
APPENDIX 1

A Review Of Special Responsibility Allowances For Chair and Vice Chair Of the Audit Committee

Darlington Borough Council

**The Third Report by the
Independent Remuneration Panel**

May 2006

Foreword

This is the third report produced by the Independent Remuneration Panel for Darlington Borough Council. The original panel was established in November 1999 to make recommendations to the Authority on the range and levels of remuneration for the Authority's members. It was done as part of the wider modernisation agenda that has now been completed throughout the country. The first report was produced in January 2000 and made recommendations accordingly, which the Council accepted. This review was carried out prior to experience of new roles and responsibilities, which have now been in operation for the past five years.

The second review, carried out in September 2003, was conducted in accordance with the *Local Authorities (Members' Allowance) (England) Regulations 2003*¹ and subsequent amendments. These regulations required the Council to reconvene its Panel to make recommendations in relation to pensions, travel and subsistence allowances, co-optees' allowances, and on certain associated allowances before 31 December 2003. The Panel was also tasked with a further review of Basic and Special Responsibility Allowances, which led to an up date of Darlington Borough Council Members' Allowances Scheme in light of experience of the new political structures.

This third review is of a relatively minor nature and has arisen out of the establishment of a new Audit Committee by the Council. This report contains the Independent Remuneration Panels' recommendations on whether the Chair and Vice Chair of the Audit Committee should be remunerated, and if so at which level.

As per the previous reviews, it has not been the Panel's function to consider the performance of the Darlington Borough Council's Members either individually or collectively. Its job has been to assess the applicability of the relevant allowances and how they might be delivered.

Dr Declan Hall
Chair of the Independent Remuneration Panel
May 2006

¹ See Statutory Instruments 2003 Nos. 1021, 1022 and 1692 for further details.

Independent Remuneration Panel:

Review of Allowances

For

The Chair and Vice Chair of the Audit Committee

Darlington Borough Council

The Regulatory Context and Terms of Reference

Introduction: The Regulatory Context

1. This report is a synopsis of the proceedings and recommendations made by the Independent Remuneration Panel appointed by Darlington Borough Council to consider its current Members' Allowances scheme, or more specifically to advise the Council on the appropriateness of a Special Responsibility Allowance (SRA) for the Chair and Vice Chair of the Audit Committee. As per the previous review in September 2003 this review is operating under *The Local Authorities (Members' Allowances) (England) Regulations 2003 (SI 1021)* and subsequent amendments, to the regulations (*SI 1022 and SI 1692*). These regulations require local authorities to set up and maintain an advisory Independent Remuneration Panel to review and provide advice on Members' Allowances. All Councils are required to convene their Allowances Panel and pay regard to their Panel's recommendations before they make any changes or amendments to their allowances' scheme.

The Panel

2. Darlington Borough Council reconvened its Independent Remuneration Panel and the following Panel Members carried out its independent review; namely:

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- Dr. Declan Hall, Chair of the Panel, Institute of Local Government, The University of Birmingham, an academic specialising in the field of Members' Allowances.
 - Pam Eccles, Executive Director, Learning and Skills Council, Tees Valley
 - Rob Shotton, Company Director and Chair, David Berryman Limited and Wingrove Developments.
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3. The Panel had the support of Linda Todd, Support Manager, in the Corporate Services Department who acted as the 'Panellist's Friend', whose role was to provide the Panel with relevant information and take the organisational lead in facilitating the whole process.
 4. The Panel would like to record its gratitude to Darlington Borough Council. In particular, the Linda Todd, who ensured the work of the Panel was adequately supported and conducted in an efficient and effective fashion by facilitating its requests for information and ensuring that the whole process operated smoothly.

Terms of Reference

5. The Panel was given the following terms of reference:
 - a) Whether it is appropriate to recommend a SRA for the Chair and Vice Chair of the newly established Audit Committee and if so the level of such a SRA.

