

Report considered by Business Management Group – 15 March 2006

AUDIT COMMITTEE

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1. Purpose

- 1.1 To consider the establishment of an Audit Committee, and consequential changes to the Committee structure.

2. Recommendations

- 2.1 That the Council be recommended, at its Annual Meeting, to establish an Audit Committee using the Terms of Reference (attached as an **Annex**).
- 2.2 That the Council be recommended to agree that the Chair and Vice Chair of the Committee be independent persons co-opted to serve on the Committee with full voting rights.
- 2.3 That, in anticipation of the Council's decision, and to ensure that the appropriate persons are available for appointment as soon as possible, authority be delegated to the Head of Legal Services, Head of Finance, and to the Head of Audit and Risk Management, in consultation with the Cabinet Member responsible for Finance, to commence the recruitment process for an independent chair, and to recommend a suitable candidate for appointment by the Council at the Annual Council Meeting.
- 2.4 That the appointment of the Chair be for 12 months initially, with an option to extend for two further two-year terms.
- 2.5 That the Chair of the Standards Committee (ex-officio) be invited to be the Vice Chair of the Audit Committee, and, if the Chair is unwilling to serve in this capacity, one of the other co-opted members of the Standards Committee be invited to serve in this capacity.
- 2.6 That the membership of the Audit Committee comprise 7 Members of the Council in addition to the co-opted members.
- 2.7 That the Business Management Group consider, in the light of the recommendation to establish an Audit Committee, where the performance review function should be conducted.

3. **Issues and Choices**

- 3.1 Business Management Group (BMG) has previously received reports on best practice and the options for the Council to maintain an Audit Committee, and has instructed that consultation take place on the proposals.
- 3.2 The consultation identified a common view that the Audit Committee should be a stand alone committee of Full Council and should not be combined with the Council's Standards Committee.
- 3.3 The Terms of Reference for the Audit Committee were previously submitted to all parties consulted and are unchanged to those previously considered by BMG. The Terms of Reference are attached as an **Annex**.
- 3.4 Consultation identified a common view that the business of the Audit Committee would be helped by :
- (a) the inclusion of 2 independent persons (ie not current Councillors of this Council or Parish or Town Councillors or persons currently or recently politically active); or
 - (b) the inclusion of the Leader or another Cabinet Member, but that member would not be the Chair of the Audit Committee.
- 3.5 Mixed views were expressed regarding whether independent members should chair and/ or vice chair the Committee.
- 3.6 Best practice includes the provision for the Committee, its Members and its Chair to be able to demonstrate that an apolitical / independent approach is taken in relation to all audit matters. The ability to demonstrate independence is reliant on three key issues :
- (a) the issue being considered;
 - (b) the associated action taken / proposed; and
 - (c) the perceptions of the public and stakeholders.
- 3.7 This latter point perhaps best illustrates the advantages of an independent Chair. The need for demonstrable independence is linked to the sensitivity / seriousness of the specific issue. The more sensitive / serious / potentially embarrassing the issue the more likely it will be that the behaviour and proposed actions of the Chair could be perceived to be politically motivated.
- 3.8 The requirement for an independent Chair to always conduct him/herself independently is a continual standard. However if the Chair is politically active any action proposed for a sensitive issue could be perceived to be motivated by political gain either to:
- (a) inappropriately suppress an issue embarrassing to the current Administration; or

- (b) inappropriately publicise an issue to embarrass the current Administration.
- 3.9 Such a perception can arise even if proposed action is not politically motivated.
- 3.10 The independence of the Committee will be more demonstrable if an independent chair is agreed. Otherwise, there is a risk that, if the conduct of the Chair could be perceived to be not independent, the reputation of the Committee could be undermined.
- 3.11 The appointment of an independent vice chair would add to the independence of the Committee. There is some agreement that the role of an Audit Committee complements the role of the Council's existing Standards Committee. This complementary role could be enhanced by the creation of a real link between the two Committees. It has been suggested that the Chair of the Council's Standards Committee should be invited to take the position of vice chair of the Audit Committee, but it is not known whether the existing Chair, or any future Chair, would accept the position.
- 3.12 Therefore, it is proposed that BMG recommend to Council that both the Chair and Vice Chair of the Audit Committee should be independent co-opted people.
- 3.13 However, the Council may want to retain some ability to review the role and performance of the co-optees. It is proposed that, initially, the Chair and Vice Chair be appointed for one year, but that, thereafter, the appointments be for two years at a time, subject to the restriction on a total of 5 years in each position, so as to ensure that the role is not held by one person for too long a period.
- 3.14 Political proportionality would apply to the Committee. However, the inclusion of independent members could undermine the required political proportionality if a majority party insisted on having that majority reflected in the make-up of the Committee after the co-opted members had been taken into account
- 3.15 To maintain the independence of the Audit Committee, it is proposed that the membership of the Committee reflect the political proportionality of the Council excluding the independent members. Based on current proportions this would mean a membership of 4:2:1, plus the 2 co-opted members.
- 3.16 The audit function is currently vested in the Performance Review & Audit Panel. The need for proper involvement of Members in monitoring the performance of Council services is regarded as an essential part of the scrutiny function, and is likely to be the subject of some discussion during the current Comprehensive Performance Assessment. The performance review function needs to be formally placed within the Overview and Scrutiny structure. The options are:
- (a) to retain the Performance Review Panel without the audit function;
- (b) to place the performance review function with another existing Overview and Scrutiny Committee; or

- (c) to add performance review of their respective areas to the terms of reference of each of the Policy Development Committees.

4. **Implications**

4.1 Policy

None.

4.2 Risk (including Resources)

The creation of a stand alone Audit Committee creates additional pressures on the Council's calendar, its members and the key officers who must support the Committee. These are considered manageable but are reported here for completeness.

The decision on independent Chair must balance the tension between democratic accountability and the need for demonstrable independence for Audit matters.

There will be a requirement to pay additional Allowances to the two co-optees. The current level of payment would be £1024 p.a. for the Chair and £512 p.a. for the Vice Chair. The costs of these payments would be met from the Members' budget

4.3 Legal

The development of effective Audit Committees within Local Government remains an area of active debate including some legal issues. This proposal has been developed with the Council's Head of Legal and arrangements will remain under review to ensure continued legal adherence.

4.4 Partnership Implications

None.

Background Papers: None