

CHESHIRE FIRE AUTHORITY

MEETING OF: AUDIT COMMITTEE
DATE: 19TH APRIL 2023
REPORT OF: DIRECTOR OF GOVERNANCE
AUTHOR: ANDREW LEADBETTER

SUBJECT: RESPONSIBILITIES OF AUDIT COMMITTEE (AND ANCILLARY MATTERS)

Purpose of Report

1. To allow Members to consider:

Proposed broader responsibilities of the Audit Committee and certain ancillary matters, e.g. training requirements; and

Associated changes to the wider arrangements of the Fire Authority, with a view to making recommendations to the Governance and Constitution Committee.

Recommended: That Members

- [1] Confirm that they are satisfied with the description of the role of the Audit Committee and the approach to the handling of key documents/decisions; and
- [2] Make recommendations to Governance and Constitution Committee concerning the following matters: Purpose; Responsibilities; Membership (including status of Independent Audit Committee Member); Attendance; Training; and Meeting Frequency and Outputs (noting the changes to the wider arrangements of the Fire Authority, e.g. risk management).
- [3] Note the changes to the Constitution that would be required if the responsibilities of Audit Committee are adopted as set out in this report.

Background

2. The Audit Committee first met in November 2022. It decided that officers should 'submit a report reviewing the responsibilities of existing committee arrangements and provide proposals/options to the Governance and Constitution Committee.' The current responsibilities of the Audit Committee are attached to this report as **Appendix 1**.

3. Since then an informal discussion has taken place involving officers and members of the Audit Committee. This was framed by reference to 'CIPFA's *Position Statement: Audit Committee in Local Authorities and Police 2022*' (the CIPFA Position Statement) which is attached to this report as **Appendix 2**. Members of this Committee indicated that they were amenable to an expansion of its responsibilities. Some other Members of the Fire Authority have also been informally canvassed for their views and did not express any concerns about the potential impact on other decision-making bodies if the Audit Committee's responsibilities were expanded.

Information

Role of Audit Committee

4. The CIPFA guidance 'Audit committees: practical guidance for local authorities and police – 2022 edition' (the Guidance) is a really useful document and will undoubtedly be referred to in future meetings of the Committee, e.g. to consider an evaluation methodology to determine its effectiveness. However, some of the advice in the Guidance does seem to conflict with what occurs in practice at a number of local authorities. It states:

Currently, some authorities have delegated decisions such as the approval of the financial statements to the audit committee. This takes audit beyond its advisory role.

5. The Guidance goes on to say, *CIPFA recommends that the audit committee remains an advisory committee and does not have delegated powers.*
6. Officers have met with External and Internal Audit colleagues and they have been very helpful in sharing their experience of how audit committees function in other local authority settings. With the benefit of this information officers believe that the Audit Committee should deal with a number of key documents/decisions that have typically been considered/taken by the Fire Authority.
7. In recent years the following items have been considered by the Fire Authority:
 - a. External Audit Plan
 - b. Internal Audit Plan
 - c. External Audit Findings Report
 - d. Final Accounts and Annual Governance Statement
 - e. External Auditor's Annual Report
8. The following paragraphs describe how officers envisage these key items would be dealt with if Audit Committee's responsibilities are broadened:

Items a. and b. (paragraph 7) will be considered by the Audit Committee and the Fire Authority this year (prior to the delegation being in place), but in future years they will only be considered by the Audit Committee.

Items c. and d. (paragraph 7) will no longer be considered by the Fire Authority

Item e. (paragraph 7) will be considered by the Audit Committee before the Fire Authority receives the report. This will be the only key item that will be dealt with by the Fire Authority.

9. As the Audit Committee is expected to have a strategic overview of risk the Risk Management Board will no longer take place in its current format. It will be removed from the list of Member bodies. However, officers will continue to meet formally to discuss risk, probably quarterly.
10. The Audit Committee is expected to fulfil the responsibilities that typically were the domain of the Closure of Accounts Committee (until now the Performance and Overview Committee).
11. It is understood that Performance and Overview Committee will continue to consider reports from His Majesty's Inspectorate of Constabulary and Fire & Rescue Services and monitor progress against any recommended actions. However, Audit Committee will consider any aspects of such reports that relate to the areas within its responsibility.

