

European and External Affairs Committee
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Commonwealth Parliamentary Association - Enhancing Governance

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Enhancing Governance

Paper from the Working Group of the BIMR Region:

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Background and scope

1. As a result of events in Westminster and elsewhere, parliamentary expenditure and governance of parliamentary institutions have come under intense scrutiny in recent months. This constitutional crisis has resulted in a diminution of public confidence of both parliamentarians and the institutions that they serve. As a result, parliamentary bodies have had to take various measures not only to ensure that their “houses” are in order but also to re-establish public confidence. Until such confidence is fully restored, it will be difficult for parliaments to fulfil their basic task of holding government to account.
2. If parliamentary pronouncements on issues of governance and financial management are to be taken seriously and regarded as authoritative, then the arrangements for parliamentary governance and the management of a parliament’s own finances should be – and be seen to be – above reproach.
3. The CPA’s mission is “to promote the advancement of parliamentary democracy by enhancing knowledge and understanding of democratic governance.” The British Isles and Mediterranean Regional Branch therefore believes that the CPA should be seen as an exemplar in terms of its own governance and financial management arrangements.

Governance

4. Corporate governance is the way in which organisations are directed and controlled. It defines the distribution of rights and responsibilities among the different stakeholders and participants in the organisation, determines the rules and procedures for making decisions on corporate affairs including the process through which the organisation’s objectives are set, and provides the means of attaining those objectives and monitoring performance.
5. A sound governance framework will include set out the roles and responsibilities of key players (e.g. the International Executive Committee and CPA senior management), reporting and accountability arrangements (e.g. between the Secretary General, Executive Committee and the General Assembly), ensure that the organisation is appropriately resourced and skilled, and provide for appropriate audit and risk management arrangements. The governance framework would normally be supported by various internal policies and procedures. All individuals concerned with their implementation would have a responsibility for instilling an appropriate culture within the organisation.
6. It is now accepted good practice in both private and public sector organisations to establish an “audit committee” with a wide ranging remit to advise and provide assurance on financial management, corporate governance and risk management. Such a committee is normally purely advisory and has no executive or management functions. In order to ensure that the CPA’s governance arrangements remain fit for modern

times and is seen as 'leading from the front', the BIMR working group argues that the CPA should establish such a committee – to be known as the “Governance and Audit Committee”.

Composition and terms of reference

7. The CPA is a registered with the Charity Commission for England and Wales. Under charity law, the International Executive Committee effectively acts as the trustees and is therefore primarily responsible for the governance of the organisation. The CPA's constitution also establishes and sets out the responsibilities of the various officers (President, Vice-president, Executive Committee Chairperson, Vice-Chairperson and Treasurer) and the Secretary General.
8. There is a Finance Sub-committee of the Executive Committee which is comprised of the Treasurer, Secretary-General and a trustee which is not a member of the Executive Committee, but elected by the Membership at a plenary meeting. This sub-committee has authority “to examine, and report to the Executive Committee on, the financial affairs of the Association”. It has a significant role to play in examining and setting the CPA's budget and we do not propose that its terms should be amended. However, the Finance sub-committee and the Executive Committee more generally, are responsible for taking significant financial and non-financial decisions concerning the running of the organisation. It is therefore difficult to see how the Finance Sub-committee or any other sub-committee of the Executive Committee could take on the role of the providing independent assurance and advice on the CPA's governance and financial management.
9. For the Governance and Audit Committee to operate effectively, it must consist of suitably qualified or experienced independent Members, but also be small enough to be able to operate effectively. We therefore propose that the Committee should consist of five individuals who are not current, or recent Members of the International Executive Committee (within 2 years).
10. The proposed terms of reference for the Committee are annexed to this paper. Its remit would be confined to providing advice and assurance to the Secretary General and the International Executive Committee (plus an annual report to the General Assembly printed in the financial statements) but the scope of its work would cover all issues of governance, risk management, financial management and audit.
11. In providing advice and assurance, the main source of information would come from the work of internal and external auditors – although CPA senior management would also be on hand to provide such information as the Committee might need. It is therefore important that the respective roles of internal and external audit are understood and appreciated.
12. The CPA is required by law to prepare annual financial statements. The external auditors, appointed by the General Assembly, are required to report whether the annual accounts show a true and fair view and have

been properly prepared in accordance with Charity Laws and Regulations. Such an audit is a limited test examination and is not intended to provide any detailed assurance about the financial systems and controls and wider governance arrangements that might be in place. External audit alone is therefore not normally sufficient to enable necessary assurances to be provided to the membership.

