

Audit Committee Recruitment of an Independent Member

Report by Duncan Stainbank, Chief Internal Auditor.

Report for Decision

1 Recommendations

Council is recommended to:

- Approve the change to the Scheme of Administration (Appendix B) for the Audit Committee to recruit for 2 Independent Committee Members.
- Approve the change to the Scheme of Administration (Appendix B) for the Audit Committee members to appoint a permanent Committee chair, from within all Audit Committee members.
- Approve the permanent move to specifying the Audit Committee meeting schedule of 4 meetings a year, whilst still allowing additional meetings to be scheduled.
- Approve the introduction of a payment of a fee of £200 per Committee attended for each Audit Committee up to a maximum of £1,000 per annum for Independent Audit Committee members.

2 Purpose of Report/Executive Summary

2.1 The Audit Committee Annual/End of Term Report 2023/24, by the Chair of the Audit Committee as approved by the Audit Committee on the 30 September 2024 had recommended improvements for the Audit Committee. Section 4.2 of that approved report contained the following 2 recommendations:

- Schedule a recruitment, selection and appointment process for independent members of the Audit Committee within the next year.
- Move to 4 scheduled meetings of the Audit Committee each year from the 7 meetings currently scheduled, whilst retaining the capability to call further meetings when required.

2.2 The CIPFA Position Statement 2022: Audit committees in local authorities and police states, the following: *“CIPFA recommends that each authority audit committee should include at least two co-opted independent members to provide appropriate technical expertise.”* This is the standard that the Audit Committee annually assesses against and currently there are no independent members of the Midlothian Council Audit Committee.

2.3 A recruitment advert for an Independent Audit Committee Chair and Member was issued in May 2022, however no candidates applied for these positions, as a result agreement to rotate the Chair across the three political parties was agreed. Since May 2022 the Audit Committee has been Chaired by three separate Councillors. The CIPFA Position Statement 2022: Audit committees in local authorities and police, states under characteristics of audit committee membership:

“A strong, independently minded chair, displaying a depth of knowledge, skills, and interest. There are many personal skills needed to be an effective chair, but key to these are:

- *promoting apolitical open discussion*
- *managing meetings to cover all business and encouraging a candid approach from*
- *all participants maintaining the focus of the committee on matters of greatest priority.”*

2.4 The CIPFA Position Statement 2022: Audit committees in local authorities and police provides no statement that the Chair of the Audit Committee should be an independent member. The CIPFA Publication Practical Guidance for Local Authorities and Police Guiding the Audit Committee, states the following on appointing the Chair of the Audit Committee.

“Unless there is specific legislation or guidance in place on the selection of the committee chair, authorities can determine their own approach. To try and emphasise the independence and apolitical nature of the committee, some authorities specify that the position should be occupied by an ‘opposition’ member. This approach may be appropriate for some but will not be possible for all authorities – for example, where there are few opposition members.”

2.5 It is therefore being recommended that a permanent chair is appointed following on from a recruitment exercise as early as possible in 2025. The Audit Committee should then be empowered to appoint a chair meeting the required skills from within the membership of the committee rather than appointing a chair directly from any recruitment exercise.

2.6 Given the lack of candidates applying for Independent Member positions at the last attempt in 2022 a review of other authorities and public sector bodies has been undertaken. Scottish Local Authorities have not normally provided remuneration for Independent Audit Committee Members although limited Councils have independent members in place. However, other UK Local Authorities are beginning to offer remunerated roles, for example currently the London Borough of Hounslow are offering an annual allowance of £2,000 for Independent Members of the Audit & Governance Committee, Wealden District Council offering an annual allowance of £909, Mole Valley District Council offering £530 per annum, and Oldham Council offering £446 per annum. Consideration should be given to a small allowance being offered for an appropriate independent member candidate, with a mechanism to be agreed via the Chief Officer Council Resources.

