

AUDIT AND STANDARDS COMMITTEE

3 April 2019

Title: Review of the Committee's Terms of Reference	
Report of the Director of Law and Governance	
Open Report	For Decision
Wards Affected: None	Key Decision: No
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Accountable Strategic Leadership Director: Fiona Taylor, Director of Law and Governance	
Summary: <p>Following a Member-led Transformation Task Group, the Local Government Association (LGA) Corporate Peer Challenge and the recommendations of the Independent Growth Commission in 2016, a report on a review of Governance arrangements was submitted to the Assembly on 28 February 2018. Amongst the proposals that were agreed by the Assembly was the formation of a new Audit and Standards Committee from May 2018, which would be responsible for the audit functions of the Public Accounts and Audit Select Committee (PAASC) as well as the matters dealt with by the Standards Committee. The scrutiny-related functions of PAASC were to transfer to the new Overview and Scrutiny Committee.</p> <p>Arising from Members' discussions on the Audit and Standards Committee's new terms of reference at the meeting on 26 September 2018, officers were asked to provide a breakdown of the areas of work covered in relation to the current terms of reference. This was sent to Members prior to the meeting on 16 January 2019 and officers were subsequently asked to include the issue on the agenda for this April meeting.</p> <p>Following a review by officers, this report proposes the following main revisions to the Committee's current terms of reference:</p> <ul style="list-style-type: none">a) The transfer of the Performance elements – this information is regularly presented to the Cabinet and the responsibility to scrutinise any matters should fall under the Overview and Scrutiny Committee's remit;b) The revision to the Governance element relating to the Council's Financial Regulations and Rules within the Constitution to clarify that this Committee's remit extends to audit related matters only;c) The deletion of the Governance element relating to "Considering the Council's compliance with its own and other published standards and controls", as the wording is ambiguous and its intended purpose is covered among the Committee's remaining terms of reference;d) The transfer of the Finance elements that relate to financial management – this information is regularly presented to the Cabinet and the responsibility to	

scrutinise any matters should fall under the Overview and Scrutiny Committee's remit;

Attached at Appendix A is a copy of the Committee's terms of reference showing the proposed changes in 'revision mode'.

It is intended that the above revisions would be presented to the Assembly on 15 May 2019 alongside a number of other proposed changes to the Council's Constitution.

Recommendation(s)

The Audit and Standards Committee is asked to:

- (i) Endorse the proposed changes to the Committee's terms of reference as set out in Appendix A to the report; and
- (ii) Note that the proposed changes shall be presented for approval to the Assembly on 15 May 2019.

Reason(s)

To assist the Council in meeting its priority of "a well-run organisation" through improved governance arrangements.

1. Introduction and Background

- 1.1 A "Review of Council Governance Arrangements" report was submitted to and agreed by the Assembly on 28 February 2018. This recommended the creation of an Audit and Standards Committee, to combine the responsibilities of the existing Standards Committee and the audit functions held by the PAASC, to come into effect for the 2018/19 municipal year.
- 1.2 PAASC had previously maintained a scrutiny overview function in addition to its audit responsibilities. The scrutiny functions under PAASC were to transfer to the new Overview and Scrutiny Committee as part of the governance review.
- 1.3 At the meeting on 26 September 2018 and following the comments of the Independent Adviser (Audit), the Committee requested details of the functions the Committee was covering and the reports received in those areas. This information was sent to Members prior to the Committee's meeting on 16 January 2019.
- 1.4 At the meeting on 16 January 2019, the Committee further requested an agenda item for this meeting in order to discuss a review of the terms of reference in greater detail, which is the subject of this report.

2. Proposal and Issues

- 2.1 The primary roles of an Audit Committee relate to internal audit, external audit, governance, risk and risk Management and considering statutory reports such as the Annual Statement of Accounts.

