



**AUDIT & GOVERNANCE COMMITTEE**  
**30 November 2022**

**ITEM 07**

Report sponsor: Chair of Audit and Governance Committee  
Report authors: Head of Democracy and Head of Internal Audit

## **Appointment of Independent Persons to the Audit & Governance Committee**

### **Purpose**

- 1.1 This report seeks the agreement of the Committee to go out to advert to gauge the level of interest that exists for suitably qualified people wishing to become co-opted/Independent members of the Audit and Governance Committee for a four-year term.
- 1.2 The report also seeks to alter the allowance payable to Independent Members of the Audit and Governance and Standards Committees, to ensure it remains an appropriate reflection of the time, knowledge and experience required by the role.

### **Recommendations**

- 2.1 To seek applications for two Independent Members of the Audit and Governance Committee to four-year terms of office.
- 2.2 To recommend to Council an increase in the allowance payable to Independent Members of the Audit and Governance and Standards Committees to 10 per cent of the Basic Allowance payable to councillors.

### **Reasons**

- 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.
- 3.4 To ensure that the Council can attract the highest calibre of independent members by paying an allowance commensurable with other local authorities.

## Supporting information

- 4.1 At its meeting on 15<sup>th</sup> June 2022, the Committee considered a report of the Strategic Director of Corporate Resources which sought the agreement of the Committee to ask Council to approve the appointment of two independent members to the Audit and Governance Committee for a four-year term. The Committee discussed the possibility of broadening the pool of independent members by advertising for people who may be interested and staggering the terms of office to ensure continuity. It was resolved to delegate authority to the Chair to investigate the potential for advertising for independent members to ensure that they are represented on the Committee and to bring a report back to a future meeting of the Committee.
- 4.2 Demand for independent Audit Committee members is set to increase in the coming months. The Redmond Review in 2020 recommended that “consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee”. CIPFA has been advocating the inclusion of co-opted members on Audit Committees for several years.
- 4.3 The Chair had an initial meeting with the Head of Democracy and the Head of Internal Audit on 14<sup>th</sup> July 2022 to discuss the options open to the Council for the future provision of independent members for this Committee. It was agreed that any decisions would take account of the latest guidance to be provided by the Chartered Institute of Public Finance and Accountancy (CIPFA) in its publication on Audit Committees due to be published in October 2022. The Chair also wanted to assess whether the level of remuneration currently paid by the Council to the co-opted members was in-line with what other local authorities were paying.

### CIPFA Guidance

- 4.4 CIPFA's Position Statement 2022: Audit committees in local authorities and police includes the following statements:

*The audit committees of local authorities should include co-opted independent members in accordance with the appropriate legislation.*

*Where there is no legislative direction to include co-opted independent members, CIPFA recommends that each authority audit committee should include at least two co-opted independent members to provide appropriate technical expertise.*

*The appointment of co-opted independent members on the committee should consider the overall knowledge and expertise of the existing members.*

- 4.5 Inclusion of co-opted independent members (lay members) is a legislative requirement for authorities in Wales and for combined authorities in England. There is currently no statutory requirement for appointment of Independent Members on an audit committee in English local authorities.

- 4.6 The reasons for CIPFA's recommendation are as follows:
- To supplement the knowledge and experience of elected representatives in specific areas, such as audit or financial reporting.
  - To provide continuity outside the political cycle. This is of particular importance where membership of the committee changes annually or because of elections.
  - To help achieve a non-political focus on governance, risk and control matters.
  - Having two co-opted members rather than one will allow recruitment of members with different but complementary knowledge and experience, increase the resilience and continuity of the committee.
  - Having two co-opted members shows a commitment to supporting and investing in the committee.
- 4.7 However, CIPFA also states that:  
"While including co-opted members can bring real value to the committee, care is needed to ensure that the arrangement works well, both for the co-opted member and for the other committee members. It is essential that the co-opted member receives an adequate induction and ongoing support to provide organisational context and to build working relationships."
- 4.8 CIPFA also 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. The independent persons are able to attend and speak at meetings of the Committee, but they cannot vote.

#### Department for Levelling Up, Housing & Communities

- 4.9 In the Consultation outcome document "Government response to local audit framework: technical consultation" dated, 31 May 2022, the Department for Levelling Up, Housing and Communities stated:

*"We will be making Audit Committees, with at least one independent member, a mandatory requirement, once Parliamentary time allows.*

*We will continue to consult with partners on how this should be implemented. In the intervening period, the government would encourage local bodies to establish their arrangements in line with CIPFA's guidance, including appointing independent members."*

#### Current Situation at Derby

- 4.10 The Committee has had two co-opted/independent members, Philip Sunderland and Stuart Green, since May 2018.
- 4.11 The co-option of independent members has brought additional knowledge and expertise to the Committee and also reinforces its political neutrality and independence.

#### Co-opted Members - Remuneration

- 4.12 Derby has a budgeted allowance of £500 for each Independent Member under the Councillors' Allowances and Expenses Scheme.

- 4.13 Remuneration for independent members in English Local Authorities varies considerably. Some authorities base it on an annual flat rate, with examples found ranging from £521.27 to £1,385. Others base the payment on a percentage/multiplier of either the Councillor's basic allowance or the Executive Leaders allowance. The research also found a Council which used a standard rate allowance for Independent Members and Co-opted Members of £120.91 per meeting. Another authority has a Co-opted Chair of its Audit Committee who receives £1,752 (2022/23).
- 4.14 It is proposed that the annual allowance paid to Independent Members of the Audit and Governance Committee is pro-rated to 10 per cent of the Basic Allowance paid to councillors. Based on the current Basic Allowance of £11,523 per year, this would amount to £1,152.30 per annum.
- 4.15 Independent Members of the Standards Committee also receive an annual allowance of £500. To ensure consistency and fairness across the breadth of the Council's committees, it is recommended that this allowance is also calculated on the same basis.
- 4.16 Whilst Independent Members of the Standards Committee attend meetings less frequently than those appointed to the Audit and Governance Committee, they play a significant role in the Procedure for the assessment and review of allegations of the breaches of the Councillors' Code of Conduct. This includes consulting with the Monitoring Officer and the subject member at several stages of the complaints process. The time commitment required by either role are considered to be broadly similar.
- 4.17 Before setting a scheme of allowances, Council must have regard to the recommendations of its Independent Remuneration Panel (IRP). The Chair of the IRP, Mr Narinder Sharma, has been consulted on the proposals to alter the allowance payable to Independent Members and is in support of the recommendations.

#### Other Considerations

- 4.18 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.
- 4.19 Independent members' appointments are for a fixed four-year term and must be formally approved by Full Council. While operating as a member of the Audit and Governance Committee, the independent member should follow the same code of conduct as elected members.

### **Public/stakeholder engagement**

- 5.1 Discussion that the Head of Internal Audit 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.

## Other options

- 6.1 As stated in the main body of the report, it is not a legislative requirement for an audit committee in English local authorities to appoint Independent Members.

## Financial and value for money issues

- 7.1 As detailed in the main body of the report.

## Legal implications

- 8.1 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.

## Climate implications

- 9.1 None directly arising from this report.

## Socio-Economic implications

- 10.1 None directly arising from this report.

## Other significant implications

- 11.1 None directly arising from this report.

This report has been approved by the following people:

Role	Name	Date of sign-off
Legal Finance Service Director(s) Report sponsor Other(s)	Chair of Audit and Governance Committee	18 <sup>th</sup> Nov 2022

Background papers:	Audit & Governance Committee – 15 <sup>th</sup> June 2022 Item 5
List of appendices:	