance, the Committee has also recently widened its remit to include scrutiny of the Treasury Management strategy and function within the Authority. In addition, the Committee has also considered reports on specific service issues, i.e. Asset Management, where relevant officers have provided updates on progress and answered questions.
- 3.4 Given that the Committee has previously received high levels of assurance in terms of performance through the Comprehensive Performance Assessment and Use of Resources assessment it has not been considered necessary, to date, to receive more detailed reports in this regard.
- 3.5 Care also needs to be exercised with regard to the roles of other Council Committees, Appendix 2 shows an extract of the Terms of Reference of the Overview and Scrutiny Committees with relevant sections underlined. Section 6.03 b) Scrutiny, clearly states the role in relation to reviewing and scrutinising the performance of the executive and the Council. It is important for the Audit and Governance Committee to maintain a clear and distinct remit from that of the Overview and Scrutiny Committees.

4. Proposal

- 4.1 It is considered that the Audit and Governance Committee needs to receive high level assurance in relation to the performance of the Council and to date this has been met through receipt of a range of reports, including the Annual Audit Letter, Annual Review of Corporate Governance and the Use of Resources Assessment. However, it is considered that this should be supplemented by the Committee also receiving the results of the Comprehensive Area Assessment. This will be reported to the next Committee meeting in March 2010. It is suggested that only where there is concern regarding the overall performance management arrangements of the Council should the Committee seek more detailed reports. This will ensure that the role of the Audit and Governance Committee does not conflict / duplicate that of the Overview and Scrutiny Committee who consider specific performance issues at service level.

5. Recommendations

Members are asked to:

- Consider the proposal in this report to receive the Comprehensive Area Assessment results and any other cross council audit or inspection reports, in future.

Terms of Reference – Audit and Governance Committee

Composition

Membership

The Audit and Governance Committee will be composed of 7 Members as follows:

5 elected Members on a political balance basis;
2 Co-opted Members.

There will be no more than one Member of the Cabinet on the Committee.

Chairing the Committee

The Chairman will be one of the Co-opted Members.

Statement of Purpose

The Audit and Governance Committee is a key component in the Council's Corporate Governance Arrangements. Its main objectives are 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 other performance to the extent that it reflects the authority's exposure to risk and weakens the control environment;
- oversee the financial reporting process.

Functions

To carry out the following delegated functions from Council:

- a) to approve the Authority's Statement of Accounts, income and expenditure, and balance sheet or record of receipts and payments (as the case may be).

In relation to the following functions to undertake the assurance and advisory role to:

- b) consider the effectiveness of the authority's corporate governance arrangements, risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements and seek assurance that action is being taken on risk-related issues identified by auditors and inspectors;
- c) be satisfied that the authority's assurance statements, including the Statement on Internal Control, properly reflect the risk environment and any actions required to improve it;
- d) to receive and consider (but not direct) internal audit's strategy, plan and monitor performance;

- e) receive and consider the external audit plan;
- f) review a summary of internal audits, the main issues arising, and seek assurance that action has been taken where necessary;
- g) receive and consider the annual report of internal audit;
- h) consider the reports of external audit and inspection agencies, including the Annual Audit and Inspection Letter;
- i) 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;
- j) review the external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit;
- k) review the adequacy of and compliance with, the Councils Treasury Management Policy;

and make recommendations or comments to Cabinet or Council as appropriate.

Features of the Committee

- a) The Committee will exercise delegated powers from Council in relation to item a) above and in relation to the remaining functions act as an advisory committee.
- b) The Committee will treat the auditors, the executive and management equally.
- c) The Committee can call any officer or agency of the Council as required.
- d) The Committee will meet regularly, at least four times per year.
- e) The Director of Financial Resources, Head of Audit and Procurement and the External Auditor will be regular attendees. Other attendees may include the Chief Solicitor and the Chief Executive. These officers all have access to the Committee, or the Chair, as required.
- f) The Committee members will have the opportunity to meet privately and informally with the Head of Audit and Procurement and the external auditor, at a meeting following a normal Committee meeting, and otherwise as necessary, throughout the year.
- g) The Committee will assess its effectiveness, including its Terms of Reference, every three years.
- h) An Annual Report will be presented to Cabinet regarding the work of the Committee throughout the year.

Extract of the Terms of Reference of Overview and Scrutiny Committees

6.03 Specific functions

a) Policy development and review.

Overview and Scrutiny Committees may:

- i) assist the Council and the executive in the development of its budget and policy framework by in-depth analysis of policy issues including conducting research, community and other consultation in the analysis of policy issues and possible options;
- ii) question members of the executive and/or committees and chief officers or their representatives about their views on issues and proposals affecting the area; and
- iii) liaise with other external organisations operating in the area, whether national, regional or local, to ensure that the interests of local people are enhanced by collaborative working.

b) Scrutiny

Overview and scrutiny committees may:

- i) review and scrutinise the decisions made by and performance of the executive and/or committees and council officers both in relation to individual decisions and over time;
- ii) review and scrutinise the performance of the Council in relation to its policy objectives, performance targets and/or particular service areas;
- i) question members of the executive and/or committees and chief officers about their decisions and performance, whether generally in comparison with service plans and targets over a period of time, or in relation to particular decisions, initiatives or projects;
- i) make recommendations to the executive and/or appropriate committee and/or Council arising from the outcome of the scrutiny process;
- iv) review and scrutinise the performance of other public bodies in the area and invite reports from them by requesting them to address the overview and scrutiny committee and local people about their activities and performance; and
- v) question and gather evidence from any person (with their consent).