


Agenda Item No:	<b>10</b>	
Committee:	<b>Audit and Risk Management</b>	
Date:	<b>04/07/22</b>	
Report Title:	<b>Independent Member appointment to Audit Committees</b>	

## Cover sheet:

### 1 Purpose / Summary

The purpose of this report is to seek Members views on the appointment of an Independent Member to the Audit and Risk Management Committee

### 2 Key issues

- At the meeting of the Audit and Risk Management Committee in July 2021 (ARMC Annual Report), consideration was given to the self-assessment exercise which highlighted an area of partial compliance against the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance for Audit Committees in Local Government, regarding the appointment of Independent Members to the Committee.
- An action was included on the Audit and Risk Management Committees action plan to review the committee's position on the appointment of independent members in July 2022.
- Further national developments and updated guidance have been released by various government bodies supporting the role of independent members within Local Authority Audit Committees, that needs to be considered.

### 3 Recommendations

- Members are requested to note the additional information provided on the appointment of Independent Members to Audit Committees
- Members are requested to consider the options for appointing an independent Member to the Audit and Risk Management Committee and, depending on the outcome, refer any observations to Full Council as per section 3.9 of the report.

<b>Wards Affected</b>	All
<b>Forward Plan Reference</b>	Not Applicable
<b>Portfolio Holder(s)</b>	Not Applicable
<b>Report Originator(s)</b>	Peter Catchpole – Corporate Director and Chief Finance Officer Kathy Woodward – Internal Audit Manager

<p><b>Contact Officer(s)</b></p>	<p>Peter Catchpole – Corporate Director and Chief Finance Officer Kathy Woodward – Internal Audit Manager</p>
<p><b>Background Paper(s)</b></p>	<p>Corporate Governance / Audit and Risk Management Committee Annual Report 2020/21</p> <p>CIPFA Position Statement on Audit Committees in Local Government 2018</p> <p>CIPFA Position Statement on Audit Committees in Local Government 2022</p> <p>Department for Levelling Up, Housing and Communities – Measures to improve local audit delays – Dec 2021</p> <p>Council Constitution Part 4 (Rule 10) Audit and Risk Management Committee Procedure Rules (December 2020)</p>

## Report:

### 1 Background / introduction

- 1.1 Members will recall at the meeting of July 2021 that a self-assessment exercise highlighted a variance in practice against the Chartered Institute for Public Finance and Accountancy (CIPFA) guidance for Audit Committees in Local Government, specifically the appointment of Independent Members to the Committee.
- 1.2 This item was discussed at the meeting and an action to review the committee's position in 12 months' time was included on the action plan.
- 1.3 The CIPFA guidance for Audit Committees in Local Government states:  
*“Authorities and police audit committees should adopt a model that establishes the committee as independent and effective. The committee should:*  
*„ act as the principal non-executive, advisory function supporting those charged with governance*  
*„ 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***  
*„ have clear rights of access to other committees/functions, for example, scrutiny and service committees, corporate risk management boards and other strategic groups”*
- 1.4 The current CIPFA self-assessment checklist states:  
*“consideration has been given to the inclusion of at least one independent member (where it is not already a mandatory requirement)”*

### 2 National Context

- 2.1 There have been recent governance failures identified in statutory and non-statutory reviews and public interest reports across local government. The common theme running through each failure is a *“significant weakness in governance”*.
- 2.2 In September 2020, Sir Tony Redmond, completed an Independent review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting, in which 23 recommendations were made. Recommendation 4 states:  
*“The governance arrangements within local authorities be reviewed by local councils with the purpose of:*  
*• an annual report being submitted to Full Council by the external auditor;*  
*• **consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee; and***  
*• formalising the facility for the CEO, Monitoring Officer and Chief Financial Officer (CFO) to meet with the Key Audit Partner at least annually”.*
- 2.3 In December 2021, the Department for Levelling Up, Housing and Communities (DLUHC), issued their formal response to the Redmond Review and issued a series of measures to be implemented:  
Measure 1 – relating to audit firms and timely completion of audit  
Measure 2 – relating to local bodies and quality of accounts preparation  
Measure 3 – relating to accounting and audit requirements

Measure 4 – relating to longer term measures to help stabilise the market and address long-term supply issues

2.4 Within Measure 2 – relating to local bodies and quality of accounting preparation, DLUHC made the following commitments:

- DLUHC to provide funding of £45 million over the course of the next Spending Review period to support local bodies with the cost of strengthening their financial reporting, new burdens related to appointment of independent members and other Redmond recommendation and increased auditing requirements.
- CIPFA to publish strengthened guidance on audit committees by April 2022. The guidance will emphasise the role that audit committees should have in ensuring accounts are prepared to a high standard, alongside broader changes including appointment of independent members. Following consultation, consider making the guidance, committees and the independent member statutory.
- DLUHC to provide Local Government Association sector grant for a number of targeted training events for audit committee chairs.

