

**Body:** **AUDIT AND GOVERNANCE COMMITTEE**

**Date:** **11 March 2015**

**Subject:** **The composition of Audit and Governance Committee**

**Report Of:** **LAWYER TO THE COUNCIL AND MONITORING OFFICER**

**Ward(s)** **All**

**Purpose** **To consider the current composition of the Audit and Governance Committee against current best practice**

**Recommendations:** That this Committee review its composition in the light of revised best practice guidance and consider delegating responsibility to the Senior Head of Corporate Development and Governance, in consultation with the Chair of Audit and Governance Committee, for setting in place a recruitment process to enable the selection of an independent member to be co-opted onto the Committee in accordance with the Committee's existing terms of reference.

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## **1.0 Background**

- 1.1 The Audit and Governance Committee's terms of reference reflect its responsibility to provide oversight of the authority's audit, governance and standards arrangements. This report invites the Committee to consider the current makeup of the Committee, including amongst other things whether a co-opted member might be useful in assisting in the delivery of independent assurance on risk management, internal controls and the financial reporting and annual governance processes.
- 1.2 If the Committee is minded to follow the recommendation then it may set in motion steps to co-opt an independent member for a fixed term in accordance with the guidance, this acting within the Committee's existing terms of reference.

## **2.0 CIPFA guidance on the composition of local authority audit committees: a review of EBC's arrangements**

- 2.1 In December 2013, the Chartered Institute of Public Finance and Accounting ('CIPFA') updated its practical guidance on audit committees for local authorities and the police. That guidance considers the various elements necessary to ensure that authorities have the benefit of an audit committee which is balanced, objective and independent of mind as well as comprehensively well-equipped to discharge its role.

2.2 While audit committees in Welsh local authorities and police audit committees in both England and Wales are subject to specific rules on composition, there are currently no statutory requirements in place to dictate the composition of audit committees in England. The recommendations in the guidance are therefore a matter of best practice only.

2.3 This Committee will be familiar with the requirement that the Committee be politically balanced: a requirement which applies to all of the Council's Committees. The guidance emphasises the degree to which adopting a non-political, uninvested approach to meetings and discussions is necessary to ensure the success of the Committee. This emphasis on the independent-mindedness of the Committee informs all of the best practice recommendations in the guidance.

### **3.0 Participation by members of the executive**

3.1 The updated CIPFA guidance considers the practice of allowing members of the executive to sit also on audit committee. It notes that this practice creates a potential risk that any such Committee might potentially be deterred from challenging or holding to account the executive. The guidance states that such arrangements should be avoided unless other compensating arrangements are put in place to ensure independence. It is very clear in addition that where an executive member does sit on the audit committee then that person should not act as its Chair.

3.2 As noted above, the revised guidance provides best practice suggestions rather than imposing mandatory requirements on audit committees in England. Importantly, at this authority the Audit and Governance Committee is not chaired by a member of the executive. However the size of this authority and the limited number of elected members available to serve on committees has resulted in the current situation whereby a limited number of members who are on the executive sit also on the Audit and Governance Committee.

3.3 While practical considerations always need to be factored in – including the fact that members' established interests and expertise may or may not fall within the Committee's remit – this aspect of the composition of the Committee will be reviewed in any event following the upcoming council elections. Members of this Committee may nonetheless wish to discuss whether it would be useful and/or feasible to agree as a matter of best practice that where practical considerations permit, the Committee will not include executive members in the future.

### **4.0 Participation by co-opted members**

4.1 The CIPFA guidance notes that the co-option of independent members to local government audit committees may be beneficial, noting that such co-option is a requirement for police and local authority committees in Wales as well as in health and national government audit committees.

- 4.2 While the guidance stops short of requiring local authorities in England to co-opt members onto the Audit Committee, it notes that 'the injection of an external view can often bring a new approach to committee discussions'.
- 4.3 Some of the positive reasons for co-opting independents include the potential to import in additional knowledge and expertise as well as the reinforcement of the committee's independence and political neutrality. It warns however against over-reliance on the independents by other committee members and indeed notes that where independents do not have organisational knowledge or context then this may impact adversely on the usefulness of their contribution.
- 4.4 In terms of the profile of the Chair of the Committee, the guidance is clear that the Committee should be led by a strong, independently-minded Chair, who displays a depth of knowledge, skills and interests. Again, it is not a requirement that that person be a co-opted (as opposed to an elected) member.
- 4.5 While any change to the terms of reference of the Audit and Governance Committee can only be made by Council, the existing rules provide as follows:
- 'The committee may co-opt one person in a non-voting capacity to provide independent advice, primarily but not exclusively, in relation to its audit functions.'
- 4.6 The authority is therefore able within existing rules to determine that such a co-optee with expertise either in audit or in one of the other areas of the committee would enhance its delivery of the function, and to co-opt an individual (after appropriate recruitment processes) if it wishes. Whether or not it chooses to co-opt a single independent member then it is free if it wishes to invite full Council to amend the terms of reference at a later date either to amend or extend the remit of the co-optee across the range of audit and governance responsibilities in a non-voting capacity, or indeed to increase the number of co-optees if it wishes.
- 4.7 If considering co-option, the Committee will need to have regard to section 13 of the Local Government and Housing Act 1989 which relates to the voting rights of non-elected members. Where decisions are being made by the committee in any capacity other than that which is purely 'advisory' then any co-opted member would not be able to vote.
- 4.8 Under the Local Government Act 1972, and in accordance with the Constitution of this authority, where any member chairs a committee of the authority then they have a casting vote in the capacity of Chair. As a result, if a co-opted member were made Chair then they would be able to exercise a casting vote in situations where the Committee would otherwise be tied. However while appointing a co-opted member as Chair is possible in principle, setting up a structure whereby the Chair is not permitted to vote unless the vote is tied is considered to introduce a level of complexity to proceedings which is not necessary to meet the requirement for an Chair who is independently minded.

## **5.0 Next steps**

- 5.1 If the Committee does decide to introduce a co-opted member then the recruitment of such a person will need to be the subject of a dedicated, publicly advertised, recruitment process. The guidance highlights the process to be followed as well as the need to ensure that candidates are able to demonstrate their political independence as well as the necessary skills, knowledge and willingness to work with the committee. Notably the co-opted member is to be distinguished from the independent persons appointed under the Localism Act to assist the Committee in its discharge of its Standards-related functions.
- 5.2 It will be made clear that all co-optees are members of the authority and are therefore bound by the same Code of Conduct as elected members.

## **6.0 Consultation**

- 6.1 The Internal Auditor and the Chief Finance Officer have both been consulted.

## **7.0 Resource Implications**

- 7.1 None

## **8.0 Financial**

- 8.1 Allowances may be paid to co-opted members, and must be set following a review of the council's independent remuneration panel.

## **9.0 Staffing**

- 9.1 None.

## **10.0 Conclusion**

- 10.1 This report asks this Committee to review the composition of the Committee alongside revised best practice and to consider delegating the powers necessary to start the recruitment process necessary to enable it to co-opt an independent person onto the Audit and Governance Committee in accordance with existing terms, so as to enhance its performance of its functions.

**Victoria Simpson**  
**LAWYER TO THE COUNCIL AND MONITORING OFFICER**

## **Appendices**

None

## **Background Papers:**

Audit Committees: practical guidance for local authorities and the police. Published by the Chartered Institute of Public Finance and Accountancy in December 2013 and subject to copyright.

Previous reports and minutes of this Committee and of Cabinet.

Articles in the Local Government Lawyer