

SUBJECT: GOVERNANCE AND AUDIT COMMITTEE REVIEW AND CHANGES

MEETING: Governance & Audit Committee

DATE: 28th February 2022

DIVISION/WARDS AFFECTED: All

1. PURPOSE:

- 1.1 To consider proposed and necessary changes to the Governance and Audit Committee as a consequence of the requirements of the Local Government and Elections (Wales) Act 2021 and the conclusions from a review of current arrangements by members of the committee and relevant officers.

2. RECOMMENDATIONS:

- 2.1 For members of the committee to acknowledge the changes brought about by the Local Government and Elections (Wales) Act 2021 in so far as they impact on the Governance and Audit Committee and as outlined in the report.
- 2.2 That the committee endorses the further considerations proposed that look to further strengthen the effectiveness of the committee going forward, and that have resulted from the latest self-assessment by members of the committee and the subsequent overarching review undertaken.
- 2.3 That the constitution be amended to reflect these changes, to take effect at the next Annual General Meeting in May.

3. KEY ISSUES:

Local Government and Elections (Wales) Act 2021

- 3.1 The Local Government and Elections (Wales) Act 2021 was passed by the Senedd on 18 November 2020 and received Royal Assent on 20 January 2021. Sections 115-118 of the Act have a direct bearing on the name and function of the committee (section 115), its membership and the meaning of lay person (sections 116-117) and its chairing (s118). Other sections of the Act, notably around new self-assessment and performance reporting required, also impact on the responsibilities of the committee.
- 3.2 The current arrangements continue to serve the council well. Effective scrutiny and challenge by the Governance and Audit Committee ensures that Council financial control, risk, performance, and corporate governance arrangements are operating effectively.
- 3.3 The changes brought about by the Act come into effect at different times. S115 came into force on 1st April 2021 whereas the other changes referred to in 3.1 above come into force on 6th May 2022.
- 3.4 The committee has already been renamed with effect from 1st April 2021 and is now called the Governance and Audit Committee. S115 also looked to update and refine the function

of the committee and by way of update to S81 the Local Government (Wales) Measure 2011. This confirms the role of the Governance & Audit Committee to:

- Review and scrutinise the authority's financial affairs
- Review and assess the risk management, internal control, **performance assessment** and corporate governance arrangements of the authority
- **Review and assess the authority's ability to handle complaints effectively**
- Make reports / recommendations in relation to the effectiveness of the above
- Oversee the authority's internal and external audit arrangements; and
- Review financial statements prepared by authority

3.5 The new elements introduced are shown in **bold** above and have already been factored into the committee's work programme.

3.6 A local authority may however confer on its governance and audit committee such other functions as the authority considers "suitable" to be exercised by such a committee. However, it should clearly have regard to the authority's scrutiny arrangements and its standards committee and such as to avoid duplication and ensure maximum impact and effectiveness in holding the Council and its Executive to account.

3.7 The further changes brought about by the act across S116-118 comprise:

- a) Requirement for an independent lay chairperson – cannot be a local authority employee; or spouse/civil partner of a local authority employee
- b) Deputy chair cannot be member of the executive (Cabinet) – only 1 member of the executive can sit on the committee (but not a requirement) – this cannot be the Leader of the Council
- c) At least 1/3 of the committee needs to be lay members

3.8 In terms of the composition of the committee in its current form it comprises 11 members and 1 independent chair (12 in total). With a requirement for at least 1/3 of the committee to be lay members this requires 4 lay members to be appointed, all of whom have voting rights.

3.9 The existing independent chair is to step down at end of his current term and which coincides with the end of this civic year and when the above changes come into effect.

3.10 The Council has worked collaboratively and run a recruitment process via WLGA but also via the Council in order to source the best possible candidates. The recruitment process has concluded and 3 of the 4 lay member positions have been recruited into already. A further local and targeted recruitment will now be undertaken to secure the last necessary lay person appointment to the committee. These appointments will be ratified and approved by Council in May following the election.

3.11 Officers of the Council have worked closely in recent months with members of the committee and its Chair such as to take the opportunity to review the effectiveness of the committee and to identify enhancements and changes that would ultimately strengthen yet further the robust arrangements in place.

3.12 Alongside this changes proposed to the authority's scrutiny arrangements, and that are being considered by Council at its meeting on 3rd March, present a timely opportunity to

exacting role and scope of the committee such as to both avoid duplication and ensure maximum impact and effectiveness.

