

# HAMPSHIRE COUNTY COUNCIL

## Decision Report

<b>Committee:</b>	Audit Committee
<b>Date:</b>	7 March 2024
<b>Title:</b>	Audit Committee Review
<b>Report From:</b>	Deputy Chief Executive and Director of Corporate Operations

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### Purpose of this Report

1. The purpose of this Report is to advise the Audit Committee on the results of a review of the Audit Committee's working practices in the light of recent guidance issued by CIPFA and the commitment in the Annual Governance Statement 2022-2023 to review the Audit Committee's Terms of Reference.

### Recommendations

2. That the Audit Committee notes and considers the guidance issued by CIPFA in relation to revised Terms of Reference for the audit committees discussed in Paragraphs 10-19.
3. Notes and considers CIPFA's guidance on appointing two co-opted independent members to the Audit Committee and on the ideal size of audit committees.
4. That the presentation of an Annual Report from the Audit Committee to the County Council is approved with the first Report to be submitted to the County Council in September 2024.
5. That the new approach to training and development set out in paragraphs 23-29 is approved.
6. That the arrangements for the Chairman and Vice Chairman to meet in private with the Chief Internal Auditor and the external auditor as set out in Paragraphs 30-32 are approved.

### Executive Summary

7. The Monitoring Officer, the Head of Finance, the Chief Internal Auditor and the Deputy Director of People and Organisation have conducted a review of the Audit Committee based on the principles set out in the 2022 CIPFA Position Statement attached at exempt Appendix 1
8. The statement represents CIPFA's view on the audit committee practice and principles that local government bodies in the UK should adopt. It has been prepared in consultation with sector representatives. CIPFA expects that all local government bodies should make their best efforts to adopt the principles, aiming for effective audit committee arrangements. This will enable those bodies to meet their statutory responsibilities for governance and internal control arrangements, financial management, financial reporting and internal audit.
9. That review highlighted areas where CIPFA guidance indicates that the practice of the Audit Committee can be improved, and these are summarised below and dealt with in more detail in the following sections of this Report:
  - A possible review of the Audit Committee's Terms of Reference to take account of recommendations by CIPFA including the possible recruitment of two co-opted independent members to sit on the Audit Committee to add external perspective and expertise to the work of the Committee.
  - The presentation of an annual report on the Audit Committee's work to the Full Council reporting on how the Committee has complied with the CIPFA Position Statement 2022, the results of an annual evaluation of the Committee's work and how it has fulfilled its Terms of Reference.
  - A skills needs assessment to identify areas for development for the Committee members along with a structured on-going training plan and to identify if there's any skills gap that can be addressed in the recruitment of the co-opted independent members.
  - To make arrangements for the Chairman and Vice Chairman of the Committee to meet privately with the Chief Internal Auditor and the County Council's external auditors.

## **Terms of Reference**

10. The existing Terms of Reference of the Audit Committee are attached at Annex 1. Relevant issues from the CIPFA guidance in relation to Terms of Reference are set out below.
11. CIPFA guidance suggests that Audit Committees should be advisory committees and that final decision making should be taken at the Full Council. However, at Hampshire the Audit Committee provides a key role in approving

the County Council's Statement of Accounts and Annual Governance Statement and it would not be able to do this if constituted as an advisory committee. Most Council audit committees are decision making committees for this reason.

12. CIPFA also recommends that an audit committee of no more than 8 Members should be established as this allows sufficient breadth of experience, Independence and accountability but is small enough to allow the training and development of a dedicated group. This would mean for Hampshire, if independent members are appointed, 6 Elected Members and two non-voting Co-opted Independent Members.
13. In sectors outside local government, it is typical for audit committees to have fewer than six members. Among local authorities, there is a range of practice, including some committees that exceed ten members. In the sector, it can be harder to achieve the depth of knowledge and experience that is desirable with a small number, but equally it can be difficult to provide training and development for a large group.
14. A co-opted independent member is a committee member who is not an elected representative but recruited to join a committee. The objective of including such members is to increase the knowledge and experience base of a committee, reinforcing its independence. Inclusion of independent members is a legislative requirement for authorities in Wales and for combined authorities in England.
15. While it is not a legislative requirement for the County Council to have independent members on its Audit Committee CIPFA recommends the committee includes two co-opted independent members. The CIPFA guidance follows the Government's response (in December 2020) to the Redmond Review into the oversight of local audit and the transparency of local authority financial reporting. The Government confirmed its support for the appointment of at least one independent member to audit committees.
16. The reasons for CIPFA's recommendation are as follows:
  - To supplement the knowledge and experience of elected representatives in specific areas, such as audit or financial reporting.
  - To provide continuity outside the political cycle.
  - To help achieve a non-political focus on governance, risk and control matters.

