



## Report of the Section 151 Officer

Audit Committee – 10 December 2019

### Appointment of an Additional Lay Member to the Audit Committee

<b>Purpose:</b>	To consider the appointment of an additional Lay Member to the Audit Committee and if deemed appropriate, recommend to Council that an additional Lay Member should be recruited.
<b>Policy Framework:</b>	None
<b>Consultation:</b>	Legal, Finance, Access to Services
<b>Recommendation(s):</b>	Members should consider the proposal to appoint an additional Lay Member to the Audit Committee and if necessary make a recommendation to Council.
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#### 1. Introduction

- 1.1 The Local Government (Wales) Measure 2011 requires that each council shall appoint an Audit Committee in line with the recommendation made by CIPFA in 2005.
- 1.2 The Welsh Government has provided statutory guidance covering the functions and membership of the Audit Committee. A copy of the guidance is attached in Appendix 1.

- 1.3 The City and County of Swansea has had an Audit Committee for a number of years and the Measure requires that a lay member is appointed to the Audit Committee. Up to a third of the Committee's membership can be comprised of lay members but there must be at least one lay member.
- 1.4 The Audit Committee currently has one Lay Member, who is also the Chair of the Committee. Following the completion of a benchmarking exercise comparing the number of Lay Members appointed to other Local Authority Audit Committees across Wales, the proposal has been put forward to appoint one additional Lay Member to the City and County of Swansea's Audit Committee. Members should also be made aware of the fact that adding an additional lay member will help ensure the committee is better equipped to meet possible proposed legislative changes to the committee structure that are currently out for consultation.
- 1.5 Audit Committee Members are asked to consider this proposal. If Members agree to appoint an additional Lay Member, the recommendation of the Audit Committee will be presented to Council who will ultimately decide whether to commence the recruitment process.

## **2. Role of the Audit Committee**

- 2.1 The Local Government (Wales) Measure 2011 guidance requires the Audit Committee to have the following statutory functions
  - Review, scrutinise and issue reports and recommendations in relation to the authority's financial affairs.
  - Review, scrutinise and issue reports and recommendations on the appropriateness of the authority's risk management, internal control and corporate governance arrangements.
  - Oversee the authority's audit arrangements and review its financial statements.

The attached guidance provides further details on the functions and role of Audit Committees.

- 2.2 In addition, an authority can confer other functions on the Committee which it deems suitable for it. The Audit Committee can decide how it wants to carry out its functions but it must have regard to the statutory guidance issued by the Welsh Government under Section 85 of the Local Government (Wales) Measure 2011.

## **3. Membership and Appointment of Lay Members**

- 3.1 Paragraphs 9.24 to 9.28 of the attached guidance deal with membership of Audit Committees.
- 3.2 In particular, paragraph 9.27 relates to the appointment of Lay Members and states:

(a) Lay Members should be independent from the council and have no business connection with it, although knowledge of how local government functions would be a definite advantage.

(b) In appointing Lay Members whose political allegiances are well known, local authorities should consider if this compromises the independence from the council a Lay Member should possess.

3.3 The guidance recommends a Lay Member should not be appointed for more than two full terms of a local authority. Any Lay Member with voting rights is subject to the provisions of the authority's Code of Conduct for Members

#### **4. Applications and Shortlisting Process**

4.1 If the Audit Committee approves the proposal to seek the appointment of an additional Lay Member, a report will be presented to Council recommending the appointment. If approved by Council, the following recruitment process will commence as outlined below.

4.2 In order to comply with legislation, an advert will be published in the local press to advertise the position. In addition, to promote greater awareness and encourage wider applications, details of the position will also be sent to as many stakeholder organisations as possible.

4.3 Applicants will be required to complete an applications form with the following questions:

(a) Employment Details (if self employed please state name of business or similar)

(b) Please state your background, experience knowledge and qualifications.

(c) Why you are a suitable candidate and what can you bring to the role?

(d) Please demonstrate your "Strong personal integrity and respect for others".

(e) Please demonstrate your "Ability to act with discretion".

(f) Please demonstrate your "Ability to evaluate facts and evidence and form objective judgements".

(g) Please demonstrate your "Understanding of the Local Government functions".

(h) Please demonstrate that you are "An effective listener and that you have good communication skills".

- (i) Please demonstrate your “Ability to work as part of a Team”.
- (j) Please demonstrate your “Understanding of the purpose and value of an audit function in a public sector organisation”.
- (k) Have you had any previous or current business connections with the Council?
- (l) Have you had any previous or current political allegiances which are relevant to this appointment?
- (m) Are you related to a Member or Officer of the Council?
- (n) Are you able to commit to attending a minimum of five meetings a year?
- (o) Do you have business or other interests, including membership or affiliation of any political or other organisation, which could cause real or observed conflict with the duties and responsibilities of the role?

