

County Council - Thursday 12 October 2023

Reports from the Audit and Standards Committee:

- a. Potential Appointment of Independent Members to the Audit and Standards Committee
- b. Review of the Audit and Standards Committee Terms of Reference

Recommendations

- a. That section 11, Paragraph 25.1 of the Constitution be updated to show the membership of the Audit and Standards Committee to include one non-voting, co-opted independent member;
- b. That the 'Governance and decision making' section of the attached revised Terms of Reference include under the remit for a five-member Panel;

'to carry out the recruitment process and make recommendations to Council on the appointment of a non-voting, co-opted Independent member of the Audit and Standards Committee.'

- c. That the proposed revised terms of reference, updated to provide for point (ii) above be approved.

Report of the Audit and Standards Committee

Report

1. At its meeting on 19 September 2023, the Audit and Standards Committee approved the two attached reports relating to:
 - a. The Proposed Appointment of a Non-Voting, co-opted Independent Member to the Audit and Standards Committee
 - b. Proposed revised Terms of Reference for the Committee,
2. Both reports aimed to comply with recently published Guidance by CIPFA on the Effectiveness of Audit and Standards Committees and are now referred to Full Council for approval and authority to make the necessary changes to the Constitution.
3. If Council is minded to approve the reports, the following recommendations apply:

- a. That section 11, Paragraph 25.1 of the Constitution be updated to show the membership of the Audit and Standards Committee to include one non-voting, co-opted independent member;
- b. That the 'Governance and decision making' section of the attached revised Terms of Reference include under the remit for a five-member Panel;
'to carry out the recruitment process and make recommendations to Council on the appointment of a non-voting, co-opted Independent member of the Audit and Standards Committee.'
- c. That the proposed revised terms of reference, updated to provide for point (ii) above be approved.

List of Background Documents/Appendices:

Appendix 1 – Audit and Standards Committee Report – Potential Appointment of Independent Members to the Audit and Standards Committee

Appendix 2 – Audit and Standards Committee Report – Review of Audit and Standards Committee Terms of Reference

Contact Details

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Local Members Interest
N/A

Audit and Standards Committee - Tuesday 19 September 2023

Potential Appointment of Independent Members to the Audit and Standards Committee

Recommendation(s)

I recommend that:

- a. To consider the option of appointing co-opted Independent Members to serve on the Audit & Standards Committee in line with guidance produced by CIPFA within its 2022 'Position Statement: Audit Committees in Local Authorities and Police'.
- b. If Members wish to explore this option further, to request the preparation of the associated recruitment documentation, for their review and approval.

Report of the Director of Finance

Report

Background

1. In October 2022 CIPFA published its updated 'Practical Guidance for Local Authorities and Police'. This set out its guidance on the function and operation of audit committees in local authorities and police bodies and represented 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 incorporated CIPFA's Position Statement: Audit Committees in Local Authorities and Police (2022) ("the position Statement") which set out CIPFA's view of the role and functions of an audit committee and replaced the previous 2018 Position Statement.
2. The revised and updated 2022 edition expanded on its 2018 guidance which considered the inclusion of an independent member on the Audit Committee. The membership and effectiveness of the Audit Committee section has been updated in the 2022 guidance, to consider the appointment of additional co-opted independent members which is an important step in ensuring that the Audit Committee can undertake its work effectively. CIPFA also states that the appointment of co-opted

independent members on the committee should consider the overall knowledge and expertise of the existing members. The objective of including such members is to increase the knowledge and expertise base of the committee, reinforcing its independence.

