

By: Robert Patterson – Head of Internal Audit

To: Governance and Audit Committee – 23rd January 2019

Subject: **‘FUTURE PROOFING’ THE STRUCTURE AND WORKINGS OF THE GOVERNANCE AND AUDIT COMMITTEE**

Classification: Unrestricted

Summary: This report summarises potential changes to the structure and workings of the Governance and Audit Committee to conform to recommended best practice.

Recommendation: FOR DECISION

Introduction

1. Before the start of the October Committee the Head of Internal Audit gave a presentation on the further development of the effectiveness of the Governance and Audit Committee and highlighted several areas where the Committee could consider improvements in line with recommended good practice. The Committee requested a formal report back and recommendations on the options.

Proposals

2. In 2018 CIPFA updated its Position Statement on Audit Committees and therefore it is sensible to compare how we compare with this and recommended good practice. In addition there have been other sector developments such as associated governance issues arising from the recent Northamptonshire inspectors report.
3. In summary the proposed changes can be divided between technical changes and wider ranging structural and procedural ones. If approved they will need appropriate amendments to the terms of reference and constitution of the Committee.

Technical Changes

- **Specific Recommendation to approve the Annual Governance Statement (AGS)**
4. An AGS is required by law and reports publicly on the effectiveness of governance and control. It should be reviewed for its accuracy before being signed by the Leader and Head of Paid service. This review should be undertaken by the G&A Committee. In reviewing the AGS the Committee should be satisfied that :
 - a) It properly reflects the risk environment and agreed actions to mitigate against risks
 - b) The statement demonstrate how governance supports the Council's objectives
 - c) The statement is supported by a sound assurance framework

- d) The statement correlates with the opinion of the Heads of Internal Audit and External Audit
5. Within the G&A papers the AGS sits with the annual report and accounts and there is a general recommendation each year to approve them. However, there is currently no specific recommendation relating to reviewing or approving AGS. Whilst the Committee has the opportunity to consider the AGS as part of the general recommendation, a specific recommendation is considered best practice.

- **Constructing an Annual Report to Full Council**

6. It is normal good practice that an Audit Committee should provide an annual report on its activities to Full Council outlining the activities undertaken by the Committee during the year and the outcomes / assurances received. In KCC's case this has grown in importance since the formal reporting of G&A minutes to Council ceased. As such there is now no formal reporting of G&A activities to full Council. A similar situation was highlighted in the recent inspector's report of Northamptonshire CC where Members outside their audit committee were considered to be unaware of the concerns and activities of that Committee. Construction of an Annual Report would address this issue and be in line with good practice.

Structural and Procedural Changes

- **Management Representation at Audit Committee**

7. Although there is challenge to management at forums such as CMT and Corporate Board when internal audit outcomes are discussed, currently there is no formal arrangement requiring management representation at the G&A Committee, in particular when considering internal audit reports with "limited" or "no" assurance. This can therefore result in a lack of transparency in relation to management actions and also limits the Committee's ability to hear directly from those accountable for agreeing and implementing management actions.
8. The introduction of management attending G&A to provide a greater level of transparency and scrutiny is considered good practice and could be implemented from the new municipal year.

- **Appointment of an Independent Member**

9. Another area cited as CIPFA recommended good practice for public sector audit committees is to consider the appointment of an independent member. From our surveys approximately a third of Council's now have independent members on their audit committees. The advantages of having an independent member on the Committee are considered to be:
- a) Greater levels of apolitical independence
 - b) Bridging certain skills gaps and expertise
10. An example person specification from another authority is attached in Appendix A.
11. If the principle of an independent member is agreed, further work would be undertaken in conjunction with the Monitoring Officer to establish an effective proposed recruitment and selection process, clearly setting out their role and remit and the period of their term. The outcome of the work undertaken would be presented to the next Committee for formal consideration and approval.

Annual confidential meetings with the Heads of Internal and External Audit

12. In line with good practice the Head of Internal Audit has direct and unfettered access to both the Chair and Vice Chair and the Committee more generally. The HoIA can and does provide independent and off the record briefings. There is the option to consider a more informal confidential meeting with the Committee on an annual basis. This approach is more common in the private and third sector rather than the public sector as they do not have the additional safeguards in place in the public sector, such as the statutory officer roles.
13. If the Committee would like to consider an annual confidential meeting, further work will be undertaken to establish more fully what the benefits are, and these would be presented to the next committee for formal consideration and approval.

Summary

14. The proposals set out in this report are intended to further improve the G&A Committee's role and remit in line with recommended best practice. Some of the proposals are technical in nature and could be agreed and implemented without requiring further work. The proposals relating to the appointment of an independent member and an annual confidential meeting will require further work which will be brought back to the next meeting..

Recommendations

15. Members are asked to agree the following:
- a) The introduction of a specific recommendation to approve the AGS
 - b) The introduction of an annual report from the G&A Committee to full Council
 - c) The introduction of management representation at G&A Committee to respond to "limited" or "no" assurance reports and areas of material concern or poor performance
 - d) For further work to be undertaken to establish the benefit of:
 - i) the appointment of an independent member
 - ii) the introduction of an annual, informal, confidential meeting with the Head of Internal Audit and External Auditors
16. If recommendations (a) to (c) are approved the Committee Terms of Reference and the Constitution will need to be revised.

Appendices

Appendix 1 – Person specification for independent audit committee Member

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Appendix 1

Independent Audit Committee Member

Background

xxxxxx Council operates an Audit Committee that is accountable directly to Council, whose role is to:

- provide the Council with independent:
 - assurance of the adequacy of the risk management framework and the internal control environment
 - review of its governance, risk management and control frameworks.
- oversee:
 - the financial reporting and annual governance processes
 - internal audit and external audit, helping to ensure effective relationships exist and efficient and effective assurance arrangements are in place.

The full Terms of Reference for the Audit Committee is attached at Appendix 1.

It operates in compliance with the Chartered Institutes of Public Finance and Accountancy's (CIPFA) good practice guidance "Audit Committees, Practical Guidance for Local Authorities and Police, 2013 Edition.

Duties and Responsibilities / Time Commitment

To attend Audit Committee meetings as and when required. The Committee normally meets four times a year, on a Wednesday, in the evening starting at 6.30 pm, in March, June, September and January. Meetings last between 2 to 3 hours and you would also need to allow for some preparation time.

To attend training events as required which are also usually held in the evening and last approx. 2 hours.

To contribute to the annual performance assessment of the Audit Committee should this be undertaken, which would also last approx. 2 hours.

To actively promote good governance, risk management and control in the delivery of the Council's functions.

To be an independent source of support for Council Audit Committee members regarding how it should operate, what its remit covers and what supportive challenge should be provided in response to reports presented to it.

Knowledge and Skills

The ideal candidate for the position of Independent Member of the Audit Committee will have:

- extensive experience of working with or being a member of an Audit Committee
- a financial or audit type background and appropriate experience of financial management
- a good understanding of governance, risk management and control
- integrity, objectivity, discretion and the ability to make decisions
- an ability to analyse complex information, question, probe and seek clarification so to come to an independent and unbiased view

- experience of working in or with large, complex organisations with an understanding of the political environment that local authorities operate within
- good interpersonal and communication skills.

You should not:

- have been a member or employee of the Council at any time during the last 5 years
- be a relative or close friend of a member or officer of the Council
- be engaged in any party political activity
- have any criminal convictions or be an un-discharged bankrupt
- have any significant business dealings with the Council.

Remuneration

This is a voluntary position.

The Independent Members Allowance is £1,084 per annum.