

CHESHIRE FIRE AUTHORITY

MEETING OF: GOVERNANCE AND CONSTITUTION COMMITTEE
DATE: 12TH JULY 2022
REPORT OF: DIRECTOR OF GOVERNANCE AND COMMISSIONING
AUTHOR: ANDREW LEADBETTER

SUBJECT: **AUDIT COMMITTEE ARRANGEMENTS AND
APPOINTMENT OF INDEPENDENT AUDIT MEMBER**

Purpose of Report

1. This report is intended to: secure Member appointments to the Audit Committee; determine the quorum of the Audit Committee; and obtain agreement about the arrangements for and recruitment of the independent audit member.

Recommended: That Members

- [1] Decide which four members of Governance and Constitution Committee should sit as the Audit Committee; and
- [2] Determine the quorum of the Audit Committee; and
- [3] Agree the arrangements for and recruitment of the independent audit member.

Background

2. The External Auditor made the following recommendation:

We recommend that the Authority consider establishing a separate Audit Committee and to consider appointing an independent member with a suitable financial background as recommended by the Redmond review.

3. Governance and Constitution Committee considered a report about this on 30th March 2022 and made recommendations to the Fire Authority.
4. The Fire Authority considered a report about this on 27th April 2022 and resolved that:
 - [1] *an Audit Committee with the responsibilities contained in paragraph 4 of the report be created;*

[2] *the Audit Committee have four elected members (appointed from the membership of the Governance and Constitution Committee by that Committee) together with an independent audit member; and*

[3] *the appointment of the independent audit member be carried out by the Governance and Constitution Committee (with the details of the appointment, e.g. remuneration, settled by that Committee).*

5. The responsibilities of the Audit Committee are:

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.*

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.*

Information

6. The Chartered Institute of Public Finance & Accounting (CIPFA) issued an updated Position Statement: Audit Committees in Local Authorities and Police 2022 in June 2022 (the Position Statement). The Position Statement covers fire authorities and is attached to this report as Appendix 1. It provide guidance on: purpose; independence and effectiveness; core functions; membership; engagement and outputs; and impact.

7. This Committee should take the Position Statement into account in making the decisions outlined in this report. It will also need to return to the principles contained in the Position Statement at a later date. Members will see that it is likely that changes will need to be made to the Audit Committee arrangements in order to comply entirely with the requirements contained in the Position Statement.

Appointments to the Audit Committee

8. As mentioned above, the Position Statement contains a section on Audit Committee membership. This should be borne in mind by Members when determining who should sit on the Audit Committee. Four Members are required for the Audit Committee and it would be appropriate to appoint as follows: 2 Labour; 1 Conservative; and 1 Independent, with the Chair being a Labour Member.
9. Given the requirement for Audit Committee members to be trained, it would not seem appropriate to appoint substitutes. In any event, the meetings should be scheduled well in advance and will usually coincide with meetings of Governance and Constitution Committee, so attendance should not be a problem.

Quorum

10. The independent audit member would not count as part of the quorum. With four members sitting on the Audit Committee, it would be appropriate to set the quorum as three. This is consistent with the quorum for the Joint Consultative Committee, which also has four members.

Recruitment of Independent Audit Member

11. The following paragraphs cover a range of issues that need to be reflected in the arrangements for the recruitment of the independent audit member.

Ability and Eligibility

12. The Position Statement refers to 'appropriate technical expertise' and 'aptitude' being 'considered alongside relevant knowledge, skills and experience'.
13. With this in mind it would appear appropriate to include the following requirements:
 - Applicants must have relevant technical experience in and up-to-date knowledge of accounting and audit, preferably in the public sector.
 - Applicants should be able to scrutinise complex information and be comfortable providing a level of challenge.

14. Whilst the Position Statement does not elaborate on the concept of 'independence', it would seem appropriate to include the following eligibility criteria:

Applications will not be considered from

- Employees of Cheshire Fire and Rescue Service, Cheshire East Borough Council, Cheshire West and Chester Borough Council, Halton Borough Council, or Warrington Borough Council
- Members of Cheshire East Borough Council, Cheshire West and Chester Borough Council, Halton Borough Council, or Warrington Borough Council
- Relatives, or close friends of any employees of Cheshire Fire and Rescue Service or Members of Cheshire Fire Authority
- Individuals with any unspent convictions
- Individuals who are politically active

Remuneration

15. It has proved to be difficult to find a 'rate' that is being paid to independent audit members that are already active for other public bodies. The sums that were found vary considerably from organisation to organisation. Some organisations were paying a sum per meeting (one as low as £50 per meeting) and some organisations were paying an annual sum (a few as high as £2,500, for four or five meetings). In view of this, officers felt that there was sense in considering the sums paid within the Members' Allowances Scheme.
16. The logical comparisons might be the independent (non-elected) member. He attends up to 18 meetings per year and receives an annual allowance of just over £1,250. The independent audit member is only likely to attend four or five meetings per year, but it might be argued that expectations being placed on him/her are higher, e.g., the individual will almost certainly need to be from a professional background and will also need to take part in training. With this in mind, an annual figure of £1,250 is suggested.

Term

17. The appointment should be for a reasonable period. A three year term, with a provision for 'renewal' for a further three years, is suggested.

Advert

18. An advert and supporting documents will be drafted that take into account the decisions made by Members at this meeting. Members may recall that a decision was made at a previous meeting for the role to be subject to an open advert.
19. Officers are concerned about how the role will come to the attention of existing independent audit members (who are the most likely to be interested and arguably the best applicants for the role). With this in mind officers were hoping to have Member approval to notify the monitoring officers of the various public bodies that have audit committees with independent audit members, so that they can inform relevant individuals about the advert.

Interview Panel

20. It would be helpful to agree the interview panel at this point. The intention would be to consult the panel informally about the advert and supporting documentation before the role is advertised.
21. It is assumed that if the interview panel is not the whole Audit Committee that the panel will report back to the Audit Committee, prior to confirming an appointment.

Future-proofing?

22. CIPFA recommends, in its Position Statement, that 'each authority audit committee should include at least two co-opted members to provide appropriate technical expertise.'
23. With this in mind, it may be worth indicating in the recruitment paperwork that the Authority is seeking to appoint an independent audit member, with the potential to appoint a further individual in future. This would allow the interview panel to identify a second individual capable of being appointed at a later date, should the Fire Authority decide that this is necessary. Of course this assumes that we secure a number of applicants, which remains to be seen.

Financial Implications

24. The appointment of an independent audit member will have a relatively small financial impact. The cost will be covered by existing budgets.

Legal Implications

25. The creation of an audit committee is not currently a legal requirement. However, it is expected to enhance the Authority's governance arrangements. It is likely that it will become a legal requirement in the not-too-distant future.

Equality and Diversity Implications

26. There are no equality and diversity implications arising from the decisions required in this report. The appointment will be achieved through an open process.

Environmental Implications

27. There may be a small environmental impact if the additional meetings add to the occasions when Members are required to travel to Sadler Road. However, the intention would be to have Audit Committee meetings immediately after Governance and Constitution Committee meetings, wherever possible.

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BACKGROUND PAPERS: NONE