- 3.13 The Local Government Measure 2011 states that it is not a statutory requirement to ensure that political balance is achieved when the committee members are appointed. Guidance recommends however that the balance of members of the committee is at least as favourable to non-executive groups as would be achieved by political balance rules. Whilst it would help the authority if the committee had the appearance of independence from the leadership it is still currently intended for the Governance and Audit Committee membership to still be determined via the Annual Political Balance report presented to Council in May.
- 3.14 Other sections of the Local Government and Elections (Wales) Act 2011 notably around new self-assessment and performance reporting requirements also impact on the responsibilities of the committee. These can be summarised as follows:
- The draft annual self-assessment performance report needs to be considered by the Governance & Audit Committee ahead of it being considered by Council. The committee may as a result of its considerations make recommendation to Council for changes to conclusions.
 - The report of the (independent) panel performance assessment is also to be made available to the Governance & Audit Committee. A panel performance assessment is to take place at least once during the period between two consecutive ordinary elections of councillors to the Council.
 - If not meeting its performance requirements, the Auditor General can carry out special investigations. Such special investigation reports, including the draft response by the Council, must go to the Governance & Audit Committee.

Self-evaluation and Review of the Governance & Audit Committee

- 3.15 Wider research has been undertaken on the qualities that are indicative of an effective audit committee. A group of Audit Committee Chairmen and Members, from FTSE 100 and FTSE250 businesses, identified these attributes as key during a roundtable event held by ICAEW:
- Intellectual curiosity and professional scepticism
 - Courageous in making tough decisions
 - Balanced, ethical approach to whistleblowing
 - Oversight of key risks (not just financial)
 - Excellent relationship builders
 - Ability to build and develop a strong team
 - Able to challenge the external auditors
 - Good listening skills
 - Own the agenda
- 3.16 Furthermore, private sector audit committees extend their interests into:
- Oversight of regulatory compliance, ethics, and whistleblowing – it is recognised that the Governance & Audit Committee already presides over whistleblowing and anti-fraud, bribery and corruption. And the Standards Committee already has separate regard for Members conduct.

- A growing focus on ESG reporting (Environmental, Social and Corporate Governance) – which again beyond corporate governance is already achieved via Select Committee scrutiny of policy commitments around environmental performance and social justice, corporate governance already being within the remit of the committee.

3.17 The committee already has a mechanism in place around self-assessment. The last assessment was undertaken in 2020. The self-assessment, completed by 7 of the 12 committee members at that time was generally positive. The self-assessment was based on a questionnaire that involved 46 questions based on CIPFA’s “*Audit Committees – Practical Guidance for local authorities and Police (2013)*”. The questionnaire covered 7 themes:

Roles and Responsibilities
 Monitoring and Oversight
 Internal Audit
 External Audit
 Membership
 Meetings
 Skills and Training of Members

3.18 The results of the self-assessment were collated and fed back into the committee and an action plan was agreed and that contained suggested areas for improvement (see appendix 1). The action plan centred principally around officers providing further information and training to enable the committee to be more effective. Progress was hindered as a consequence of the pandemic and it was subsequently concluded and agreed that the action plan would be incorporated into a wider and subsequent review of the committee and alongside the changes brought about by the Local Government and Elections (Wales) Act 2021 as mentioned above.

3.19 The wider and subsequent review of the committee involved workshop sessions with officers and members of the committee. The workshop sessions were productive and constructive and highlighted the following strengths:

- The Chairman runs meetings well – he is well prepared and thorough in his preparation – giving committee members the opportunity to contribute
- The Committee operates non-politically – which demonstrates good governance
- No major weaknesses identified via self-assessment – however, some have identified need for additional training but need to specify what training specifically

3.20 It also raised important issues that have been considered in forming these proposed considerations that look to improve the effectiveness of the committee going forward:

- It was recognised that it was important for members selected onto the committee to have an interest in being on the committee
- It was important for officers to be present to respond to questions raised by the committee
- Clarity was needed around which reports should go to the committee as distinct from select committees and to avoid duplication and to improve effectiveness
- The independent chair is often not aware of wider Council business
- Members sometimes lack the specialist knowledge and experience required of an audit committee member and to enable officers to be held to account – opportunity to address via lay member appointments and training

3.21 As a result of the feedback and further comments provided by both officers and members of the committee agreement was reached on the following proposals for improvement:

