



Derby City Council

AUDIT & ACCOUNTS COMMITTEE

20 March 2018

ITEM 9

Report of the Interim Strategic Director of
Corporate Resources

Appointment of Independent Persons to the Audit & Accounts Committee

SUMMARY

- 1.1 This report seeks the agreement of the Committee to ask Council to approve the appointment of 2 independent members to the Audit and Accounts Committee.

RECOMMENDATIONS

- 2.1 To request that Full Council approve a change to the membership of this Committee to include the appointment of two independent persons.
- 2.2 To note that an annual allowance of £500 may be payable to the Independent Members, subject to the approval of Council following a recommendation from the Independent Remuneration Panel.

REASONS FOR RECOMMENDATIONS

- 3.1 Having independent members on Local Authority Audit Committees has proven to add value and enhance the reputation of the Committee from a good governance and independence perspective for those Councils who have adopted this approach.
- 3.2 This practice is also encouraged by the Chartered Institute of Public Finance and Accountancy (CIPFA) as the main accountancy body for local government.

SUPPORTING INFORMATION

Background

- 4.1 The Audit and Accounts Committee functioning in line with best practice strengthens the Council's governance arrangements, and increases public confidence in our integrity. It is important that the Audit and Accounts Committee operates effectively and including independent members on its Committee would demonstrate that it does so with more visible independence.

Good practice guidance

- 4.2 Independent members with appropriate skills and experience to supplement those of elected members can also improve the effectiveness of the Audit and Accounts Committee. The Chartered Institute of Public Finance and Accountancy (CIPFA) has produced several pieces of guidance on this. .
- 4.3 Paragraphs 7.8 and 7.9 of the CIPFA publication "Audit Committees: Practical Guidance for Local Authorities and Police" (2013 edition) state:

Co-option of independent members may be beneficial to the audit committee. The injection of an external 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; and*
- To maintain continuity of committee membership where membership is affected by the electoral cycle.*

There are some 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; and*
- Lack of organisational knowledge or 'context' among the independent members when considering risk registers or audit reports.*

- 4.4 CIPFA has also included further guidance in its publication: 'A toolkit for local authority audit committees' in which it states the following:

Co-option:

- *It is perfectly legitimate, if it so wishes, for a local authority to appoint someone other than an elected member and from outside the authority to either serve on or chair the audit committee.*
- *As for any other role, it is important that the choice of the co-opted member and/or chair is made carefully and after due consideration of the requirements of the role, the skill sets and the qualifications and experience needed. Sample job descriptions and person specifications are available for such roles.*

- 4.5 The inclusion of independent members on Audit Committees in local government has increased in the past few years. Based on the latest CIPFA Survey on Audit Committees published in August 2016 reported the following:

"There has been an increase in the average size of audit committees in local authorities since 2011, from seven to nine. There has been a small increase in the number of co-opted independent members on the committee, from 31% of committee in 2011 to 39% in 2016. Almost all Northern Irish and Welsh committee have co-opted members, as it is a statutory requirement in Wales and there has also been a strong push to encourage Independents by the Northern Ireland Audit Office. In England, 50% of London boroughs and 65% of metropolitan district councils have a co-opted independent on their committee. Counties, districts and Scottish councils are the least likely to include a co-opted member."

- 4.6 Discussion that the Head of the Audit Partnership has had with Heads of Audit at some other local authorities who have co-opted members on their audit committees has established that independent membership strengthens the role and activities of their Audit Committees.
- 4.7 The Audit and Accounts Committee, like all of the Council's Committees, must be politically balanced. However the success of the Audit and Accounts Committee depends upon its ability to remain apolitical. It must adopt a non-political approach to its meetings and discussions at all times. Remaining apolitical also places a duty on members not to make inappropriate use of information provided to the Committee for other purposes.
- 4.8 The co-option of independent members will help to bring additional knowledge and expertise to the committee and also reinforce its political neutrality and independence.

- 4.9 CIPFA guidance states that in order to be effective, an audit committee needs a membership that has knowledge, experience and interest in the field. The Audit and Accounts Committee will benefit from Independent members with financial awareness and independence of thinking to provide objective perspectives. The injection of an external view can often bring a new approach to committee discussions.
- 4.10 CIPFA has also provided guidance in relation to the recruitment of independent persons to audit committees.

