

Appendices:
**1. CIPFA Audit
Committee Self-
Assessment
Questionnaire**



AUDIT COMMITTEE REPORT

Report Title	Proposal to Recruit an Independent Audit Committee Chair & Audit Committee Self-Assessment Questionnaire
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AGENDA STATUS: PUBLIC

Audit Committee Meeting Date:	3 rd July 2017
Policy Document:	The Governance Action Plan
Directorate:	Borough Secretary and Monitoring Officer
Accountable Cabinet Member:	Cllr Brandon Eldred - Finance

1. Purpose

- 1.1 The purpose of this report is to seek Audit Committee's views on the appointment of an independent chair of Audit Committee and to recommend that Audit Committee make a recommendation to Full Council.
- 1.2 The Committee is also invited to review and comment as appropriate on the CIPFA produced 'Self-assessment of Good Practice' questionnaire for Audit Committees which will allow it to assess the effectiveness of the Audit Committee and identify whether there are any further actions that could be taken to strengthen the Committee's overall effectiveness.

2. Recommendations

It is recommended that:-

- 2.1 Audit Committee make a recommendation to Full Council that the composition of the Audit Committee is altered to provide that the Chair of Audit Committee will be an independent, non-voting, co-opted member and will be in addition to seven elected Members, and that the necessary amendments are made to the Council's Constitution.
- 2.2 The Committee considers and comments on the CIPFA Self-assessment of Good Practice questionnaire for Audit Committees at Appendix 1 and identifies whether there is any further work or actions required as a result of its consideration.

3. Issues and Choices

3.1 Report Background

Proposal to have an Independent Chair of Audit Committee

- 3.1.1 The Audit Committee is responsible for considering and monitoring processes for risk, control and governance as set out in further detail in Article 9 of the Council's Constitution. The purpose of the Audit Committee is to provide independent assurance and to support strong financial management and good governance.
- 3.1.2 In order to strengthen its overall governance framework and to address recommendations following an internal audit review, the Council is currently implementing a Governance Action Plan, as detailed in a report to this Committee on 5th December 2016.
- 3.1.3 As reported to Audit Committee on 5th December 2016, one of the keys to the success of the Governance Action Plan has been identified as "*enhancements to the role of the Audit Committee in overseeing compliance with policies, procedures and agreed audit recommendations within the Council*". As part of this, it is necessary to first consider the composition of the Audit Committee, to ensure that it is well equipped to perform its current role and any enhancements to it.
- 3.1.4 Article 9 of the Constitution sets out the composition of the Audit Committee:
- "The Audit Committee will be composed of seven Councillors, excluding members of the Cabinet.*
- The Committee shall have delegated powers to appoint co-opted members, without voting rights but with expertise in relevant areas".*
- 3.1.5 Currently therefore, the Committee is made up of a Chair who is a Councillor and six other Councillor members. [There are no co-opted (as opposed to elected) members on the Committee at present].
- 3.1.6 It is proposed that the Chair of Audit Committee should be an independent co-optee, (rather than an elected member of the Council) and that Full Council should be recommended to approve this change to the Committee's composition. The independent co-opted Chair would be in addition to seven elected Members (and any other non-voting co-opted Members with expertise in relevant areas appointed by the Committee under delegated powers).
- 3.1.7 [There are no statutory requirements that determine the composition of the Council's Audit Committee] meaning it would be permissible to have an independent co-opted Chair.
- 3.1.8 The Chartered Institute of Public Finance and Accountancy (CIPFA) has set out its view of best practice for Audit Committees in local authorities in a publication entitled, '*Audit Committees, Practical Guidance for Local Authorities and Police – 2013 Edition*' (the 'CIPFA Guidance').

3.1.9 CIPFA notes that co-option of independent members may be beneficial to an Audit Committee. CIPFA has identified some of the reasons that local authorities have chosen to recruit independent members, including:

- To bring additional knowledge and expertise to the Committee.
- To reinforce the political neutrality and independence of the Committee.

3.1.10 The CIPFA guidance also outlines some potential pitfalls to the use of independent members, including:

- Over-reliance on independent members by other committee members can lead to a lack of engagement across the full Committee.
- Lack of organisation knowledge or 'context' among independent members when considering risk registers or audit reports.

3.1.11 In relation specifically to Chairs of Audit Committees, the CIPFA guidance states that one characteristic of a good Audit Committee is, "*a strong, independently minded chair – displaying a depth of knowledge, skills and interest*".

3.1.12 The CIPFA guidance also makes it clear that a key feature of a successful committee will be a strong chair displaying a depth of skills and interest. They suggest that the specific characteristics required of an effective audit committee chair will include:-

- ability to plan the work of the committee over the year and beyond
- skills of managing meetings
- ability to bring an objective, apolitical attitude
- core knowledge and skills required of audit committee members
- a clear focus on the role of the committee and an ambition to lead the committee in line with good governance principles
- a focus on improvement and securing agreement on actions.

3.1.13 It should be noted that there is no statutory requirement or recommendation within the CIPFA Guidance that Chairs of Audit Committees should be independent co-optees.

CIPFA Self-assessment of Good Practice questionnaire for Audit Committees

3.1.14 The CIPFA Guidance also includes a suggested self-assessment questionnaire which sets out CIPFA's key principles of recommended practice. Authorities are encouraged to use the checklist as a starting point and as an indicator of whether they are meeting recommended practice and also of the Committee's effectiveness. Following use of the questionnaire, any changes or improvements that may be needed can identified within the overall objective of enhancing the Committee's performance.

3.1.15 The CIPFA Guidance explains that when an audit committee has a high degree of performance against the good practice principles, it is an indicator that the Committee is soundly based with a knowledgeable membership.

