

CITY AND COUNTY OF CARDIFF DINAS A SIR CAERDYDD

CONSTITUTION COMMITTEE:

13 February 2009

REPORT OF THE CITY AND COUNTY TREASURER

AGENDA ITEM: 2

REVIEW OF THE INDEPENDENT AUDIT PANEL

Reason for this Report

1. To enable the Committee to consider the outcome of a review of the role and responsibilities of the Council's Independent Audit Panel and to agree the proposed way forward.

Background

2. There is no extant statutory obligation for a local authority to establish an audit committee but guidance issued by CIPFA recommends that local authorities should have an independent Audit forum providing assurance on the adequacy of financial management and reporting and management of other processes required to achieve the organisations corporate and service objectives.
3. The creation of the Independent Audit Panel was approved by the Cabinet in 2002 following a number of reports to the Committee of the Council and Cabinet on the best model for Cardiff Council. This culminated in the following section in the Council's Constitution:

"The Council has established an Independent Audit Panel to which three independent persons are appointed. The panel, supported by the three statutory officers (Head of Paid Service, Monitoring Officer and Section 151 Officer) receives and considers internal and external audit reports directed to Members. Any report or recommendations the Panel wishes to make is reported directly to Cabinet [now Executive] (for Executive functions) or to the Council (for Council functions) together with a copy of the said internal or external report."

4. The three independent members of the Panel were selected through public advertisement and subsequent interview by the then Directors of Law & Administration and Finance. Two out of the three members have been constant throughout while the third member has served on the Panel since 2005.
5. The role of the Panel is generally to provide independent assurance of the adequacy of the internal control environment and risk management framework, independent scrutiny of the authority's financial and non-financial performance, to the extent that it affects the authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.

6. The agreed Terms of Reference of the Panel are set out in Appendix A. Since inception the Panel has followed these terms of reference and has provided Annual Reports on its activities to the Executive and Policy Review and Performance Scrutiny Committee. However, the operation and effectiveness of the Panel has not been formally assessed and so such a review has now been undertaken as part of the Council's Corporate Governance Programme.
7. The review team was led by the Council's Internal Auditor & Risk Manager with support from our External Audit Manager, a Chief Auditor from another local authority and representatives from other service areas including Scrutiny. In this way the team was able to consider the current model and operation and compare with practice elsewhere both in terms of its role and effectiveness. Details of the review team's methodology and summary results are shown in Appendix B.

Issues

8. The results of the review have been analysed and although there is evidence that the current arrangements have served the Council well, a revised model has been developed which should enhance the current arrangements. The key aspects are to:
 - Raise the profile of the Panel to publicly recognise its contribution to the Council's overall process for ensuring that an effective internal control environment is maintained
 - Increase the size of the Panel and include council members in order to bring their innate knowledge and experience of the authority to add more context to debates
 - Extend the terms of reference to bring more focus to the concept of Value for Money and in particular reviews of unit costing of services including comparative studies where applicable
9. The revised model for Cardiff Council would therefore continue its strong support for the fundamental principles of independence and objectivity upon which Audit Committees should be based.
10. The review and especially the views expressed by all interested parties involved in the survey, has enabled a way forward to be proposed, as outlined below.

Composition of the Panel

- To consist of four independent members (either current members or new members sought by public advertisement) and three Non Executive Councillors, elected by Council.
- One of the independent members to be Chair of the Panel to be appointed by the Panel on an annual basis
- Independent members to be appointed for four years with council members to be reappointed annually
- WAO representation as at present

- Council officer attendance as current with the Council's Section 151 Officer as lead support

Governance arrangements

- Panel meetings to be held in public subject to the usual restriction on confidential matters
- Agendas, reports and minutes will conform to usual standards for council business meetings
- Minutes of Panel meetings will be noted at submitted for noting at Executive Business Meetings
- An Annual Report of the Panel's activities will be produced for consideration by the Executive and Policy, Performance & Review Scrutiny Committee and circulated to all Members for information
- The Panel to have general authority to require any officer or councillor to attend to add value to any matter under consideration
- The Panel to have general authority to report any matter to the Council as those charged with governance
- § Work plans for Audit Panel need to be done in conjunction with Scrutiny committees to add value and avoid potential duplication;
- The Panel will approve the Internal Audit Strategy, Plan and Annual Report having consulted with the Section 151 Officer
- Appointment to the Panel to be considered as an approved duty enabling all members to claim appropriate expenses