- 2.2 The review of the matters that this Committee has considered since the first meeting in June 2018 show that the Committee is fulfilling all of its relevant responsibilities. The review has, however, highlighted that some elements that should have transferred over to the new Overview and Scrutiny Committee as part of the governance review presented to the Assembly in February 2018 have remained within this Committee's terms of reference. Officers are also of the opinion that one area of responsibility would benefit from clarification and another removed from the Committee's terms of reference, as the wording is ambiguous and the responsibilities are covered elsewhere within the Committee's remit.
- 2.3 Set out below is an explanation of the proposed changes. The document at Appendix A (the Committee's terms of reference in the Council Constitution) shows the proposed changes in 'revision mode'.
- 2.3.1 **Performance (clauses (ix) to (xiii))**
The Cabinet is responsible for monitoring performance across all service areas, either directly itself or through bodies such as the Shareholder Panel (for Council-owned companies), and would be the primary body to consider the findings of reports from inspection agencies etc. The responsibility for scrutinising any areas of concern relating to these issues should fall under the remit of the Overview & Scrutiny Committee.
- 2.3.2 **Governance (clauses (xvii) and (xix))**
Clause (xvii) currently refers to "*maintaining an overview of the Council's Constitution in respect of the Financial Regulations and Rules*". The overall responsibility for the Constitution rests with the Assembly so this wording is slightly misleading. It is proposed, therefore, to tighten the wording so that it is clear that the Audit and Standards Committee must be consulted prior to any changes being proposed to the audit-related functions within the Financial Regulations and Rules (Part 4 Chapter 2 of the Constitution). The revised wording is as follows:
"Considering proposed changes to the Council's Financial Regulations and Rules, as they relate to audit functions."
- Clause (xix) currently refers to "*Considering the Council's compliance with its own and other published standards and controls.*" This wording is quite vague and its intended purpose is covered by the Committee's responsibilities in relation to considering, amongst others, the Annual Statement of Accounts, the Annual Governance Report, the Information Governance Annual Report and the Internal Audit and Corporate Counter Fraud Annual Report.
- 2.3.3 **Governance (clauses (xx) and (xxii))**
Similar to paragraph 2.3.1 above, the clauses "*Considering regular reports concerning the financial management of the Council, including in year expenditure against budgets and use of reserves*" and "*Considering the robustness of the Council's annual budget setting process*" relate to activities under the general remit of the Cabinet. The responsibility for scrutinising any areas of concern relating to these issues should sit within the remit of the Overview & Scrutiny Committee.
- 2.4 The intention is to include the above revisions in a report to the Assembly on 15 May 2019 alongside a number of other proposed changes to the Council's Constitution.

3. Consultation

- 3.1 The proposals in this report have been discussed with relevant officers within the Council's Democratic Services, Legal and Finance services.
- 3.2 The Chair of the Overview and Scrutiny Committee has also been consulted on the associated changes to that Committee's terms of reference.

4. Financial Implications

Implications completed by Katherine Heffernan, Group Manager, Finance

- 4.1 There are no financial implications associated with this report. The costs of running and supporting the committee are funded within existing resources.

5. Legal Implications

Implications completed by Dr Paul Field, Senior Governance Solicitor

- 5.1 Unlike police bodies and combined authorities, there is no statutory requirement for English councils to have an audit committee. However, the position of the Chartered Institute of Public Finance and Accountancy (the professional body for local authority finance), is that an audit committee is required as part of proper arrangements for financial management. In the case of this Council it has determined, as it is so able to do so, to fuse the Audit Function with the Standards Committee function which is also post the Localism Act 2011 not a required statutory requirement, but nevertheless a recommended established local authority committee, by the Committee for Standards in Public life.
- 5.2 The existence and effective functioning of an Audit and Standards Committee is an important signifier of a local authority having established effective checks and balances to ensure sound governance by financial oversight by elected Members so as to provide the full Council with independent assurance on those arrangements (see Local Authority Governance – National Audit Office 2019 (NAO. 2019)).
- 5.3 To be successful in its role the Audit and Standards Committee's terms and reference shall promote and ensure the maintenance of a sound system of financial management and internal control, including risk management, internal audit, and whistleblowing arrangements. Furthermore, there is an emerging view of best practice being is that there should be at least one independent Member of the committee for the purposes of audit (NAO. 2019). In the case of this Committee arrangements have been made to retain an independent advisor.
- 5.4 The NAO pinpoints key success factors for effective audit committees to be able to evidence that they have:
 - A membership that are properly trained to fulfil their role;
 - A membership that are knowledgeable in relation to their role;
 - Engagement with a wide range of leaders and managers in the authority;
 - Engagement with a wide range of leaders and managers in the authority;
 - A strong, independently minded chair who displays a depth of knowledge;

- The audit committee provides sufficient independent assurance to the Council on the robustness of the authority's overall governance arrangements;
- The ability to challenge the Council's executive (Cabinet) and senior managers when required;
- Willingness to make recommendations for the improvement of risk, governance and control;
- A membership that are objective and independent of mind;
- Audit committee recommendations are acted on by the Council.

Public Background Papers Used in the Preparation of the Report: None

List of appendices:

- **Appendix A** - Proposed revised Audit and Standards Committee terms of reference from 2019/20