3.1.16 Completion of the self-assessment can also offer a number of other benefits. It can for example be used to support the planning of the Committee's annual work programme and to identify any training needs of Members and develop related training plans to meet these needs.

3.2 Choices (Options)

Recommendation One

3.2.1 Option 1 (Recommended)

Audit Committee make a recommendation to Full Council that the composition of the Audit Committee is altered to provide that the Chair of Audit Committee will be an independent, non-voting, co-opted member, and that the necessary amendments are made to the Council's Constitution.

3.2.2 Option 2

Conclude that the composition of the Audit Committee should remain as it currently is, and not therefore make any recommendation to Full Council.

3.2.3 Option 3

Propose an alternative Audit Committee composition to Full Council.

Recommendation Two

3.2.4 Option 1 (Recommended)

Further action occurs on the CIPFA Self-assessment of Good Practice questionnaire for Audit Committees including further consideration or potentially undertaking the questionnaire.

Option 2

3.3.5 No further action occurs on the CIPFA Self-assessment of Good Practice questionnaire for Audit Committees

4. Implications (including financial implications)

4.1 Policy

4.1.1 The report does not have any policy implications.

4.2 Resources and Risk

4.2.1 There will be some costs incurred in recruiting an independent Chair with suitable skills and expertise (if changes to the Constitution are agreed by Full Council).

4.2.2 [The Chair of Audit Committee receives a Special Responsibility Allowance pursuant to the current Scheme for Members' Allowances. The Council's Independent Remuneration Panel have been asked to consider the payment and amount of an allowance for a co-opted Chair of Audit Committee, and make recommendations, which would need to be considered by Full Council in due course].

4.2.3 As indicated above a potential risk could be an over-reliance on an independent members by other committee members which could lead to a lack of engagement across the full Committee. Another potential risk is a lack of organisation knowledge or 'context'

on the part of an independent member when considering risk registers or audit reports. However with the provision of relevant and targeted induction and training, these risks can be reduced and mitigated.

4.3 Legal

4.3.1 The Audit Committee is an ordinary committee of the Council. As such, the requirement in section 15 of the Local Government and Housing Act 1989 to maintain political balance on the Committee applies. This requirement would still apply if the Chair of the Committee was a co-opted, non-voting independent member. If the number of elected members on the Committee remains the same as it currently is, political balance will not be affected by the addition of an independent Chair.

4.3.2 Section 13 of the Local Government and Housing Act 1989 provides that subject to a number of exceptions, (which do not apply in the circumstances), a co-opted member of a Committee shall for all purposes be treated as a non-voting member of that Committee. Therefore, if Full Council agreed to a requirement for Audit Committee to have a co-opted independent Chair, that Chair would not be able to vote.

4.4 Equality

4.4.1 There are no equality and health implications arising directly from this report. Any future process to recruit an independent Chair for Audit Committee would need to have due regard to equality considerations.

4.5 Consultees (Internal and External)

4.5.1 To date no one has been consulted, either internally or externally, other than the Committee themselves via this report.

4.6 Other Implications

4.6.1 None.

5. Background Papers

5.1 *Audit Committees, Practical Guidance for Local Authorities and Police, 2013 Edition, CIPFA, Chartered Institute of Public Finance & Accountancy.*

Francis Fernandes
Borough Secretary and Monitoring Officer

CIPFA Audit Committee Self-Assessment Questionnaire - Appendix 1

	GOOD PRACTICE QUESTIONS	YES	NO	PARTLY
	Audit Committee purpose and governance			
1	Does the authority have a dedicated audit committee?			
2	Does the audit committee report directly to full council? (Applicable to local government only.)			
3	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?			
4	Is this role and purpose of the audit committee understood and accepted across the authority?			
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?			
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?			
	Functions of the Committee			
7	Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?			
	<ul style="list-style-type: none"> • Good governance 			
	<ul style="list-style-type: none"> • Assurance framework 			
	<ul style="list-style-type: none"> • Internal audit 			
	<ul style="list-style-type: none"> • External audit 			
	<ul style="list-style-type: none"> • Financial reporting 			
	<ul style="list-style-type: none"> • Risk management 			
	<ul style="list-style-type: none"> • Value for money or best value 			
	<ul style="list-style-type: none"> • Counter-fraud and corruption 			

CIPFA Audit Committee Self-Assessment Questionnaire - Appendix 1

	GOOD PRACTICE QUESTIONS	YES	NO	PARTLY
8	Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?			
9	Has the audit committee considered the wider area identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?			
10	Where coverage of core areas has been found to be limited, are plans in place to address this?			
11	Has the committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its core purpose?			
Membership and Support				
12	Has an effective audit committee structure and composition of the committee been selected? This should include			
	<ul style="list-style-type: none"> • Separation from the executive 			
	<ul style="list-style-type: none"> • An appropriate mix of knowledge and skills among the membership 			
	<ul style="list-style-type: none"> • A size of committee that is not unwieldy 			
	<ul style="list-style-type: none"> • Where independent members are used, that they have been appointed using an appropriate process. 			
13	Does the chair of the committee have appropriate knowledge and skills?			
14	Are arrangements in place to support the committee with briefings and training?			
15	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?			
16	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?			

CIPFA Audit Committee Self-Assessment Questionnaire - Appendix 1

	GOOD PRACTICE QUESTIONS	YES	NO	PARTLY
17	Is adequate secretariat and administrative support to the committee provided?			
Effectiveness of the committee				
18	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work			
19	Has the committee evaluated whether and how it is adding value to the organisation?			
20	Does the committee have an action plan to improve any areas of weakness?			