Voting rights of independent members

- 4.11 CIPFA advises that a local authority 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.
- 4.12 Many local authorities who have appointed independent members to their audit committees have taken the decision that to comply with legislation, the independent persons are able to attend and speak at meetings of the Committee but they cannot vote.

Recruitment process

- 4.13 CIPFA has also provided guidance in relation to the recruitment of independent persons to audit committees. The key areas are detailed in the following paragraphs taken from the 2013 guidance.
- 4.14 The job description of the independent member should be drawn up and agreed before commencing recruitment. The requirement for relevant knowledge or expertise should be clearly determined. Vacancies should be publicly advertised, as is good practice for any public appointment. Candidates should be able to demonstrate their political independence and their suitability should be checked.
- 4.15 Independent members' appointments should be for a fixed term and be formally approved by the local authority's Full Council. Provision should be made for early termination and extension to avoid lack of clarity in the future. While operating as a member of the audit committee, the independent member should follow the same code of conduct as elected members.
- 4.16 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.

Other considerations

- 4.17 In line with CIPFA guidance, a draft role description and person specification has been drawn up and is attached at Appendix 2 for information.

- 4.18 There is no statutory requirement for appointment of Independent Members on an audit committee and therefore no legal restriction on the amount of time they can sit on a Committee. However, it is important to ensure that Independent Members do not become closely aligned to the Council and remain independent. The Council's Standards Committee guidance suggested that the appointment of Independent members should be for a four year term and in the interest of consistency the same time period would apply to the independent members of the Audit and Accounts Committee.
- 4.19 Research has found that there is no common form of remuneration for independent members on audit committees. The main methods are either a Special Responsibility Allowance (SRA) determined by the Independent remuneration panel, a co-opted member payment per meeting or reimbursement of expenses only. It is recommended that remuneration for the independent members of the Audit and Accounts Committee should follow the same principles that the Council applies to Independent Persons sitting as members of any other Council committee and so these too should receive the SRA.
- 4.20 The Committee terms of reference and the Constitution will need amending to reflect the change in membership of the Committee.

OTHER OPTIONS CONSIDERED

5.1 N/A

This report has been approved by the following officers:

Legal officer Financial officer Human Resources officer Estates/Property officer Service Director(s) Other(s)	Olu Idowu, Head of Legal Services Don McLure, Interim Strategic Director of Corporate Resources N/A N/A N/A David Walsh, Head of Democracy
For more information contact: Background papers: List of appendices:	Richard Boneham, Head of Audit Partnership, 01332 643280 richard.boneham@derby.gov.uk None Appendix 1 – Implications Appendix 2 – Role Description & Person Specification

IMPLICATIONS

Financial and Value for Money

- 1.1 By fulfilling its remit effectively, the Audit and Accounts Committee can demonstrate its role in the assurance framework, reducing financial risk and improving value for money.
- 1.2 Subject to approval of 2 Independent Members by Council and if the Independent Remuneration Panel agree to the special Responsibility Allowance, there will be an annual cost of £1,000 (£500 for each Independent Member).

Legal

- 2.1 There is no legal requirement for Local Authorities to have an audit committee, though this and the appointment of co-opted members is recommended practice from the Chartered Institute of Public Finance and Accountancy (CIPFA). In accordance with local government law, the co-opted members do not have voting rights.

Personnel

- 3.1 None directly arising

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- 4.1 None directly arising

Equalities Impact

- 5.1 The proposals within this report do not impact on the equality of protected groups. When determining the preferred recruitment process for non-elected members this will be taken into account.

Health and Safety

- 6.1 None directly arising

Environmental Sustainability

- 7.1 None directly arising

Property and Asset Management

- 8.1 None directly arising

Risk Management

- 9.1 Appointing independent persons to the Committee reduces the risk of weak governance. However, the committee may fail to discharge its responsibilities if it is not fully effective.

Corporate objectives and priorities for change

- 10.1 An effective Audit and Accounts Committee is a major component of good governance.

