

Report title

Establishing an Audit Committee and appointment of Independent Members

Report to	Date
Corporate Services DB	3 March 2020
Operations and Assurance DB	12 March 2020
Commissioner's Board	25 March 2020
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London Fire Commissioner	

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Summary

The establishment of the London Fire Commissioner (LFC) from 1 April 2018, and the abolition of London Fire and Emergency Planning Authority (LFEPA) not only passed all the authority and responsibilities of LFEPA to the LFC, but it also removed all committees that advised LFEPA, including the Governance, Performance and Audit Committee (GPAC). Following the HMICFRS report and the Grenfell Tower Phase 1 report various aspects of the London Fire Brigade performance and arrangements have come under scrutiny and in response the new London Fire Commissioner has put in place a Transformation Delivery Plan (January 2020) which includes action points to review the governance and decision-making arrangements and to appoint an independent Audit Committee to provide more robust scrutiny and assurance of LFB's financial, risk and governance and other internal control arrangements.

This report recommends the establishment of the Audit Committee and the appointment of the 4 independent members following an external recruitment and selection process.

Recommended decisions

1. That the London Fire Commissioner appoints an Audit Committee.
2. That the LFC agrees the following be appointed to the vacant roles for a period of 2 years at a cost of £15,000 p/a for the Chair and £12,000 p/a for each of the members;
 - a. Chair – Ms Marta Phillips OBE
 - b. Ordinary member 1 – Ms Kay Boycott
 - c. Ordinary member 2 – Mr Seyi Obakin OBE

d. Ordinary member 3 – Mr Martin Spencer

3. Delegates authority to the Director Corporate Services to enter into the contracts for services in respect of the persons named in 2 above.

Background

1. The previous audit committee arrangement under LFEPA ceased on the creation of the LFC; there are other means of audit and scrutiny ; for example by the Fire and Resilience Emergency Planning Committee and external auditors, but whose functions differ from an audit committee, and an internal audit system provided by MOPAC, a corporate risk register; and performance reporting systems, but these do not provide the same level of independent robust scrutiny to the organisation as would an Audit Committee.
2. A review of governance was completed (LFC-0237) and this included reference to considering the benefits of establishing an audit committee, as recommended in the MOPAC Internal Audit Annual Review of 2018/19 (LFC-0198) which at Appendix 1 at paragraph 9, noted 'There are no independent members of the Board.' and at paragraph 18, on the corporate governance framework, noted that 'However with increased maturity there may be opportunities to establish an Audit Committee with independent oversight responsibilities to help the LFC discharge responsibilities in line with best practice'. Discussions regarding an audit function took place in the Autumn 2019 (LFC-0238) but were not advanced at that time, requiring further consultation with the Deputy Mayor, Fire and Resilience.
3. The HMICFRS report and the Grenfell Tower Phase 1 report and recommendations (both received in the late autumn 2019) further highlighted the need for an audit function as various aspects of the London Fire Brigade performance and arrangements came under scrutiny. In response to this the new London Fire Commissioner has put in place a Transformation Delivery Plan (January 2020) which includes action points to review the governance and decision-making arrangements and to appoint an independent Audit Committee to provide more robust scrutiny and assurance of LFB's financial, risk and governance and other internal control arrangements.
4. The Chartered Institute of Public Finance and Accounting (CIPFA) published a new Financial Management (FM) Code in October 2019 and this applies to local authorities from 1 April 2020, which equally applies to the LFC. The FM Code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial stability. A separate report was prepared for Commissioner's Board on 25 March on the FM Code, but a key message in relation to audit committees is included in the section of the FM Code on governance and financial management style, and states

"All parts of the governance structure of an organisation play an important role, but the audit committee is a key component, providing independent assurance over governance, risk and internal control arrangements. It provides a focus on financial management, financial reporting, audit and assurance that supports the leadership team and those with governance responsibilities."