4.4 The applications received will be presented to the Committee to decide on a shortlist of applicants to be interviewed. In considering a shortlist for interview, Members will wish to consider the whether applicants are able to demonstrate:

- Relevant knowledge and experience; a finance / accounting / auditing background is desirable but not essential.
- An understanding of Local Government, structures, governance models and risk management.
- An independent, enquiring, challenging approach.
- An ability to grasp complex facts and figures.
- A commitment to the role.

4.5 If none of the applicants are able to demonstrate a comprehensive response to the above in their submitted applications, questions at interview will need to elicit fuller responses.

4.6 Shortlisted candidates would be interviewed by the Appointments Committee and if appropriate, the Appointments Committee would make a recommendation to Council to appoint the successful candidate as an additional Independent Lay Person to the Audit Committee.

4.7 Council would consider the recommendation from the Appointments Committee, and if appropriate would appoint the successful candidate.

## **5. Recommendation**

- 5.1 It is recommended that Audit Committee Members consider the proposal to appoint an additional Lay Member to the Audit Committee and if necessary make a recommendation to Council accordingly.

## **6 Equality and Engagement Implications**

- 6.1 The Council is subject to the Public Sector Equality Duty (Wales) and must, in the exercise of their functions, have due regard to the need to:

- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited by the Act.
- Advance equality of opportunity between people who share a protected characteristic and those who do not.
- Foster good relations between people who share a protected characteristic and those who do not.

Our Equality Impact Assessment process ensures that we have paid due regard to the above.

- 6.2 There are no equality and engagement implications associated with this report.

## **7. Financial Implications**

- 7.1 There are no financial implications associated with this report.

## **8. Legal Implications**

- 8.1 The relevant legislative provisions are set out in the report. The Audit Committee cannot hold a legal meeting until at least one lay member has been appointed to the Committee.

**Background Papers:** None.

**Appendices:** Appendix 1 – Statutory Guidance made under Section 85 of the Local Government (Wales) Measure 2011.

## **Chapter 9 Audit Committees**

### **Statutory Guidance made under Section 85 of the Local Government (Wales) Measure 2011**

#### **Introduction**

9.1 Part 6 of the Measure, deals with Overview and Scrutiny, including, at Chapter 2 of that Part, Audit Committees. The Welsh Government's intention through these provisions was to ensure that all local authorities in Wales would have an audit committee (as has been recommended by the Chartered-Institute of Public Finance and Accountancy [CIPFA] since 2005). Our view is that audit committees are positive features which should help improve strategic planning and facilitate both scrutiny and challenge within the structures of a council.

#### **What the Measure requires**

9.2 Sections 81 to 87 make provision for audit committees. They require each county or county borough council to appoint an audit committee with the following functions:

- Review, scrutinise and issue reports and recommendations in relation to the authority's financial affairs;
- Review, scrutinise and issue reports and recommendations on the appropriateness of the authority's risk management, internal control and corporate governance arrangements;
- Oversee the authority's audit arrangements and review its financial statements.

9.3 In addition to these statutory functions, a local authority can confer other functions on the committee which it deems suitable for it. Each audit committee can decide **how** it wants to carry out its functions, but in doing so it **must** have regard to this guidance.

9.4 The full council should decide who to appoint as members of its audit committee and it can determine that up to a third of its members are to be from outside the council. In fact, at least one member of the committee **must** be a lay member. It is permissible for only one of the committee's members to be from the council's executive, and this must not be the leader (or elected mayor). The council **must** have regard to this guidance when determining the membership of its audit committee.

9.5 The chair of the committee is to be decided upon by the committee members themselves. It can be a councillor or a lay member but, in the former case, must not be a councillor who belongs to a group with members in the executive. An exception to this is where there are no opposition groups, in which case any of the committee's members may become chair except for any member of the committee who is also a

member of the executive. All committee members, including lay members, have the right to vote on any issue considered by the committee.

9.6 Any officer or member called to attend an audit committee meeting must do so. They must answer any questions asked of them save ones which they could refuse to answer if they were in court. The committee can invite other persons to attend before it, but anyone else so invited to attend is under no compulsion to do so.

9.7 The audit committee is subject to normal arrangements of openness. Meetings should be held in public, agendas and reports should be published and available for inspection. The exception to this is where “exempt items” are being considered, which are chiefly matters which involve discussions concerning named individuals or commercial in confidence matters.

9.8 The committee must meet at least once a year and must also meet if the full council so decides, or if at least a third of the committee’s members require that a meeting be held. Beyond these stipulations, the committee can meet whenever it likes.

### **Functions of an audit committee**

9.9 The Assembly Government has previously endorsed CIPFA’s publication *“Audit Committees: Practical Guidance for Local Authorities”* and continues to do so, together with their publication *“A toolkit for Local Authority Audit Committees”*.

9.10 Although the former publication is somewhat dated (published in 2005) its principles are still valid. Local authorities are advised to view those documents as being complimentary to this guidance.

### **Reviewing the authority’s financial affairs**

9.11 Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of its financial affairs. Putting in place the audit committee and providing it with the duty to keep the authority’s financial affairs under review must be viewed as assisting in the fulfilment of this requirement.

