

# Establishment of an Audit Committee

Report of the Democracy & Governance Portfolio Holder

## Recommended:

1. That an Audit Committee comprising six members be established with effect from 18 May 2022.
2. That the terms of reference for the Audit Committee, as set out in Annex 1 to the report, be approved.
3. That appointments to the Audit Committee be confirmed at the Annual Council meeting on 18 May 2022.
4. That the Scheme of Members' Allowances be amended to include payment of Special Responsibility Allowances to the Chair and Vice-Chair of the Committee as set out at Paragraph 8 of this report.
5. That the dates and times of the meetings for the Audit Committee, as set out in Annex 3 to the report, be approved.

## SUMMARY:

- The report considers whether changes should be made to the Council's governance arrangements in light of a recent report from its external auditor.

## 1 Introduction

- 1.1 This report is presented to Council for consideration of whether it is appropriate to make changes to the Council's governance and reporting arrangements, specifically with regard to the appropriateness of establishing an Audit Committee.

## 2 Background

- 2.1 In recent years, there have been a number of high profile failures of local authorities. These have highlighted the need for ensuring strong internal governance arrangements are in place to prevent similar occurrences from happening in other Councils. It is timely for the Council to consider its own arrangements and decide whether there is an opportunity to strengthen them.
- 2.2 The Council's current governance arrangements relating to audit are split between two committees. The General Purposes Committee is responsible for approving the annual accounts and the Audit Panel of the Overview & Scrutiny Committee is responsible for oversight and delivery of the internal audit plan and monitoring performance of the internal and external auditors. In addition, risk management is currently reviewed separately by the Overview & Scrutiny Committee.

- 2.3 The current arrangements have been in place since 2011. A stand-alone Audit Committee was established in November 2009 and had its first meeting in March 2010. The Committee operated throughout 2010 and early 2011 but following a self-assessment in 2011, a resolution was passed giving responsibility for the Audit Committee function to a Panel of OSCOM and to revert to the previous arrangement of obtaining approval for the Council's Statement of Accounts from the General Purposes Committee.

#### Government Review into the Oversight of Local Audit

- 2.4 In September 2020, the government published a report by Sir Tony Redmond that considered the effectiveness of local audit and its ability to demonstrate accountability for audit performance to the public.
- 2.5 The report was wide-ranging, focusing on a number of areas including; procurement of audit services and audit performance; governance arrangements; financial resilience; and financial reporting.
- 2.6 The report identifies that the majority of Councils have a single Audit Committee that is responsible for all the governance arrangements described above. This ensures consistency, independence and that Members on the Committee can all have the necessary training needed.
- 2.7 The report also highlights that approximately 40% of audit committees include an independent member. This is something the Council may wish to consider for added independence (if a suitably qualified practitioner could be appointed) but is not a requirement and is not recommended at this time. This may be something that the Audit Committee wishes to consider after the new arrangements have become established.

#### Auditor's Recommendation

- 2.8 Ernst & Young have recently concluded the audit of the Council's 2020/21 financial statements. In giving their opinion, they are also required to review the arrangements the Council has for effectiveness in its use of resources and for ensuring the internal control environment is efficient.
- 2.9 They have identified one area which has led to the following recommendation being made in their Auditor's Annual Report, which is copied below.

#### Establishment of an Audit Committee reporting to Council

There needs to be more clarity between the role of the Audit Panel (which takes responsibility for audit and risk management issues and monitoring the progress and performance of both Internal and External Audit) and that of the Council's General Purposes Committee who are, "Those Charged with Governance" and the designated Committee of the Council to approve the Council's Annual Financial Statements. We recommended the establishment of a separate Audit Committee, with a terms of reference and a work programme in line with CIPFA good practice that meets in public each quarter and has publicly available minutes (which the Audit Panel currently does not).

This takes into account the expected direction of travel highlighted in the independent Redmond review on the “*Oversight of Local Audit and the Transparency of Local Authority Financial Reporting.*”

- 2.10 The above recommendation, coupled with the Redmond Review and publicity surrounding the financial health and governance of local authorities across the country has led to this report being prepared for Members’ consideration.

#### CIPFA Position Statement

- 2.11 The Chartered Institute of Public Finance Accountancy (CIPFA) has published a Position Statement on Audit Committees in Local Authorities along with practical guidance notes.

- 2.12 Some of the key principles of the position statement are summarised below:

- Audit Committees are a key component of an authority’s governance framework.
- Overseeing both internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.
- Audit Committees should be independent of the scrutiny function and be directly accountable to the authority’s governing body (full Council).

- 2.13 The detailed guidance also sets out the intrinsic relationship between risk management and the focus of the Audit Committee on governance. Understanding the management of risk is a fundamental part of the Council’s Annual Governance Statement and in determining how to prioritise internal audit resources in their annual plan.

