

AGENDA ITEM: 12

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| Meeting | Audit Committee |
| Date | 16 December 2009 |
| Subject | Independent Advisors |
| Report of | Interim Head of Internal Audit |
| Summary | To consider the appointment of two independent non-voting members to the Audit Committee |

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| Officer Contributors | Richard King - Interim Head of Internal Audit |
| Status (public or exempt) | Public |
| Wards affected | All |
| Enclosures | None |
| For decision by | Audit Committee |
| Function of | Council |
| Reason for urgency / exemption from call-in (if appropriate) | Not applicable |

Contact for further information: Richard King, Interim Head of Internal Audit 020 8359 3167

1. RECOMMENDATIONS

- 1.1 That the Committee agree that two independent non-voting members should be appointed to the Audit Committee on the basis set out in the report and that a report be taken by the officers to the next meeting of the Special Committee (Constitution Review) with a view to seeking approval from Council to the necessary changes to the Audit Committee's membership as set out in the Constitution.

2. RELEVANT PREVIOUS DECISIONS

- 2.1 None.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1 Good risk management and a strong internal control environment are fundamental if the Council is to achieve its Objectives and Plan as they provide the background for the effective use of the scarce resources available to the Authority.

4. RISK MANAGEMENT ISSUES

- 4.1 Independent members should enable the Council to manage its risks better as they bring their broad experience to bear on the Authority's functions.

5. EQUALITIES AND DIVERSITY ISSUES

- 5.1 If members decide to proceed with the appointment of independent members, it is a fundamental principle that such positions should be open to all who have the required skills and experience.

6. USE OF RESOURCES IMPLICATIONS (Finance, Procurement, Performance & Value for Money, Staffing, IT, Property, Sustainability)

- 6.1 If it is decided to appoint independent members, consideration will need to be given to the question of whether to pay a small allowance and/or travel expenses which will have an insignificant impact on finances.

7. LEGAL ISSUES

- 7.1 Section 102 (3) Local Government Act 1972 and Section 13 Local Government & Housing Act 1989 provide for the co-opting of non-elected individuals to be members of Council Committees, with the exception of the Finance Committee. Co-optees can be members of the Audit Committee

8. CONSTITUTIONAL POWERS

- 8.1 Membership of the Audit Committee is set out in the Council's Constitution. Changes to the Constitution can only be approved by the Council.

9 BACKGROUND INFORMATION

- 9.1 Many local authorities now include as part of their audit committees, independent non-voting members to assist elected members in the discharge of their responsibilities. The external auditors and the Director of Corporate Governance are of the view that this should be actively considered by Barnet's Audit Committee. The external auditors have previously made known their views on the matter to the Committee.

Background

- 9.2 Most local authorities now have a separate audit committee that fulfils the best practice identified in the Cipfa (the Chartered Institute of Public Finance and Accountancy) publication "Audit Committees Practical Guidance for Local Authorities". This Guidance is regarded by the Audit Commission and its external auditors as best practice for audit committees and is used by the external auditors to assess individual authority's audit committee performance.
- 9.3 A number of local authorities have, in the light of recent governance issues, been reconsidering their committee membership with a view to bringing in non-elected members with an independent perspective and expertise in areas of work covered by the committee. These non-elected members of the committee are normally appointed in a non-voting capacity, but nevertheless are influential in assisting the elected members with their challenge role. Such members offer a different perspective and form of challenge through their broadly different experience and professional knowledge. Additionally, the independent expert member can help to facilitate and bring understanding of best practice to the many areas of the committee's responsibility.
- 9.4 The Cipfa guidance states:
- "Co-option may well be beneficial. Often, the injection of an external view, for specific discussion, can be seen as bringing a new approach and flavour to committee discussions. Many authorities have made provision to co-opt a member but have not bestowed voting rights on that member. This allows flexibility in co-option and retains the decision making function for the permanent members of the audit committee".
- 9.5 Furthermore, it is seen as a very useful way of gaining some of the detailed skills that are a fundamental requirement of an audit committee.

Current practice in local authorities

- 9.6 A survey conducted early in 2008 showed varying practices among London local authorities, whose audit committees have independent members, with the number of independent members ranging from 1 to 3.
- 9.7 A full survey of all London boroughs has not been conducted since this time.

- 9.8 Such independent members vary considerably in their backgrounds with some being drawn from a relevant public service skills and experience base to those who have held significant positions within the private sector. The linking factor is an interest in good governance, appropriate professional qualification and practical experiences of some of the subject areas e.g. audit, risk, finance.
- 9.9 The independent member's function is to constructively help elected members in challenging information presented to them by officers so that they can assure themselves that the Authority's objectives are being safeguarded through a secure internal control environment that embraces effective risk management and internal audit.
- 9.10 Some authorities have appointed/co-opted independent members specifically with the intent of them chairing the audit committee. At least one London Borough, which has 2 co-optees, has appointed them as chairman and vice-chairman. That is not proposed at Barnet, nor is it proposed that independent members should be able to vote.

Appointment of independent members

- 9.11 There has been a range of methods used in the past to obtain independent members for local authority audit committees. Often, advisors were selected/appointed through personal recommendation. These methods are largely not being repeated. If the proposal for appointing independent members is to be pursued at Barnet, we would propose to recruit by consulting Cipfa, canvassing interest from major accountancy, audit and risk management firms, as well as conducting appropriate media advertising. Public advertising is consistent with the Council's equalities' agenda although, of course, applicants will be expected to have the necessary qualifications, skills and experience. Applicants will be expected to complete a full application form and a rigorous recruitment, interview and selection process will be applied. Recommendation would be made to full Council for appointment.
- 9.12 The proposal is that two independent non-voting members be appointed to the Audit Committee on the basis set out in the report and that a report be taken by the officers to the next meeting of the Special Committee (Constitution Review) with a view to seeking approval from Council to the necessary changes to the Audit Committee's membership as set out in the Constitution. The recruitment process would follow on from such approval being given.

Legal: JEL