- Having two co-opted independent members rather than one allows recruitment of members with different but complementary knowledge and experience, increase the resilience and continuity of the Committee.
  - Having two co-opted independent members shows a commitment to supporting and investing in the Committee.
17. The role of a co-opted member of the committee would be the same as for an elected representative who is a committee member. The only substantial difference would be that an independent member could not vote although they could, of course, contribute to the discussions prior to the formal decision.
18. The appointment of co-opted independent members would require a change to the Audit Committee's Terms of Reference and consequently a change to the Constitution. This would mean that further reports would be required to Cabinet and to the County Council to implement this change if it is taken forward.
19. In addition, the co-opted independent members would have to be recruited and consequential changes would have to be made to the Member's Allowance Scheme. If it is decided to appoint Independent Members, then the process for their appointment and the timing of their appointment will have to be considered.

## **Annual Report**

20. CIPFA recommends that the Audit Committee should be held to account regularly by those charged with governance which at the County Council is the Full Council. Accountability should cover:
- 20.1. whether the committee has fulfilled its agreed terms of reference
  - 20.2. whether the committee has adopted recommended practice
  - 20.3. whether the development needs of committee members have been assessed and whether committee members are accessing briefing and training opportunities
  - 20.4. whether the committee has assessed its own effectiveness or been the subject of a review and the conclusions and actions from that review
  - 20.5. what impact the committee has on the improvement of governance, risk and control arrangements within the authority.

21. It is therefore recommended that the Audit Committee should prepare an annual report that provides assurance to Full Council that it fulfils its purpose and can demonstrate its impact. This is a key output of the Audit Committee.
22. Suggested content for the Report is set out below.
  - 22.1. The report should briefly outline the extent to which the Audit Committee follows the CIPFA Position Statement in the following areas:
    - a) The size of the committee, structure and composition, including the number of independent members.
    - b) Reporting line and independence from other committees.
    - c) Whether its terms of reference include all the core functions of the committee.
  - 22.2. Results of the committee's annual evaluation of its effectiveness and assurance over key indicators should be reported. There should be disclosure over areas where the committee has concerns (which could link to the action plan in the Annual Governance Statement 'AGS')) and a statement of what the Audit Committee has done to escalate their concerns or make recommendations.
  - 22.3. The report should summarise how the Audit Committee has fulfilled its Terms of Reference and the key issues escalated to the Corporate Management Team or other committees during the year.
  - 22.4. The report should summarise the development work that will support the committee members, e.g. training.
  - 22.5. The report should be timed to support the annual review of governance and preparation of the AGS. This enables the committee to take stock of the assurances it has received and the extent to which its own performance has contributed to governance arrangements.
  - 22.6. The Audit Committee should consider how it can improve understanding of its work and raise its profile among other elected members. By improving understanding and engagement, the influence of the committee is likely to grow.

### **Skills Assessment and Training**

23. The review (see paragraph 7) recognised the need for a skills needs assessment to identify areas for development for the Committee members along with a structured on-going training plan. Whilst some regular training and support arrangements have been in place to date, this could be improved by being more targeted in line with the outcome of a skills needs assessment and by ensuring closer alignment with the Audit Committee core functions and specific responsibilities.

24. In order to understand training & development requirements, a skills & needs self-assessment framework will be developed for Audit Committee members to undertake, with the results shaping a tailored programme of training courses, support, briefings and resources. The self-assessment will be repeated each year, to inform subsequent training needs and evidence the assessment and reasoning as to key or new areas of focus.
25. A structured on-going programme will be designed around the Core Functions (see a. to g. below), providing access to learning opportunities, including resource materials, to develop and enhance Audit Committee skills and knowledge. This will ensure the effective fulfilment of their roles within this dedicated and focussed group.
  - a. Governance arrangements
  - b. Risk management arrangements
  - c. Internal control arrangements, including:
    - i. Financial management
    - ii. Value for Money
    - iii. Ethics and Standards
    - iv. Counter Fraud and Corruption
  - d. Annual Governance Statement
  - e. Financial reporting
  - f. Assurance Framework
  - g. Internal and external audit
26. Where appropriate, there will also be links with the Member Development Group training plan, as well as training sessions run internally by relevant boards e.g. Pension Fund Panel and Board. Additionally, any agreed mandatory training will be included (e.g. Data Protection and Prevent), along with other organisational wide personal development courses that will be encouraged where necessary (e.g. 'chairing meetings').
27. The expected method of delivery is likely to be a combination of virtual and in-person and include both internal and external (e.g. CIPFA) opportunities for learning. Where appropriate, attendance at networks and forums will be encouraged, to share good practice.
28. For new and co-opted independent members, the programme is likely to include additional training or support, aligned with the committee's Terms of Reference, to help them integrate into the Audit Committee and become more familiar with the Council's structure and process.
29. It is anticipated that this structured training program would commence in the Autumn of 2025.