- 2.14 Monitoring the effectiveness of risk management arrangements and a role in embedding good practice will help to support Members’ understanding in their role on the Audit Committee and embed good practice.

### **3 Consultation / Communications**

- 3.1 In preparing this report, benchmarking with other local authorities in Hampshire and our CIPFA comparable authorities has been undertaken.

- 3.2 The results of this show that almost all Councils have in place an Audit Committee structure similar to the one being proposed. Only one Council does not have a comparable Audit Committee arrangement.

- 3.3 The size of Audit Committee membership (in the Council’s neighbouring district authorities) ranges from 6 to 11 Members, with an average of 8. Meeting frequency ranges from 3 to 10 times per year with a tendency towards quarterly meetings. The majority of authorities that were compared do not have an independent member on their Audit Committee.

- 3.4 This report considers the establishment of an Audit Committee comprising six Members. The Council’s previous Audit Committee also comprised this number of Members.

## **4 Corporate Objectives and Priorities**

- 4.1 Strong and effective internal governance arrangements are critical to ensuring that the Council is able to continue delivering essential public-facing services and providing community leadership.

## **5 Options**

- 5.1 There are many ways that the Council could establish its audit and governance committee structure.

- 5.2 This report considers two options, which are:

- Option 1 – retaining the current reporting arrangements
- Option 2 – establishing an Audit Committee (recommended)

## **6 Option Appraisal**

### Option 1 – retaining the current reporting arrangements

- 6.1 The existing structure has been in place for approximately ten years, throughout which time the Council has been able to fully discharge its responsibilities for preparing and approving the annual statement of accounts; internal audit plan; and all other matters within the remit of the Audit Panel.
- 6.2 However, there are clear splits in responsibilities between the different committees that cannot be avoided. This is, perhaps, most notable in the role that the Audit Panel has for receiving updates on the external audit plan and audit progress reports, with the ultimate responsibility for approving the statement of accounts being with General Purposes Committee who only receive reports from the auditor at the time the accounts are presented for approval.
- 6.3 Whilst this structure has been effective for the Council, it is not in accordance with CIPFA's position statement for Audit Committees in local authorities, nor the recommendation of external auditors Ernst & Young.

### Option 2 – establishing an Audit Committee (recommended)

- 6.4 A proposed Terms of Reference for the Audit Committee is shown in Annex 1 to the report. It brings together the main responsibilities of the Committee in a format more aligned to the CIPFA guidance on Audit Committees.
- 6.5 This option also takes into account the recommendation that has been made by Ernst & Young.
- 6.6 With a number of high-profile failures of Councils across the country in recent years and the findings of the independent Redmond Review, it is quite possible that the government will require changes to audit and governance arrangements in Councils over the coming years. Taking the opportunity to begin this process now will enable the Council to gain valuable experience ahead of future changes being required.

## **7 Risk Management**

- 7.1 An evaluation of the risks indicate that the existing controls in place mean that no significant risks have been identified at this time.
- 7.2 It is considered that the recommended option will strengthen the Council's overall approach to risk management by bringing together the responsibility for risk management within the overall framework for the ongoing review of internal controls.

## **8 Resource Implications**

- 8.1 The recommended option does create a small budget pressure as a result of the introduction of Special Responsibility Allowances (SRA) for the Chairman and Vice-Chairman of the Audit Committee.
- 8.2 The SRA recommended by the Independent Review Panel (Annex 2) is that the Chairman receive an SRA of 33% of the Basic Allowance of £7,390 and the Vice-Chairman received 20% of the Chairman's SRA.
- 8.3 The net additional cost of the SRAs is £2,930 per annum. This sum can be contained within existing budgets.
- 8.4 Operation of these allowances can be reviewed as part of the next full Members' Allowances review in 2024, prior to the next scheme taking effect in 2025.

## **9 Legal Implications**

- 9.1 Legislation requires a Council to make a Scheme for payment of allowances to members and to have regard to the recommendations of an Independent Remuneration Panel before making or amending Scheme. The Independent Remuneration Panel has been consulted and their report is set out at Annex 2.

## **10 Equality Issues**

- 10.1 No equality issues were identified in the preparation of this report.

## **11 Conclusion and reasons for recommendation**

- 11.1 The report has been prepared pursuant to advice received from the Council's external auditors which identified an opportunity for the Council to strengthen its arrangements for internal governance and reporting.
- 11.2 The recommendations in this report are in line with that advice and CIPFA's position statement on Audit Committees in Local Authorities.

Background Papers (Local Government Act 1972 Section 100D)

[Redmond Review.pdf \(publishing.service.gov.uk\)](#)

CIPFA Position Statement on Audit Committees in Local Authorities & guidance notes

Confidentiality

It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.

No of Annexes:	3	File Ref:	N/A
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(Portfolio: Democracy & Governance) Councillor I Jeffrey

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Report to:	Council	Date:	6 April 2022
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