



**Reigate & Banstead**  
**BOROUGH COUNCIL**  
Banstead | Horley | Redhill | Reigate

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| <b>SIGNED OFF BY</b> | Head of Legal and Governance                |
| <b>AUTHOR</b>        | Natasha Jindal<br>Legal Services Manager    |
| <b>TELEPHONE</b>     | 01737 276868                                |
| <b>EMAIL</b>         | Natasha.Jindal@reigate-banstead.gov.uk      |
| <b>TO</b>            | Council                                     |
| <b>DATE</b>          | 27 <sup>th</sup> May 2021                   |
| <b>MEMBER</b>        | Executive Member for Finance and Governance |

|                              |           |
|------------------------------|-----------|
| <b>KEY DECISION REQUIRED</b> | No        |
| <b>WARDS AFFECTED</b>        | All wards |

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| <b>SUBJECT</b> | To adopt updated Audit Committee Terms of Reference and incorporate these into the Council's Constitution. |
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| <b>RECOMMENDATIONS</b>  |
| <p><b>Following consultation with the Chair of Overview and Scrutiny Committee, Chair of Audit Committee, Leader and Deputy Leader, Monitoring Officer and Chief Finance Officer, it is:</b></p> <p><b>RECOMMENDED that the Terms of Reference below be adopted and incorporated into the Council's Constitution for the Audit Committee – Part 3a Responsibility for Functions</b></p> <ul style="list-style-type: none"><li><b>(i) The appointment of an Independent Member to the Audit Committee and to approve the role description, skills and knowledge and person specification at Appendix 1.</b></li><li><b>(ii) Amend the Audit Committee's Terms of Reference to incorporate the inclusion of an Independent Member</b></li></ul> |

- (iii) **Amend the Audit Committee’s Terms of Reference to incorporate responsibility for scrutiny of the Treasury Management Strategy and associate reports, and consequentially amend the Overview and Scrutiny Committee’s Terms of Reference to remove Treasury Management Strategy (para 19 in Table 2 – Council Functions – Part 3a: Responsibility for Functions**

## **REASONS FOR RECOMMENDATIONS**

The purpose of the recommendations are to ensure that the Audit Committee continues to provide independent assurance to the Council on the adequacy of the risk management framework and the internal control environment.

The appointment of an Independent Member will provide increased expertise and confidence that the Audit Committee will continue to follow best practice as set out by the Chartered Institute of Public Finance & Accountancy (CIPFA) in their Practical Guidance for Local Authorities 2018. Given the increase in knowledge which the Independent Member will bring to the Committee it is sensible for the specialist area of treasury management to be absorbed into the Audit Committee’s functions.

## **EXECUTIVE SUMMARY**

The Chartered Institute of Public Finance & Accountancy (CIPFA) sets out the role of Audit Committees in their Practical Guidance for Local Authorities 2018 (The Guidance). This states that *“the purpose of the Audit Committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.”*

Audit Committees are a key component of corporate governance. They are a crucial source of assurance surrounding the organisation’s arrangements for managing risk, maintaining an effective control environment, and reporting on financial and non-financial performance and in the last twelve months, since its creation, the Audit Committee has embedded itself well in the efficient and effective management and oversight of Council business.

In November 2020 the CIPFA produced a response to the ‘Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting’ conducted by Sir Tony Redmond.

In this response, they expressed agreement to the recommendation of the appointment of an independent member to Audit Committees within Local Authorities, and since have incorporated this into their published Position Statement on Audit Committees in Local Authorities and in Police 2018 (The Position Statement). It is anticipated that the requirement will also become mandatory for local authorities when this sector’s Guidance is next revised.

The appointment of an Independent Member with appropriate skills and experience to supplement those of the elected Members will enhance the effectiveness of the Audit

Committee. The Independent Member will also receive the training which is currently provided to all Audit Committee members.

Treasury Management Strategy scrutiny responsibilities have been delegated to the Overview and Scrutiny Committee (O&S Committee) for some time, however the appointment of an Independent Member to the Audit Committee will bring additional expertise on financial controls to the Audit Committee. It therefore follows that with increased specialism presenting itself, the function of Treasury Management should also transition from the O&S Committee, to the Audit Committee.

Transferring this function to the Audit Committee would give a better balance of work between the two committees, and add capacity to Overview and Scrutiny Committee.

## **STATUTORY POWERS**

1. The functions of the Audit Committee are set out in the Council's Constitution, in line with the Local Government Act 2000 as amended by the Localism Act 2011 and the Local Audit and Accountability Act 2014 and the Local Audit and Accounts Regulation 2015

## **BACKGROUND**

### **Independent Member**

2. The terms of reference for the Audit Committee are set out at Part 3a Responsibility for Functions, Table 2 of the Constitution.
3. The Chief Finance Officer and Head of Legal and Governance have reviewed its arrangements against the most recent assessment of the Guidance and the Position Statement which sets out CIPFA's view of the role and functions of an Audit Committee.
4. At point 3 of the Position Statement it directs that the '*Audit Committee should in local authorities, be independent of both the executive and the scrutiny functions and include an independent member where not already required to do so by legislation recruit an independent member onto the Audit Committee.*
5. The Independent Member will not be a councillor and needs to be someone who will have experience of working in a medium / large organisation at a senior level or have experience which demonstrates equivalent capabilities. Accountancy, audit and/or risk management experience is essential.
6. In accordance with the Section 13 of the Local Government and Housing Act 1989 which relates to the voting rights of non-elected committee members. The independent member would not have a vote in the same way as the other Councillor members do at committee.

