

**Report of City Solicitor**

**Report to Corporate Governance and Audit Committee**

**Date: 22<sup>nd</sup> March 2019**

**Subject: Independent Member appointment to Audit Committees**

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

**1 Purpose of this report**

- 1.1 The Purpose of this report is to enable Members of the committee to further consider the CIPFA Best Practice guidance relating to the appointment of Independent Members to Audit committees.

**2 Background information**

- 2.1 Members will recall at the meeting in January 2019 that a self-assessment exercise highlighted a variance in Leeds' practice against the Chartered Institute for Public Finance and Accountancy guidance for Audit Committee in Local Government, specifically the appointment of Independent Members to the Committee.
- 2.2 Officers were requested to provide a further assessment of the role of Independent Co-optees on Local Government Audit Committees and provide a further report to committee.
- 2.3 The guidance requirement and the summary presented to Members in January is reproduced at Table 1 on the following page.

**Table 1 Extract from CIPFA Audit Committee Guidance and Leeds City Council Position**

<b>CIPFA Audit Committee Position Statement</b>	<b>Leeds City Council Position</b>
<b>The committee should:</b>	<b>Officer Commentary</b>
<p>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</p>	<ul style="list-style-type: none"> <li>▪ The committee is established by full council.</li> <li>▪ The committee is not a Scrutiny Committee.</li> <li>▪ Article 9.2.1 precludes the following from being members of the Corporate Governance and Audit Committee:               <ul style="list-style-type: none"> <li>○ Members of the Executive;</li> <li>○ Political Group Leaders from the three largest groups; and</li> <li>○ Whips from the three largest groups.</li> </ul> </li> <li>▪ The committee does not include an independent member this is because it is appointed by the Council under S102(1)(a) LGA 1972 to discharge functions of the Council. As such, the Council fixes the number of members and their terms of office - S102(2) LGA 1972. <b>With one of the functions of the committee being to regulate and control of the Council's finance, under S102(3) as co-opted members are not permitted on this committee the arrangements at Leeds City Council are at variance with the CIPFA position statement.</b></li> </ul>

### **3 Main issues**

- 3.1 In January Members resolved to look again in detail at the question of an Independent Member appointment with the benefit of further background information.
- 3.2 Members will note that one of the functions of the Corporate Governance and Audit Committee is to regulate and control of the Council's finance, under S102(3) of the Local Government Act 1972. Co-opted members are not permitted to be members on committees that perform these functions and this is the basis for Leeds City Council's practice being at variance with the CIPFA position statement.
- 3.3 CIPFA do acknowledge these limitations recommending that Local authorities 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.
- 3.4 Their view is that where an audit committee is operating as an advisory committee under the Local Government Act 1972, making recommendations rather than policy, then all members of the committee (including any co-opted members) should be able to vote on those recommendations. However where a council has delegated decisions to the committee, for example the adoption of the financial statements, then independent members will not be able to vote on those matters for decision.

- 3.5 CIPFA also acknowledge that there are no statutory requirements that determine that local authorities such as Leeds City Council must appoint Independent co-opted Members – CIPFA do though highlight that 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-executives to be committee members in health and central government audit committees.
- 3.6 CIPFA's view is that 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;
  - to maintain continuity of committee membership where membership is affected by the electoral cycle.
- 3.7 CIPFA do though acknowledge that are 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;
  - lack of organisational knowledge or 'context' among the independent members when considering risk registers or audit reports;
  - effort is required from both independent members and officers/staff to establish an effective working relationship and establish appropriate protocols for briefings and access to information.
- 3.8 The National Audit Office (NAO) recent publication: Local authority governance reported that their focus groups of internal and external auditors had stressed the benefits to audit committee effectiveness of having independent committee members. The same report identified (from the NAO's review of local authority websites) that 33% of local authority audit committees have an independent member.
- 3.9 The NAO has recommended that government work with local authorities and stakeholders to assess the implications of, and possible responses to the effectiveness of audit committees and how to increase the use of Independent Members.
- 3.10 A review of Core City and West Yorkshire authorities has identified that a number of authorities have made arrangements for Independent Member appointments. Five out of the ten core city authorities have Independent Members appointed as co-optees. In two of these 5 authorities an Independent Members is appointed as Chair.
- 3.11 Approaches to payment of allowances to those co-opted Independent Members varies with one authority paying a daily rate (variable between the Chair and other co-opted Members), whilst others paid a fixed annual allowance (between £577 & £900 per annum).