3. In order to confirm what the role of the co-opted independent member of the committee should be CIPFA has provided the following guidance. 'The role description for a co-opted independent member should be the same as for an elected representative who is a committee member. The only substantial difference will be that a co-opted member cannot vote on council policy, so will not be able to take part in the decision, though they can contribute to the discussion prior to the formal decision.'
4. Research has been carried out to ascertain the extent of Independent Members being appointed to Audit Committees within Local Government, based on information shared via the Society of County Treasurers. From the 28 responses collected, 57% had already appointed at least 1 independent member. A further 21.5% were actively looking into recruiting a member/ had been out to source an individual but had been unsuccessful and considering next steps. The final 21.5% did not report any activity regarding independent members.
5. Previous work was undertaken in 2020 to establish the skills/attributes required of an Independent Member contained in person specifications, the following generic criteria were customary present in the recruitment information reviewed and are still considered to be relevant in light of the 2022 revised guidance i.e.:
 - a). Experience
 - Membership or involvement in any organisational environment where decisions are taken in meetings
 - A good understanding of finance and of the concepts of internal control, corporate governance, risk management and performance management
 - b). Qualifications
 - Over 18 years of age
 - Lives or works within the area of the Council
 - c). Disqualifications
 - A person may not be an Independent Member of the Audit Committee for the following reasons
 - Employment by or Membership of X Council in the last 5 years or current employment by or membership of any local authority
 - Any bankrupt or person who has made a composition or arrangement with creditors which is extant

- Having, within 5 years of the appointment, a conviction for an offence resulting in a sentence of imprisonment (whether or not suspended) or a period of not less than 3 months without the option of a fine.
- A disqualification for being elected or being a member of an authority under the Representation of the Peoples Act 1983 (corrupt electoral practices) or under the Audit Commission Act 1998 (unlawful local authority expenditure)
- Being a relative or close friend of a member or officer of X Council

d). Skills, Knowledge, Abilities and Personal Qualities

- A person who is an active and respected member of the community
- A person with knowledge of Local Government
- A person willing to serve the public interest and the local community
- A person who can demonstrate honesty and integrity which has never been impugned
- A person with the ability to look at issues objectively and make decisions on their merit
- A person who can put aside all political affiliations when making decisions
- A person who understands the concept of accountability
- A person willing to give reasons for decisions or actions taken in a spirit of openness whilst respecting issues of confidentiality
- A person who can take account of the views of others, work with others but is able to reach their own conclusions on issues before them
- A person who can show respect for others including a commitment to equal opportunities and the impartiality and integrity required of Council Officers
- A person who can demonstrate an understanding of the duty to uphold the law and trust placed on them

e). Other Requirements

- An ability and commitment to attend X formal meetings a year, plus ad-hoc sessions and training events

6. With regard to payment for undertaking the role, typically it was an unpaid role or one which attracted a small sum. Potential benefits have been identified as 'bringing an alternative and helpful perspective to the work of the Audit Committee'.

7. CIPFA's 2022 guidance also highlighted some potential pitfalls to the use of independent members that should also be borne in mind.

- Over-reliance on the independent members by other committee members in local authorities can lead to a lack of engagement across the full committee.
- A lack of organisational knowledge or context among the independent members when considering risk registers or audit reports.
- Both independent members and officers must try to establish an effective working relationship and appropriate protocols for briefings and access to information.

These factors should be considered when developing the committee structure and plans put in place to provide an appropriate level of support to the audit committee member.

8. Following the Review of the Effectiveness of the Audit & Standards Committee workshop event in May 2023, it was considered that Members re consider the option of recruiting/co-opting a suitably qualified independent individual onto the Committee. This report has set out the benefits and potential pitfalls of the process to support Members in determining the way forward on this matter.

Equalities Implications

There are no direct implications arising from this report

Legal Implications

Whilst there are no direct implications arising from this report, the Accounts and Audit Regulations specifically require that a relevant body must “maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices”

Resource and Value for Money Implications

The net budget of the Internal Audit Section is £1,027,510.

Risk Implications

Whilst there are no direct risk implications arising from this report, the Audit & Standards Committee objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. Where relevant, the results of individual reviews will link into the County Councils Annual Governance Statement, providing assurance on the operation of key controls.

Climate Change Implications

There are no direct climate change implications arising from this report.

