

## APPENDIX 1

This Report will be made public on 26 November 2019



Report Number **AuG/19/14**

**To: AUDIT AND GOVERNANCE COMMITTEE**

**Date: 4 December 2019**

**Status: Non – executive decision**

**Responsible Officer: Tim Madden Corporate Director for Customer, Support, and Specialist Services**

**SUBJECT: CIPFA'S PRACTICAL GUIDANCE FOR LOCAL AUTHORITIES AND POLICE, 2018 EDITION**

**SUMMARY:** CIPFA'S practical guidance for local authorities and police, 2018 edition is set out. Certain actions are recommended and members' instructions are sought on the possibility of appointing an independent member to the committee.

### **RECOMMENDATIONS:**

- 1. To receive and note report AuG/19/14**
- 2. To consider the self – assessment -appendix 2**
- 3. To consider whether to recommend to Council the appointment of an independent member to the committee**
- 4. If the committee does make a recommendation to Council to appoint an independent member and that recommendation is accepted to authorise the Corporate Director in consultation with the chairman of the Audit and Governance Committee to draw up a person specification and to advertise the position.**

## 1. BACKGROUND

- 1.1 CIPFA's Publication - Practical Guidance for Local Authorities and Police, 2018 Edition sets out its guidance on the function and operation of audit committees in local authorities and police bodies and represents CIPFA's view of best practice for audit committees in local authorities throughout the UK and for police audit committees in England and Wales. This publication incorporates CIPFA's Position Statement: Audit Committees in Local Authorities and Police (2018) ("the position Statement" – attached at Appendix) which sets out CIPFA's view of the role and functions of an audit committee and replaces the previous 2013 Position Statement.
- 1.2 Audit committees are a key component of an authority's governance framework and provide an independent and high level resource to support good governance and strong public financial management.
- 1.3 The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. By overseeing internal and external audit, it makes an important contribution to ensuring that effective assurance arrangements are in place.
- 1.4 As a key component of an organisation's governance arrangements, the audit committee has the potential to be a valuable resource to the whole authority. Where they operate effectively, audit committees can add value by supporting improvement across a range of objectives including:
  - a. promoting the principle of good governance and their application to decision making;
  - b. raising awareness of the need for sound internal control as well as contributing to the development of an effective control environment;
  - c. supporting the establishment of arrangements for the governance and the management of risk;
  - d. advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively;
  - e. reinforcing the objectivity, importance and independence of internal audit and external audit and therefore the effectiveness of the audit functions;
  - f. supporting the development of robust arrangements for ensuring value for money; and
  - g. helping the authority to implement the values of ethical governance including effective arrangements for countering risks of fraud and corruption

## **2. KEY CHANGES IN THE PRACTICAL GUIDANCE**

- 2.1 As stated above the last edition of the guidance was published in 2013. The revised and updated 2018 edition takes into account the development of audit committees since the original edition as well as incorporating the legislative changes that have affected the sector since 2013. It includes additional guidance and resources to support those acting as audit committee members in local authorities and those working with and supporting the committee's development.
- 2.2 The key changes contained within CIPFA's latest guidance relate to the following areas:
- a. inclusion of an independent member on the Committee;
  - b. additional guidance on how the Committee can oversee independence, objectivity and performance of Internal Audit and support the effectiveness of the internal audit process;
  - c. additional guidance on how the committee can support independence of the external auditor and monitor the external audit process.
- 2.3 CIPFA's latest guidance has also made some additions to the suggested terms of reference for Audit Committees. These relate to the role of the Committee in relation to:
- a. reviewing the governance and assurance arrangements for significant partnerships or collaborations;
  - b. considering any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the Head of Internal Audit and to approve and periodically review safeguards to limit such impairments;
  - c. providing free and unfettered access to the Audit Committee chair for the Head of Internal Audit, including the opportunity for a private meeting with the Committee;
  - d. supporting the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by Public Sector Audit Appointments (PSAA) and;
  - e. publishing an annual report on the work of the Committee.

