

AUDIT COMMITTEE

DATE OF MEETING: 25 OCTOBER 2022

TITLE OF REPORT: APPOINTMENT OF INDEPENDENT PERSON TO THE AUDIT COMMITTEE

Report of: Interim Internal Audit Manager

Cabinet Portfolio: Finance

Key Decision: No

Confidentiality: Non-Exempt

PURPOSE OF REPORT

1. To seek the Committee's views as to whether they wish to appoint an independent person or persons to the Audit Committee.

RECOMMENDATION

2. The Committee recommends to the Council:
 - a. that it approves the appointment of two, non-voting, independent persons to the Audit Committee for a period of three years, commencing 1st March 2023.
 - b. that the constitution be amended to allow for the appointment of no more than two independent co-opted persons to the Audit Committee.
 - c. that it delegates to the Joint Chief Executives the responsibility for establishing a cross party selection panel, assisted by the statutory officers, who shall be responsible for advertising the positions and making all appointments.
3. That the Committee determine whether an allowance should be paid to the independent persons, and if so, make such a recommendation for Council.
4. That the Committee approve the role profile at appendix A.

BACKGROUND

5. In June 2022, the Chartered Institute of Public Finance and Accountancy (CIPFA) updated its position statement on audit committees in local authorities and police bodies in England and Wales. The statement, which replaces the 2018 version, sets out the 'purpose, core functions and membership of the audit committee'. The statement has been endorsed by the Department for Levelling Up, Housing and Communications (DLUHC) and the Home Office.
6. The position statement recommends that local authorities appoint at least two co-opted independent members to their audit committee. This recommendation addresses concerns raised in Sir Tony Redmond's 2020 Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting which recommended that "consideration being given to the appointment of at least one independent member, suitably qualified, to the Audit Committee".
7. In response to the Redmond review, the Government issued a consultation document. The consultation outcome document included the following statement;

“...based on the consultation feedback, 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.”

MAIN ISSUES

8. The 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.
9. To bolster its standing further, it is proposed to co-opt two suitably qualified and experienced independent persons who have 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.
10. The recruitment of independent co-opted persons is supported by the S151 Officer.
11. The benefits of appointing an independent person 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 political neutrality of the committee; and
 - 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.

12. There are a number of potential pitfalls in the appointment of an independent person that need to be considered. These include:
 - The potential over-reliance on the independent person by other audit committee members which can lead to a lack of engagement across the full committee;
 - The independent person lacking organisational knowledge or ‘context’ when considering reports;
 - The effort that will be required from both the independent person 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 appointed are not suited to the role, requiring the selection process to be repeated; and
 - There being insufficient suitable applicants for the role.
13. The independent person would be a co-opted member of the audit committee and have no voting rights.

Appointment process

14. The constitution does not allow for independent persons to be appointed to the committee. It would need to be amended to allow for their inclusion.
15. In order to avoid any delay in the appointment process it is recommended that the Committee requests Council at its meeting on 24 November 2022 to delegate arrangements for the appointment of independent co-opted persons to the Audit Committee, with the selection process delegated to the Monitoring Officer, in consultation with the Chairman of the Audit Committee. This would include convening a selection panel to interview applicants.
16. Recruitment would be on a competitive basis, including an open advertisement and interviews. A draft person specification is attached as Appendix A.
17. It is suggested that the Joint Chief Executives are given delegated powers to undertake the administrative tasks associated with the appointment process.
18. The committee's next meeting is due to be held on 28 March 2023. It is suggested that the appointment process should aim to be concluded ahead of that meeting. The results of the process will be reported to Council.

Allowance

19. The independent persons 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 24 November Council meeting.
20. 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. In order to attract people of the right calibre and with the necessary skills, it is suggested that the independent persons receive the same value of allowance.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

21. At present there is no statutory requirement for the authority to appoint an independent person to the audit committee. The status quo could be maintained. In light of the possibility of legislation on this matter, and the support that the proposal has received from the DLUHC it is considered an appropriate time to seek the appointment of an independent person(s) to the audit committee.

CORPORATE GOVERNANCE CONSIDERATIONS

Relevance to the Corporate Plan and/or The Hart Vision 2040

22. The Audit Committee is a key component of the Council's corporate governance framework and so helps to deliver the Corporate Plan priority of delivering an efficient and effective Council.