Responsibilities of Audit Committee and Ancillary Matters

12. Officers believe that it would be helpful to describe the Audit Committee arrangements in a similar way to those of the Pension Board, i.e. in addition to setting out the responsibilities, there should be additional sections covering: Purpose; Membership; Attendance; Training; and Meeting Frequency and Outputs.

Purpose

13. Page 2 of the CIPFA Position Statement includes a section which sets out the purpose of an audit committee. The purpose of the Audit Committee could be summarised as:

To provide an independent high-level focus on the adequacy of governance, risk and control arrangements.

Responsibilities

14. Taking into account the various discussions that have taken place involving Members, auditors and officers, rather than agonising over the drafting of the responsibilities of the Audit Committee, it is suggested that the language and descriptions contained in the CIPFA Position Statement are adopted. These are reproduced below:

Core functions

The core functions of the audit committee are to provide oversight of a range of core governance and accountability arrangements, responses to the recommendations of assurance providers and helping to ensure robust arrangements are maintained.

The specific responsibilities include:

Maintenance of governance, risk and control arrangements

- Support a comprehensive understanding of governance across the organisation and among all those charged with governance, fulfilling the principles of good governance.
- Consider the effectiveness of the authority's risk management arrangements. It should understand the risk profile of the organisation and seek assurances that active arrangements are in place on risk-related issues, for both the body and its collaborative arrangements.
- Monitor the effectiveness of the system of internal control, including arrangements for financial management, ensuring value for money, supporting standards and ethics and managing the authority's exposure to the risks of fraud and corruption.

Financial and governance reporting

- Be satisfied that the authority's accountability statements, including the annual governance statement, properly reflect the risk environment, and any actions required to improve it, and demonstrate how governance supports the achievement of the authority's objectives.
- Support the maintenance of effective arrangements for financial reporting and review the statutory statements of account and any reports that accompany them.

Establishing appropriate and effective arrangements for audit and assurance

- Consider the arrangements in place to secure adequate assurance across the body's full range of operations and collaborations with other entities.
- In relation to the authority's internal audit functions:
 - oversee its independence, objectivity, performance and conformance to professional standards
 - support effective arrangements for internal audit
 - promote the effective use of internal audit within the assurance framework.
- Consider the opinion, reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control, and monitor management action in response to the issues raised by external audit.
- Contribute to the operation of efficient and effective external audit arrangements, supporting the independence of auditors and promoting audit quality.
- Support effective relationships between all providers of assurance, audits and inspections, and the organisation, encouraging openness to challenge, review and accountability.

Membership

15. Whilst this has previously been settled; the Audit Committee is comprised of four elected Members and one Independent Audit Committee Member, the CIPFA Position Statement does recommend that consideration should be given to the inclusion of two co-opted independent audit committee members. However, the CIPFA Position Statement indicates that the Audit Committee should not be large. Members indicated that they were comfortable with one independent audit committee member at this point.
16. Given the recommendation in the CIPFA Position Statement it would seem appropriate to make the independent audit committee member a co-opted member; to date the appointment has been expressed as being an advisory role. A co-opted independent audit committee member would have an enhanced status, e.g. a right to vote in the majority of instances where a vote was necessary. The following paragraphs summarises the membership situation, including co-option of the Independent Audit Committee Member.

Membership

Four elected Members drawn from the membership of the Governance and Constitution Committee (appointed in political proportion). Plus one co-opted Independent Audit Committee Member.

The Chair of the Audit Committee will be one of the four elected Members.

Attendance

17. It is important that the Audit Committee has relevant officers and advisers in attendance. To emphasise this, the following list could be adopted.

Attendees

In addition to the Audit Committee members, the individuals fulfilling the following roles will be expected to attend each meeting of the Audit Committee:

- ***Chief Fire Officer and Chief Executive, or Deputy Chief Fire Officer, or Assistant Chief Fire Officer***
- ***Treasurer/Section 151 Officer and/or Head of Finance (or similar role(s))***
- ***Monitoring Officer***
- ***Internal Audit representative***
- ***External Audit representative***
- ***Officer responsible for risk management***

Other officers can be required to attend upon request from the Committee.

Training

18. CIPFA Position Statement states, *While expertise in the area within the remit of the committee is very helpful, the attitude of committee members and willingness to have appropriate training are of equal importance.*
19. There are other references to training in the Guidance. In view of this the following requirement seems apt.