### **3. SELF-ASSESSMENT OF GOOD PRACTICE & EVALUATION OF THE EFFECTIVENESS OF THE AUDIT COMMITTEE**

- 3.1 CIPFA states that a good standard of performance against recommended practice together with a knowledgeable and experienced membership are essential requirements for delivering effectiveness. To this effect, CIPFA has provided a high level review checklist that incorporates the key principles set out in CIPFA's Position Statement: Audit Committees in Local Authorities and Police. The latest guidance includes some additional good practice questions to the previous CIPFA checklist (2013 edition). This checklist can be used to undertake a regular self-assessment to support the planning of Audit Committee work programmes and training plans. This self – assessment checklist is contained in appendix D of the guidance.
- 3.2 A self – assessment against the checklist is appended (2) together with a list of proposed actions for members' approval. Members' views are however sought on the question of whether or not to recommend the appointment of an independent member to the committee.

### **4. POSSIBLE APPOINTMENT OF INDEPENDENT MEMBER**

- 4.1 The guidance in chapter 7 recommends that “those authorities, for whom it is not a requirement, actively explore the appointment of an independent member to the committee.”
- 4.2 An independent member would not be able to vote on matters where the committee makes a decision but will where it makes recommendations. Consequently where a recommendation is being made to council then the independent member would have a vote. This would include also non – audit functions e.g. some standards matters and as presently constituted recommendations on the Council's constitution.
- 4.3 The guidance has this to say about independent members:-

Good practice shows that co-option of independent members is beneficial to the audit committee. It is a requirement for police audit committees, English combined authorities and for local authorities in Wales, and it is usual practice for non-executives to be committee members in health and central government audit committees. The injection of an external view can often bring a new approach to committee discussions. Authorities that have chosen to recruit independent members have done so for a number of reasons:

- to bring additional knowledge and expertise to the committee
- to reinforce the political neutrality and independence of the committee
- to maintain continuity of committee membership where membership is affected by the electoral cycle.

There are some potential pitfalls to the use of independent members which should also be borne in mind:

- over-reliance on the independent members by other committee members can lead to a lack of engagement across the full committee

- lack of organisational knowledge or 'context' among the independent members when considering risk registers or audit reports
- effort is required from both independent members and officers/staff to establish an effective working relationship and establish appropriate protocols for briefings and access to information

4.4 Members are asked to decide whether they wish to recommend that an independent member is appointed to the committee. If the committee does decide to make such a recommendation and if the Council accepts it, delegated authority is sought for the Corporate Director for Customer, Support, and Specialist Services in consultation with the chairman to draw up a person specification and to advertise the position. It is envisaged that the appointment would be until the end of the current council (i.e. May 2023).

## **5. RISK MANAGEMENT ISSUES**

5.1 There are no significant risk management issues to consider as part of this report other than those identified within the report.

## **6. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS**

### **6.1 Legal Officer's Comments (AK)**

The general power in section 102 of the Local Government Act 1972 to appoint a Committee includes the power to appoint persons to that committee who are not members of the Council. However, by virtue of section 13 of the Local Government and Housing Act 1989 co-opted members are treated as non-voting members unless the committee is acting in an advisory capacity.

### **6.2 Finance Officer's Comments (TM)**

There are no immediate financial implications arising out of this report. However, if an independent member is appointed, an allowance will need to be paid

### **6.3 Diversities and Equalities Implications (TM)**

There are no implications arising out of this report.

## **7. CONTACT OFFICERS AND BACKGROUND DOCUMENTS**

Councillors with any questions arising out of this report should contact the following officer prior to the meeting

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The following background documents have been relied upon in the preparation of this report:

CIPFA's Practical Guidance for Local Authorities and Police 2018 Edition

**Appendices:**

Appendix 1: CIPFA's Position Statement: Audit Committees in Local Authorities and Police

Appendix 2 Self-assessment of Good Practice

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