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3 Background/Main Body of Report

- 3.1** It is important that the Council's Audit Committee fully complies with best practice guidance on Audit Committees to ensure it can demonstrate its effectiveness as a scrutiny body as a foundation for sound corporate governance for the Council.
- 3.2** The Chartered Institute of Public Finance and Accountancy (CIPFA) issued an updated guidance note Audit Committees Practical Guidance for Local Authorities and Police 2022 Edition (hereinafter referred to as CIPFA Audit Committees Guidance). It incorporates CIPFA's Position Statement: Audit Committees in Local Authorities and Police which sets out CIPFA's view of the role and functions of an Audit Committee.
- 3.3** The CIPFA Audit Committees Guidance includes the production of an annual report on the performance of the Audit Committee against its remit for submission to the Council.
- 3.4** The Audit Committee Self-Assessment as approved by the Audit Committee on the 30 September 2024 identified 2 improvements that require changes to the scheme of administration as laid out in the recommendations in 1. Above. These are:
- Schedule a recruitment, selection and appointment process for independent members of the Audit Committee within the next year.
 - Move to 4 scheduled meetings of the Audit Committee each year from the 7 meetings currently scheduled, whilst retaining the capability to call further meetings when required.

4 Report Implications (Resource, Digital and Risk)

4.1 Resource

The report recommends following benchmarking that the two Independent Members are provided an allowance of £200 per Audit Committee, prepared for and attended. Total cost is estimated as between £1,600 and £2,000 per annum.

4.2 Digital

There are no digital implications arising from this report.

4.3 Risk

There is a risk that the Audit Committee does not fully comply with best practice guidance thus limiting its effectiveness as a scrutiny body as a foundation for sound corporate governance. The implementation of the recommendations ensure that the best practice is being adhered to.

4.4 Ensuring Equalities (if required a separate IIA must be completed)

This report does not relate to a new or revised policy, service or budget change, which affects people (the public or staff), so an Integrated Impact Assessment (IIA) is not an applicable consideration.

4.5 Additional Report Implications (See Appendix A)

Appendices

Appendix A – Report Implications

Appendix B - Revised Audit Committee Extract from the Scheme of Administration.

APPENDIX A – Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Although this report does not relate directly to the key priorities within the Single Midlothian Plan to which Midlothian Council and its Community Planning Partners have made a commitment (Reducing the gap in economic circumstances; Reducing the gap in learning outcomes; Reducing the gap in health outcomes; and Reducing the impact of climate change), good governance is important to enable Midlothian Council to deliver its key priorities in support of achieving the Council's objectives.

A.2 Key Drivers for Change

Key drivers addressed in this report:

- Holistic Working
- Hub and Spoke
- Modern
- Sustainable
- Transformational
- Preventative
- Asset-based
- Continuous Improvement
- One size fits one
- None of the above

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

- One Council Working with you, for you
- Preventative and Sustainable
- Efficient and Modern
- Innovative and Ambitious
- None of the above

A.4 Delivering Best Value

Self-assessment of the Audit Committee utilising best practice toolkits underpins its own continuous improvement to enhance its effectiveness as a scrutiny body as a foundation for sound corporate governance of the Council, thus supporting the delivery of the Council's best value duties.

A.5 Involving Communities and Other Stakeholders

The Audit Committee in fulfilling its governance role acts as a bridge between the Council and other stakeholders. Including Independent members on the Committee should enhance this role further.

A.6 Impact on Performance and Outcomes

The members of the Audit Committee have reflected on the performance and outcomes against the remit of the Committee through the completion of annual self-assessments. The identification of improvement actions as evidenced through the Audit Committee Annual / End of Term Report are designed to enhance its effectiveness as a scrutiny body as a foundation for sound corporate governance of the Council.

A.7 Adopting a Preventative Approach

Assurances received by the Audit Committee from Management, Internal Audit and External Audit set out the assessment of prevention and detection internal controls and governance arrangements.

A.8 Supporting Sustainable Development

This report does not relate directly to supporting sustainable development. Good governance is important to enable Midlothian Council to achieve its objectives.