5. CIPFA's 2018 '*Position Statement: Audit Committees in Local Authorities and Police*' applies to all principal local authorities in the UK, the audit committees for PCCs and chief constables in England and Wales, and the audit committees of fire and rescue authorities. The proposals set out in this report are consistent with the principles set out in that Statement.

The remit of the Audit Committee

6. It is suggested that the independent assurance function be consistent with the suggested remit set out in the CIPFA 2018 Position Statement. The proposed outline terms of reference for the Audit Committee are set out in **Appendix 1**. The terms of reference reflect the recent CIPFA updates on counter fraud and corruption, and also take into account the focus by the Commissioner and his officers on the need to have in place a suitable assurance framework. The terms of reference will be discussed with, amended where appropriate and agreed by the new Audit Committee Members at the first meeting of that committee. This will provide the opportunity for the members to provide their input based on their expertise and experience. This is a new committee and the suitability of the Terms of Reference will remain under review.

Audit Committee Members Roles and Responsibilities

7. It is proposed that the Audit Committee should comprise 4 independent members, one as Chair, all of whom are independent.

Recruitment

8. In order to attract the best candidates, and for expediency, a specialist executive recruitment agency was appointed in the early Spring 2020 to assist in the process. The roles were advertised and promoted as follows; Agency recruitment microsites and direct searches, The Times and Sunday Times, Diversity Network, Non-Exec Boards and LinkedIn.
9. Diversity was assessed at each stage;

Application Stage 107 Candidates

- 25% Female
- 18% BAME
- 3% LGBTQ

Longlist Stage 19 Candidates

- 54% Female
- 45% BAME
- 18% LGBTQ+

Shortlist Stage 9 Candidates

- 55% Female
- 55% BAME
- 11% LGBTQ+

To be appointed 4 Candidates

- 50% Female
- 50% BAME

10. The selection process involved long listing, short listing and an interview process. The Final Interview Panel comprised the LFC, Deputy Mayor, Fire and Resilience, Jonny Bugg, Head of the Fire Strategy and Reform Unit and a Deputy Director at the Home Office, the Director of Transformation, and the Director Corporate Services.

Recommended Appointments

11. The 4 candidates recommended for appointment have a range of backgrounds and experience which together provide the requisite skills to carry out and develop the Audit Committee functions.

Marta Phillips OBE – recommended appointment as Chair.

Ms Phillips is a Member of the Institute of Chartered Accountants of Scotland. She has over 30 years of finance experience and significant experience of the public sector, having been a civil servant since 1993, and a senior civil servant from 2000 until 2013. Her last appointment was as the Chief Executive of the Pensions Advisory Service (2010 - 2013) having previously held the positions of Director of Compliance, and Director of Compliance and Resources at the National Lottery Commission from 1999 to 2010. Prior to this she was Head of Finance, European Social Fund at the Department for Education and Skills from 1993 to 1999. Over recent years Ms Phillips has developed a portfolio career and brings nonexecutive board experience in a number of organisations. Currently;

2020 to present Public Sector Audit Appointments Ltd – Audit Committee Member

2019 to present Istituto Marangoni London School-Member of the Board of Governors

2018 present Sponsor Board for the Restoration and Renewal of the Houses of Parliament – Board Member; Audit and Assurance Committee Chair;

Nominations and Remuneration Committee Former Chair

2016 to present Nursing and Midwifery Council – Council Member; Audit Committee Chair

2016 to present Chartered Accountants Compensation Fund – Board Member

2015 to present Crown Prosecution Service – Audit Committee Member

2015 to present Heriot Watt University – Court Member; Finance Committee Member,; Global Students Liason Committee Chair

2015 to present University of Law – Audit Committee Member

2014 to present Single Source Regulations Office – Board Member; Audit Committee Chair; Regulatory Committee Member

2014 to present Ravensbourne University London– Member of the Board of Governors; Audit Committee Chair; Remuneration Committee Member

