

Potential appointment of independent members to the Audit Committee

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Cabinet Member: Cllr Mandy Chilcott, Cabinet Member for Resources

Division and Local Member: All

1. Summary / link to the County Plan

- 1.1. The report follows the update that the Committee received in Autumn 2020 regarding the independent review into local authority financial reporting and external audit review by Sir Tony Redmond which was published on the 8th September.
- 1.2. One of the recommendations within the Redmond Review relates to the appointment of at least one independent member, suitably qualified, to the Audit Committee. Currently the only members of the County Council's Audit Committee are county councillors and they are appointed by the County Council.
- 1.3. A number of councils already have agreed to co-opt independent members (on an advisory capacity without voting rights) onto their Audit Committees ahead of the Redmond Review in line with CIPFA best practice guidance.
- 1.4. The Government responded to the 23 recommendations in the Redmond Review on 17 December 2020 recognising the importance of local audit. Within its response it agreed that it will work with the Local Government Association, National Audit Office and CIPFA to deliver the recommendation for the appointment of at least one independent member to a local authority's Audit Committee.
- 1.5. Audit Committees are a key component of corporate governance. They are a key source of assurance about the organisation's arrangements for managing risk, maintaining an effective control environment, and reporting on financial and non-financial performance.

Independent members with appropriate skills and experience supplement those of the elected members and this is intended to improve the effectiveness of an Audit Committee.

2. Issues for consideration / recommendations

- 2.1. **Members are asked to consider the recommendation within the Redmond Review regarding the potential appointment of at least one independent**

member to the Audit Committee and if minded to endorse that proposal then the Committee will be asked to consider the following recommendation to the County Council :

- 1. That the Council approves the recruitment and appointment of an independent person to be a non-voting co-opted member of the Audit Committee for a period of two years.***
- 2. That the Monitoring Officer and Section 151 Officer be given delegated authority to finalise a role description, skills and competencies and person specification for the independent person, advertise this role, complete interviews and agree the appointment of the successful candidate to the Audit Committee.***
- 3. That the Monitoring Officer is authorised to amend the Audit Committee functions and membership within the Council's Constitution to reflect the inclusion of an independent non-voting member of the Committee.***

3. Background

- 3.1.** Sir Tony Redmond was commissioned in July 2019, under the former Communities Secretary, James Brokenshire to undertake a review into local authority financial reporting and external audit. The review was completed on 8th September and the results have been [published](#). The Government published its response to the recommendations on 17 December 2020.
- 3.2.** One of the recommendations related to the appointment of independent persons as co-opted members of Audit Committees. Whilst not a statutory requirement a number of councils have already appointed independent members to their Audit Committees in line with CIPFA guidance in 2018 'Practical Guidance for Local Authorities and Police'.
- 3.3.** The revised and updated 2018 edition considered the development of audit committees since the original edition and incorporated the legislative changes that had affected the sector since 2013. It included additional guidance and resources to support those acting as audit committee members in local authorities and those working with and supporting the committee's development. The key changes contained within CIPFA's guidance related to the following areas:-
 - a. inclusion of an independent member on the Committee;
 - b. additional guidance on how the Committee can oversee independence, objectivity and performance of Internal Audit and support the effectiveness of the internal audit process;
 - c. additional guidance on how the committee can support independence of the external auditor and monitor the external audit process.

3.4. CIPFA's view is that the injection of an external independent 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;
- To maintain continuity of committee membership where membership is affected by the electoral cycle.

3.5. CIPFA do though acknowledge there are potential pitfalls to the use of independent members which should also be 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.

3.6. The Audit Committee are requested to consider the appointment of an Independent Person (IP) to the Committee. The IP would be a non-councillor with some experience in the area of audit. The IP would have not a vote in the same way as councillors do at the Committee and will be there in an advisory capacity.

3.7. In respect of the skills/attributes required of an Independent Member the following generic criteria are proposed :

a. Experience

i. Membership or involvement in any organisational environment where decisions are taken in meetings

ii. A good understanding of finance and of the concepts of internal control, corporate governance, risk management and performance management

b. Qualifications

i. Over 18 years of age

ii. Lives or works within the area of Somerset County Council

c. Disqualifications

A person may not be an Independent Member of the Audit Committee for the

following reasons :

- i. Employment by or Membership of Somerset County Council in the last 5 years or current employment by or membership of any local authority
- ii. Any bankrupt or person who has made a composition or arrangement with creditors which is extant
- iii. Having, within 5 years of the appointment, a conviction for an offence resulting in a sentence of imprisonment (whether or not suspended) or a period of not less than 3 months without the option of a fine.
- iv. A disqualification for being elected or being a member of an authority under the Representation of the Peoples Act 1983 (corrupt electoral practices) or under the Audit Commission Act 1998 (unlawful local authority expenditure)
- v. Being a relative or close friend of a Member or officer of Somerset County Council

d. Skills, Knowledge, Abilities and Personal Qualities

- i. A person who is an active and respected member of their local area
- ii. A person with knowledge of Local Government
- iii. A person willing to serve the public interest and the local community
- iv. A person who can demonstrate honesty and integrity which has never been impugned
- v. A person with the ability to look at issues objectively and make decisions on their merit
- vi. A person who can put aside all political affiliations when making decisions
- vii. A person who understands the concept of accountability
- viii. A person willing to give reasons for decisions or actions taken in a spirit of openness whilst respecting issues of confidentiality
- ix. A person who can take account of the views of others, work with others but is able to reach their own conclusions on issues before them
- x. A person who can show respect for others including a commitment to equal opportunities and the impartiality and integrity required of Council Officers
- xi. A person who can demonstrate an understanding of the duty to uphold the law and trust placed on them

e. Other Requirements

- i. An ability and commitment to attend up to 7 formal meetings a year, plus ad-hoc sessions and training events

With regard to payment for undertaking the role, it is proposed to recommend an annual allowance at the same level as the co-opted members of the Constitution & Standards Committee and the Joint Independent Remuneration Panel, along with the payment of reasonable travel and other expenses in line with the Members' Scheme of Allowances.

4. Implications

4.1. Equalities – there are no direct implications arising from this report.

Legal – Whilst there are no direct implications arising from this report, the Accounts and Audit Regulations specifically require that a relevant body must “maintain an adequate and effective system of internal audit of its accounting records and of its systems of internal control in accordance with the proper internal audit practices”.

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*”.

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*”.

CIPFA’s 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 any 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.

As part of the Audit Committee’s remit is therefore to regulate and control the Councils’ finances, under S102(3), co-opted members with voting rights are not permitted on this Committee.

Financial implications – Any costs associated with the recruitment, selection, appointment and subsequent disbursements to any independent member(s) would need to be met from the Members Allowances Budgets. These costs are currently not budgeted for and therefore if these proposals are approved then funding will need to be met initially from the Contingency Budget and subsequently form part of the planning for the Medium Term Financial Plan.

Risk implications – Whilst there are no direct implications from this report, the Audit Committee objectively examines, evaluates and reports on the adequacy

of the control environment as a contribution to the proper, economic, efficient and effective use of resources. Subject to adequate recruitment procedures and adherence to the Person Specification, this proposal should augment the Audit Committee's independence, provide additional expertise, and provide an opportunity for the community to play an enhanced role in the governance of the Council.

5. Background papers

- 5.1.** Redmond Review ([published](#))
CIPFA – Practical guidance for Local Authorities and Police 2018 Edition
Audit Committee Functions – Somerset County Council Constitution