Terms of Reference

- To consider matters of relevance to the efficient financial administration of the Council, particularly in relation to its systems of good corporate governance, probity and financial strength
- To receive relevant reports from the Council's Section 151 Officer with regard to the above and to consider internal audit matters brought to the Panel's attention by the Section 151 Officer or the Internal Audit & Risk Manager
- To receive reports of the Council's External Auditor, in particular concerning the Regulatory Plan, the Annual Audit Letter and any statutory reports issued by the Auditor
- To agree responses to external audit reports where appropriate and to refer these (along with the report) to the Executive or relevant Scrutiny Committee or Council as appropriate and to consider any responses where relevant

- To receive a quarterly report of all completed audit reports with a synopsis of the work undertaken together with a graded assurance opinion
 - To receive a quarterly summary report of school audits together with a graded assurance opinion with individual reports considered by school governing bodies
 - To review the implementation of internal audit report recommendations on a regular basis as part of the Audit & Risk Manager's progress reporting cycle
 - To review value for money, efficiency and effectiveness through consideration of financial performance indicators and comparative studies where relevant
 - To raise the profile of probity generally within the Council and to report on matters of concern to the Executive or to Council as necessary and appropriate
 - To receive reports of any significant incidents of fraud or financial impropriety and actions taken to enhance controls where this is considered necessary.
 - To receive reports on fraud prevention and detection initiatives and updates to any related policies and strategies.
11. The required skills, experience and personal qualities for the Independent Members of the Panel are set out in Appendix C and it is proposed that the City & County Treasurer is given delegated authority supported by the Chief People & Organisational Development Officer to progress appointments through public advertisement and any subsequent selection process. It is suggested that the current Panel Members retain their positions should they wish to remain as part of the new arrangements as their experience will be of benefit to all new members.
12. On establishment of the new Panel, it will be important for all members to undertake an element of awareness training and for protocols to be developed with Scrutiny to ensure that effort is complementary and not duplicated especially in areas such as performance management.

Legal Implications

13. There are none save as set out in the body of this report.

Financial Implications

14. Although not a statutory requirement, the majority of Councils have a distinct Audit meeting forum. There is a fundamental principle of independence and objectivity which should underpin such fora and Cardiff has complied with this principle since 2002 through its Independent Audit Panel. However, the recent review has established that although the current arrangements work well they could be enhanced through raising the profile of the Panel and also including elected members to capture their innate knowledge of the Council. The proposal in this report would retain the independence of the Panel through numbers and also by requiring the Chair to be one of the independent members.

15. This report has been discussed with the Council's external auditors who support the proposed new arrangements.
16. The proposal does not have any significant financial implications although will require additional support from the Clerk to the Council's service which it is expected can be met from existing resources.

RECOMMENDATIONS

That the Committee:

1. Agrees the revised model for Cardiff's Independent Audit Panel as set out in paragraph 10 of this report
2. Makes the necessary amendments to the Council's Constitution
3. Delegates authority to the City & County Treasurer to progress the appointment of a maximum of four new Independent Panel Members through public advertisement and conclude any subsequent selection process
4. Request that three Non Executive Councilors be appointed to the Audit Panel, to be elected by Council.