The LFC is advised that this offer of appointment is on condition that Ms Phillips resigns her role as audit member of the CPS. The Commissioner is advised that the role of audit member for the CPS and the role of Chair on the Audit Committee for the LFC is unlikely to give rise to a conflict in reality given the respective roles, information to which she is or will be privy, and the discussions, decisions or recommendations she is expected to make in those roles, however, the Commissioner is advised to be conscious of any possibility of perceived conflict which may arise in the public domain, and for that reason it is recommended that she end her relationship with the CPS at the earliest possibility. Delaying the start of the LFC Audit

Committee to await the expiry of the CPS audit role is not ideal since the LFC Audit Committee should be in place this year, however the early work and meetings of the LFC Audit Committee will be largely induction and the agreeing of Terms of Reference of the LFC Audit Committee etc, and so for those reasons the LFC is advised that there should be an acceptance of the overlap of roles for a short period while a 3-month notice period with the CPS expires.

12. Kay Boycott - recommended appointment as Member

Ms Boycott is the Chief Executive at Asthma UK and British Lung Foundation Partnership - formed from the merger of Asthma UK and the British Lung Foundation at the end of 2019. Having seen the new organisation through post-merger integration she is leaving the organisation at the end of November in a long-planned move to a portfolio career.

Kay's early career was in the commercial sector; firstly in marketing and customer roles for Nestle and Johnson & Johnson, and then ten years at Oxford Strategic Marketing as a Strategy Consultant. Before joining Asthma UK as Chief Executive in 2013, she spent four years at Shelter as the Director of Campaigns, Policy and Communications. In parallel to her executive roles she has served in multiple non-executive roles including in the NHS, non-profit and Central Government sectors. Currently;

Asthma UK and British Lung Foundation (to 27 November 2020)
Chief Executive

NHS Net Zero Expert panel member 2020-current

Imperial College Healthcare NHS Trust September 2019 – current
Non-Executive Director, Member of Audit and Risk, and Quality Committees

Durham University November 2018 – current
Lay Member of Council (Trustee), Chair of Audit & Risk Committee

Association of Medical Research Charities January 2019 (to 27 November 2020)
Director and Trustee (elected)

King's Fund, General Advisory Council Member 2017-current

13. Seyi Obakin OBE recommended appointment as Member

Mr Obakin is Chief Executive of Centrepoin, the national charity working with homeless young people. He joined Centrepoin in 2003 as Finance Director and was appointed Chief Operating Officer in 2006 and Chief Executive in 2009. He served previously as Treasurer of Clapham Park Homes, a Commissioner at the UK Commission for Employment and Skills, a Commissioner on the Family Commission and a Commissioner to the national inquiry into lifelong learning.

Currently; Chief Executive of Centrepont

Member, Social Security Advisory Committee (SSAC)

Non-Executive Director, Audit & Risk Committee of Her Majesty's Prison and Probation Service (HMPPS).

Trustee of Foundation 66

14. Martin Spencer recommended appointment as Member

Mr Spencer demonstrated a broad knowledge and expertise in fiscal matters and in global document management systems before he joined KPMG to deliver tech solutions for clients, including BT. At Detica (now BAe Systems Applied Intelligence) and later in Capgemini, Mr Spencer worked at scale, extensively across the public sector and in particular with a security and Policing focus. From 2016 to 2020 he was Senior Vice President for NTT DATA running the Japanese company's Northern Europe division. He devised the strategy which saw business grow by 25% delivering transformational digital services projects, and large technology infrastructure programmes into both the public and private sectors. Currently;

2018 to date NHS Counter Fraud Authority Non-Exec Director and Chair of Remuneration and Nomination Committee

2019 to date Ofsted Non-Exec Director and Chair of Audit and Risk Assurance Committee

2019 to date Companies House Non-Exec Director on the Main Board and member of the Audit and Risk Assurance Committee

2019 to date Serious Fraud Office Non-Exec Director and also a member of the Audit and Risk Assurance Committee and the Remuneration and Nomination committee.