3.12 By way of comparison, at Leeds City Council payments are made to statutory co-optees of Scrutiny Boards – these payments (to 5 co-optees) are £601 per annum each. Should there be a wish to pursue the appointment of a Co-opted Member the rate of any allowance would need to be considered by a specially convened meeting of the Independent Remuneration Panel and be approved by full Council.

3.13 Only one West Yorkshire authority (Wakefield) has appointed an Independent Member and in this case no allowance payment is made.

**Table 2 Summary of Audit Committee Appointment of Independent Members**

Authority		number		Co-opted Member Allowance	
		Members	Co-opted/ Members*	Per Member	Total Cost Per Annum
Core City Group	Birmingham	8	0	n/a	n/a
	Bristol	10	2	£577	£1,144
	Cardiff	11	<b>3</b>	£250 per day Chair £198 per day Co-opted member	£4,170
	Glasgow	15	0	n/a	n/a
	Leeds	10	0	n/a	n/a
	Liverpool	14	0	n/a	n/a
	Manchester	8	2	£901	£1,802
	Newcastle	9	<b>4</b>	Chair £4,388, Co-opted member £878	£7,022
	Nottingham	9	0	n/a	n/a
	Sheffield	10	3	£730	£2190
West Yorkshire	Bradford	9	0	n/a	n/a
	Calderdale	6	0	n/a	n/a
	Kirklees	9	0	n/a	n/a
	Wakefield	9	1	no allowances paid	0

\***Bold** number indicates where Chair is drawn from Independent Co-opted Members

## 4 Corporate Considerations

### 4.1 Consultation and Engagement

4.1.1 The Leader of Council, Deputy Leader/Executive Member for Resources and Sustainability and the Leader of the Opposition have been consulted on this matter and are broadly in favour of an Independent Member appointment to the Committee.

4.1.2 They have requested that, with the benefit of the further evaluation of this matter by Corporate Governance and Audit Committee, the merits for progressing such an appointment be considered by the General Purposes Committee in advance of the Annual Council meeting.

### 4.2 Equality and Diversity / Cohesion and Integration

4.2.1 There are no equality and diversity or cohesion and integration issues arising from this report.

### **4.3 Council Policies and best council plan**

4.3.1 The work programme provides a balanced number of reports and assurances upon which the committee can assess the adequacy of the council's corporate governance arrangements.

### **4.4 Resources and Value for Money**

4.4.1 There are no specific issues arising from this report.

### **4.5 Legal Implications, Access to Information and Call In**

4.5.1 This report is not an executive function and is not subject to call in.

### **4.6 Risk Management**

4.6.1 There are no specific risk management issues arising from this report.

## **5 Conclusions**

5.1 At present there are no statutory requirements on the authority to appoint an Independent Person to an audit committee. The National Audit Office has recommended that further work be done by government with local authorities and other stakeholders examine how the use of Independent Members on audit committees can be increased.

5.2 Guidance from the CIPFA notes both positive and cautionary reasons for such appointments and decisions of this nature need to take account of each local authority's own circumstances.

5.3 Members are requested to consider the additional background information provided and note the intention of General Purposes Committee to consider this matter prior to the Annual Council Meeting.

## **6 Recommendations**

6.1 Members are requested to review and note the additional background information provided and refer any observations to the General Purposes Committee for consideration.