Christine Salter

City and County Treasurer

1st February 2009

Appendix A Terms of Reference of current Independent Audit Panel

Appendix B Review of current role and effectiveness of Panel

Appendix C Role and Person specification of Independent Member of the Audit Panel

CARDIFF INDEPENDENT AUDIT PANEL

Terms of Reference

- To consider matters of relevance to the efficient financial administration of the Council, particularly in relation to its systems of good corporate governance, probity and financial strength
- To receive relevant reports from the Council's Section 151 Officer with regard to the above and to consider internal audit matters brought to the Panel's attention by the Section 151 Officer
- To receive reports of the Council's External Auditor, in particular concerning the Regulatory Plan, the Annual Audit Letter, any statutory reports issued by the Auditor and any other audit reports issued from time to time, which are defined under the Council's agreed protocol as reports for submission to Members
- To agree responses to external audit reports where appropriate and to refer these (along with the report) to the relevant Council Scrutiny Committee(s) and consider any responses from the relevant Scrutiny Committee(s)
- To report on matters of concern to the Executive or to Council as necessary and appropriate

Methodology and summary results of the review into the role and effectiveness of the Council's Independent Audit Panel

The review was project managed using the PQA Model. Research has been undertaken into other models of Audit Panel / Committee and the views of those currently serving as Panel members, officers attending Panel on a regular basis and the views of others considered to have an interest in how an Audit Panel/Committee, have been sought in considering the best way forward.

Questionnaires were designed to capture the views in the following areas:

- a. Role and Responsibility – core functions
- b. Composition of Panel
- c. Status
- d. Effectiveness

Questionnaires were circulated to the following:

Current attendees:

Audit Panel members

Wales Audit Office – Relationship Manager and Audit Manager

City & County Treasurer

Audit & Risk Manager

Interested parties:

Executive Members

Scrutiny Chairs

Opposition Leaders

Chair of the Standard & Ethics Committee

Monitoring Officer

Chief Scrutiny, Performance and Governance Officer

Clerk to the Council

The Audit & Risk Manager, who managed the project, facilitated three workshops during which the questionnaires were completed with current Panel Members, Executive Members and Scrutiny Chairs.

The responses received to the questionnaires have been collated, summarised and presented in the following tables. These are designed to provide a response for each of the main themes and questions posed. There was obviously different views expressed to each of the questions and the tables attempt to summarise the main findings only and where possible a consensus view.

Role and Responsibility – core functions

Do you consider the current core functions (as outlined in Project Brief) for the Audit Panel appropriate?	Generally all felt that the core functions were appropriate and in line with good practice elsewhere. It was considered appropriate that this should be reviewed by Panel itself once a way forward has been agreed and this would be a priority for any new Panel.
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Composition of Panel

What would you consider to be an effective number of people on the Panel?	The suggestions varied between 3 and 8. All agreed there is a need for more than at present, to avoid problems with meetings being quorate. Current members felt 4 would be appropriate to maintain the focus others felt a higher number, around 7, would be more appropriate. Some considered that the number and mix adopted by Standards & Ethics (S&E) Committee about right.
What would you consider to be the best make up of a Panel, both in terms of: <ul style="list-style-type: none"> - independent members - Council members Please provide numbers for each.	Current Panel members were satisfied with the current position, emphasising the importance of independence. Others generally felt there would be a benefit in a mix of Council Members and independents. There was no support for Councillor only. There were strong views on independence and a number suggested independents should outnumber Councillors and that there should be an independent Chair. Reference was made to the S & E Committee model as one that provides a good balance of independence, views and experience.
Should it be considered that Council Members should attend Audit Panel meetings, should there be: <ul style="list-style-type: none"> - representation from the different parties – if so what mix should one Chair the Panel if so what party?	Representation by Members from main parties was felt to be appropriate. The majority of respondents felt that the Chair should be Independent. The Current Panel Members favoured no Councillors on the Panel as they felt it could lead to political issues being raised / prioritised. Others recognised this and felt it could be overcome with the right balance of membership. It was considered by some that the Executive Member – Finance and Service Delivery and the Chair of Policy, Performance and Review Scrutiny Committee should attend as “observers”.
Which Officers would you suggest attend Panel meetings. If as now please indicate.	General agreement that the right people attend but some felt it would be useful for the Chief Scrutiny Performance and Governance Officer to attend for links to Scrutiny and general governance matters. The view was expressed that Clerk of the Council should provide full secretarial support.

