


<b>Audit Committee</b>  23 November 2023	 <b>TOWER HAMLETS</b>
<b>Report of:</b> Janet Fasan, Director of Legal and Monitoring Officer	<b>Classification:</b> Unrestricted
<b>Review of Membership of the Audit Committee</b>	

<b>Originating Officer(s)</b>	Matthew Mannion, Head of Democratic Services
<b>Wards affected</b>	All Wards

### Executive Summary

This report invites Audit Committee Members to review the composition and operation of the Audit Committee to reflect updated Guidance published by the Chartered Institute of Public Finance and Accountancy (CIPFA) in 2022.

This report presents a copy of that document for its review and information.

The guidance covers areas such as:

- The Core Functions of an Audit Committee
- Accountability and Public Reporting
- Assurance and Audit Arrangements
- Structure and Independence
- Membership
- Administrative Arrangements

The Monitoring Officer has reviewed the Guidance and in particular draws the Committee's attention to recommendations around the governance/membership and independence of the Committee.

A number of recommendations to change current arrangements are set out for the Committee to consider.

Any changes made to the membership/operation of the committee as a result of this report are likely to require changes to the Constitution, which will need to be agreed by the General Purposes Committee/Council as appropriate.

## **Recommendations:**

The Audit Committee is recommended to:

1. Review and consider the CIPFA Practical Guidance for Audit Committees attached at Appendix 1 to this report.
2. Consider whether the Committee wishes to make any changes to its operation/membership in light of the Guidance and in particular to consider the options set out in Paragraph 3.23 in relation to the Membership and Independence of the Committee.

### **1 REASONS FOR THE DECISIONS**

- 1.1 The Audit Committee is a key component of the Council's governance framework and as such it is important to review its operation from time to time, especially in light of new guidance, to ensure it is operating as effectively as possible.

### **2 ALTERNATIVE OPTIONS**

- 2.1 A number of options are set out in the report but the Committee may have alternative proposals.
- 2.2 Equally, the Committee may determine that it is operating effectively and that no changes are required.

### **3 DETAILS OF THE REPORT**

- 3.1 As the CIPFA Guidance says, the Audit Committee plays a vital role in the governance of the Council, providing an independent and high-level focus on governance, risk and control arrangements.
- 3.2 The Guidance highlights that where it operates effectively, an audit committee adds value to the authority by supporting improvement across a range of objectives and that to achieve wide-ranging influence the Committee will need energy, appropriate skills/knowledge, commitment from its membership alongside support and openness of the authority.
- 3.3 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.

#### **Key points in the Guidance**

- 3.4 Members are encouraged to review the whole of the Guidance document set out as Appendix 1 to this report (the existing Terms of Reference are set out

in Appendix 2), however, the following section of the report sets out key points from the Guidance:

### **Independence and Accountability**

#### 3.5 The Committee:

- Should be accountable to the authority's governing body [ie Council].
- Should be independent of both the Executive and the Scrutiny Functions.
- Will have rights of access to and constructive engagement with other committees/functions.
- Can request reports and assurance from relevant officers.
- Be of an appropriate size [A suggestion of 6-8 Members] to operate as a cadre of experienced, trained committee members and to not be merged with other Committees such as those on Standards or Scrutiny.
- Should include co-opted independent members.
- Should meet at least 4 times a year and can meet in private if needed.
- Can meet with the external and internal auditors as required (including in private).
- Have regular attendance from relevant key officers such as the Chief Finance Officer, Head of Internal Audit, Chief Executive, Monitoring Officer as required.
- Report on its work at least annually as required.
- Should have free and unfettered access to the external auditors through the provision of private meetings between them and the committee.

### **Membership Skills**

- 3.6 Members should be trained to fulfil the role so that Members are objective, have an inquiring mind and independent approach.
- 3.7 Members will have the ability to promote good governance and look to help achieve the organisation's objectives and hold their discussions in an unbiased and non-political manner.
- 3.8 Selection of Members - should be based on relevant skills and experience.

### **Separation from the Executive**

- 3.9 The Mayor must not be a Member of the Audit Committee, the Cabinet Member for Resources should also not be a Member. Appointment of any Cabinet Member to the Audit Committee is discouraged.
- 3.10 If a Cabinet Member is included then there should be compensating arrangements such as a having an Independent Chair of the Committee or having more Independent members

- 3.11 There should be a two-year gap before a former Cabinet Member is appointed to the Audit Committee.
- 3.12 Members of the Executive should attend Meetings when required to brief the Committee on relevant matters.

#### **Independent Members –**

- 3.13 Independent members are recommended for the following reasons:
- To supplement the knowledge and experience of elected representatives in specific areas such as auditing or financial reporting.
  - To provide continuity outside the political cycle (which is particularly important where the membership can change annually).
  - To help achieve a non-political focus on governance, risk and control matters.
  - Having two Independent Members allows recruitment of people with different but complementary knowledge and experience.
  - Having two Independent Members shows a commitment to supporting and investing in the Committee.

#### **Decision Making / Advisory**

- 3.13 Finally, CIPFA recommends that the Audit Committee does not have any delegated decision-making powers and should just be advisory.