Training

All members of the Audit Committee are expected to undertake training. The Treasurer/Section 151 Officer will, in consultation with the External Auditor and Internal Auditor, prepare a training plan which will be approved by the Audit Committee. The Treasurer/Section 151 Officer will secure delivery of the training plan.

Meeting Frequency and Outputs

20. The CIPFA Position Statement states that the Audit Committee: *should meet regularly, at least four times a year and report annually on how the committee has complied with this position statement, discharged its responsibilities, and include an assessment of performance.* It also states that the committee *should evaluate its impact and identify areas of improvement.* With these requirements in mind it is suggested that the following paragraph should be included in the description of the Committee:

Meeting Frequency and Outputs

The Audit Committee must meet regularly and in any event no less than four times a year. The timing of meetings will be co-ordinated taking into account various reporting requirements.

The Audit Committee must prepare an annual report, which will include an evaluation of its impact.

Changes to the Constitution

21. The following changes have been prepared on the basis that Members approve the changes to the responsibilities of Audit Committee.

22. Responsibilities of the Fire Authority

3.20	Remove	Considers External Audit Findings and Value for Money Conclusion report (including approval of Audit Arrangements and Fees).
	Insert	Considers External Auditor's Annual Report.
3.23	Amend	Remove reference to Risk Management Board and insert Audit Committee.
List of Plans etc.	Remove	External Audit Plan and Internal Audit Strategy

23. Responsibilities of Performance and Overview Committee

3.30	Remove	Act as Closure of Accounts Committee.
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24. Responsibilities of Governance and Constitution Committee

3.45	Add Wording (in brackets)	Secures appropriate corporate governance arrangements (with the assistance of Audit Committee) and monitors them.
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25. Risk Management Board

3.87 to 3.91	Remove	All references to Risk Management Board
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Financial Implications

26. There are likely to be some additional costs associated with compliance with the CIPFA Position Statement, e.g. the required training might need to be delivered by an external provider.

Legal Implications

27. It is believed that the arrangements described in the report comply with the legal framework concerned with audit. However, the Audit Committee will consider and help refine the arrangements as its work develops.

Equality and Diversity Implications

28. There are no equality and diversity implications arising from this report.

Environmental Implications

29. There are no environmental implications arising from this report.

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APPENDIX 1

Purpose of the Committee

The responsibilities of the Committee are set out below:

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.

APPENDIX 2

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CIPFA's Position Statement: Audit Committees in Local Authorities and Police 2022

Scope

This position statement includes all principal local authorities in the UK, corporate joint committees in Wales, the audit committees for PCCs and chief constables in England and Wales, PCCFRAs and the audit committees of fire and rescue authorities in England and Wales.

The statement sets out the purpose, model, core functions and membership of the audit committee. Where specific legislation exists (the Local Government & Elections (Wales) Act 2021 and the Cities and Local Government Devolution Act 2016), it should supplement the requirements of that legislation.

Status of the position statement

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.

The 2022 edition of the position statement replaces the 2018 edition.

The Department for Levelling Up, Housing and Communities and the Home Office support this guidance.

CIPFA's Position Statement 2022: Audit committees in local authorities and police

Purpose of the audit committee

Audit committees are a key component of an authority's governance framework. Their purpose is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. The committee's role in ensuring that there is sufficient assurance over governance risk and control gives greater confidence to all those charged with governance that those arrangements are effective.

In a local authority the full council is the body charged with governance. The audit committee may be delegated some governance responsibilities but will be accountable to full council. In policing, the police and crime commissioner (PCC) and chief constable are both corporations sole, and thus are the individuals charged with governance.

The committee has oversight of both internal and external audit together with the financial and governance reports, helping to ensure that there are adequate arrangements in place for both internal challenge and public accountability.

Independent and effective model

The audit committee should be established so that it is independent of executive decision making and able to provide objective oversight. It is an advisory committee that has sufficient importance in the authority so that its recommendations and opinions carry weight and have influence with the leadership team and those charged with governance.

The committee should:

- be directly accountable to the authority's governing body or the PCC and chief constable
- in local authorities, be independent of both the executive and the scrutiny functions
- in police bodies, be independent of the executive or operational responsibilities of the PCC or chief constable
- have rights of access to and constructive engagement with other committees/functions, for example scrutiny and service committees, corporate risk management boards and other strategic groups
- have rights to request reports and seek assurances from relevant officers
- be of an appropriate size to operate as a cadre of experienced, trained committee members. Large committees should be avoided.