Service Plan

Is the proposal identified in the Service Plan? No

Is the proposal being funded from current budgets? No

Have staffing resources already been identified and set aside for this proposal? No

Legal and Constitutional Issues

23. Section 102(3) of the Local Government Act 1972 stipulates that a committee which discharges a function of the Council can include co-opted members,

except where it is a committee set up to regulate and control the finance of the local authority.

24. Section 13(1) of the Local Government and Housing Act 1989 provides that a co-opted member of a committee established under section 102 of the Local Government Act 1972 as a committee that is discharging the functions of the Council, must be a non-voting member.
25. The Audit Committee discharges some functions of the Council (the review and approval of annual statements of accounts and approval of a draft annual governance statement). Therefore, whilst co-opted members can be appointed to the Committee, they are unable to be given voting rights. Their involvement would be in a consultative manner, with their views being taken into account by voting members of the Committee.
26. The Constitution will need to be amended to allow for the co-option of an independent person(s) to the Audit Committee. It is proposed that the audit committees terms of reference be amended to allow for the appointment of up to two co-opted independent, non-voting members.
27. The Local Authorities (Members' Allowances) (England) Regulations 2003 permit the Council to pay an allowance to a co-opted member of a committee.

Financial and Resource Implications

28. There is currently no specific budget for the payment of any allowances to an Independent Person. Any additional budget would be required to be approved by Council. If two independents are appointed, this would require additional revenue budget of £700 for 2023/24 and onwards.

Risk Management

29. There are no direct risk management implications that will arise from the Committee's decision. The Audit Committee is not obliged to seek the appointment of an independent person at this time.
30. It is anticipated that the appointment of independent persons can be completed by February 2023, so allowing an appointment to be made before the March 2023 committee meeting.

EQUALITIES

31. If the Committee do decide to ask Council to endorse the appointment of an independent person, then any advertisement and subsequent assessments would be carried out in accordance with the Council's recruitment processes. This seeks to ensure that the process is conducted in a manner that does not lead to discrimination.

CLIMATE CHANGE IMPLICATIONS

32. No direct carbon/environmental impacts arising from the recommendations.

ACTION

33. CIPFA recommends that two independent persons are appointed. The Redmond review recommended that one appointment be made. Allowing for the appointment of two people gives the selection panel the ability to appoint people who have different skills, knowledge and expertise. For example, a person with knowledge of risk and internal audit may not have a good knowledge of financial processes. The opportunity to appoint two people reduces this risk.

34. The Committee need to determine whether they endorse the proposals in the report, and if so, approve the recommendations. The Council is due to meet on 24 November 2022. Recommendations will be presented to that meeting.

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Background Papers:

CIPFA Audit Committee Position Statement 2022

<https://www.cipfa.org/-/media/Files/Services/Support-for-audit-committees/CIPFA-Audit-Committee-Position-Statement-2022.pdf>

Government response to local audit framework: technical consultation -

<https://www.gov.uk/government/consultations/local-audit-framework-technical-consultation/outcome/government-response-to-local-audit-framework-technical-consultation>

The Redmond Review

[Local authority financial reporting and external audit: independent review - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/consultations/local-authority-financial-reporting-and-external-audit-independent-review)

Draft Role Profile

Audit Committee Independent Person

The Audit Committee is a key component of Hart District Council's corporate governance framework. The Committee reports to the full Council and its purpose is to provide those with charged with governance independent assurance of the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes. The Committee also approves the annual statutory statement of accounts and associated documents on behalf of full Council. It plays a key role in overseeing internal and external audit.

We are looking to recruit a person who has both a desire to serve the local community, has knowledge of local government finance and who can demonstrate an ability to establish good working relationships with councillors and managers.

The independent person will support the Council's Audit Committee in its role of providing assurance to the elected members of Hart District Council, its citizens and stakeholders.

The Committee assists the Council by:

Supporting good governance, strong financial management and effective internal and external audit.

Providing independent assurance on the adequacy of the internal control and governance arrangements within the Council,

Recommending the adoption of the Council's annual governance statement;

Reviewing and approving the financial statements,

Job purpose

As part of the Audit Committee your role will be:

- to be an independent source of support for the Audit Committee providing independent challenge and scrutiny of the reports presented to it.
- to assist the Audit Committee with scrutinising the annual Statement of Accounts prior to their approval.
- to review the Council's corporate governance arrangements.
- to receive reports and presentations from the Council's internal audit manager, considering the main issues identified and monitoring management action in response.
- to receive and consider the external auditor's annual letter and relevant reports.
- to consider the effectiveness and adequacy of the authority's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements.
- to consider the adequacy of the action being taken by management on risk related issues identified by auditors and inspectors.

