

Agenda Item No:	10	
Committee:	Audit & Risk Management Committee	
Date:	4th December 2024	
Report Title:	Appointment of an Independent Member to the Audit & Risk Management Committee	

Cover sheet:

1 Purpose / Summary

The purpose of this report is to seek Committee's view on the appointment of an Independent Member to the Audit & Risk Management Committee (ARMC).

2 Key issues

- FDC's Audit & Risk Management Committee, which discharges responsibility as the Council's audit committee, does not have an independent member. Following review and criticism of local audit and governance, Government reports and CIPFA position statements now recommend the appointment of at least one independent member, suitably qualified, to an audit committee (two members in the case of CIPFA's recommendation).
- The government has further stated that it will be making it a mandatory requirement for audit committees to have at least one independent member, once parliamentary time allows. Many councils have already appointed an independent member ahead of such mandatory requirement in the interest of good governance and transparency.
- Members are requested to consider the options for appointing an independent Member to the Audit & Risk Management Committee and, should members support the proposal to co-opt an Independent Member(s) to Committee, to note that this may necessitate changes to the Constitution, depending on the outcome, refer any recommendations to Full Council.

3 Recommendations

(a) to note the additional guidance provided on the appointment of an Independent Member(s) to Audit Committees

(b) to consider and endorse any recommendation to Council:

- Whether such an appointment should be made as set out in para 4.6 of this report; and
- The period of the appointment. In this respect, it is recommended that the initial period is for a term of 3 years when it will then need to be revisited unless members are minded to agree that permanent provision for an Independent Member should be made with the appointment of a specific individual occurring on a 3 yearly basis. In the latter instance, the Constitution to be amended accordingly.

(c) to endorse a variation to the Council's Constitution as outlined in paragraph 4.6 to the report to make any required changes, including updating the terms of reference and the

Scheme of Allowances. The changes to be taken forward under the guidance of the Monitoring Officer and presented to Full Council for approval where required.

Wards Affected	All wards
Forward Plan Reference	n/a
Portfolio Holder(s)	Cllr Chris Boden, Leader and Portfolio Holder for Finance
Report Originator(s)	Deborah Moss, Head of Internal Audit
Contact Officer(s)	Deborah Moss, Head of Internal Audit Email : dmoss@fenland.gov.uk Peter Catchpole, Corporate Director and S151 Officer Amy Brown, Assistant Director, Legal and Governance
Background Paper(s)	CIPFA Position Statement on Audit Committees in Local Government 2022 Sir Tony Redmond's report on Oversight of Local Audit and the Transparency of Local Authority Financial Reporting Fenland District Council's Constitution

Report:

1 Background / introduction

- 1.1 The CIPFA guidance for Audit Committees in Local Government states: “Authorities and police audit committees should adopt a model that establishes the committee as independent and effective. The committee should:
- act as the principal non-executive, advisory function supporting those charged with governance
 - in local authorities, be independent of both the executive and the scrutiny functions and include an independent member where not already required to do so by legislation
 - have clear rights of access to other committees/functions, for example, scrutiny and service committees, corporate risk management boards and other strategic groups”
- 1.2 The CIPFA self-assessment checklist states: “consideration has been given to the inclusion of at least one independent member (where it is not already a mandatory requirement)”.

