

**FALKIRK COUNCIL**

**Subject:** REFERRAL FROM AUDIT COMMITTEE 22 MARCH 2010 – AUDIT COMMITTEE CONVENERSHIP AND APPOINTMENT OF LAY MEMBERS  
**Meeting:** FALKIRK COUNCIL  
**Date:** 28 April 2010  
**Author:** CHIEF EXECUTIVE

**1. INTRODUCTION**

1.1 The purpose of this Report is to refer a Report considered by the Audit Committee to Council.

**2. AUDIT COMMITTEE COVENERSHIP AND APPOINTMENT OF LAY MEMBERS**

2.1 The Audit Committee considered the attached Report on 22 March. The Report itself was in response to an issue raised by Audit Scotland, as part of its audit of Falkirk Council, in relation to the Convenership of the Audit Committee. The Report also considered the issue of appointing external members to the Audit Committee.

The Audit Committee was invited to consider:-

- (1) guidance on the Convenership of Audit Committees and to make recommendations to Council as appropriate; and
- (2) whether to co-opt additional Members to the Audit Committee and to make recommendations as appropriate.

2.2 The Audit Committee agreed to refer the Report to Council for consideration.

**3. MAIN REPORT - CONSIDERATIONS**

3.1 The Report to the Audit Committee set out Audit Scotland's comments in respect of the Convenership of the Audit Committee and, as requested by the Committee, included same detail of the CIPFA guidance relating to membership of Audit Committees, as well as information gathered on those local authorities which have chosen to co-opt external members.

3.2 It is clearly a matter for Council to appoint the Conveners of its Committees and, in referring the Report to Council, the Audit Committee is asking Council to consider whether to amend the current position whereby the Convener is the Leader of the Council.

3.3 In relation to the possible co-option of external members, the Report highlighted examples of where this has happened in Scotland.

3.4 If members are minded to appoint External Members to the Audit Committee, the following issues would need to be addressed:-

- the role of the External Member(s) – should they be formal Members of the Audit Committee with voting rights or should they act as advisers on matters such as risk management, governance and control;
- whether the role of external Member(s) should attract remuneration over and above re-imbusement of travel and subsistence costs;
- the appropriate number of individuals to be co-opted to the Committee (the norm within the small number of other Authorities who have made such appointments is for one or, at most, two), and the duration of the appointment. Arrangements for reviewing the effectiveness of any such appointments would also require to be established;
- the recruitment process which would be employed (eg open recruitment, targeted recruitment or recruitment/secondment from one of the Council’s community partners) and the establishment of an appropriate recruitment and selection panel. Recruitment would require to be undertaken in compliance with established Human Resources policies and procedures;
- the induction, training and development of any external appointees. This could be delivered in-house or via attendance at relevant courses run by, for example, CIPFA.

#### 4. RECOMMENDATION

4.1 Council is invited to consider the referral from the Audit Committee.



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Chief Executive  
Date: 21 April 2010

#### List of Background Papers

None

## FALKIRK COUNCIL

**Subject:           AUDIT COMMITTEE – AUDIT SCOTLAND  
RECOMMENDATION AND APPOINTMENT OF  
LAY MEMBER**

**Meeting:           AUDIT COMMITTEE**

**Date:               22 March 2010**

**Author:            CHIEF EXECUTIVE**

### **5.     INTRODUCTION**

- 5.1     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)'.
- 5.2     In accordance with its Standing Orders, Council agreed the membership of the Committee and appointed its Convener.
- 5.3     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.
- 5.4     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.
- 5.5     In addition, Committee discussed the potential for including external representation on the Audit Committee, and asked that a Report be prepared for its consideration.

## **6. 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.

## **7. EXTERNAL (LAY) MEMBERSHIP OF AUDIT COMMITTEE**

- 3.5 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.

- 3.6 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.
- 3.7 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'.
- 3.8 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.
- 3.9 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.
- 3.10 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.

**8. 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**