

Report to:	Audit and Governance Committee	Date of Meeting:	Wednesday 14 December 2022
Subject:	Review of Terms of Reference of the Audit and Governance Committee		
Report of:	Executive Director of Corporate Resources and Customer Services	Wards Affected:	(All Wards);
Portfolio:	Regulation, Compliance and Corporate Services		
Is this a Key Decision:	No	Included in Forward Plan:	No
Exempt / Confidential Report:	No		

Summary:

The report informs members of revised guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) relating to the terms of reference for audit committees and seeks members views on the appropriateness of any changes that should be made to the same.

Recommendation(s):

- (1) That members note the contents of the report and form a view on whether any changes are required to the committees' terms of reference.
- (2) That the terms of reference for the committee be amended to allow for the appointment of one independent member.

Reasons for the Recommendation(s):

In order to comply with best practice, it is important for the committee to regularly review its terms of reference.

Alternative Options Considered and Rejected: (including any Risk Implications)

None

What will it cost and how will it be financed?

(A) Revenue Costs

None

(B) Capital Costs

None

Implications of the Proposals:

Resource Implications (Financial, IT, Staffing and Assets):	
Legal Implications:	
Equality Implications: There are no equality implications.	
Climate Emergency Implications: The recommendations within this report will	
Have a positive impact	N
Have a neutral impact	Y
Have a negative impact	N
The Author has undertaken the Climate Emergency training for report authors	Y

Contribution to the Council's Core Purpose:

Protect the most vulnerable:
Facilitate confident and resilient communities:
Commission, broker and provide core services: The purpose of an audit committee is to provide those charged with governance assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance process
Place – leadership and influencer:
Drivers of change and reform:
Facilitate sustainable economic prosperity:

Greater income for social investment:
Cleaner Greener

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The Executive Director of Corporate Resources and Customer Services (FD 7038/22) and the Chief Legal and Democratic Officer (LD 5238/22) have been consulted and any comments have been incorporated into the report.

(B) External Consultations

None

Implementation Date for the Decision

Immediately following the Committee meeting. Any recommendations to change the committees terms of reference will have to be approved by Full Council.

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Appendices:

- Appendix 1 – Current terms of reference
- Appendix 2 – CIPFA 2022 revised suggested terms of reference

Background Papers:

CIPFA – Guiding the audit committee, 2022 edition: [Audit Committee Practical Guidance 2022.pdf \(sefton.gov.uk\)](https://www.sefton.gov.uk/media/1000000/Audit-Committee-Practical-Guidance-2022.pdf)

1. Introduction

- 1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) issues Practical Guidance for Local Authorities and Police on the role of the Audit Committees which includes suggested terms of reference.
- 1.2 The 2018 version of the guidance was considered by committee on 17 March 2021 and the committee recommended a change to its terms of reference in light of the guidance to Full Council on 18th May 2021 which were approved.

- 1.3 CIPFA have now produced a new version of the guidance and the suggested terms of reference can be found at Appendix 2. A comparison of the revised suggested terms of reference with the committee's current terms of reference shows no material differences subject to the issues highlighted below.

2 Committee Size and Membership

- 2.1 The guidance states that among local authorities, there is a range of practice on committee size, including committees that exceed our membership of ten members. The concern with large committees is that it can be harder to achieve the depth of knowledge and experience that is desirable with a small number of members, but equally it can be difficult to provide training and development to a large group. CIPFA recommend that a committee size of no more than eight members.
- 2.2 A committee of ten members is consistent with the size of the Overview and Scrutiny Committees.
- 2.3 CIPFA also recommends that the use of substitutes should be avoided. They argue that substitute members are less likely to have received relevant training although our substitute members are entitled to attend all training that is provided to members of the committee. They also claim that having substitute members disrupts the continuity of the committee, where committee members can build on information received in previous meetings and they found that where committee members are regularly substituted, it is an indication of a lack of engagement with the committee's purpose and agenda.
- 2.4 In Sefton attendance at the previous meetings in this municipal year show that no substitute members have attended the committee.

3 Tenure of Membership

- 3.1 The Guidance states that the tenure of an elected representative on the audit committee will be influenced by the need to maintain political balance as well as other factors. In principle, CIPFA argue that establishing continuity on the committee is helpful to make the best of knowledge and experience, but some rotation is also helpful to bring a new perspective. CIPFA recommends that two full terms on the committee would be a reasonable maximum.
- 3.2 There is currently no limit on the tenure of a member's membership of the committee and members should consider whether there should be a limit.

3.3 Current membership details since 2008 / 09 are as follows:

Member	Years as A&G Committee Membership
Shaw	15
McGinnity	11
Roche	8
Watson	5
Robinson	4
Cluskey	4
Dowd	2
JJ Kelly	2
Page	1
Burns	1

4 Co-Opted Independent Member

4.1 CIPFA recommends that an audit committee should have at least two co-opted members. 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. This is of particular importance where membership of the committee changes annually or because of elections.
- To help achieve a non-political focus on governance, risk and control matters.
- Having two co-opted members rather than one will allow recruitment of members with different but complementary knowledge and experience, increase the resilience and continuity of the committee.
- Having two co-opted members shows a commitment to supporting and investing in the committee.

4.2 While including co-opted members can bring real value to the committee, care is needed to ensure that the arrangement works well, both for the co-opted member and for the other committee members. It is essential that the co-opted member receives an adequate induction and ongoing support to provide organisational context and to build working relationships.

4.3 We currently do not have any co-opted independent members on the committee, but we have started the process to recruit one such member. Committee is recommended to revise the terms of reference to allow for the appointment of one

co-opted independent member and for such membership to be reviewed as part of the annual review of the committees' terms of reference in due course.

5 Standards

- 5.1 The core functions of the committee are wide ranging and whilst some local authority audit committees do have responsibility for its Members Code of Conduct and for dealing with complaints that members have breached the Code, CIPFA recommend that combining the function with audit should be avoided. They contend that whilst local authorities have a statutory duty to promote and maintain high standards of conduct, the audit committee should consider assurances on the discharge of this responsibility and be satisfied that there are arrangements in place rather than having direct responsibility for the same.
- 5.2 Members should consider whether it is appropriate for the audit committee to continue to have this function. One factor to consider is whether it is viable for the Council to have a stand-alone standards committee. Complaints that members have breached the Members Code of Conduct are infrequent and the Initial Assessment Sub-Committee has met only once this municipal year and once in the previous municipal year. In the last two municipal years no complaint has gone past the initial assessment stage.
- 5.3 The committee receives an annual report on the number and outcome of complaints; the last being to committee on 7th September 2022.
- 5.4 Revisions to the Members Code of Conduct are infrequent.
- 5.5 Members should consider whether it is appropriate for the Audit Committee to continue to have this function.