Terms of appointment

15. To maintain their independence Audit Committee members will not be employees but serve in their role under a contract for services for two years, following which the LFC will review the arrangements and consider the appropriate arrangements for the future. The contracts make provision for extension of that two year period and it is likely that there will be a rolling programme of recruitment, allowing for the introduction of new Audit Committee members to ensure the level of independence and innovation, whilst providing for a level of continuity and experience by retaining some of the current cohort.
16. As with other organisations who appoint independent persons to an Audit Committee, a level of remuneration is to be expected. The level of remuneration is determined by the time commitment required and the expertise and experience sought. This is a new arrangement for the LFC which will benefit from proactive input and assistance from the appointed independent members. The commitment required from members includes attendance at and preparation for meetings which will be between 4 and 6 meetings per year, an induction programme and the possibility of other input and assistance in the development and direction of the terms of reference, agenda setting etc. The CIPFA 2018 position statement recommends not less than 4 meetings per year.

17. Having taken advice from the recruitment agency on similar roles in comparable organisations, and the input sought by the LFC these roles were advertised at £15,000 for the role of Chair and £12,000 each for members.

Finance comments

18. This report outlines proposals to establish an Audit Committee for the LFC, as set out in the Transformation Delivery Plan. Ordinary members will receive £12,000 per annum and the Chair will receive £15,000. If appointed this would be at a cost of £51,000 pa (£102,000 over 2 years). The recruitment costs were £33,000. The establishment of the Audit Committee was one of the areas included in calculating the initial estimate of costs to deliver the Transformation Delivery Plan, and this cost could therefore be met from the transformation reserve in 2020/21 and 2021/22 and is included in the ongoing transformation costs from 2022/23.

Workforce comments

19. There is no direct impact of these proposals on staff. However, the incremental increase in governance arrangements, including the proposed Audit Committee, will result in greater demands on the Governance Team in the General Counsel Department which may result in a need to expand that team in due course.

Legal comments

20. Under section 9 of the Policing and Crime Act 2017, the London Fire Commissioner (the "Commissioner") is established as a corporation sole with the Mayor appointing the occupant of that office. Under section 327D of the GLA Act 1999, as amended by the Policing and Crime Act 2017, the Mayor may issue to the Commissioner specific or general directions as to the manner in which the holder of that office is to exercise his or her functions.
21. Section 1 of the Fire and Rescue Services Act 2004 states that the Commissioner is the fire and rescue authority for Greater London. The Commissioner is also a 'best value' authority under the Local Government Act 1999 and must make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
22. The LFC's Scheme of Governance states at paragraph 7, inter alia, that:

"The Commissioner has adopted the CIPFA/SOLACE Framework Delivering Good Governance in Local Government which sets out the core principles on which effective governance should be built. These are: ...

 - Managing risks and performance through robust internal control and strong public financial management
 - Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

23. The LFC's Scheme of Governance states at paragraph 11, inter alia, that the Commissioner:
- demonstrates best practice in their financial management and procurement through compliance with and regular reviews of their Standing Orders, financial regulations and procurement policies
 - through the activities of the Section 127 Officer, ensures the financial scrutiny of proposed actions and the management of an annual programme of audits.
24. This proposal falls within scope of both the Commissioner's statutory duties and his own governance principles.
25. Having regard to the 2018 Mayoral Directions it is considered that the appointment of an Audit Committee falls within the terms of the Directions requiring consultation with the Deputy Mayor Fire and Resilience on the basis it is novel, contentious or repercussive; it is 'novel' because there has not previously been an external audit function since the arrangements changed from LFEPA to LFC.