Methodology

6. The Panel has convened as a 'virtual' Panel in that all its deliberations were conducted electronically throughout April and May 2006. This approach is within the spirit and letter of the 2003 Regulations by virtue of the fact that the issues being considered by the Panel constitute a minor amendment to the allowances scheme and therefore the ODPM has recognised in these situations that it would be uneconomical and prescriptive to call a Panel together.² The Panel was provided with a written briefing on the responsibilities of the new Audit Committee, the scope of its work programme and schedule of meetings and role of the Chair of the Audit Committee. The Chair of the Panel emailed and or phoned relevant officers in the comparator authorities to find out how they were dealing with the audit function. He also prepared the first draft of this report based on the information received from Darlington Borough Council. The other Panel members then commented on the first draft before a final draft was sent to Council.
7. It is from these processes and deliberations that the Panel has arrived at the recommendations set out in this report.

² Advice received by Chair of the Panel from ODPM.

Principles of the Review

8. The Panel decided that it would be guided by its previous approach and as previously the over arching approach was to make recommendations that sought to minimize barriers to public service while not creating an allowances scheme that led to people standing for and remaining on Council primarily for financial reasons. Furthermore, as the Panel was considering a request to approve further SRAs it needed to be convinced that the Chair and Vice Chair of the Audit Committee were going to hold a responsibility and workload that was of a significant level to merit a SRA.

The Evidence Reviewed and Recommendations

9. In short, the Council has resolved to establish an Audit Committee and agreed the model terms of reference, from the start of the municipal year, 2006/07. In response to Audit Commission guidance and reports on private and public sector governance, Council's across England are being urged to establish separate Audit Committees independent of the Executive, Scrutiny and Standards functions. This development is also being supported by the Chartered Institute of Public Finance Accountants (CIPFA) who have recently issued a document entitled '*Audit Committees - Practical Guidance for Local Authorities*'. This Guidance covers a number of key features including the purpose of such a Committee, its core functions, features and structure and administration.
10. Darlington has chosen to follow closely the guidance from CIPFA. Specifically, the purpose of an Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment, and to oversee the financial reporting process.
11. The core functions of the Committee are to :-
 - (a) Consider the effectiveness of the authority's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements.
 - (b) Seek assurances that action is being taken on risk-related issues identified by auditors and inspectors.
 - (c) Be satisfied that the authority's assurance statements, including the Statement of Internal Control, properly reflect the risk

environment and any actions required to improve it.

- (d) Approve (but not direct) internal audit's strategy, plan and monitor performance.
- (e) Review summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary.
- (f) Receive the annual report of the head of internal audit.
- (g) Consider the reports of external audit and inspection agencies.
- (h) Ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted.
- (i) Review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit

12. The Panel was informed that there is no legislative requirement to establish a separate Audit Committee but increasingly good corporate governance requires independent, effective assurance about the adequacy of financial management and reporting. An effective audit committee, it was suggested, would help to raise the profile of internal control, risk management and financial reporting issues, within an organisation as well as providing a forum for the discussion of issues raised by internal and external auditors.

13. Drawing on the experience of the Chartered Institute of Public Finance and Accountancy, Darlington Borough Council has decided that the features of good audit committees include having a strong chair - displaying a depth of skills and interest, unbiased attitudes - treating auditors, the executive and management equally, the ability to challenge the executive when required, and a membership that is balanced, objective, independent of mind, and knowledgeable.

Practice in Comparative Councils: Teeside and Durham County Councils

Durham County Council

14. Currently, the audit function remains part of the remit of the Overview and Scrutiny Committee in Durham County Council and there is no intention of separating out this function at present so the issue of a separate SRA has not arisen in Durham County Council. Apart from the Chair and Vice Chair of the main Overview and Scrutiny Committee, all other [sub] Committee Chairs and Vice Chairs in

Durham are all paid an equal sum, £1,707 and £855 respectively, regardless of brief.

Hartlepool Borough Council

15. Hartlepool Borough Council has established an Audit Committee but on the information received by the Panel it has not yet considered whether to pay a SRA to the Chair.

Middlesbrough Council

16. Middlesbrough Council has considered whether it should separate out its audit function and place within the remit of a separate committee but Council decided against it as members felt that the best way to be involved in audit was through the scrutiny process. Therefore, the Audit function in Middlesbrough Council remains the responsibility of the Overview and Scrutiny Board (OSB)

Redcar and Cleveland Borough Council

17. In Redcar and Cleveland Borough Council the 'Chair of the Audit Committee is combined with the Chair of the Scrutiny Committee'. The Council is considering whether there is a case to separate out the two roles but has yet to arrive at a conclusion.