DERBY CITY COUNCIL

AUDIT & ACCOUNTS COMMITTEE – INDEPENDENT MEMBER

ROLE DESCRIPTION

Derby City Council is committed to ensuring and demonstrating good governance, and has established an Audit and Accounts Committee with a remit based on the Chartered Institute of Public Finance and Accountancy's Practical Guidance for Local Authorities' 2013.

The Audit and Accounts Committee is a key component of the Council's corporate governance. It provides a high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.

Purpose

To be one of the two independent/co-opted members (non-voting) of the Authority's Audit and Accounts Committee to serve alongside the 10 elected City Councillors to assist the Council in maintaining high standards of corporate governance.

Roles and responsibilities of Co-opted Members of the Audit and Accounts Committee

Responsible to: The Chair of the Audit & Accounts Committee

Liaison with: Members of the Audit Committee, Officers and Members of the Council and other stakeholders within the community.

Main duties and responsibilities:

The role of the Co-opted Member will be to independently assist the Audit and Accounts Committee to effectively discharge its role to provide independent assurance to the Council of the adequacy of the risk management framework and the internal control environment and to provide an independent review of the council's governance, risk management and control frameworks.

The Audit and Accounts Committee is authorised to discharge the following functions:

Internal Audit

1. To consider and approve the annual internal audit plan, including internal audit's resource requirements.
2. To approve the internal audit charter
3. To approve significant interim changes to the annual audit plan and resource requirements.
4. To consider (periodic) reports from the Head of Internal Audit on internal audit's performance during the year, including updates on key findings, issues of concern and action in hand
5. To consider the Head of Internal Audit's annual report, including the opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion.
6. To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale and where management has accepted a level of risk that may be unacceptable to the Authority.
7. Within available resources, to commission work from internal audit.

External Audit

8. To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance and such specific reports as are agreed with external audit.
9. To comment on the scope and depth of external audit work and to ensure it gives value for money.
10. To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies

Governance, Risk, Control

11. To review the council's arrangements for corporate governance against the good governance framework and consider quarterly governance reports and assurances.
12. To review and approve the authority's Annual Governance Statement.
13. To maintain an overview of the council's constitution in respect of contract procedure rules, financial regulations and codes of conduct and behaviour.
14. To review any issue referred to it by the chief executive or a strategic director, or any council body.

15. To consider, approve and monitor the effective development and operation of risk management in the council.
16. To consider, approve and monitor council policies on whistleblowing, counter fraud measures and the council's complaints process.

Financial reporting

17. To review and approve 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.
18. To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts and other reports, letters etc on the statement of accounts.

DERBY CITY COUNCIL

AUDIT & ACCOUNTS COMMITTEE – INDEPENDENT MEMBER

PERSON SPECIFICATION

	Essential	Desirable
1. Relevant experience		
Practical experience in the financial and / or general management of businesses or public sector organisations		✓
Experience in Local Government Environment.		✓
Audit Committee (or equivalent) experience.		✓
2. Qualifications		
Professional Accountancy, Audit or Risk Management qualification		✓
3. Equalities		
Knowledge of and commitment to Equality and Diversity	✓	
4. Personal skills, Knowledge and qualities		
Knowledge of how local government works	✓	
An understanding of the roles of internal and external audit		✓
Knowledge of corporate governance arrangements in other public or private sector organisations		✓
Knowledge of risk management		✓
Demonstrate objectivity and political independence	✓	
High ethical standards	✓	

Personal integrity	✓	
Ability to take an independent, unbiased and objective view	✓	
Demonstrates experience of and /or commitment to promoting and maintaining high standards of conduct	✓	
Ability to communicate effectively	✓	
An interest in financial matters		✓
Ability to ask searching questions	✓	
Ability to examine evidence and complex documentation	✓	
Willing to work with other members of the committee, have regard to their views and reach consensus	✓	
Committed to maintaining confidentiality as appropriate	✓	
No formal political affiliations	✓	
Be able to attend meetings during normal working in Derby approx. 5 times a year, as well as attend any appropriate training sessions.	✓	