- Terms of reference and scope of the committee to be refined to make it clear on what gets considered by Governance & Audit Committee – the committee should focus on matters of governance, audit, performance and finance and risk arrangements in line with the Local Government Measure 2011 – particularly pertinent for reports from regulators
- The Governance & Audit Committee should adopt similar practices to select committees in so far as having a pre-meeting ahead of the meeting itself. Which is now more easily facilitated due to virtual meetings.
- The committee should receive and consider RFO's annual opinion on robustness of budget process and adequacy of reserves as part of budget process – considered separately on the agenda
- The member induction and training programme needs to be enhanced and targeted towards committee members needs
- Lay members with suitable expertise and experience to be recruited and where possible members with desire and relevant background or experience to be considered
- Consideration of strengthening compliance with CIPFA's Financial Management (FM) Code over which the committee needs to preside

3.22 On the whole the changes and beyond LG&E the changes are relatively minor and are more so a proposed strengthening of arrangements and in providing greater clarity to the role of Audit Committee, together with points carried forward from the previous self-assessment action plan (appendix 1). On the basis of these proposals being accepted by the committee an updated action plan will be produced and presented to the first meeting of the Governance and Audit following the election and when a new membership exists.

3.23 It is proposed going forward and beyond the suggested areas for improvement that the self-assessment should be undertaken periodically, and no longer than every 2 years, such as to ensure there is a continual evaluation and assessment of the effective of the committee.

4. EQUALITY AND FUTURE GENERATIONS EVALUATION (INCLUDES SOCIAL JUSTICE, SAFEGUARDING AND CORPORATE PARENTING):

4.1 There are no such implications directly arising from this report.

5. OPTIONS APPRAISAL

5.1 The Local Government and Elections (Wales) Act 2021 affected changes with regards to the role of the Governance and Audit Committee. These are outlined above in the main body of the report. A local authority may confer on its Governance and Audit Committee such other functions as the authority considers "suitable" to be exercised by the committee.

5.2 The review that has been undertaken does not propose any significant changes in either scope or approach. Rather the proposals involve the existing role of the committee being strengthened and the extent and scope of its interests being clarified.

6. EVALUATION CRITERIA

- 6.1 Preparations for the changes brought about by the Local Government and Elections (Wales) Act 2021 are already well advanced, planned for or in place already and as outlined in the report above.
- 6.2 Aside from the responsibilities falling to Governance and Audit Committee to scrutinise self-assessment performance arrangements it is equally important for the committee to embrace the evaluative approach that underpins this.
- 6.3 There will be a process of continual review and evaluation of the effectiveness of the committee and as there has been previously. The self-assessment process will be undertaken with members of the committee periodically and reported back into the committee. An action plan will continue to be monitored and maintained with progress and an evaluation of outcomes reported back to the committee as required.

7. REASONS:

- 7.1 New requirements have been placed on the Governance & Audit Committee as a result of the Local Government and Elections (Wales) Act 2021, both in terms of lay person membership and the scope and remit of the committee.
- 7.2 Furthermore, and in light of the timing of the proposed changes and the end of an administrative cycle the opportunity has been taken to purposefully engage with members of the committee and relevant officer to seek feedback on how the effectiveness of the committee could be strengthened yet further going forward and with a new administration.

8. RESOURCE IMPLICATIONS:

- 8.1 There are no direct resource and budgetary implications arising from the recommendations in this report whether brought about by the Local Government and Elections (Wales) Act 2021 or from the review of the Governance and Audit Committee itself.
- 8.2 The additional lay persons appointed onto the committee will be entitled to be paid in line with agreed daily rates, together with reimbursement for reasonable costs of travel and meeting preparation. These additional costs have already been factored into the final budget proposals for 2022/23.
- 8.3 Induction of new members to the committee, together with ongoing training, will be met through additional officer time and from within existing capacity and budget. As will be the case for officers having to comply with the new self-assessment and self-evaluation requirements of the Act.

9. CONSULTEES:

Strategic Leadership Team
Governance and Audit Committee
Scrutiny Manager

10. BACKGROUND PAPERS:

Appendix 1 – Self-assessment Action Plan
Appendix 2 – Governance & Audit Committee – Current Work Programme

11. AUTHOR:

Peter Davies, Deputy Chief Executive / Chief Officer for Resources (S151 Officer)

12. CONTACT DETAILS:

Tel: 01633 644294 / 07398 954828

e-mail: peterdavies@monmouthshire.gov.uk