

## Appendix 5 - Audit Committee Independent Membership briefing

### Audit Committee briefing considering the appointment of Independent Members to the Audit Committee

#### 1. Background

CIPFA issues periodic guidance concerning governance issues including advice about local authority audit committees. That advice has been updated. Hackney already follows the great majority of the good practice which the new guidance recommends with the notable exception that CIPFA proposes that all English local authority audit committees should include 2 independent members to increase the Committee's skills and experience, and reinforce the Committee's independence. This note considers the status of the CIPFA guidance, sets out learning from others already working to the requirement and considers the options available to Hackney.

#### 2. The recommendation

CIPFA recommends that all English local authority audit committees include two co-opted independent members. The inclusion of independent members was proposed in earlier versions of CIPFA's audit committee advice; the latest advice makes the recommendation more explicit and provides further guidance around what might constitute an independent member, the role, and recruitment and training considerations.

A number of advantages of including independent members are also set out:

- *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.*
- *Help to 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, and increase the resilience and continuity of the committee.*
- *It shows a commitment to supporting and investing in the committee.*

#### 3. Legislative status

The new CIPFA Position Statement on Audit Committees in Local Authorities was issued in April 2022, [supplementary advice](#) was issued in October 2022 (specifically p26-30). The CIPFA guidance does not represent a legal requirement for any English non-combined authority to have independent members on their audit committees, but it is supported by the Home Office and the DLUHC response to the CIPFA document stated that -

*“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.”*

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Independent audit committee membership is a mandatory requirement for combined authorities and Welsh local authorities, which provides further confirmation of the government's direction of travel.

There is therefore an expectation that authorities in the UK will follow the guidance as good practice, and it may become a reference point for external auditors and other stakeholders when they consider the Council's governance arrangements.

### **4. Independence**

#### **4.1 The Role**

Independent Persons are non-councillors who are suitably qualified with experience in the area of audit and/or governance and bring specialist knowledge and insight to the workings and deliberations of the committee. An example of a [role description and person specification](#) from another Borough that has recently recruited is provided for information. It is expected that co-opted membership will result in even greater independence with regard to:

- Assurance of the adequacy of the risk management framework;
- Review of the Council's financial and non-financial performance; and
- Challenge to, and assurance over, the Council's internal control framework and wider governance processes.

#### **4.2 Voting**

The Independent Member would not have a vote in the same way as elected members of the committee and would be part of the committee in an advisory and consultative manner.

#### **4.3 What is independence?**

There is an existing legal requirement for combined authorities to have independent representation, which is perhaps the best available indicator of what the legal test for independence might look like when the CIPFA recommendation does become mandatory for other local authorities. This sets out that the independent person is -

- Not a member, co-opted member or officer of the authority or a parish within it;
- Not a relative or close friend of one of the above;
- Has not been a member, co-opted member or officer of the authority or parish within the last 5 years.

### **5. Comparative information**

#### **5.1 London Boroughs**

A review of the constitution of audit committees for other Inner London Boroughs, and Hackney's neighbours has found that following the strengthening of the CIPFA advice a majority of boroughs now include independent membership (10 with, 4 without).

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### 5.2 Cost

A review of London Councils data shows that allowances payable to Audit Committee independent members range from c.£127 per meeting to £2,500 p.a., with the lower end of this spectrum being far more commonplace. It is also noteworthy that a small number of Boroughs have opted to appoint an independent Chair to the Audit Committee, the allowance in these circumstances ranges from £1,000 to £3,180 p.a.

The LB Hackney Audit Committee meets 5 times each year, 4 of these meetings consider regular Committee business (audit, risk, finance, performance, etc.) while the 5th meeting is dedicated to the annual accounts. The Hackney rate for independent and co-opted members is £123 per meeting (2022/23 rates).

### 6. **Other considerations**

Hackney needs to consider and decide if and when independent members should be sought for our own audit committee.

Consideration should include the following issues:

- The CIPFA guidance and DLUCH intentions to legislate all strongly indicate that independent representation on the Audit Committee will become mandatory. Such a change does have the potential to further improve the Council's governance and risk management arrangements;
- The increasing number of London Borough audit committees that have implemented independent membership already means that Hackney is in a minority position which may result in scrutiny of our arrangements. The current situation also demonstrates that independent membership can work and there is no negative feedback that we are aware of at this time.
- Consideration should be given to a skills assessment to identify what additional skills and experience might be of most benefit to the current Committee;
- Governance arrangements (confirmation that independent members cannot vote, length of appointments, etc.);
- Remuneration (to either confirm payment in line with existing arrangements for independent persons on other Hackney committees, or identify if there is any reason to deviate from this);
- The timing of any change, if it is agreed. There may be benefits in timing implementation to allow some continuity of committee membership to bridge changes in the administrative cycle;
- Training requirements for any independent members that might be appointed;
- Any wider considerations about the composition of the Audit Committee -
  - Committee size, given that CIPFA also recommends a maximum committee size of 8 (and noting that benchmarking data referred to at paragraph 5.1 has identified authorities with larger Committee sizes than Hackney);
  - The option to appoint an independent Chair. For clarity, this is not a recommendation of this briefing or the CIPFA guidance. It is being raised for the purpose of completeness while arrangements are being considered and in recognition that this approach has been adopted at a small number of other authorities.

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### **7. Next steps**

The Audit Committee should give consideration and a decision as to whether Full Council should be asked to approve the change to the Committee's terms of reference and for practical steps to be taken to seek independent membership.