

Appendices: 0



NORTHAMPTON
BOROUGH COUNCIL

COUNCIL

18 SEPTEMBER 2017

Agenda Status: Public

Directorate: Chief Executive

Report Title	Independent Chair of the Audit Committee
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1. Purpose

- 1.1 To seek Council's approval for an Independent Chair to be appointed to the Audit Committee to take into account the recommendations received from the Council's Audit Committee and to make relevant changes to the Constitution.

2. Recommendations

- 2.1 That the composition of the Audit Committee be altered to provide that the Chair of Audit Committee will be an independent, non-voting, co-opted member and will be in addition to seven elected Members, and that the necessary amendments are made to the Council's Constitution.
- 2.2 That authority be delegated to the Borough Secretary & Monitoring Officer the powers needed to determine a recruitment process in consultation with Members, necessary to enable it to co-opt an independent person onto the Audit Committee so as to enhance its performance of its functions.

3. Issues and Choices

3.1 Report Background

Proposal to have an Independent Chair of Audit Committee

- 3.1.1 The Audit Committee is responsible for considering and monitoring processes for risk, control and governance as set out in further detail in Article 9 of the Council's Constitution. The purpose of the Audit Committee is to provide independent assurance and to support strong financial management and good governance.

- 3.1.2 In order to strengthen its overall governance framework and to address recommendations following an internal audit review, the Council is currently implementing a Governance Action Plan, as detailed in a report to the Audit Committee on 5th December 2016.
- 3.1.3 As reported to Audit Committee on 5th December 2016, one of the keys to the success of the Governance Action Plan has been identified as *“enhancements to the role of the Audit Committee in overseeing compliance with policies, procedures and agreed audit recommendations within the Council”*. As part of this, it is necessary to first consider the composition of the Audit Committee, to ensure that it is well equipped to perform its current role and any enhancements to it.
- 3.1.4 The Audit Committee, at its meeting on 3 July 2017, resolved:
- “That it be recommended to Full Council that the composition of the Audit Committee is altered to provide that the Chair of Audit Committee would be an independent, non-voting, co-opted member and would be in addition to seven elected Members, and that the necessary amendments be made to the Council’s Constitution.”*
- 3.1.5 Article 9 of the Constitution sets out the composition of the Audit Committee:
- “The Audit Committee will be composed of seven Councillors, excluding members of the Cabinet.*
- The Committee shall have delegated powers to appoint co-opted members, without voting rights but with expertise in relevant areas”.*
- 3.1.6 Currently therefore, the Committee is made up of a Chair who is a Councillor and six other Councillor members. There are no co-opted (as opposed to elected) members on the Committee at present.
- 3.1.7 It is proposed that the Chair of Audit Committee should be an independent co-optee, (rather than an elected member of the Council) and that Full Council should be recommended to approve this change to the Committee’s composition. The independent co-opted Chair would be in addition to seven elected Members (and any other non-voting co-opted Members with expertise in relevant areas appointed by the Committee under delegated powers).
- 3.1.8 There are no statutory requirements that determine the composition of the Council’s Audit Committee meaning it would be permissible to have an independent co-opted Chair.
- 3.1.9 The Chartered Institute of Public Finance and Accountancy (CIPFA) has set out its view of best practice for Audit Committees in local authorities in a publication entitled, *‘Audit Committees, Practical Guidance for Local Authorities and Police – 2013 Edition’* (the ‘CIPFA Guidance’).
- 3.1.10 CIPFA notes that co-option of independent members may be beneficial to an Audit Committee. CIPFA has identified some of the reasons that local authorities have chosen to recruit independent members, including:

To bring additional knowledge and expertise to the Committee.
To reinforce the political neutrality and independence of the Committee.

3.1.11 The CIPFA guidance also outlines some potential pitfalls to the use of independent members, including:

Over-reliance on independent members by other committee members can lead to a lack of engagement across the full Committee.
Lack of organisation knowledge or 'context' among independent members when considering risk registers or audit reports.