Qualifications and experience

The independent person should be able to demonstrate their independence from the Council, and should:

- hold a professional or management qualification, for example in accountancy, internal audit, risk management, or law; or

- have relevant direct and recent experience of managing or working in a similar service area gained working in or with a large or public sector organisation; ideally with experience of serving on a committee or board.

Knowledge

The independent person should have knowledge of two or more of the following areas:

- Local Government including:-
 - major functions
 - challenges
 - governance structures and processes; and
 - respective roles of members, officers and external parties
- the role and purpose of audit committees
- corporate governance including:-
 - the seven principles of the CIPFA/Solace Framework; and
 - the requirements of the Annual Governance Statement
- financial management including:-
 - principles of good financial management; and
 - the financial statements the Council must produce
- internal audit including:-
 - the key principles of Public Sector Internal Audit Standards (PSIAS) and the Local Government Application Note (LGAN); and
- external audit including:-
 - the role and functions of the external auditor;
 - the key reports and assurances that the external auditor provides; and
 - arrangements for appointment to and quality monitoring of the role.
- Risk management including:-
 - the principles of risk management;
 - the principles of good fraud risk management practice; and
 - the main areas of fraud and corruption risk for local authorities.
- Ethical standards including;
 - the Seven Principles of Public Life.

Skills and qualities

We are looking for people who have:

- a high level of integrity and inspire public confidence.
- ability to be objective, independent and impartial.
- knowledge and understanding of local government finances, risk management, corporate governance and the roles of internal and external audit.
- good analytical skills and the ability to scrutinise financial information and processes and to challenge appropriately.
- good communication skills and ability to contribute to discussions and ask questions.
- the ability to work effectively within a team and build good relations with others in a committee setting.
- a respect for confidentiality.
- the ability to deal with issues of a sensitive nature in a diplomatic manner.
- knowledge/experience of local government or some other aspects of the public sector and/or of large, complex organisations at a senior level.
- an awareness of the issues currently facing local government.

Eligibility for Appointment

In order to apply, you must have a local connection and/or live or carry out the main part of your work within the Hampshire County Council area.

You shall be required to abide by the Members Code of Conduct during the term of your appointment.

Disqualification

Section 104 Local Government Act 1972 prohibits the Council appointing any person who is disqualified from being a member of the authority by virtue of section 80 of the same act. In addition, the Council has also added further disqualification criteria.

You will not be appointed as an Independent Person if you:

- are a member or co-opted member or officer of the Council or a parish/town council in the Council's area.
- are a relative, or close friend of such a person.
- have been a member or co-opted member or officer of the Council or a parish/town council in the Council's area in the previous 5 years.
- have been convicted of any offence that has resulted in a sentence of imprisonment of three months or more.
- are an undischarged bankrupt.
- have significant business dealings with the Council.
- are actively engaged in a political party.
- have a proven history of vexatious and/or frivolous complaints against Hart District Council or be in debt or dispute.
- are a holder of a significant office in an organisation being grant aided or supported by the Council.

Commitment

The Audit Committee usually meets four times a year and you will be expected to attend these meetings in person. Meetings are generally held at the Council's main office which is situated on Harlington Way, Fleet, GU51 4AE. Meetings usually take place in March, May, July, and October and generally start at 7pm and last approximately 2 hours.

Taking into account reading and preparation time and attendance at the meeting itself, a commitment of an average of five hours a meeting is envisaged.

The appointed person will also be required to attend training events that are organised for the Audit Committee.

Remuneration

To be updated depending on Committee decision.

The independent person will not be an employee of Hart District Council.

An allowance of £----- per annum is payable. Reasonable travel expenses (where this is within the Hampshire area) would also be reimbursed.

How to apply

Please submit a letter and CV.

The covering letter should outline why you are interested in the role, highlight how you meet the knowledge and skills criteria and your connection to Hart District Council. It must also clearly state that you meet the eligibility criteria.

If you successfully pass the short-listing process, you will be invited to attend an interview.

End