

CHESHIRE FIRE AUTHORITY

MEETING OF: GOVERNANCE AND CONSTITUTION COMMITTEE
DATE: 30TH MARCH 2022
REPORT OF: DIRECTOR OF GOVERNANCE AND COMMISSIONING
AUTHOR: ANDREW LEADBETTER

SUBJECT: EXTERNAL AUDITOR RECOMMENDATION –
AUDIT COMMITTEE

Purpose of Report

1. To allow Members to consider a suitable response to the External Auditor's recommendation concerned with the creation of an audit committee with an independent member.

Recommended: That Members

- [1] provide guidance to officers as requested in the report so that a proposal can be put to the Fire Authority.

Background

2. The External Auditor's Annual Report 2020-21, presented to the Fire Authority in December 2021, contained three recommendations, one of which related to the way that the Fire Authority manages external audit activity. The audit-related recommendation is attached to this report as Appendix 1.
3. The recommendation only relates to external audit, but this report considers the potential for an audit committee with responsibility for internal and external audit.

Information

4. Currently, the Authority's Constitution contains a number of references to audit:

- a. Fire Authority

Paragraph 3.20 – Considers External Audit Findings and Value for Money Conclusion report (including approval of Audit Arrangements and Fees).

b. Performance and Overview Committee

Paragraph 3.28 – Monitors progress against the internal audit plan and recommendations from internal audits, making recommendations and offering advice, as appropriate.

c. Governance and Constitution Committee

Paragraph 3.55 – Settles the strategy for audit arrangements and carries out high level monitoring of the effectiveness of those arrangements.

5. The Fire Authority's existing responsibility, paragraph 3.20, appears to be appropriate and should, therefore, not change. The other references to audit could be removed and replaced with broader audit-specific terms of reference. The following appear to be a reasonable starting point to describe the audit responsibilities:

a. To monitor the adequacy and effectiveness of the external audit of the Authority's services and functions and to:-

- i. Approve the nature and scope of the external audit of the Authority's services and functions;
- ii. Consider external audit reports;
- iii. Monitor the Authority's response to the external auditor's findings and the implementation of external audit recommendations.

b. To monitor the adequacy and effectiveness of the internal audit arrangements and to: -

- i. Approve the annual Internal Audit Plan;
- ii. Monitor progress against the Plan through the receipt of periodic progress reports and an annual Internal Audit Report;
- iii. Consider any internal audit that provides less than substantial assurance and/or includes any high or critical risk ratings;
- iv. Monitor the response to Internal Audit Reports and the implementation of recommendations.

Question 1 – Members are asked whether they are satisfied with the above.

6. There are several options as to where these audit responsibilities could sit within the Fire Authority's structure. These are:
 - a. Performance and Overview Committee
 - b. Governance and Constitution Committee
 - c. Sub-committee of Performance and Overview Committee
 - d. Sub-committee of Governance and Constitution Committee
 - e. Stand-alone Audit Committee

7. The sub-committee, or stand-alone committee arrangement offers the opportunity to have a smaller group of Members providing a specific focus on audit activity. However, it would be another meeting to administer. Ideally, the meetings would take place on dates when Members were engaged in Fire Authority business, e.g. a sub-committee could immediately follow the parent committee.

Question 2 – Members are asked to consider what their preference would be.

Question 3 – Members are asked to indicate how many Members should sit on a sub-committee, or stand-alone audit committee.

8. The recommendation refers to the appointment of an independent member with appropriate skills to sit on the audit committee. There are two options:
 - a. Carry out an open 'recruitment' exercise, or
 - b. Secure the support of an individual that already fulfils this role elsewhere, preferably locally.

Question 4 – Members are asked to indicate if they have a preference. The intention would be to follow b. initially.

9. There are a range of considerations to be settled before an independent member can be appointed, e.g. skill/qualifying requirements, term of office and remuneration. Officers will provide further context on these at the meeting to help inform the discussion.

Question 5 – Members are asked to indicate how they wish to engage in the appointment process. Ideally, two or three Members of the committee would assist officers.

Financial Implications

10. The appointment of an independent member will have a relatively small financial impact. The payment associated with such roles in other public bodies does vary, with some paying a flat rate and others per meeting. The sum of £2,500 appears to be representative amount (for five meetings per year).

Legal Implications

11. The creation of an audit committee is not a legal requirement. However, it is acknowledged that the Authority's audit arrangements are likely to be enhanced if the Authority complies with recommendation from the External Auditor.

Equality and Diversity Implications

12. There are no equality and diversity implications.

Environmental Implications

13. There may be a small environmental impact if there are additional meetings, adding to the occasions when Members are required to travel to Sadler Road. This should, ideally, be avoided.

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BACKGROUND PAPERS: NONE