3.1.12 In relation specifically to Chairs of Audit Committees, the CIPFA guidance states that one characteristic of a good Audit Committee is, "a *strong, independently minded chair – displaying a depth of knowledge, skills and interest*".

3.1.13 The CIPFA guidance also makes it clear that a key feature of a successful committee will be a strong chair displaying a depth of skills and interest. They suggest that the specific characteristics required of an effective audit committee chair will include:-

- ability to plan the work of the committee over the year and beyond
- skills of managing meetings
- ability to bring an objective, apolitical attitude
- core knowledge and skills required of audit committee members
- a clear focus on the role of the committee and an ambition to lead the committee in line with good governance principles
- a focus on improvement and securing agreement on actions.

3.1.14 It should be noted that there is no statutory requirement or recommendation within the CIPFA Guidance that Chairs of Audit Committees should be independent co-optees.

CIPFA Self-assessment of Good Practice questionnaire for Audit Committees

3.1.15 The CIPFA Guidance also includes a suggested self-assessment questionnaire which sets out CIPFA's key principles of recommended practice. Authorities are encouraged to use the checklist as a starting point and as an indicator of whether they are meeting recommended practice and also of the Committee's effectiveness. Following use of the questionnaire, any changes or improvements that may be needed can identified within the overall objective of enhancing the Committee's performance.

3.1.16 The CIPFA Guidance explains that when an audit committee has a high degree of performance against the good practice principles, it is an indicator that the Committee is soundly based with a knowledgeable membership.

3.1.17 Completion of the self-assessment can also offer a number of other benefits. It can for example be used to support the planning of the Committee's annual work programme and to identify any training needs of Members and develop related training plans to meet these needs.

4. Implications (including financial implications)

4.1 Policy

4.1.1 The report does not have any policy implications.

4.2 Resources and Risk

4.2.1 There will be some costs incurred in recruiting an independent Chair with suitable skills and expertise (if changes to the Constitution are agreed by Full Council).

4.2.2 The Chair of Audit Committee receives a Special Responsibility Allowance pursuant to the current Scheme for Members' Allowances. The Council's Independent Remuneration Panel have been asked to consider the payment and amount of an allowance for a co-opted Chair of Audit Committee, and make recommendations, which will be considered by full Council at its meeting on 18 September 2017.

4.2.3 As indicated above a potential risk could be an over-reliance on an independent members by other committee members which could lead to a lack of engagement across the full Committee. Another potential risk is a lack of organisation knowledge or 'context' on the part of an independent member when considering risk registers or audit reports. However with the provision of relevant and targeted induction and training, these risks can be reduced and mitigated.

4.3 Legal

4.3.1 The Audit Committee is an ordinary committee of the Council. As such, the requirement in section 15 of the Local Government and Housing Act 1989 to maintain political balance on the Committee applies. This requirement would still apply if the Chair of the Committee was a co-opted, non-voting independent member. If the number of elected members on the Committee remains the same as it currently is, political balance will not be affected by the addition of an independent Chair.

4.3.2 Section 13 of the Local Government and Housing Act 1989 provides that subject to a number of exceptions, (which do not apply in the circumstances), a co-opted member of a Committee shall for all purposes be treated as a non-voting member of that Committee. Therefore, if full Council agreed to a requirement for Audit Committee to have a co-opted independent Chair, that Chair would not be able to vote.

4.4 Equality

4.4.1 There are no equality and health implications arising directly from this report. Any future process to recruit an independent Chair for Audit Committee would need to have due regard to equality considerations.

4.5 Consultees (Internal and External)

4.5.1 The Audit Committee was consulted at its meeting on 3 July 2017 regarding its recommendation in relation to an Independent Chair of the Audit Committee.

4.6 Other Implications

4.6.1 None specifically.

5. Background Papers

5.1 Report and minutes of the Audit Committee of 3 July 2017 (agenda item 6)

5.2. *Audit Committees, Practical Guidance for Local Authorities and Police, 2013 Edition, CIPFA, Chartered Institute of Public Finance & Accountancy.*

Francis Fernandes
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