List of Background Documents/Appendices:

- CIPFA – Practical Guidance for Local Authorities and Police 2022 Edition.
- Potential Appointment of Independent Members to Audit Committees – January 2020
- Review of the Review of the Effectiveness of the Audit & Standards Committee Report – September 2023
- Review of the Audit & Standards Committee Terms of Reference Report – September 2023

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Audit and Standards Committee – Tuesday 19 September 2023

Review of Audit & Standards Committee Terms of Reference

Recommendation(s)

I recommend that:

- a. To consider the proposed revisions to the terms of reference for the Audit & Standards Committee following publication of CIPFA's latest guidance - Practical Guidance for Local Authorities and Police 2022 Edition.
- b. To refer the finally agreed Terms of Reference to full Council for approval and inclusion in the County Council's Constitution.

Local Member Interest:

N/A

Report of the Director of Finance

Report

Background

1. CIPFA's Publication - Practical Guidance for Local Authorities and Police 2022 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. Suggested terms of reference for Audit Committees are also included within the guidance.
2. Details of the key changes contained in the 2022 guidance were presented to the Audit & Standards Committee at the March 2023 meeting. One area that was identified as an action point related to reviewing the current terms of reference against the exemplar ones contained in the guidance. Overall, the current terms of reference were comprehensive. Several additional areas contained in the 2022 suggested terms of reference covering the following areas are recommended for inclusion: -

- a) To consider whether the annual evaluation for the AGS fairly concludes that governance arrangements are fit for purpose, supporting achievement of the Authority's objectives.
 - b) To consider reports on the effectiveness of financial management arrangements, including compliance with CIPFA's Financial Management Code
 - c) To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resources limitations.
 - d) To provide free and unfettered access to the Audit and Standards committee chair for the External Auditors, including the opportunity for a private meeting with the committee.
 - e) Specifically in relation to the Statement of Accounts, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.
3. As part of the review, it was identified that a number of areas within the suggested terms of reference had not been previously included in the current version but have been undertaken for several years by the Committee as best practice. These are as follows:
- a) The Committee has oversight of both internal and external audit, together with the financial and governance reports, helping to ensure there are adequate arrangements in place for both internal challenge and public accountability.
 - b) Receiving an annual risk based internal audit plan from the Head of Internal Audit, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
 - c) To approve significant interim changes to the risk based internal audit plan and resource requirements.
 - d) Monitoring the response to major findings and the implementation of key recommendations including issues of concern and action in hand as a result of internal audit work.
 - e) The statement of the level of conformance with the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN). Areas of non-compliance will be outlined; any significant aspects will be incorporated into the annual governance statement where applicable.
 - f) To report to full council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its performance

4. The current terms of reference also included those functions which came under the remit of the former Standards Committee. The opportunity was also taken as part of the review exercise to consider those functions and to revise the terms of reference for the 'Standards' functions being undertaken by the Committee.
5. The proposed revised terms of reference for the Audit and Standards Committee are attached as **Appendix A** to the report. All proposed key changes are highlighted within the revised document. For ease of reference, yellow depicts new additions, and green for those new suggested functions that are already undertaken by the Committee but had not been included in the current terms of reference.

Equalities Implications

6. There are no direct implications arising from this report.

Legal Implications

7. Whilst there are no direct implications arising from this report, the Accounts and Audit Regulations specifically require that a relevant body must "maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with the proper internal audit practices"

Resource and Value for Money Implications

8. The net budget of the Internal Audit Section is £1,027,510.

Risk Implications

9. Whilst there are no direct risk implications arising from this report, the Audit & Standards Committee objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. Where relevant, the results of individual reviews will link into the County Councils Annual Governance Statement, providing assurance on the operation of key controls.

Climate Change Implications

10. There are no direct climate change implications arising from this report.

List of Background Documents/Appendices:

- CIPFA – Practical Guidance for Local Authorities and Police 2022 Edition.
- Review of the Effectiveness of the Audit & Standards Committee – 21 March 2023. Presentation.