2 National Context

- 2.1 There have been recent governance failures identified in statutory and non-statutory reviews and public interest reports across local government. The common theme running through each failure is a “significant weakness in governance”.
- 2.2 In September 2020, Sir Tony Redmond completed an independent review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting which recommended, amongst many other recommendations to improve local audit governance, “consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee”.
- 2.3 In December 2021, the Department for Levelling Up, Housing and Communities (DLUHC), issued their formal response to the Redmond Review and issued a series of measures to be implemented. Within Measure 2, relating to local bodies and quality of accounting preparation, DLUHC made the following commitments:
- DLUHC to provide funding of £45 million over the course of the next Spending Review periods to support local bodies with the cost of strengthening their financial reporting, new burdens related to appointment of independent members and other Redmond recommendation and increased auditing requirements.
 - CIPFA to publish strengthened guidance on audit committees by April 2022. The guidance will emphasise the role that audit committees should have in ensuring accounts are prepared to a high standard, alongside broader changes including appointment of independent members. Following consultation, consider making the guidance, committees and the independent member statutory.
 - DLUHC to provide Local Government Association sector grant for a number of targeted training events for audit committee chairs.
- 2.4 As a result of the measures introduced by DLUHC above, CIPFA released an updated version of its Position Statement on Audit Committees in Local Government in June 2022. The new Position Statement sets out the ‘purpose, core functions and membership of the audit committee’. It states: 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.

- 2.5 More recent developments have been published as part of the Government's response to local audit reforms stating: "In September 2020, Tony Redmond's review into local government audit found that only 40% of audit committees interviewed had independent committee members, hindering transparent reporting. Responding to a consultation on Redmond review proposals, the government said the lack of independent members on council audit committees made them "anomalies" in the public sector. Fundamentally, it is important that councils, as with other public bodies, have appropriate measures in place: the government considers it proportionate to establish a simple principle that local authorities should have an audit committee, with at least one independent member. Mandating for audit committees would ensure widespread take-up, along with improved public accountability. Consequently, based on the consultation feedback, we will be making audit committees, with at least one independent member, a mandatory requirement, once parliamentary time allows".

3 Analysis

- 3.1 A Council's Audit Committee should be independent of executive decision making and be able to provide objective oversight. It should have sufficient importance that its recommendations and opinions carry weight and have influence with the leadership team and those charged with governance. The Audit & Risk Management Committee is designated as the Council's "Audit Committee".
- 3.2 To strengthen the ARMC's standing further, it is proposed to co-opt at least one suitably qualified and experienced independent person who has specialist knowledge and insight, which, when partnered with elected Members' knowledge of working practices and procedures, will add to the deliberations of and the overall effectiveness of the Committee. The injection of an external view can often bring a new approach to committee discussion.
- 3.3 The recruitment of independent co-opted Member(s) is supported by the Section 151 Officer. The benefits of appointing an independent Member include:
- Bringing a new approach to committee discussion through the injection of a fresh perspective and challenge
 - Bringing additional knowledge and expertise to the committee
 - The Council accepting that strong and robust independent challenge to its internal control framework and wider governance processes, including financial reporting, risk management and the work of internal audit, will increase its effectiveness
 - Reinforcing the transparency and political neutrality of the committee
 - Maintaining continuity and corporate memory for the committee where its membership is affected by the electoral cycle. Independent appointments also send a powerful message to the electorate about both the openness of the Council and the independence of the committee.
- 3.4 There are several potential pitfalls in the appointment of an independent member that should be considered:
- potential over-reliance on the independent member by other audit committee members which can lead to a lack of engagement across the full committee

- independent member lacking organisational knowledge or 'context' when considering reports or risk registers
- effort that will be required from both the independent member and officers/staff to establish effective working relationship and establish appropriate protocols for briefings and access to information
- finding that despite undertaking a rigorous appointment process, the person(s) appointed are not suited to the role, requiring the selection process to be repeated
- insufficient suitable applicants for the role.

3.5 Any Independent Member would be a co-opted member of the Audit & Risk Management Committee and have no voting rights.