#### **Current Committee Membership/Operation**

- 3.14 The current composition of the Committee is 9 Members (5 Aspire and 4 Labour in line with proportionality). The Committee also have an Independent Person (Charlotte Webster) as an advisor – as the Committee is decision-making it cannot have Co-Opted Members.
- 3.15 The Committee is Chaired by a Councillor, elected at the Annual Meeting of Council. However, the Terms of Reference state that the Chair cannot be a Member of the Executive.
- 3.16 Currently, the Aspire group has 3 cabinet members on the Committee and the Chair is a Non-Executive Member of the Aspire Group.
- 3.17 The current membership and chairing does not reflect the CIPFA guidance and some options for members to consider are set out in paragraph 3.24 below
- 3.18 The Monitoring officer has discussed the Guidance with the Chair of the Committee, the Section 151/Chief Finance Officer and other colleagues.
- 3.19 The Monitoring Officer has also undertaken some research into the composition of Audit Committees or equivalent in some other Local Authorities

(9), including some with the Mayoral system. The outcome of the research is set out in the table at Appendix 3.

- 3.20 The research showed that there was one other Local Authority with the same number of cabinet members on the Audit Committee (3), but with an Independent Chair.
- 3.21 Members should note that the current membership was touched upon in the LGA informal feedback, along with a suggestion to have as Chair and Independent or a Member of the opposition.
- 3.22 Members may also want to consider what additional skills and/or training are required for fulfilling the role described in the Guidance.

### **Options for Membership/operation**

- 3.23 Whilst there are a number of different options and arrangements that the Committee could discuss, the Monitoring Officer recommends that the Committee in particular, considers the options below, and note that changes to the Committee's terms of reference may be required to reflect whichever of the options are agreed.
- Exclude the Cabinet Member for Resources from the Committee Membership and limit the overall number of Cabinet Members on the Committee to no more than 1.
  - Have no Cabinet members on the Committee.
  - That if there are Cabinet Members on the Committee then the Committee should be Chaired by an Independent member.
  - Irrespective of the above, the number of Independent Members should be increased to two.
  - The overall number of Councillors on the Committee be reduced to seven (from nine) appointed on a proportional basis, so that the overall membership does not expand too far beyond the recommended maximum of 8 Members when including independent Members).
  - That the Committee should remain a formal decision-making body and not change to an advisory body.
  - That a Job Description is prepared for the Chair of the Committee setting out the requirements of the role including responsibility to ensure debate is held in an open and transparent and non-political manner.
- 3.24 The Committee are also free to consider any of the other recommendations contained in the report.
- 3.25 As set out earlier in the report, the document produced by CIPFA is guidance rather than statutory. However, it is a thorough guidance document from an important sector organisation and the Audit Committee should give due consideration to what is set out.

3.26 There are also a number of recommendations that the Monitoring Officer does not consider appropriate to implement at this time but the Committee are also welcome to review and consider these as well and a report could be brought back on those issue, these include

- Implementing a two-year restriction on former Cabinet Members from serving on the Committee.
- Turning the Committee into an Advisory Body rather than a Decision-Making Committee.

3.27 Should the Committee agree any changes to its Terms of Reference (such as changes to the Membership) the relevant Constitution changes will be taken to the next meeting of the General Purposes Committee for agreement to add to that document.

#### **4 EQUALITIES IMPLICATIONS**

4.1 There are no specific equalities implications arising from the report. However, a well-functioning Audit Committee can help ensure the Council is operating the most effective governance arrangements which in turn do cover key equalities matters and safeguards.

#### **5 OTHER STATUTORY IMPLICATIONS**

5.1 This section of the report is used to highlight further specific statutory implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration. Examples of other implications may be:

- Best Value Implications,
- Consultations,
- Environmental (including air quality),
- Risk Management,
- Crime Reduction,
- Safeguarding.
- Data Protection / Privacy Impact Assessment.

5.2 The intention of this report is to increase the best value of the Audit Committee by ensuring it is operating in the most effective way.

#### **6 COMMENTS OF THE CHIEF FINANCE OFFICER**

6.1 An allowance for a second independent person can be contained within existing Democratic Services budgets.

#### **7 COMMENTS OF LEGAL SERVICES**

- 7.1 Regulation 3 of the Accounts and Audit Regulations 2015 requires local authorities to have a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives, ensures that the financial and operational management of the authority is effective and includes effective arrangements for the management of risk. The CIPFA guidance referred to in this report is not statutorily binding on the Council.
- 7.2 However, the adoption of methodologies and strategies of this report demonstrates the Council's compliance with these duties and with the duties set out in Section 151 of the Local Government Act 1972. This section requires every local authority to make arrangements for the proper administration of their financial affairs and to secure that one of their officers has responsibility for the administration of those affairs.
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## **Linked Reports, Appendices and Background Documents**

### **Linked Report**

- None.

### **Appendices**

- Appendix 1 – CIPFA Guidance on the operation of Council Audit Committees
- Appendix 2 – the current Audit Committee Terms of Reference
- Appendix 3 – Research into Committee arrangements at similar Local Authorities

### **Background Documents – Local Authorities (Executive Arrangements)(Access to Information)(England) Regulations 2012**

- None.

### **Officer contact details for documents:**

N/A