13. Internal audit is a comprehensive programme of work covering all aspects of an organisation's activity and is designed to cover all aspects of the organisation's systems including finance and the governance/ risk management framework. These days, an internal audit's work programme would be "risk based" and the frequency of coverage of any part of the organisation will depend upon factors such as materiality and perceived risk. Core financial and other key systems would, however, be audited annually.
14. It is not clear as to the extent of current internal audit activity, if any, within the CPA but, given the proposed terms of reference (see annex), we would expect the Governance and Audit Committee to quickly assess the adequacy of the current audit arrangements once it has been established.
15. It is the view of the working group that the establishment of a Governance and Audit Committee with terms of reference that are along the lines of those annexed to this paper is necessary in order to help the CPA to maintain exemplary governance and financial management arrangements. This proposal is therefore commended to the General Assembly.

DRAFT TERMS OF REFERENCE FOR THE COMMONWEALTH PARLIAMENTARY ASSOCIATION'S GOVERNANCE AND AUDIT COMMITTEE

The General Assembly has established a Governance and Audit Committee to support the International Executive Committee and the Secretary General in their responsibilities for issues of risk control and governance by reviewing the comprehensiveness of assurances in meeting their assurance needs and reviewing the reliability and integrity of these assurances.

MEMBERSHIP

The Governance and Audit Committee (the "Committee") will consist of five Members chosen by the regions on a rotating basis. Members may not also be Members of the International Executive Committee, or have been within the last two years. Only one member can be appointed per region. No country shall send a Regional Representative and an Audit Committee member at the same time.

The CPA Secretariat will provide the secretariat for the Committee.

REPORTING

The Committee will formally report in writing to the International Executive Committee and the Secretary General after each meeting.

The Committee will provide the General Assembly with an Annual Report, summarising its conclusions from the work it has done during the year.

RESPONSIBILITIES

The Committee will advise the International Executive Committee and the Secretary General on:

- the strategic processes for risk, control and governance and the Statement on Internal Control to be included as part of the annual accounts;
- the accounting policies, the financial statements, and the annual report of the organisation, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter of representation to the external auditors;
- the planned activity and results of both internal and external audit;
- the adequacy of management response to issues identified by audit activity, including external audit's management letter;
- assurances relating to the corporate governance requirements for the organisation;
- proposals for tendering for either Internal or External Audit services or for purchase of non-audit services from contractors who provide audit services;
- anti-fraud policies, whistle-blowing processes, and arrangements for special investigations.
- advice and independent assurance on remuneration of senior staff members

The Committee will also periodically review its own effectiveness and report the results of that review to the International Executive Committee.

The Committee is purely advisory and has no executive or management functions.

RIGHTS

The Committee may:

- co-opt additional members for a period not exceeding a year to provide specialist skills, knowledge and experience;
- procure specialist ad-hoc advice at the expense of the organisation, subject to budgets agreed by the Secretary General.

ACCESS

All staff, as well as representatives of Internal Audit and External Audit will have free and confidential access to the Chair of the Committee.

MEETINGS

The Committee will meet at least four times a year, either physically or by teleconference. The Chair of the Committee may convene additional meetings, if deemed necessary.

A minimum of 3 members of the Committee will be present for a meeting to be deemed quorate.

The Committee meetings may request the attendance of the Secretary General, the Treasurer, the Director of Finance, and representatives of Internal and External Audit for all or parts of the meeting.

The Committee may ask any other officials to attend to assist it with its discussions on any particular matter.

The International Executive Committee or the Secretary General may ask the Committee to convene further meetings to discuss particular issues on which they want the Committee's advice. However, the Committee shall be responsible for determining its own work schedule.