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Appendix A

Proposed Revised Terms of Reference for the Audit & Standards Committee

3. Audit and Standards Committee

3.1 The purpose of our audit and standards committee is to provide independent assurance on the adequacy of the risk management framework and the internal control environment. It provides independent review of Staffordshire County Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. The Committee has oversight of both internal and external audit, together with the financial and governance reports, helping to ensure there are adequate arrangements in place for both internal challenge and public accountability. It also oversees the Council's democratic processes and the content and application of the Code of Conduct for Councillors and Co-opted members.

Commented [AL(1)]: Function already undertaken by the Committee but not included in the current Terms of Reference

3.2 The Audit and Standards Committee has the following functions and responsibilities: -

Audit Matters

Governance, Risk and Control

- To approve, monitor, review and amend from time to time the Council's corporate governance arrangements against the good governance framework including the ethical framework to ensure that it is adequate and effective including approval of the local code of corporate governance.
- To review the Annual Governance Statement (AGS) prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.
- To consider whether the annual evaluation for the AGS fairly concludes that governance arrangements are fit for purpose, supporting achievement of the Authority's objectives.
- To monitor the adequacy and effectiveness of the Authority's risk management processes and to: -
 - Approve the Risk Management Policy Statement and monitor its implementation
 - Approve the content of the Corporate Risk Register and proposed Risk Mitigation Action Plan and monitor its implementation

Commented [AL(2)]: New addition to the Terms of Reference

- To consider the Authority's framework of assurance and ensure that it adequately addresses the risks and priorities of the Authority.
- To consider reports on the effectiveness of financial management arrangements, including compliance with CIPFA's Financial Management Code
- To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- To monitor the Counter Fraud Strategy, actions and resources and review the assessment of fraud risks and potential harm to the Authority from fraud and corruption.
- To consider the Authority's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- To consider the governance and assurance arrangements for significant partnerships and/or collaborations, where required to do so in delivering the Internal Audit Plan.

Commented [AL(3)]: New addition to the Terms of Reference

Internal Audit

- To work with and advise the Director of Finance in ensuring arrangements for the provision of an adequate and effective Internal Audit.
- To monitor the adequacy and effectiveness of the Internal Audit service and Chief Officers' responsibilities for ensuring an adequate control environment including: -
 - approving the Internal Audit Charter
 - Receiving an annual risk based internal audit plan from the Head of Internal Audit, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
 - Monitoring progress against the plan through the receipt of periodic progress performance reports.
 - To approve significant interim changes to the risk based internal audit plan and resource requirements.
 - Receiving and considering major Internal Audit findings and recommendations.
 - Monitoring the response to major findings and the implementation of key recommendations including issues of concern and action in hand as a result of internal audit work.
 - Considering the Head of Internal Audit's annual Internal Audit report including: -

Commented [AL(4)]: Function already undertaken by the Committee but not included in the current Terms of Reference

Commented [AL(5)]: Function already undertaken by the Committee but not included in the current Terms of Reference

Commented [AL(6)]: Function already undertaken by the Committee but not included in the current Terms of Reference

- The statement of the level of conformance with the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN). Areas of non-compliance will be outlined; any significant aspects will be incorporated into the annual governance statement where applicable. The results of the Quality Assurance and Improvement Programme (QAIP) that support the statement contained in the annual report- these will indicate the reliability of the conclusions of internal audit.
 - The effectiveness of Internal Audit to support the AGS.
 - The opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the committee in reviewing the AGS.
- To contribute to the QAIP and in particular, the periodic external quality assessment of Internal Audit.
 - To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the Head of Internal Audit. To approve and periodically review safeguards to limit such impairments.
 - To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resources limitations.
 - To review any issue referred to it by the chief executive or a director, or any council body.
 - To provide free and unfettered access to the Audit and Standards Committee Chair for the Head of Internal Audit, including the opportunity for a private meeting with the Committee.