## **Arrangements for Meetings with Internal and External Audit**

30. CIPFA guidance specifies that:

'It is standard practice for the external auditors and head of internal audit to have direct access the Audit Committee, helping to reinforce the independence of the auditors and to maintain their professional standards. It also reinforces the independence of the Audit Committee.

As a minimum, there should be a facility for a private meeting once a year, but they should be made available on request. To support transparency, the chair should report that a private meeting has taken place at the next audit committee meeting and summarise the topics discussed.'

31. The arrangement that internal audit reports functionally to the Audit Committee and has direct access to members is acknowledged and clearly articulated within the Internal Audit Charter and is already established as part of the governance framework.

32. Historically, the Chief Internal Auditor has met in private session with the Chairman of the Audit Committee in accordance with CIPFA guidance, however, such meetings have not convened for a period of time, and it would be opportune to extend the offer of private meetings with both the Chief Internal Auditor and external audit to reestablish this principle of good governance.

## **Consultation and Equalities**

33. There are no equality impacts deriving from the Recommendations set out in this Report.

## **Climate Change Impact Assessment**

34. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience impacts of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2°C temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.

35. The carbon mitigation tool and/or climate change adaptation tool were not applicable because the decision is administrative in nature.



**REQUIRED CORPORATE AND LEGAL INFORMATION:**

**Links to the Strategic Plan**

**This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because:**

**It relates to the good governance of the County Council**

**Other Significant Links**

**Links to previous Member decisions:**

<u>Title</u>	<u>Date</u>
None	

**Direct links to specific legislation or Government Directives**

<u>Title</u>	<u>Date</u>
CIPFA Audit Committees-Practical Guidance for local authorities and police	<b>2022</b>

**Section 100 D - Local Government Act 1972 - background documents**

**The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)**

<u>Document</u>	<u>Location</u>
None	

## **EQUALITIES IMPACT ASSESSMENT:**

### **1. Equality Duty**

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

### **2. Equalities Impact Assessment:**

2.1. No equality impacts have been identified in relation to the Recommendations in this Report.

# Part 1: Chapter 7

## The Audit Committee

### 1. The Audit Committee

The County Council has set up an Audit Committee to monitor, review and report on the governance arrangements of the County Council.

### 2. Composition

The Audit Committee is composed of nine members. The Chairman may not be a member of the Executive.

### 3. Role and function

The Audit Committee will monitor, review and report on the way in which governance is exercised within the County Council with regard to:

#### 3.1. Audit Activity

- 3.1.1. To receive and consider reports from the Chief Financial Officer on internal strategy, planning and delivery, including in particular the Chief Internal Auditor's annual report and opinion;
- 3.1.2. To make recommendations to the County Council on the appointment of the County Council's External Auditor in accordance with the Local Audit and Accountability Act 2014 and regulations made thereunder.
- 3.1.3. To receive and consider reports from the external auditor and any national agencies as may report on the County Council's performance, inspection or audit.

#### 3.2. Regulatory Framework

- 3.2.1. To monitor the roles, processes and behaviour that affect the way that governance is exercised within the County Council and in particular the adoption, review and amendment of the Corporate Governance Framework for the County Council;

- 3.2.2. To review and consider the reports from the Chief Financial Officer on the treasury management function, including the treasury management strategy, half-yearly report and annual report;
- 3.2.3. To consider the effect of the County Council's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements, seeking assurances as necessary that action is being taken on risk-related areas identified by auditors and inspectors;
- 3.2.4. To receive and form a view on internal assurances of governance practice and to be satisfied that the County Council's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it;
- 3.2.5. To consider the County Council's compliance with its own and other published standards and controls;
- 3.2.6. To make recommendations to the County Council for the making or amending of financial regulations, standing orders related to contracts or regulations related to the conduct of the County Council's business.

### 3.3. **Accounts**

- 3.3.1. To receive and consider audit reports relating to the Pension Fund Panel and Board;
- 3.3.2. To approve the County Council's Statement of Accounts.

### 3.4. **Elections**

- 3.4.1. Functions relating to elections as specified in Schedule 1 Paragraph D of the Functions Regulations.