Sustainability implications

26. None

Equalities implications

27. The Public Sector Equality Duty applies to the London Fire Brigade when it makes decisions. The duty requires the LFC to have due regard to the need to:
- a. Eliminate unlawful discrimination, harassment and victimisation and other behaviour prohibited by the Equality Act 2010.
 - b. Advance equality of opportunity between people who share a protected characteristic and those who do not.
 - c. Foster good relations between people who share a protected characteristic and those who do not including tackling prejudice and promoting understanding.
28. The protected characteristics are age, disability, gender reassignment, pregnancy and maternity, marriage and civil partnership, race, religion or belief, sex, and sexual orientation. The Act states that 'marriage and civil partnership' is not a relevant protected characteristic for (b) or (c) although it is relevant for (a).
29. An Equality Impact Assessment (EIA) has not been undertaken. An EIA was not required because Equal opportunities monitoring has been undertaken at all stages of the recruitment process. As outlined in paragraph 8 of this report, proper consideration was given to and steps taken to advertise these roles to all protected characteristic groups. This is reflected in the diversity of those who responded.

List of Appendices

Appendix	Title	Protective Marking
1.	Audit Committee – Draft Terms of Reference	

Audit Committee – Draft Terms of Reference

PURPOSE

1. The overall purpose of the Audit Committee is to review and, where appropriate, make recommendations to the LFC on the comprehensiveness, reliability and integrity of and compliance with the internal and external controls including finance, audit, risk management, and corporate governance.

The Audit Committee is responsible for

- 1.1 Providing independent assurance on the adequacy and effectiveness of the system of internal controls and risk management, advised by the internal auditors;
- 1.2 Providing independent scrutiny of the preparation of the Statement of Accounts, including the Annual Governance Statement, advised by the external auditors;
- 1.3 Providing independent review of the LFC budget submission to the Mayor, incorporating the Capital Strategy, Reserves Strategy and Medium Term Financial Plan;
- 1.4 Providing independent review of the LFC's Treasury Management Strategy Statement;
- 1.5 Providing independent scrutiny of quarterly performance reports to support the above; and
- 1.6 Providing independent opinion of any matter referred to the Committee by the LFC.

2. MEMBERSHIP

- 2.1 Members of the Committee shall be appointed by LFC for a period of 2 years, to be reviewed thereafter, and LFC shall appoint a Chair
- 2.2 The Committee shall comprise of at least three, and a maximum of four independent members including a Chairperson
- 2.3 The LFC will ensure that the Committee Chairperson and Members have the relevant expertise, experience and support
- 2.4 The Committee shall be attended by at least the Director of Corporate Services, Director of Transformation, Assistant Director – Finance, General Counsel, or their representatives, and representatives of the internal and external auditors and other staff, as appropriate to the agenda
- 2.5 The Chair of the Committee may require the attendance of any officer within the LFC to attend the Committee

- 2.6 The Committee may invite representatives of related partner organisations, as appropriate, to attend Committee meetings to assist with the work of the Committee
- 2.7 At least once a year a representative of the Company's external auditor will meet with the Committee

3. MEETINGS

- 3.1 At least three independent members are to be present to be quorate
- 3.2 The Committee shall meet formally at least four times a year (where appropriate such meetings should be timed by reference to the LFC's financial reporting cycle) and otherwise on such occasions as the LFC may request or as may be required in consultation between the Director of Corporate Services and the Chair of the Committee.
- 3.3 The Committee shall operate by majority decision. In the case of an equality of votes, the Chair of the Committee shall be entitled to an additional or casting vote in addition to any other vote they may have.
- 3.4 Notice of each meeting of the Committee (confirming the venue, date and time, and an agenda of business to be discussed) shall, unless agreed by all concerned, be sent to each member of the Committee and any other invitees not less than three working days before the meeting.
- 3.5 The GCD Governance Team shall maintain a written record of the proceedings and decisions of the Committee which shall be circulated to all members of the Committee
- 3.6 Seek such information from the LFC and his directors and employees (all employees being directed to co-operate with any such request by the Committee), as it deems necessary in order to fulfil its role
- 3.7 The meetings shall not be held in public and the papers of the meetings are not published on the LFC website. Recommendations and reports deriving from the Committee shall be reported to the LFC for decision or consideration
- 3.8 These terms of reference will be reviewed annually by the Committee and recommendations made to the LFC for any amendment

