

REPORT TO:		AUDIT COMMITTEE	
DATE:		24 June 2024	
PORTFOLIO:		Councillor Vanessa Alexander - Resources and Council Operations	
REPORT AUTHOR:		Mark Beard – Head of Audit & Investigations	
TITLE OF REPORT:		PROCESS FOR APPOINTMENT OF INDEPENDENT PERSONS TO AUDIT COMMITTEE	
EXEMPT REPORT (Local Government Act 1972, Schedule 12A)	No	Not applicable	
KEY DECISION:	No	If yes, date of publication:	

1. Purpose of Report

- 1.1 At the Council AGM meeting held on 23rd May 2024 it was agreed to receive a report at a future meeting regarding possible appointment of two independent persons that would then be co-opted members of Audit Committee.
- 1.2 In order to progress this, Audit Committee must determine the methodology and process that would be used, prior to the decision being taken by Council at a future meeting.

2. Recommendations

- 2.1 Audit Committee is recommended to:
 - 1.) Recommend the appointment of 2 independent persons to the Audit Committee subject to the decision being taken by Full Council.
 - 2.) Agree the methodology that will be used for the appointment of 2 independent persons to Audit Committee as detailed in section 3 of the report together with the appendices to this report. The agreed methodology will be shared with Full Council to support their decision.

3. Reasons for Recommendations and Background

- 3.1 The Head of Audit & Investigations has reported previously to Audit Committee surrounding this subject and at a verbal update to the previous of Audit Committee in March 2024 stated that the Committee would be expected to progress this after the Council AGM which took place in May 2024.
- 3.2 It is already mandatory for Combined Authorities in England to have at least one independent person on Audit Committee which is defined in guidance. In Wales all local authorities must have 'lay persons' which comprise of one third of the members of Audit Committee. Police Audit Committees in England and Wales must have between three and five members who are independent. However, with regards to local authorities in England, Northern Ireland and Scotland no guidance has yet been issued to make the appointment of independent persons to Audit Committee mandatory. However, it is defined as being best practice to have two independent persons on the Audit Committee.
- 3.3 The publication "Audit Committees: practical guidance for local authorities and police 2022 edition" issued by the Chartered Institute of Public Finance & Accountancy (CIPFA) sets out best practice for Audit Committees. At Hyndburn all elected councillors who are appointed to Audit Committee are sent their own digital copy of this guidance as there are a number of activities of the Committee which follow this guidance. In addition, it also acts to increase knowledge and skills of individual members of the Committee.
- 3.4 In the CIPFA publication Audit Committees: practical guidance for local authorities and police 2022 edition it states:
"Where there is no established definition, authorities are recommended to establish their own policy before commencing recruitment. This will provide clarity to potential candidates and support the independence of the committee. CIPFA recommends alignment to the combined authority requirements as the basis for a suitable policy."
- 3.5 Appendix 1 details the policy as used by a Combined Authority for the appointment of independent persons to an Audit Committee. This would be a suitable basis for Hyndburn Borough Council to adopt in order to progress this. The key difference being the intention to appoint two independent persons to Hyndburn's Audit Committee.
- 3.6 The CIPFA publication Audit Committees: practical guidance for local authorities and police 2022 edition details the role description for co-opted independent persons. This can be found on page 25 of the publication and is set out at Appendix 2.
- 3.7 It is common practice to appoint the independent person(s) for a minimum term, commonly 2 years with an optional extension clause that can allow the appointment to be extended.

- 3.8 It is common practice that the independent person(s) are appointed on a non-voting basis. Independent persons are usually an unpaid role with expenses reimbursed to the individual as opposed to a fee / fixed payment.
- 3.9 Advertising for independent persons would follow appropriate recruitment procedures appropriate for this role to ensure any appointed individual(s) have the necessary skills / knowledge that will not only benefit Audit Committee but adds to a robust governance environment.
- 3.10 Interviews of potential candidates for the role of independent person(s) on the Audit Committee would normally be carried out by senior officers of the Council with the Chair of Audit Committee also in attendance where this is possible.
- 3.11 CIPFA's view is the addition of an external perspective to the Audit Committee membership can often bring a new approach to Audit 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.
- 3.12 CIPFA also recognises that there are some potential pitfalls to the use of independent persons that should be borne in mind:
- Over reliance on the independent persons by other Audit Committee members in local authorities can lead to a lack of engagement across the full Audit Committee;
 - A lack of organisational knowledge or 'context' among the independent members when considering risk registers or audit reports;
 - Both independent person(s) and officers must try and establish an effective working relationship and appropriate protocols for briefings and access to information.

These factors should be considered when developing the committee structure and plans put in place to provide an appropriate level of support to the Audit Committee member.

4. Alternative Options considered and Reasons for Rejection

- 4.1 The only alternative option is maintain the current status quo of only having elected councillors form the membership of the Audit Committee. It is recognised that current guidance does not force local authorities in England to have appointed independent persons on Audit Committee, however, it is best practice and it is anticipated that it will become mandatory. A significant number of authorities across the country including other Lancashire authorities have already applied best practice and appointed one or more independent persons to their Audit Committee.

5. Consultations

5.1 No consultations required as this report consolidates previous information and discussions on this subject at previous meetings of Audit Committee.