External Audit

- To determine the procurement process to be taken by Staffordshire County Council for the appointment of external Auditors either via means of an auditor panel or through Public Sector Audit Appointments (PSAA) and to express an opinion on their selection and rotation.
- To monitor the independence, adequacy and effectiveness of the External Audit service and respond to its findings. This will include :-
 - o Discussing the nature and scope of the audit of Staffordshire County Council services and functions, and considering the external audit fee and terms of engagement;

Commented [AL(7)]: Function already undertaken by the Committee but not included in the current Terms of Reference

Commented [AL(8)]: New addition to the Terms of Reference

- o Receiving and considering the external auditor's annual letter, relevant reports and the report to those charged with governance and advising the Council as appropriate;
- o Commenting on the scope and depth of external audit work and to ensure it gives value for money.
- o Monitoring the County Council's response to the external auditor's findings and the implementation of external audit recommendations.
- To support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by PSAA or the auditor panel, as appropriate.
- To provide free and unfettered access to the Audit and Standards committee chair for the External Auditors, including the opportunity for a private meeting with the committee.

Commented [AL(9)]: New addition to the Terms of Reference

Financial Reporting

- To approve authority's statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.
- To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

Commented [AL(10)]: New addition to the Terms of Reference

Accountability Arrangements

- To report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements, and internal and external audit functions, where required.
- To report to full council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its performance.

Commented [AL(11)]: Function already undertaken by the Committee but not included in the current Terms of Reference

Standards Matters

Standards

- To make recommendations to full Council on the Code of Conduct (including associated Protocols) for Councillors and Co-opted members and to monitor its application and effectiveness including overseeing training for Councillors and Co-opted members.
- To oversee the Register of Members' Interests.
- To oversee the effectiveness of the Councils procedures for investigating and responding to complaints about Councillors and Co-opted members (as approved by Full Council in May 2021)
- To appoint a Panel of five members of the Committee to:
 - interview and make recommendations to Council on the appointment of Independent Persons in accordance with the Localism Act 2011 and an Independent Person to serve on the Audit and Standards Committee should CIPFA's Practical Guidance For Local Authorities (2018 Edition) on Committee membership be adopted.
 - consider alleged breaches of the Code of Conduct as referred for consideration by the Monitoring Officer following consultation with an Independent Person.
- To consider and, where applicable, make recommendations to full Council on decisions of the Standards Panel on breaches of the Code of Conduct considered by that Panel.
- To oversee the maintenance of the List of Politically Restricted Posts

Commented [AL(12): New addition to the Terms of Reference

Commented [AL(13): New addition to the Terms of Reference

Elections

- To oversee the actions of the Returning officer with regard to the delivery and conduct of the County Council elections and casual vacancies, and any peripheral responsibilities.

Governance and Decision-Making

- To oversee, review, and make any recommendations on, the effectiveness and operation of the Constitution and any of the provisions of it.
- To monitor the adequacy and effectiveness of the County Council's Information Governance arrangements
- To establish Panels of five members of the Committee, as and when required, with delegated powers to deal with:
 - appeals by officers against disciplinary, grading or employment related action (including in respect of the List of Politically Restricted Posts)

- appeals against dismissal from teachers employed in Education Support Units
- appeals against any Executive decision where the law requires that a person shall have a right of appeal within the Council against that decision and for which no other provision is made under this Constitution
- Planning Applications referred to in paragraph 2.2 of section 8 of this Constitution (ie where the Planning Committee is minded to refuse an application for planning permission submitted on behalf of the Cabinet in respect of a County Council service (membership of this Panel shall not include members of the Cabinet, relevant Scrutiny Committee or Planning Committee))

Miscellaneous

- For functions which are not a function of the Executive – to authorise, or revoke the authority of, a person to exercise a function to which Section 70 of the Deregulation and Contracting Out Act 1994 applies
- To deal with any other matter (regulatory, judicial, quasi-judicial or licensing) which by law cannot be the responsibility of the Executive for which no other provision exists in this Constitution.

Health and Safety

- To monitor the adequacy and effectiveness of the County Council's Corporate Health and Safety policies and to approve the annual Action Plan and key priorities