

Recruitment of independent member to the Audit Committee

Lead Officer: Scott Wooldridge, Monitoring Officer

Author: Scott Wooldridge

Contact Details: swooldridge@somerset.gov.uk

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 and January 2021 regarding the independent review into local authority financial reporting and external audit review by Sir Tony Redmond.
- 1.2.** One of the recommendations within the Redmond Review related 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.** 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.
- 1.5.** 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 note the attached recruitment pack and timetable for an independent member to the Audit Committee. It is proposed that recruitment will be completed to enable the successful candidate to attend the Committee's meeting on 27 January 2022.**

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 agreed to the recruitment of an Independent Member and Full Council approved the recruitment an Independent Person (IP) to the Committee. The IP will 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. A copy of the recruitment pack is attached for Members information.

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