

TITLE Independent Member of Audit Committee

FOR CONSIDERATION BY Council on 24 March 2022

WARD None Specific

LEAD OFFICER Deputy Chief Executive - Graham Ebers

OUTCOME / BENEFITS TO THE COMMUNITY

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

RECOMMENDATIONS

That Council agree, as recommended by the Audit Committee, that:

- 1) an Independent member is co-opted on to the Audit Committee on a non-voting basis and the Constitution is updated accordingly to reflect this;
- 2) the independent member role profile, as set out in the report, is approved;
- 3) the appointment of the independent member is delegated to the Audit Committee;
- 4) the process for selecting and recommending an appropriate candidate is delegated to the Assistant Director Governance in consultation with the Chair of the Audit Committee.

SUMMARY OF REPORT

The Audit Committee recently undertook a self-assessment against CIPFA guidance on best practice for audit committees in local government. One of the areas identified for further consideration was the inclusion/appointment of an independent member to the Committee.

The report sets out the benefits of appointing an independent member, clarifies the voting rights of the independent member and sets out the profile/role description for the position.

Background

1. At the Audit Committee meeting of 15th September 2021 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 Committee.
2. The action plan detailed that a report would be tabled to this Committee which facilitated the consideration of an independent member.

Review of Independent member role

3. 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."
4. 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.
5. 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.
6. 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.
7. 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.
8. Under the Council's Constitution, the approval of the Annual Statement of Accounts is one the delegated functions for the Audit Committee is:-

"4.4.3.3 Accounts a) To agree the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.

9. 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”.
10. 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.”
11. 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 a co-opted member) 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.
12. 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.
13. 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. As stated above, where there are recommendations for decision, the independent member would not have the right to vote on those decisions.
14. 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.
15. 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.
16. 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.

17. Analysis across Berkshire shows that only one of the other Authorities currently have independent members co-opted onto their audit committees. This is Slough Borough Council.
18. 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 £1,000 plus reasonable travel expenses (where this is within the Borough) be offered for the position.
19. 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 Assistant Director Governance together with another member of this Committee would convene in order to recruit to the position.

CONCLUSIONS

20. 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.
21. 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.
22. The Audit Committee reviewed and discussed the proposal to co-opt an independent member onto the Committee at their meeting held on 2 February 2022 and agreed to recommend the proposals to Council for approval.

FINANCIAL IMPLICATIONS OF THE RECOMMENDATION

The Council faces severe funding pressures, particularly in the face of the COVID-19 crisis. It is therefore imperative that Council resources are focused on the vulnerable and on its highest priorities.

	How much will it Cost/ (Save)	Is there sufficient funding – if not quantify the Shortfall	Revenue or Capital?
Current Financial Year (Year 1)	£0	Yes	Revenue
Next Financial Year (Year 2)	£1,000	Yes	Revenue
Following Financial Year (Year 3)	£1,000	Yes	Revenue

Other financial information relevant to the Recommendation/Decision
None

Cross-Council Implications
None

Public Sector Equality Duty
This is a report for information.

Climate Emergency – <i>This Council has declared a climate emergency and is committed to playing as full a role as possible – leading by example as well as by exhortation – in achieving a carbon neutral Wokingham Borough by 2030</i>
No specific implications.

List of Background Papers
CIPFA Audit Committees Practical Guidance for Local Authorities and Police National Audit Office (NAO) Report – Local Authority Governance

Contact Andrew Moulton	Service Governance
Telephone No Tel: 07747 777298	Email andrew.moulton@wokingham.gov.uk

This page is intentionally left blank