Stockton Borough Council

18. Stockton Borough Council's approach to audit is more in line with Darlington in that it has established a separate Audit Committee. Moreover, the Stockton Borough Council Independent Remuneration Panel considered the merit of awarding a SRA for the Chair of the Audit Committee and for 2006/07 this sum is £4,000, which has been accepted by the Council. Moreover, it also recommended that the Vice Chair of Audit receive £2,000, again which the Council accepted. All Chairs and Vice Chairs of Committees in Stockton (where the posts are remunerated) will be paid a SRA of £4,000 and £2,000 respectively for 2006/07 municipal year, Like Durham County Council it has a very flat SRA structure.
19. The quick review of comparative practice in other relevant authorities shows a mixed mixture, Darlington, Hartlepool, Stockton have separated out their audit function into a separate committee but thus far only Stockton has paid their Chair of Audit a SRA, a substantial one at that. Hartlepool is yet to consider the merits of a SRA while it is under discussion in Darlington. Redcar and Cleveland are considering whether to separate out the audit function while it remains part of overview and scrutiny in Durham and Middlesbrough.

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20. So for most allowances panel the issue of paying a SRA to the Chair of Audit is a non-decision and as such it is not an information comparison.

Audit Committee Chairs' SRA?

21. The Panel's first task was to consider whether there was a case to recommend a SRA for the Chair of Audit. It noted that for the Committee to function effectively there was a clear expectation for there to be a strong Chair with an independent attitude, with the ability to challenge the executive when required. The Audit Committee will be independent of the executive and scrutiny functions, with clear right of access to other Committees of the Council and strategic functions. Membership will be restricted to one member from each of the executive and scrutiny and expressly, the Chair will not be a member of the executive. The Chair will need a broad understanding of the financial, risk and control and corporate governance issues facing local authorities generally and the Council specifically, and appropriate training will be provided where necessary.

- 22. The Panel considered that the Chair of the Audit Committee will, on balance, merit a SRA.**

The Scope of an SRA for the Chair of the Audit Committee

23. The Panel was content that the Audit Committee had a responsible function to perform arising out of its regulatory liabilities and as such the Chair of the Audit Committee merited a SRA. However, the Panel had no means at the time of the review to gain a clear insight into the size of the role of Chair of the Audit Committee. While the Panel had relatively few difficulties accepting in principle that the Chair of Audit merited a SRA when their terms of reference and expected capacities are taken into account it was a harder task to arrive at an appropriate sum for the SRA. It is difficult to judge a post without experience of it in operation, which is also an argument to wait and see, and recommend a retrospective SRA in light of experience – if still deemed to be merited. However, the Panel felt that this approach would undermine the significance of the new Audit Committee.

24. On the other hand the Panel was told that the Audit Committee is scheduled to meet at least 4 times per year, which is a relatively manageable workload. In light of this and the uncertainty in how Audit will develop the Panel decided to err on the side of caution and assess the role at the same level as the Chair of Standards, which is £500 per annum (currently paid as a Co-optees' Allowance as the Chair of Standards is an appointed rather than elected member). **Thus, the recommended SRA for the Chair of the Audit Committee is £500 per annum.** The Panel will revisit this recommendation in the future in

light of experience of the Audit Committee and the role and responsibility of its Chair.

25. There was some discussion on whether there was a case to take away from SRAs elsewhere, namely from Scrutiny, as the Chair of Scrutiny (presumably) had lost some of their workload and responsibility. However, the Panel decided that the sum it was recommending for the Chair of Audit was so marginal at this stage that it was not really cost effective to explore where the respective decline in workloads and responsibilities had occurred, and to what degree. Although the Panel flags this up as an issue to explore for the future particularly if there is a case to substantially increase the SRA for the Chair of Audit.

The Vice Chair of the Audit Committee

26. The Panel discussed whether there was a case to award the Vice Chair of Audit a SRA as all other remunerated Committee Chairs in Darlington also have remunerated Committee Vice Chairs. **The Panel decided against recommending a SRA for the Vice Chair of Audit at this juncture** as it did not have enough evidence presented to it that suggested it was a significant role. However, the Panel also notes that this recommendation can be reviewed at a later stage and a retrospective recommendation can be made if appropriate.
27. The Panel further **recommends that the SRA for the Chair of the Audit Committee is paid from the start of the 2006/07 municipal year.**