9.12 This is an area which is given close attention by the authority’s external auditors and ties in with the duty of the audit committee to oversee the arrangements for internal and external audit, and also the need to monitor the internal control and risk management arrangements made by the authority.

9.13 Local authorities should make their own arrangements, probably in their constitution, to provide for clear demarcation between the role of an audit committee and that of a relevant scrutiny committee. The audit committee role would currently be more to seek assurance that the budgetary control systems (as an internal

control) of the council are working, rather than the actual scrutiny of spend and this may serve as acceptable demarcation between the role of the audit committee and that of a scrutiny committee.

### **Risk management, internal control and corporate governance**

9.14 The attention to this matter should raise the profile of risk management as a necessary control tool within the authority as a whole. By providing regular review, the audit committee forms a significant part of the authority's corporate governance structure.

9.15 The authority should adopt a Statement of Purpose for its audit committee along the lines included in Chapter 2 of the CIPFA guidance, ensuring that the committee is given a prime role in ensuring that effective corporate governance is central to the organisation's procedures. As such, the audit committee should have access to the Annual Governance Statement and Corporate Governance Strategy. A high profile for the audit committee should help to raise public confidence that the authority has a solid approach towards its financial and organisational propriety.

9.16 The audit committee will need to report on the adequacy of the authority's risk management and internal control arrangements, and comment on their effectiveness, as well as following up on risks identified by auditors and requiring reports as to action taken in response. This means that the authority must ensure that audit committees are provided with all copies of auditor's reports, or the summary finding if felt more appropriate.

### **Internal and external auditors**

9.17 A properly operating audit committee should provide the authority's chief finance officer with advice which can serve to bolster the work of internal and external auditors. The committee can ensure that audit reports are kept in the authority's mind, so timing of meetings might be planned so as to effectively follow-up auditors' recommendations.

9.18 The audit committee will expect to input into the planning of the internal audit priorities, approving the annual programme of audits and ensuring that the internal auditors have the necessary resources to conduct their work effectively. They will want to meet with the Head of Internal Audit and receive his/her annual report.

9.19 The audit committee should also receive the reports from the external auditors and follow up their recommendations during the year. The committee should have a role in agreeing the authority's response to the auditor's letters or reports as well as being able to meet with the external auditor.

9.20 In addition, the audit committee should receive and consider reports from any other regulators or inspectors. In respect of these, the authority will need to ensure



there is no unnecessary duplication between the audit committee and any overview and scrutiny committee in considering such reports.

## **Financial statements**

9.21 Before their approval by the authority, the audit committee should consider and comment on the authority's certified draft financial statements. They will want to see to what extent the statements take cognisance of audit reports during the year, and changes in accounting policy and internal control mechanisms. Audit committees may approve the financial statements themselves where local authorities have delegated that power to them under regulation 9 of the Accounts and Audit Regulations (Wales) 2005 (as amended).

9.22 CIPFA's "toolkit" should be used to assist in the proper scrutiny of these statements.

9.23 Reports and recommendations by the audit committee should be considered by full council in particular, as well as the executive.

## **Membership**

9.24 The rules within section 15 *et seq* of the Local Government and Housing Act 1989 do not apply to audit committees. It is not therefore a statutory requirement to ensure that political balance is achieved when the committee members are appointed. The authority must however decide how many non-councillors should be appointed to the committee, and all members of the committee should display independence of thinking and unbiased attitudes, and must recognise and understand the value of the audit function. It is strongly recommended that the balance of members of the committee is at least as favourable to non-executive groups as would be achieved by political balance rules. It will help the authority if the audit committee has the appearance of independence from the leadership.

9.25 All new members will need to be provided with induction training. Although it is to be hoped that appointed councillors would have some relevant expertise, this cannot be guaranteed. What will be important, though, is to try and ensure that members do not have any other responsibilities which might conflict with their audit role. That might be particularly the case in the choice of any executive member on the committee. It may also mean that the members should not have too many other commitments, in general in terms of committee membership because of the significant commitment which being a member of the audit committee implies. All members should receive adequate training and development, and particular attention should be paid to the section on training and awareness in the CIPFA "toolkit".

9.26 The audit committee should try and ensure that they appoint a member as chair who will be strong and experienced enough to lead the questioning which the committee will have to perform.

9.27 There must be at least one lay member on the committee but they could constitute up to a third of the membership if an authority so decided. Whatever recruitment method is employed, lay members should be independent from the council and have no business connection with it, although knowledge of how local government functions would be a definite advantage. In appointing lay members whose political allegiances are well known, local authorities should consider if this compromises the independence from the council a lay member should possess. It is recommended that councils follow a public recruitment exercise, similar to that used to appoint members of standards committees, to recruit their lay members. It is recommended that a lay member should not be appointed for more than two full terms of a local authority. Any lay member with voting rights is subject to the provisions of the authority's Code of Conduct for Members.

9.28 As a committee of the council, meetings of the audit committee should be open to the public, except when exempt matters are being discussed.