The audit committees of the PCC and chief constable should follow the requirements set out in the Home Office Financial Management Code of Practice and be made up of co-opted independent members.

The audit committees of local authorities should include co-opted independent members in accordance with the appropriate legislation.

Where there is no legislative direction to include co-opted independent members, CIPFA recommends that each authority audit committee should include at least two co-opted independent members to provide appropriate technical expertise.

Core functions

The core functions of the audit committee are to provide oversight of a range of core governance and accountability arrangements, responses to the recommendations of assurance providers and helping to ensure robust arrangements are maintained.

The specific responsibilities include:

Maintenance of governance, risk and control arrangements

- Support a comprehensive understanding of governance across the organisation and among all those charged with governance, fulfilling the principles of good governance.
- Consider the effectiveness of the authority's risk management arrangements. It should understand the risk profile of the organisation and seek assurances that active arrangements are in place on risk-related issues, for both the body and its collaborative arrangements.
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Financial and governance reporting

- Be satisfied that the authority's accountability statements, including the annual governance statement, properly reflect the risk environment, and any actions required to improve it, and demonstrate how governance supports the achievement of the authority's objectives.
- Support the maintenance of effective arrangements for financial reporting and review the statutory statements of account and any reports that accompany them.

Establishing appropriate and effective arrangements for audit and assurance

- Consider the arrangements in place to secure adequate assurance across the body's full range of operations and collaborations with other entities.
- In relation to the authority's internal audit functions:

- oversee its independence, objectivity, performance and conformance to professional standards
 - support effective arrangements for internal audit
 - promote the effective use of internal audit within the assurance framework.
- Consider the opinion, reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control, and monitor management action in response to the issues raised by external audit.
 - Contribute to the operation of efficient and effective external audit arrangements, supporting the independence of auditors and promoting audit quality.
 - Support effective relationships between all providers of assurance, audits and inspections, and the organisation, encouraging openness to challenge, review and accountability.

Audit committee membership

To provide the level of expertise and understanding required of the committee, and to have an appropriate level of influence within the authority, the members of the committee will need to be of high calibre. When selecting elected representatives to be on the committee or when co-opting independent members, aptitude should be considered alongside relevant knowledge, skills and experience.

Characteristics of audit committee membership:

- A membership that is trained to fulfil their role so that members are objective, have an inquiring and independent approach, and are knowledgeable.
- A membership that promotes good governance principles, identifying ways that better governance arrangement can help achieve the organisation's objectives.
- A strong, independently minded chair, displaying a depth of knowledge, skills, and interest. There are many personal skills needed to be an effective chair, but key to these are:
 - promoting apolitical open discussion
 - managing meetings to cover all business and encouraging a candid approach from all participants
 - maintaining the focus of the committee on matters of greatest priority.
- Willingness to operate in an apolitical manner.

- Unbiased attitudes – treating auditors, the executive and management fairly.
- The ability to challenge the executive and senior managers when required.
- Knowledge, expertise and interest in the work of the committee.

While expertise in the areas within the remit of the committee is very helpful, the attitude of committee members and willingness to have appropriate training are of equal importance.

The appointment of co-opted independent members on the committee should consider the overall knowledge and expertise of the existing members.

Engagement and outputs

The audit committee should be established and supported to enable it to address the full range of responsibilities within its terms of reference and to generate planned outputs.

To discharge its responsibilities effectively, the committee should:

- meet regularly, at least four times a year, and have a clear policy on those items to be considered in private and those to be considered in public
- be able to meet privately and separately with the external auditor and with the head of internal audit
- include, as regular attendees, the chief finance officer(s), the chief executive, the head of internal audit and the appointed external auditor; other attendees may include the monitoring officer and the head of resources (where such a post exists). These officers should also be able to access the committee members, or the chair, as required
- have the right to call on any other officers or agencies of the authority as required; police audit committees should recognise the independence of the chief constable in relation to operational policing matters
- support transparency, reporting regularly on its work to those charged with governance
- report annually on how the committee has complied with the position statement, discharged its responsibilities, and include an assessment of its performance. The report should be available to the public.

Impact

As a non-executive body, the influence of the audit committee depends not only on the effective performance of its role, but also on its engagement with the leadership team and those charged with governance.

The committee should evaluate its impact and identify areas for improvement.