

ITEM NO. 15

REPORT TO THE ANNUAL COUNCIL MEETING OF 19th May 2011

Status: *Decision*

Title: *Establishment of an Audit Committee and Recruitment of an independent Chair of the Committee*

Originator: *Kamal Mehta, Deputy Chief Executive*

Where from: Council Minutes 696 (19 April 2010)

Where to next: *Implementation*

1 Purpose Report

1.1 To seek approval not to progress with the recruitment and appointment of the independent members for the Governance and Audit Committee as required under Council minute 696 and the Constitution (Part 3, B.6.2) until the external audit arrangements for local public bodies are finalised by the government following the abolition of the Audit Commission.

2 Recommendations:

2.1 **The recruitment and appointment of the independent members of the Governance and Audit Committee not be undertaken and therefore the requirement under the constitution (Part 3 B.6.2) and in pursuance of minute 696 of Council meeting of 19 April 2010 to be set aside.**

2.2 **The recruitment and appointment of independent members of the Governance and Audit Committee be reconsidered once the government has finalised and published the arrangements for audit of local public bodies following the abolition of the Audit Commission.**

2.3 **That Part 3 Section B.6.2 be amended to read as follows:**

B.6.2 Membership and Procedure

a. **Appointment**

The Governance and Audit Committee will consist of 7 elected members of the Council who are not also members of the Executive Committee appointed on accordance with the proportionality rules of the Local Government and Housing Act 1989.

b. **Chairman**

The Chairman of the Committee will be chosen from the 7 elected members of the committee.

c. Quorum

Except where authorised by stature or ordered by the Council business shall not be transacted as a meeting of the Committee unless at least 4 members of the Committee are present.

3 Summary of Reasons for the Recommendations

3.1 The government is currently deciding on the future audit arrangements for Local Authorities following its decision to disband the Audit Commission. It is therefore considered that the Council's arrangements for its Governance and Audit Committee in respect of progressing the recruitment and appointment of the independent members is not undertaken until the government's final decisions are known.

4 Impact on Communities

4.1 None arising from the recommendations.

5 Key Facts

5.1 The Council's Constitution under Part 3 Section B.6.1 to B.6.3 sets out the arrangements for the Governance and Audit Committee. At paragraph B.6.2a(ii) it sets out the requirement that at least two members of the nine members of the Committee should be "independent" i.e. who are not otherwise elected member of officers of Harborough District Council. The Constitution further requires that the Chairman of the Committee would be one of the independent members.

5.2 Following the formation of the coalition government in May 2010, the Secretary of State for Communities and Local Government announced plans on 13th August 2010 to disband the Audit Commission and re-focus audit whereby local public bodies and council's are held to account locally by the citizens for local spending decisions.

5.3 As a result of this the government has been considering how this can be achieved once the Audit Commission ceases to exist.

5.4 The Government published a consultation paper in March 2011 titled "Future of Local Public Audit – Consultation" which sets out its thoughts on the replacement audit arrangements.

The consultation sets out proposals whereby all local public bodies with a turnover of over £6.5m would appoint their own independent auditor on the advice of an independent audit committee.

The consultation states that it considers that 'as part of a new local audit/regime, each larger local public body should have an audit committee with a majority of members independent of the local public body and with some elected members to strike a balance between objectivity and in-depth understanding of the issues'. The consultation also acknowledges that there could be alternative arrangements and gives some examples.

The consultation goes on to state that local public bodies should have flexibility in the way that audit committees are constituted and run, but that this needs to be balanced against ensuring that the minimum requirements for an audit committee set out in legislation provide for an independent audit-appointment.

Some of the structure and role of the audit committee maybe prescribed in legislation and some would be put forward by the government as best practice.

- 5.5 In view of impending decisions on the whole as described in the above paragraph, it is considered that the Council should avoid expending resources in undertaking the recruitment and appointment of the independent members of the Governance and Audit Committee and await the Legislation and guidance on the whole of the Audit arrangements for local public bodies.
- 5.6 In the meantime, it is recommended that the Governance and Audit Committee comprises of:
- (i) 7 elected members of the Council who are not members of the Executive Committee appointed in accordance with the proportionality rules of the Local Government and Housing Act 1989;
 - (ii) the Chairman of the Committee is chosen from the 7 elected members of the committee;
 - (iii) the quorum for the committee is at least 4 members are present.

6 Legal Issues

- 6.1 There are no direct legal issues arising from this report.

7 Resource Issues

- 7.1 In the interim there will be a saving to the Council as follows:
- (i) costs of recruitment of independent members;
 - (ii) One lot of members allowance as applying to independent members because the elected member chairman will receive the Chairman's allowance at the same level as the Chairman of the Standards Board.

8 Equality Implications

8.1 None arising directly from this report.

9 Impact on the Organisation

9.1 No negative impact will be felt within the organisation as a result of the recommendations.

10 Community Safety Implications

10.1 None arising directly from this report.

11 Consultation

11.1 The previous Chairman of the Accounts and Audit Committee is aware of the recommendation not to undertake the recruitment and appoint the independent members of the Governance and Audit Committee.

11.2 The government's consultation ends on 30th June 2011.

12 Options Considered

12.1 To progress with the recruitment and appointment of the independent members of the Governance and Audit Committee. It is considered that the Council should wait until the requirements on the arrangements for the audit of local public bodies is known. Otherwise, the Council will be expending resources both in financial and staff time which would have to be undertaken again when the legislation is enacted.

13 Background Papers

13.1 *Future of Local Public Audit – Consultation March 2011*

Previous report(s): - 19 April 2010

Information Issued Under Sensitive Issue Procedure: No

Ward Members Notified: *Not applicable*