2.5 As a result of the measures introduced by DLUHC above CIPFA released and updated version of CIPFA Position Statement on Audit Committees in Local Government in June 2022. The new Position Statement states:

*The audit committees of local authorities should include co-opted independent members in accordance with the appropriate legislation.*

*Where there is no legislative direction to include co-opted independent members, CIPFA recommends that each authority audit committee should include at least two co-opted independent members to provide appropriate technical expertise.*

2.6 More recent developments have been published as part of the Governments response to local audit reforms stating:

*“In September 2020, Tony Redmond’s review into local government audit found that only 40% of audit committees interviewed had independent committee members, hindering transparent reporting.*

*Responding to a consultation on Redmond review proposals, the government said the lack of independent members on council audit committees made them “anomalies” in the public sector.*

*Fundamentally, it is important that councils, as with other public bodies, have appropriate measures in place: the government considers it proportionate to establish a simple principle that local authorities should have an audit committee, with at least one independent member.*

*Mandating for audit committees would ensure widespread take-up, along with improved public accountability*

*Consequently, based on the consultation feedback, **we will be making audit committees, with at least one independent member, a mandatory requirement, once parliamentary time allows”***

### **3 Considerations**

- 3.1 Fenland District Council's current position on appointing co-optees to the Audit and Risk Management Committee (as per Part 4, Rule 10) state:
- The Committee shall be entitled to appoint up to 3 people at any one time as non-voting co-optees. The Committee shall determine whether the co-options shall be effective for a specified period, for specific meetings or for specific items.
- 3.2 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 on non-elected committee members
- 3.3 However, where an Audit Committee is operating as an advisory committee under the Local Government Act 1972, making recommendations rather than policy, then all members (including any co-opted members) should be able to vote on those recommendations (excluding the Audit and Risk Management Sub determination committee).
- 3.4 At present there is no statutory requirement that determine that local authorities must appoint Independent co-opted members – such appointments are a requirement for Police audit committees, English combined authorities and for local authorities in Wales, and it is usual practice for non-executive to be committee members in health and central government audit committees
- 3.5 The injection of an external view can often bring a new approach to committee discussion, 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;
  - To maintain continuity of the committee membership where membership is affected by the electoral cycle.
- 3.6 The potential pitfalls in the use of independent members should also be considered:
- Over-reliance on the independent member by other committee members can lead to a lack of engagement across the full committee;
  - Lack of organisational knowledge or 'context' among independent members when considering risk registers or audit reports;
  - Effort is required from both independent members and officers/staff to establish and effective working relationship and establish appropriate protocols for briefings and access to information.
- 3.7 A review of our nearest neighbours indicates that none of them currently appoint an independent member to the audit committee, except for the combined authority.
- 3.8 A suitable skills analysis of current committee members would need be undertaken to establish any 'gaps' in current knowledge of the committee, to determine a suitable job description
- 3.9 Should Members of the Audit and Risk Management Committee be supportive of seeking an Independent Member for the Committee, it is proposed that this be progressed as follows:

- An amendment be recommended for approval by full Council to Part 4 rule 10 to provide for a non-voting Independent Member to be appointed on a term not exceeding 4 years;
- That the Independent Remuneration Panel be invited to advise the Authority of an appropriate rate of remuneration for the role;
- That a Member panel be established with cross party membership drawn from the Audit and Risk Management Committee to undertake the search and selection process advised by the Monitoring Officer and the Chief Financial Officer (or their nominees)

#### **4 Effect on corporate objectives**

- 4.1 Local Authorities are accountable to their communities for the money they spend. They are required under law to ensure they provide value for money and to achieve this they require a governance framework that supports a culture of transparent decision making and accountability.
- 4.2 The appointment of an independent members would enhance and support the independent and transparent assurances provided by the Audit and Risk Management Committee.

#### **5 Conclusions**

- 5.1 At present there is no statutory requirement to determine that local authorities must appoint Independent co-opted members.
- 5.2 There are both positive and cautionary reasons for such an appointment and decisions of this nature need to take account of each local authority's own circumstances.
- 5.3 The National landscape and direction of the government, would indicate that greater accountability for public audit to support of audit committees, through co-opting independent members, will become a mandatory requirement.