6. Implications

Financial implications (including any future financial commitments for the Council)	There are no financial implications arising from this report at this stage as it is purely agreeing the basis of a process that will then have to be reported to Full Council for approval. Financial Implications will need to be included in the report to Full Council.
Legal and human rights implications	There are no legal or human rights implications arising from this report.
Assessment of risk	There are no direct risks from this report as this is agreeing the basis of a process that will be reported to Full Council at a date to be determined.
Equality and diversity implications <i>A Customer First Analysis should be completed in relation to policy decisions and should be attached as an appendix to the report.</i>	This report brings together a number of previous reports and verbal statements to Audit Committee on this subject. As Audit Committee are agreeing the basis of a process that is then still subject to a decision of Full Council, a Customer First Analysis is not necessary to enable Audit Committee to agree the basis of a process that, subject to Full Council approval, could eventually result in the appointment of two independent persons to Audit Committee.

**7. Local Government (Access to Information) Act 1985:
List of Background Papers**

7.1 No background papers were necessary for the preparation of this report.

8. Freedom of Information

8.1 The report does not contain exempt information under the Local Government Act 1972, Schedule 12A and all information can be disclosed under the Freedom of Information Act 2000.

APPENDIX 1

AUDIT COMMITTEE – 24th JUNE 2024

PROCESS FOR APPOINTMENT OF INDEPENDENT PERSONS TO AUDIT COMMITTEE

The CIPFA Publication Audit Committees: practical guidance for local authorities and police 2022 recommends alignment to the combined authority requirements as the basis for a suitable policy surrounding appointment criteria.

Combined Authorities (Overview and Scrutiny Committees Access to information and Audit Committees) Order 2017 – section 14 of the Order sets out the basis for Audit Committees.

Audit committees

14.—(1) In appointing members to an audit committee a combined authority must ensure that the members of the committee taken as a whole reflect so far as reasonably practicable the balance of political parties for the time being prevailing among members of the constituent councils when taken together.

(2) An audit committee appointed by the combined authority may not include any officer of the combined authority or of a constituent council.

(3) A combined authority must appoint to an audit committee at least one independent person.

(4) For the purposes of appointments under paragraph (3), a person is independent if the person—

(a) is not a member, co-opted member or officer of the authority;

(b) is not a member, co-opted member or officer of a parish council for which the authority is the principal authority;

(c) is not a relative, or close friend, of a person within sub-paragraph (a) or (b); and

(d) was not at any time during the 5 years ending with an appointment under paragraph (3) —

(i) a member, co-opted member or officer of the authority; or

(ii) a member, co-opted member or officer of a parish council for which the authority is the principal authority.

(5) A person may not be appointed under paragraph (3) unless—

(a) the vacancy for the audit committee has been advertised in such manner as the combined authority considers is likely to bring it to the attention of the public;

(b) the person has submitted to the combined authority an application to fill the vacancy, and

(c) the person's appointment has been approved by a majority of the members of the combined authority.

(6) A person appointed under paragraph (3) does not cease to be independent as a result of being paid any amounts by way of allowances or expenses in connection with performing the duties of the appointment.

(7) The combined authority must determine a minimum number of members required to be present at a meeting of the audit committee before business may be transacted, to be no fewer than two-thirds of the total number of members of the audit committee.

APPENDIX 2

AUDIT COMMITTEE – 24th JUNE 2024

PROCESS FOR APPOINTMENT OF INDEPENDENT PERSONS TO AUDIT COMMITTEE

The CIPFA Publication Audit Committees: practical guidance for local authorities and police 2022 details the suggested role description for co-opted independent persons to the Audit Committee.

Role descriptions for co-opted independent members

Where the authority is recruiting members to co-opt onto the audit committee, a clear role description should be established. The following areas should be addressed:

- The role of the co-opted independent, including expected time commitment and location of meetings.
- The suggested appointment period and options for renewal (two terms would be a suggested maximum appointment period).
- The definition of 'independent' applicable to the role.
- Any restrictions or conflicts of interest that would make a candidate unsuitable. As the role is non-political and requires working with elected representatives in a local authority, it is recommended that candidates should not be political party members.
- Vetting requirements (particularly for police committee members).
- Desired knowledge, experience and skills.
- Remuneration and expenses.
- The expected conditions of engagement, including adherence to the authority's code of conduct, disclosure of interests, etc.

Consideration should also be given to attracting suitable candidates. While it is up to each authority to decide, authorities may want to consider the following:

- Selecting candidates beyond the local area. If candidates are able and willing to travel to attend the required meetings and supporting activities, the living outside the authority area should not be a barrier to suitability.
- Working with other authorities in the region to promote and support opportunities to be an independent member.
- Advertising nationally or using specialist agencies if professional knowledge and skills are required.
- Promoting the role through means in addition to advertising. For example, a change to the constitution of the audit committee could be part of a wider governance improvement programme that could be publicised locally or through council channels of communication.
- Council orientation and support that will be provided in the role.
- The opportunity for an informal discussion on the role with a senior officer or committee chair.
- Ensuring an easy application process.

Under the combined authorities order (as detailed in Appendix 1), the vacancy must be publicly advertised.