Status

<p>Do you consider the current Panel has the appropriate status within the Council? If not how should this be addressed?</p>	<p>All respondents felt that the Panel had a role to fulfil but that it does not have the appropriate status within the Council. Some respondents knew little of what the Panel were doing and others felt it had little clout to make a change or add value. Reporting lines are unclear and there is uncertainty as to their work programme and how this sits alongside that of Scrutiny. Some even felt possible overlap.</p> <p>It was considered a need for a much clearer role in context with Scrutiny and closer links to avoid duplication. There is a need for much clearer reporting lines and to reports to those charged with governance – the Executive.</p>
<p>Do you think the interaction the Panel has with Scrutiny works well?</p>	<p>Majority felt that there was scope for improvement. Other than once a year there is little linkage. Some felt that it would be helpful to have Chief Scrutiny Performance and Governance Officer and Chair of PR & P Scrutiny attending in an observer capacity. Much closer agreement on work plans with Scrutiny and a proper protocol is required.</p>

Effectiveness

<p>Do you consider the core functions of the panel are effectively delivered by current arrangements? If so how could this be improved?</p>	<p>Current Panel Members considered this to be the case. Some felt the current arrangement did provide a useful forum and met many of the core functions, but saw little added value. Some good practice recognised, such as, where External and Internal Audit reports are being considered and Senior Managers are required to attend to provide Council perspective on report findings. This was positive for accountability but some felt not sufficiently challenging. Others felt scope to be more focused in fulfilling the role. Others felt unable to comment as they knew little of what they did.</p> <p>There is a need for much clearer reporting lines and to report to those charged with governance – EBM.</p>
<p>Currently the Audit Panel meet every 3 months – do you consider this frequency of meetings is appropriate?</p>	<p>No strong views – 50% said about right. Some suggested a few more but frequency dependant upon issues arising / standard reports to be discussed.</p>

<p>Do you consider the Panel should have any decision making or approving role?</p>	<p>Majority feel No – decisions resting within Council e.g. C & C Treasurer, or EBM. Should have power to refer issues to Scrutiny or EBM and provide comments and recommendations which may / may not impact on decisions taken.</p> <p>Some felt that there is a need to accord with CIPFA guidance in relation to approving Internal audit matters.</p>
<p>Do you consider the Panel has opportunity to effectively challenge decisions and actions by: The Executive, Other Committees, Scrutiny and Officers</p>	<p>Current Panel Members feel they had, but not applied this, as not considered necessary. Others felt No. Some views that having Councillors on the Panel would help with knowledge base and to increase status and ability to question and challenge others.</p>

Derek King
Project Team Lead

**Role and Person Specification for
Independent Members of Cardiff Council Audit Panel**

Role

- To be an independent member of the Council's Audit Panel
- To consider matters of relevance to the efficient financial administration of the Council, particularly in relation to its systems of good corporate governance, probity and financial strength
- To receive relevant reports from the Council's Section 151 Officer with regard to the above and to consider internal audit matters brought to the Panel's attention by the Section 151 Officer or the Internal Audit & Risk Manager
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- To receive reports on fraud prevention and detection initiatives and updates to any related policies and strategies.

Person Specification

Required skills and experience

Independent members of the Council's Audit Panel should be able to demonstrate high proportion of the following attributes.

- A working knowledge of the general or financial management of large organisations in the public or private sector.
- A general knowledge of systems of internal control and audit.
- An understanding of the concept of corporate governance.
- A good grasp of ethical issues, probity and the achievement of sound financial systems.
- An understanding of a need for balance between strong management systems and the ability to achieve improvements in service delivery.
- A recognition of the Council's decision to change its focus to be citizen centred and that traditional arrangements for support and service delivery will change in the medium term.
- A suitable professional or management qualification, including qualifications in accountancy, the law or other similar qualification.

Suitable Qualities

Independent members should be able to demonstrate a substantial proportion of the following personal qualities.

- Strong personality combined with an ability to listen and to have regard to other points of view.
- Experience of running or participating in high level meetings.
- Ability to give sufficient time to the duties of the Audit Panel.
- An ability to act independently.
- An ability to understand complex situations and reports as well as the statutory background to those reports.
- The following personal quality is required:-
 - Ø Good character without established links to any political party, generally regarded as an independent and experienced professional.