

## **AUDIT AND ACCOUNTS COMMITTEE**

**3 FEBRUARY 2021**

### **REVIEW RELATING TO THE APPOINTMENT OF AN INDEPENDENT MEMBER**

#### **1.0 Purpose of Report**

1.1 To enable Members of the committee to consider the appointment of an Independent Member to the Audit and Accounts Committee as per the CIPFA Best Practice Guidance.

#### **2.0 Background Information**

2.1 At the meeting on 27<sup>th</sup> November 2019 the results of the self-assessment exercise highlighted an action in relation to the consideration of including at least one independent member to the Audit and Accounts Committee.

2.2 The action plan detailed that a report would be tabled to this Committee which facilitated the consideration of an independent member.

2.3 At the meeting on the 5<sup>th</sup> February 2020 a report was tabled regarding the appointment of an independent member, which after debate by the Committee the minutes show that all agreed not to have an Independent Member.

2.4 Post this, a review, conducted by Sir Tony Redmond, on the arrangements in place to support the transparency and quality of local authority financial reporting and external audit was commissioned. A recommendation from this report was that the consideration to the appointment of at least one independent member, suitably qualified, by local authority audit committees was conducted. A report was presented by the Business Manager – Financial Services on the report and the recommendations produced by Sir Tony Redmond on 25<sup>th</sup> November 2020. A vote was taken to review the decision taken on 5<sup>th</sup> February 2020, and a report was to be tabled at the next Audit and Accounts Committee in order to review the appointment of an independent member onto the committee.

#### **Review of Independent member**

2.5 The guidance to support those acting as audit committee members in local authorities recognises CIPFA's publication "Audit Committees: Practical Guidance for Local Authorities and Police (2018)" as representing "proper audit committee practices".

2.6 This guidance defines the way in which audit committees should be established and undertake its functions, including the functional reporting requirements to the governance group charged with providing independent assurance on the adequacy of the control environment, comprising risk management, control and governance.

2.7 Best practice dictates that governance, risk management and strong financial controls be embedded in the daily and regular business of an organisation. The existence of an audit committee does not remove responsibility from senior managers, members and leaders, but provides an opportunity and resource to focus on these issues. CIPFA considers that Audit Committees must also actively explore the appointment of at least one independent

member to the Committee. This is in line with good practice to demonstrate good governance principles and independence from the executive and other political allegiances.

- 2.8 Good practice shows that co-option of independent members is beneficial to the audit committee. It is a requirement for police audit committees, English combined authorities and for local authorities in Wales, and it is usual practice for non-executives to be committee members in health and central government audit committees. The injection of an external view can often bring a new approach to committee discussions. Authorities that have chosen to recruit independent members have done so for a number of reasons:
- To bring additional knowledge and expertise to the committee;
  - To reinforce the political neutrality and independence of the committee; and
  - to maintain continuity of committee membership where membership is affected by the electoral cycle.
- 2.9 Under the Council's constitution, the first item in the remit for the Audit and Accounts Committee's is:- *"to approve the Authority's statement of accounts, income and expenditure and balance sheet or record of receipts and payments"*.
- 2.10 Under S102(3) of the Local Government Act 1972, Co-opted members are not permitted to be members on Committees which are responsible for *"regulating and controlling the finance of the local authority"*.
- 2.11 CIPFA do acknowledge these limitations recommending that Local Authorities should have regard to Section 13 of the Local Government and Housing Act 1989 which relates to the voting rights of non-elected committee members. This states that *"A person who – (a) is a member of a committee appointed under a power to which this section applies by a relevant authority and is not a member of that authority; shall for all purposes be treated as a non-voting member of that committee"*.
- 2.12 Their view is that where an audit committee is operating as an advisory committee under the Local Government Act 1972, making recommendations rather than policy, then all members of the committee (including an co-opted members) should be able to vote on those recommendations. However, where a council has delegated decisions to the committee, for example the adoption of the financial statements, then independent members will not be able to vote on those matters for decision.
- 2.13 CIPFA do though acknowledge where authorities make use of independent members there are practical things to borne in mind:
- Over-reliance on the independent members by other committee members can lead to a lack of engagement across the full committee;
  - Lack of organisational knowledge or 'context' among the independent members when considering risk registers or audit reports;
  - Effort is required from both independent members and officers to establish an effective working relationship and establish appropriate protocols for briefings and access to information.

- 2.14 While operating as a member of the audit committee, the independent member is required to follow the Council's Standing Orders and the Code of Conduct for elected members. They should also register any interests should be maintained. As stated at paragraph 2.12 above, where there are recommendations for decision, the independent member would not have the right to vote on those decisions.
- 2.15 The primary considerations when considering audit committee membership should be maximising the committee's knowledge base and skills, being able to demonstrate objectivity and independence, and having a membership that will work together.
- 2.16 CIPFA also acknowledge that there are currently no statutory requirements that determine that local authorities must appoint independent co-opted members, albeit such appointments are a requirement within police authorities, English combined authorities and for local authorities in Wales. This was a recommendation made by Sir Tony Redmond within the Redmond review, and subsequently this could become a requirement (as with police authorities, English combined authorities and local authorities in Wales) in the future.
- 2.17 The NAO has recommended that government work with local authorities and stakeholders to assess the implications of, and possible responses to the effectiveness of audit committees and how to increase the use of independent members.
- 2.18 Analysis across Nottinghamshire shows that only one of the other District Authorities currently have independent members co-opted onto their audit committees. This is Mansfield District Council and currently they remunerate them £530 per annum.
- 2.19 A role profile is attached at **appendix A** which would be used in order to advertise and recruit for the independent member. It is proposed that an annual remuneration of £500 plus reasonable travel expenses (where this is within the District) be offered for the position.
- 2.20 Should the Committee recommend to Full Council that an independent member is co-opted onto this committee, a panel comprising of the Chair of this Committee, the Business Manager – Financial Service together with another member of this Committee would convene in order to recruit to the position.

### **3.0 CONCLUSIONS:**

- 3.1 At present there are no statutory requirements on the authority to appoint an independent member to the audit committee. The NAO has recommended that further work be done by government with local authorities and other stakeholders to examine how the use of independent members on audit committees can be increased. This has also been supplemented by the recommendation by Sir Tony Redmond within his review.
- 3.2 Guidance from CIPFA notes both positive and cautionary reasons for such appointments and decisions of this nature need to take account of each local authority's own circumstances.

### **4.0 FINANCIAL IMPLICATIONS (FIN20-21/7020)**

- 4.1 The proposed remuneration of £500 together with an allowance for reasonable expenses would need to be added to the base budget for 2021/22 and future years. Should the recommendation to Council be that an independent member is co-opted onto this

committee, this addition would be made to the budget setting report to be tabled at Council on 9<sup>th</sup> March 2020.

## **5.0 RECOMMENDATIONS:**

That the Committee:

- (a) Review and discuss the proposal to co-opt an independent member onto the committee.
- (b) Where appropriate approve the Independent member role profile.
- (c) Where appropriate recommend the following to Council:
  - That an Independent member is co-opted on to the Audit and Accounts Committee on a non-voting basis.
  - The role profile is approved.
  - That the appointment of the Independent member is delegated to the Audit and Accounts Committee
  - That the process for selecting and recommending an appropriate candidate is delegated to the Business Manager – Financial Services in consultation with the Chair of the Audit and Accounts Committee.

### **Background Papers**

CIPFA Audit Committees Practical Guidance for Local Authorities and Police  
NAO Report – Local Authority Governance

For further information please contact Nick Wilson, Business Manager – Financial Services on Ext 5317

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