7. By way of distinction, any decisions which are delegated to Committee such as the adoption of the annual Financial Statements will exclude the Independent Member from voting and the Independent Member will represent themselves in a purely advisory and consultative manner.
8. However, when the Audit Committee is operating as an advisory committee under the Local Government Act 1972, making recommendations rather than policy, then all members of the Audit Committee, including the Independent Member will be able to vote on that recommendation. The minutes of the meeting will always make clear in what capacity the committee is voting.
9. A suitably qualified and experienced independent member serving on Audit Committees will bring specialist knowledge and insight to the workings and deliberations of the committee which, when partnered with elected members' knowledge of working practices and procedures, ensure:
  - An effective independent assurance of the adequacy of the risk management framework.
  - Independent review of the Authority's financial and non-financial performance.
  - Independent challenge to and assurance over the Authority's internal control framework and wider governance processes.
10. There are currently nine members of the Committee and following approval of the appointment of an Independent Member, the membership will increase to ten. This will be reflected within the Terms of Reference within the Constitution as shown in Appendix 2.
11. A copy of the proposed role description and person specification including skills and knowledge expectations is enclosed at Appendix 1.

### **Treasury Management:**

12. The Audit Committee has now completed its first year. It has worked well to fulfil its constitutional responsibilities and has become imbedded in the risk management profile and governance arrangements of the Council.
13. The CIPFA position statement outlines that the Audit Committee may have responsibility for reviewing and monitoring treasury management arrangements in accordance with the Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (CIPFA, 2017).
14. Treasury Management is currently part of O&S Committee's work with the requirement to produce three reports a year: Treasury Management Strategy in February/March, an Outturn report over the summer and a half year report in November.

15. It was noted that the Chair of O&S would also like to look at the Outturn report each year as part of the budget strategy review, but considers that the treasury work could transfer to the Audit Committee to give a better balance of work between the two committees, and allow increased capacity to the O&S Committee.
16. On the 18<sup>th</sup> March 2021, the O&S Committee agreed to remove treasury management strategy scrutiny from the O&S Committee Work Programme and report for 2021/22. This was subsequently recommended to Executive on the 25<sup>th</sup> March 2021 and approved by Council on 8th April 2021.
17. CIPFA identifies Treasury Management as a specialist area which requires a range of knowledge in:
- regulatory requirements
  - treasury risks
  - the organisation's treasury management strategy
  - the organisation's policies and procedures in relation to treasury management.

It is expected that the appointment of the Independent Member will bring into the committee additional expertise and thus, upon agreement of the recommendations herein, treasury management will be added to the Audit Committee Work Programme for 2021/2022.

### **Corporate Governance:**

18. The Council is committed to the pursuit of proper corporate governance throughout its businesses and services, and to establishing the principles and practices by which this can be achieved.
19. Accordingly, the treasury management function and its activities will continue to be undertaken with openness and transparency, honesty, integrity and accountability.
20. The Council has adopted, implemented and familiarised itself with the key principles of the Treasury Management in the Public Services: Code of Practice and Cross-Sectoral for the duration of the function being embedded within the O&S Committee.

### **Constitution Amendments:**

The following amendments will need to be made to the Constitution:

21. Remove point 19 at Part 3a, Table 2, O&S Committee which reads:

*Ensure effective scrutiny of the treasury management strategy and procedures*

22. Insert the above function, as removed from the O&S Committee, at point 14 of Part 3a, Table 2 Audit Committee, as shown in red bold in Appendix 2.

23. Insert the reference to an Independent Member within Part 3a, Table 2 Audit Committee, under the heading 'Members' as shown in red bold in Appendix 2

## **OPTIONS**

24. Take no Action – the Audit Committee may lack the additional expertise to ensure that it follows best practice.

25. Adopt the recommendations set out in this report – this would offer assurance that the Audit Committee is compliant with best practice as recommended by CIPFA.

## **LEGAL IMPLICATIONS**

26. The Council's Audit Committee is defined by the Local Government Act 2000 and its purpose is to give assurance to elected members and the public about the governance, financial reporting and performance of the Council.

27. The appointment of the independent members on the committee will assist and promote good governance and scrutiny of the committee.

## **FINANCIAL IMPLICATIONS**

28. Any costs associated with the recruitment, selection, appointment and subsequent disbursements to any independent panel members would need to be contained from within existing service revenue budgets.

## **EQUALITIES IMPLICATIONS**

29. The Council has a Public Sector Equality Duty under the Equality Act (2010) to have due regard to the need to:

- Eliminate discrimination harassment and victimisation and any other conduct prohibited under the Act.
- Advance equality of opportunity between people who share those protected characteristics and people who do not.
- Foster good relations between people who share those characteristics and people who do not.

30. The three parts of the duty applies to the following protected characteristics: age; disability; gender reassignment; pregnancy/maternity; race; religion/faith; sex and

sexual orientation. In addition, marriage and civil partnership status applies to the first part of the duty.

31. The method of Applications for the position of Independent Member to the Audit Committee will comply with all necessary Equality legislation and duties.

#### **COMMUNICATION IMPLICATIONS**

32. The decision as made will be published on the Council's website.

#### **RISK MANAGEMENT CONSIDERATIONS**

33. Subject to adequate vetting procedures and adherence to the Person Specification, this initiative should augment the Audit Committee's independence, provide additional expertise and enhance the treasury management role in the governance of the Council.

#### **OTHER IMPLICATIONS**

34. There are none.

#### **CONSULTATION**

35. The Monitoring Officer, the Chief Finance Officer, the Leader of the Council, Portfolioholder for Finance & Deputy Leader, Chair of the Audit Committee and Chair of the Overview and Scrutiny Committee.