

<b>Local Members Interest</b>
N/A

## **Audit and Standards Committee - Tuesday 28 January 2020**

### **Potential Appointment of Independent Members to Audit Committees**

#### **Recommendations**

I recommend that:

- a. To note the results of the research undertaken regarding the use of Independent Members on Audit Committees within Local Government in line with guidance produced by CIPFA within its 2018 'Position Statement: Audit Committees in Local Authorities and Police'.
- b. To determine if Members wish to explore this exercise further and to request the preparation of the associated recruitment documentation for their review and approval.

#### **Report of the County Treasurer**

### **Report**

#### **Background**

1. During 2018 CIPFA published its 'Practical Guidance for Local Authorities and Police (2018 Edition)' which set out its guidance on the function and operation of audit committees in local authorities and police bodies and represented CIPFA's view of best practice for audit committees in local authorities throughout the UK and for police audit committees in England and Wales. This publication incorporated CIPFA's Position Statement: Audit Committees in Local Authorities and Police (2018) ("the position Statement") which set out CIPFA's view of the role and functions of an audit committee and replaced the previous 2013 Position Statement.
2. 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 latest 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. Members of the Audit & Standards Committee previously reviewed its effectiveness against the 2013 standards in March 2018. Subsequently a further exercise was undertaken in October 2018 to consider the changes contained in the 2018 CIPFA publication and progress on those recommendations contained in the initial action plan. At that meeting Members agreed that the potential appointment of Independent Members to the Audit & Standards Committee should be considered. This paper summarises the results of that work in order for Members to determine whether or not this is something they wish to explore further.

## Findings

4. Research has been carried out to ascertain the extent of Independent Members being appointed to Audit Committees within Local Government, based on information contained on individual Council websites. Where Councils have indicated that independent members form part of their Audit Committees, they have been contacted to potentially identify the recruitment processes used including whether or not the position was remunerated.
5. The table below summarises the results of the exercise and the number of independent members appointed. Of the sample of approx. 42 sites reviewed 12 Councils have indicated that they have independent members. The vast majority are unitary councils with only 1 County Council (at the time of the exercise) North Yorkshire deciding to appoint independent members although they do not have any voting rights.

<b>Authority</b>	<b>Total Committee Membership Number / Independent Membership</b>
North Yorkshire County Council	11 / 3 (non-voting)
<b>Staffordshire Moorlands District Council</b>	<b>11 / 2</b>
<b>Lichfield District Council</b>	<b>10 / 1</b>
Derby City Council (Unitary)	10 / 2
Durham County Council (Unitary)	11 / 2
High Peak Borough Council	12 / 3
Nuneaton and Bedworth Borough Council	12 / 1
Rugby Borough Council	5 / 2
Islington Council	6 / 2
Greenwich London Borough Council (Royal Borough of Greenwich)	9 / 3
Ealing Council	6 / 1
Kingston Council (Royal Borough of Kingston upon Thames)	6 / 1

6. In respect of the skills/attributes required of an Independent Member the following generic criteria were customary present in the information obtained i.e. :

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 the Council

c. Disqualifications

- i. A person may not be an Independent Member of the Audit Committee for the following reasons
- ii. Employment by or Membership of X Council in the last 5 years or current employment by or membership of any local authority
- iii. Any bankrupt or person who has made a composition or arrangement with creditors which is extant
- iv. 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.
- v. 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)
- vi. Being a relative or close friend of a Member or officer of X Council

d. Skills, Knowledge, Abilities and Personal Qualities

- i. A person who is an active and respected member of the community
- 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 X formal meetings a year, plus ad-hoc sessions and training events
7. With regard to payment for undertaking the role, typically it was an unpaid role or one which attracted a small sum. Potential benefits have been identified as 'bringing an alternative and helpful perspective to the work of the Audit Committee'.

### **Equalities Implications**

8. There are no direct implications arising from this report.

### **Legal Implications**

9. 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 system of internal control in accordance with the proper internal audit practices".

### **Resource and Value for Money Implications**

10. The net budget of the Internal Audit Section is £758,430.

### **Risk Implications**

11. Whilst there are no direct risk implications arising from this report, the Audit & Standards 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. Where relevant, the results of individual reviews will link into the County Councils Annual Governance Statement, providing assurance on the operation of key controls.

### **Climate Change Implications**

12. There are no direct climate change implications arising from this report.

### **List of Reference Material:**

CIPFA – Practical Guidance for Local Authorities and Police 2018 Edition. Review of the Review of the Effectiveness of the Audit & Standards Committee Report – October 2018

Review of the Audit & Standards Committee Terms of Reference Report – December 2018

Review of the Effectiveness of the Audit & Standards Committee Report – March 2019

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