4. Considerations

- 4.1 The Council's Constitution currently includes provision for the Committee to appoint up to 3 people at any one time as non-voting co-optees. The Constitution refers to a less than permanent arrangement and if Committee agrees to have a permanent independent member appointment, as opposed to one for a period of 3 years followed by another reconsideration, then the wording of the Constitution will require a change endorsed by Council to allow that Committee will appoint at least one co-opted member and retain the ability for them to appoint more for specific meetings or periods up to the maximum of 3.
- 4.2 CIPFA does acknowledge these limitations recommending that Local Authorities should have regard to section 13 of the Local Government Housing Act 1989 which relates to the voting rights on non-elected Committee Members.
- 4.3 However, where an Audit Committee is operating as an advisory committee under the Local Government Act 1972, making recommendations rather than policy, then all members (including any co-opted members) should be able to vote on those recommendations.
- 4.4 At present there is no statutory requirement that determines local authorities must appoint Independent co-opted members – such appointments are a requirement for Police audit committees, English combined authorities and for local authorities in Wales, and it is usual practice for non-executive to be committee members in health and central government audit committees.
- 4.5 A suitable skills analysis of current committee members may want to be considered by Committee to establish any 'gaps' in current knowledge of the committee, to determine a suitable job description or applicant. A matrix could also then be used in an effectiveness review of committee.
- 4.6 Should Members of the Audit & Risk Management Committee be supportive of seeking an Independent Member for the Committee, it is proposed that this be progressed as follows:
- An amendment be recommended for approval by Council to the Constitution to provide for a non-voting Independent Member to be appointed on a term not exceeding 3 years. Committee to consider whether this is a permanent role with the postholder holding for 3 years followed by another recruitment, or whether the decision is to be reconsidered after 3 years.
 - The Independent Remuneration Panel be invited to advise the Authority of an appropriate rate of remuneration for the role.

- An Appointment Panel be established comprising the Chair and Vice-Chair of the Committee, Corporate Director and Head of Internal Audit to undertake the search and selection process advised by the Monitoring Officer.

4.7 Whilst CIPFA proposes two independent members, this report proposes to recruit one member now with future consideration for a second. If the terms of two Members are overlapped this will allow for cross over of current committee members' terms and allow for continuity and committee knowledge/memory to continue.

5. Appointment Process

5.1 To avoid any delay in the appointment process if a decision to appoint an independent member is made then it is recommended that the Committee requests Council at its February meeting to delegate arrangements for the appointment of an Independent Member to the Audit & Risk Management Committee, with the selection process delegated to the Monitoring Officer, in consultation with the Appointment Panel as referred to above. This would include convening a selection panel to interview applicants.

5.2 Recruitment would be on a competitive basis, including an open advertisement and interviews. A draft person specification for the role will be prepared and agreed with the Chair of ARMC if committee decides to proceed with recommendation to Council for an independent member.

5.3 The independent member would be reimbursed reasonable travelling and subsistence expenses. A decision needs to be made as to whether or not an annual allowance should also be paid. To meet the proposed timetable, any allowance would need to be agreed at the same Council meeting.

5.4 An allowance is paid to the statutory Localism Act Independent Person appointees. This is seen as a goodwill gesture to those who are community minded and willing to support the Council in its work. To attract people of the right calibre and with the necessary skills, it is suggested that the independent member receives the same value allowance.

5.5 The appointment of an Independent Member shall be for a term of three years, commencing xx/xx/2025, without the need for further ratification in each year by the Council at its Annual Meeting.

6. Effect on corporate objectives

6.1 Local Authorities are accountable to their communities for the money they spend. They are required under law to ensure they provide value for money and to achieve this they require a governance framework that supports a culture of transparent decision making and accountability.

6.2 The appointment of an Independent Member(s) would enhance and support the independent and transparent assurances provided by the Audit & Risk Management Committee

6.3 The Audit & Risk Management Committee is a key component of the Council's corporate governance framework and so helps to deliver the Corporate Plan Priority of delivering a quality organisation.

7. Community impact

- 7.1 It is in the public interest to have transparency and independent challenge within the Council's audit committee.

8 Conclusions

- 8.1 At present there is no statutory requirement to determine that local authorities must appoint independent co-opted members.
- 8.2 There are both positive and cautionary reasons for such an appointment and decisions of this nature need to take account of each local authority's own circumstances.
- 8.3 The national landscape and direction of the government would indicate that greater accountability for public audit to support of audit committees, through co-opting independent members, will become a mandatory requirement.