4. WORK PLAN AND REPORTING

- 4.1 Develop an annual work plan to be agreed by the Commissioner's Board;
- 4.2 The Audit Committee Chairperson will make a report at the next LFC Commissioner's Board after the Committee meeting, drawing LFC and Director attention to any issues that require disclosure to the LFC

- 4.3 The Committee may submit special reports to the LFC, as required
- 4.4 The Chair of the Committee shall attend the LFC Commissioner's Board at which the LFC accounts are approved
- 4.5 The Chair of the Committee shall attend the GLA Fire Emergency and Planning Committee as required
- 4.6 The Audit Committee shall produce an annual report which will be published on the LFC website this will be timed to support finalisation of the accounts and the Annual Governance Statement, summarising its conclusions from the work it has conducted throughout the reporting year

5. RISK MANAGEMENT

The Committee shall

- 5.1 Understand the LFC's business strategy, operating environment and the associated risks, taking into account all key elements of the organisation
- 5.2 Understand the role and activities of the LFC in relation to managing risk
- 5.3 Discuss with the LFC its policies, attitude to and appetite for risk and tolerance levels to ensure these are appropriately defined and communicated so that management understands these parameters and expectations
- 5.4 Understand the risk management framework and the assignment of responsibilities
- 5.5 Critically challenge and review the risk management framework to evaluate how well the arrangements are actively working in the organisation; and
- 5.6 Critically challenge and review the suitability, adequacy and effectiveness of control processes and the resources in responding to risks within the organisation's governance, operations and compliance
- 5.7 Be satisfied that the Authority's assurance statements, including the annual Governance Statement, properly reflect the risk environment and review progress on the Annual Governance Statement action plan
- 5.8 Review all risks on the corporate risk register at least annually
- 5.9 Review the LFC's business continuity arrangements

6. FINANCIAL MANAGEMENT

The Audit Committee Shall

- 6.1 Review the Statement of Accounts;

- 6.2 Review the appropriateness of accounting policies;
- 6.3 Review the Capital Strategy;
- 6.4 Review the Treasury Management Strategy Statement;
- 6.5 Review arrangements for securing value for money, in particular the annual budget process; and
- 6.6 Review regular performance reports relating to the above.
- 6.7 Provide independent review of the LFC budget submission to the Mayor, incorporating the Capital Strategy, Reserves strategy and Medium-Term Financial Plan.

7. INTERNAL AUDIT

The Audit Committee shall

- 7.1 Review arrangements for the provision of internal audit services
- 7.2 Review the annual internal audit plan (and ensure that it is aligned to the key risks of the LFC) and its delivery;
- 7.3 Monitor delivery of internal audit recommendations; and
- 7.4 Review and report on the effectiveness of internal controls.

8. EXTERNAL AUDIT

The Audit Committee shall

- 8.1 Monitor delivery of internal audit recommendations; and
- 8.2 Review arrangements for the provision of external audit services;
- 8.3 Review the annual external audit plan, and its delivery;
- 8.4 Review the external audit fees; and
- 8.5 Review the annual audit results letter.

9. GOVERNANCE

- 9.1 Review and report on the LFC's Governance arrangements on an annual basis
- 9.2 Review the suitability of the Whistleblowing Policy

10. COUNTER FRAUD AND CORRUPTION

The Audit Committee shall

- 10.1 Review the counter fraud, bribery and corruption strategies and resources and their suitability and effectiveness

11. CYBER SECURITY

- 11.1 Provide assurance to the LFC that the organisation is properly managing its cyber risk include appropriate risk migration strategies.
- 11.2 Review the LFC's cyber resilience at least annually, as part of the financial year end assurance

12. GENERAL

The Committee shall

- 12.1 Consider any other matter specifically referred to the Committee by the LFC