



## Corporate Governance Committee

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# Agenda

- Role of the Corporate Governance Committee
- Internal Audit
- External Audit
- Compare/Contrast Audit with Scrutiny
- Functions and activities governed by the CG Committee
  - Internal control process
  - Risk management
  - Corporate governance
  - Legal issues
  - Ethics
  - Fraud and Corruption
  - Challenge
  - Watchdog
- Case study

# Role of the Corporate Governance Committee

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- Consider effectiveness of:
  - Risk management arrangements
  - Control environment
  - Anti fraud and anti-corruption arrangements
- Seek assurances that action is being taken on risk related issues including auditors recommendations
- To be satisfied that the assurance statements (including SIC – and for 07/08 the broader “annual governance statement”) properly reflect the risk environment
- Internal Audit (strategy/annual plan, interim reports, annual opinion)
- External Audit (and other review agencies)
- Accounting Policies
- Self Assess its own Effectiveness

# Internal Audit

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- Internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- It works through the Section 151 holder (Chief Executive and Chief Financial Officer) to the Corporate Governance Committee
- **The CG Committee should approve (but not direct) the internal audit strategy and plan and monitor performance**

# External Audit

- To carry out an audit that meets the requirements of the Audit Commission Code of Audit Practice
- Objectives are to review and report on:
  - The audited bodies financial statements and its statement on internal control; and
  - Whether the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources
- **The CG Committee should consider the reports of external audit and inspection agencies**

# Compare/Contrast Audit and Scrutiny

- Audit – An official examination and verification of accounts and records
- Scrutiny – the careful and detailed examination of something in order to obtain information about it

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- The role of the Scrutiny Committee is to review policy and challenge whether the executive has made the right decisions to deliver policy goals.
- The role of the Corporate Governance (Audit) Committee is to provide independent assurance that there are adequate controls in place to mitigate key risks, and to provide assurance that the Council (including the scrutiny function), is operating effectively.

# Internal Control Process

- An internal control process encompasses the policies, processes, tasks, behaviours and other aspects of the Council that, taken together:
  - facilitate its effective and efficient operation by enabling it to respond appropriately to significant operational, financial, compliance and other risks to achieving the Council's objectives. This includes the safeguarding of assets from inappropriate use or from loss and fraud and ensuring that liabilities are identified and managed;
  - help ensure the quality of internal and external reporting. This requires the maintenance of proper records and processes that generate a flow of timely, relevant and reliable information from within and outside the organisation;
  - help ensure compliance with applicable laws and regulations, and also with internal policies with respect to the conduct of business.

## Internal Control Process - continued

- The consequences of poor Internal Control
  - Objectives not met
  - Poor performance and quality
  - Reduced funding
  - Poor reputation
  - Financial loss
  - Unreliable information to monitor performance
  - Loss of confidence of stakeholders (eg Public, Partners, Government etc)
- The Statement on Internal Control reflects the risk environment and any actions required to improve it
- **The CG Committee should therefore consider the effectiveness of the Council's control environment**

# Risk Management

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- Risk
  - The threat that an event or action will adversely affect South Cambridgeshire District Council's ability to achieve its objectives and execute its strategies
  
- Risk Management
  - The systematic, positive identification and treatment of risk which either threatens the Council in any way or causes beneficial opportunities to be missed

# Risk Management – continued 1

- Risk management enables us to:
  - Prioritise – deal with the most important tasks first
  - Recognise factors that could delay, reduce or even stop the achievement of our objectives
  - Evaluate different ways of meeting the objective balancing the possibility of a better result against increased costs (either money or time)
- Risk Registers
- **The CG Committee should therefore consider the effectiveness of the Council’s risk management arrangements**
- **Seek assurances that action is being taken on risk related issues identified by auditors and inspectors**

## Risk Management – continued 2

- Questions you should be asking
  - What are the high risk areas for the Council
  - How are they managed and monitored
  - Have our strategic objectives changed
  - Is the Council facing any new risks
  - Is the ranking of risks in the register still appropriate
  - What risks have been mitigated to the extent that they are no longer key risks
  - Are there changed internal factors eg a recent inspection, which might affect risk.

## Embedding Risk Management – continued 3

- Are all staff aware of the Council's risk management policy?
- Do all departments have their own risk management plan? Is it linked to their operational plan?
- Is risk management part of the planning and decision making process?
- Are risks considered before the Council enter into any new activity
- Have key performance indicators been set for key areas of activity?
- Do reporting mechanisms allow for reporting against these KPIs
- Is innovation encouraged?

# Corporate Governance

- Corporate governance is about: setting and monitoring strategy; holding managers to account; managing risks; seeing that stewardship responsibilities are discharged and generally seeing that viability is ensured for the Council
- It requires independent, effective assurance about the adequacy of financial management and reporting
- Good corporate governance combines the
  - ‘hard’ factors – robust systems and processes;
  - with the ‘softer’ characteristics of effective leadership and high standards of behaviour.
- This in turn involves the elements of:
  - Leadership, Culture, Systems and processes, External focus

# Legal Issues

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- To ensure that the Council's business is conducted in accordance with the law and proper standards; that public money is safeguarded and properly accounted for and used economically, efficiently and effectively

CIPFA

- The relevant body shall conduct a review at least once a year of the effectiveness of its system of internal control and shall include a statement on internal control, prepared in accordance with proper practices, with any statement of accounts it is obliged to publish

Accounts and Audit Regulations

# Ethics

- Public service ethics are a prerequisite to, and underpin, public trust, and are a keystone of good governance.

Organisation for Economic Co-operation and Development

- Selflessness
- Honesty and integrity
- Objectivity
- Accountability
- Openness
- Personal judgement
- Respect for others
- Duty to uphold the law
- Stewardship
- Leadership

# Fraud and Corruption

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- Taking actions to proactively stop fraud occurring in the first place is a far better remedy than merely managing the risk
- Management need to establish and implement effective arrangements
- **The CG Committee should oversee, monitor, support, enable, encourage, evaluate and when necessary enforce effective actions to counter fraud**

# Challenge

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## Effective "Audit" Committees

*help raise the profile of internal control, risk management and financial reporting issues, within an organisation as well as providing a forum for the discussion of issues raised by internal and external auditors*

*CIPFA – Toolkit for Local Authority Audit Committees*

## Ineffective "Audit" Committees

*are talking shops which have no impact on the risk and control issues of the Council. Members have little knowledge of what they should be doing and, as such, they, the review agencies and officers concentrate on minutiae rather than strategic risk*

*Mike Gennard, Head of Internal Audit, Bentley Jennison*

Challenge  
Challenge  
Challenge

# Watchdog

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- To watch carefully – so as to detect illegal or unethical conduct
- An avenue for whistleblowing
- **The CG Committee needs to see the bigger picture of the whole control framework and risk environment of the Council. It should seek from the officers sufficient reporting and evidence to enable it to do this.**

# Case Study 1

## Case Study 1

*Your internal auditors have completed their audit of the Council's payroll system and they reported to management and subsequently the Corporate Governance Committee that in their opinion the current control framework provides inadequate control to provide assurance that the risks are being appropriately managed*

- Are you clear what this means?
- What is the role of the Corporate Governance Committee?

## Case Study 2

### Case Study 2

*A Health & Safety Executive visit criticises the Council's management and assessment process for Health & Safety.*

- Would you currently be informed of this as the Corporate Governance Committee?
- Do you think you should be?
- If so, what is the role of the Corporate Governance Committee?

Thank you

Any questions