

FALKIRK COUNCIL

**Subject: AUDIT COMMITTEE – AUDIT SCOTLAND
RECOMMENDATION AND APPOINTMENT OF
LAY MEMBER**
Meeting: AUDIT COMMITTEE
Date: 22 March 2010
Author: CHIEF EXECUTIVE

1. INTRODUCTION

- 1.1 Falkirk Council's Audit Committee was established in 2008, with its role and remit agreed by Council in line with guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) entitled 'Audit Committee Principles in Local Authorities in Scotland (2004)', and 'Audit Committees: Practical Guidance for Local Authorities (2005)'.
- 1.2 In accordance with its Standing Orders, Council agreed the membership of the Committee and appointed its Convener.
- 1.3 Since its first meeting in April 2009, the Audit Committee has become an established element of the Council's corporate governance framework, contributing to the scrutiny of the Council's risk and control arrangements through review of reports on Internal and External Audit activity, the Council's annual accounts, and on risk management arrangements.
- 1.4 In its 2008/09 Report on the Council's Governance and Internal Control arrangements, Audit Scotland made a number of recommendations on areas for further improvement. In noting Audit Scotland's Report in November 2009, the Audit Committee requested a Report on the following recommendation relating to the operation of the Audit Committee:
 - The Audit Committee is chaired by the Leader of the Administration. CIPFA recommends that the Committee chair should, expressly, not be a member of the executive.
- 1.5 In addition, Committee discussed the potential for including external representation on the Audit Committee, and asked that a Report be prepared for its consideration.

2. RECOMMENDATION ARISING FROM AUDIT SCOTLAND'S 2008/09 REPORT ON GOVERNANCE AND INTERNAL CONTROL

- 2.1 In its Report, Audit Scotland noted that the Convener of the Committee is also the Leader of the Administration. This is in conflict with CIPFA guidance, which states that the Committee chair should not be a member of the executive (CIPFA defines 'executive' as including the Leader / Chief Executive / mayor or equivalent). Further, Audit Scotland states that under current arrangements there is a risk that the Audit Committee may not be seen to be fully independent and objective.
- 2.2 The agreed response to the recommendation, included in the Management Action section of the Action Plan, was that 'Members have considered this issue and made their decision'.
- 2.3 Information gathered from colleagues in 29 Scottish Local Authorities in relation to arrangements for chairing their Audit Committee (or equivalent) showed that:
- in **8** Authorities the Audit Committee (or equivalent) is chaired by a Member of the Administration;
 - in **12** Authorities the Audit Committee (or equivalent) is chaired by a Member of the Opposition; and
 - in **9** Authorities alternative arrangements are in place (eg independent Councillors).
- 2.4 On the basis of the above information, Committee may wish to consider the guidance, and whether any recommendations should be made to Council in relation to the Convenership of the Audit Committee.

3. EXTERNAL (LAY) MEMBERSHIP OF AUDIT COMMITTEE

- 3.1 CIPFA guidance on Audit Committee Principles states that, to be fully effective, Audit Committee Members must:
- have a good understanding of how the Council works and a broad understanding of the controls which exist or should exist;
 - be able to distinguish between serious control weaknesses and those which are relatively minor; and
 - be confident about discussing audit findings with auditors and management.

- 3.2 In addition, it is recommended that members of the Audit Committee should be financially aware and have a broad understanding of the financial, risk, control, and corporate governance issues facing their Authority and the wider sector.
- 3.3 To supplement Members' skills, knowledge and experience, CIPFA suggests that co-opting external members onto the Audit Committee may bring 'a new approach and flavour to Committee discussions'.
- 3.4 The vast majority of Scottish Local Authorities have not co-opted external members to their Audit Committees, although a small number have chosen to do so. Interestingly, of those Authorities which have made external appointments to their Audit Committees (or equivalent), the Accounts Commission's appointed auditors have commended this as going beyond best practice, but recognised that this strengthens governance and scrutiny arrangements.
- 3.5 Examples of models implemented by Scottish Local Authorities are as follows:
- Argyll and Bute Council: The Chair and Vice-Chair of the Audit Committee are lay members, appointed through a formal public recruitment process. The time commitment for each is between four and ten days per year with no remuneration, other than travel and subsistence costs;
 - Scottish Borders Council: The Audit Committee includes 2 external members, appointed through a formal public recruitment process. No remuneration, other than travel and subsistence costs, is payable, and time commitment is restricted to attendance at four meetings each year as well as any relevant training events.
- 3.6 Members may wish to consider the benefits of utilising external members by co-opting individuals to the Committee. Should Committee choose to do so, it would be a matter for Council to make any appointments in terms of its Standing Orders.

4. RECOMMENDATIONS

4.1 Members are invited to:

- (1) **Consider CIPFA'S guidance on the Convenership of Audit Committees and make recommendations to Council as appropriate and**

- (2) Consider whether to co-opt additional Members to the Audit Committee and to make recommendations as appropriate.

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Chief Executive

Date: 15 March 2010