

**MIDLOTHIAN COUNCIL
AUDIT COMMITTEE
ANNUAL REPORT FROM THE CHAIRMAN – 2019/20**

This annual report has been prepared to inform the Midlothian Council of the work carried out by the Council's Audit Committee during the financial year. The content and presentation of this report meets the requirements of the CIPFA Audit Committees Practical Guidance for Local Authorities and Police 2018 Edition (hereinafter referred to as CIPFA Audit Committees Guidance) to report to full Council on a regular basis on the Committee's performance in relation to the terms of reference and the effectiveness of the Committee in meeting its purpose.

Meetings

The Audit Committee has met 6 times during the financial year which included meetings on 28 May, 24 June, 24 September, 3 December 2019, 28 January and 10 March 2020 to consider reports pertinent to the audit cycle and its terms of reference.

The Audit Committee is a key component of Midlothian Council's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards. The purpose of the audit committee is to provide independent assurance to elected members of the adequacy of the risk management framework and the internal control environment. It provides independent review of Midlothian Council's governance, risk management and control frameworks, and oversees the financial reporting and annual governance processes. It oversees internal and external audit, helping to ensure efficient and effective assurance arrangements are in place.

The Audit Committee scrutinised the Annual Report and Accounts of the Council at appropriate times in accordance with its terms of reference, which also includes the promotion of good governance, and financial and ethical standards. The Audit Committee also reviewed the Annual Governance Statement in order to assess whether it properly reflects the risk environment and whether the content is consistent with its evaluation of the internal controls and governance arrangements based on evidence received during the year.

The Audit Committee approved the terms of reference for Internal Audit (Internal Audit Charter) and the Internal Audit Strategy and Annual Plan. It considered Internal Audit's reports which set out executive summaries of findings, audit opinions, good practice and recommendations associated with each assurance review, as well as other work. It monitored the implementation of agreed actions through receipt of two reports during the year from Internal Audit to ensure that audit recommendations had been fully implemented to its satisfaction. It monitored Internal Audit's performance including progress against annual plan, conformance with Public Sector Internal Audit Standards (PSIAS), and quality assurance and improvement plan (QAIP) within Internal Audit mid-term performance and annual assurance reports, and considered the statutory annual audit opinion within the Internal Audit Annual Assurance Report.

The Audit Committee has reviewed the External Audit Strategy and Plan Overview for Midlothian Council, considered External Audit reports including the annual report to Members and the Controller of Audit on the annual audit of the Council, reviewed the main issues arising from the External Audit of the Council's statutory accounts, and monitored the implementation of agreed actions arising.

The Audit Committee considered the effectiveness of the risk management process throughout the Council through the receipt of periodic reports from the Risk Manager during the year on corporate risks and mitigations and the appropriate challenge of Senior Management to ensure that the most significant risks are being identified, evaluated and managed.

The Audit Committee considered the adequacy and effectiveness of the Council's counter fraud arrangements by way of an annual report which set out the counter fraud activity and outcomes, and received assurances from Auditors on fraud risks and counter fraud controls.

The Audit Committee is the body responsible for scrutiny of the treasury management strategy, mid-term and annual performance reports prior to their presentation to Council for approval. The sequencing of reports presentation was applied during the year with the exception of the mid-term performance report which was considered by Audit Committee after its presentation to Council. The schedule of meetings for 2020 needs to be considered to ensure the sequencing of all three treasury management reports presentation to enable the Audit Committee to effectively fulfil its role on scrutiny of treasury management, in response to a previous Internal Audit recommendation.

The minutes of Audit Committee meetings were presented for approval by the Council, and any exceptional items or recommendations were referred to the Council in accordance with the remit.

Membership

The Membership of the Audit Committee is part of the approved Midlothian Council's Standing Orders (amended June 2017) namely being six Members of the Council and two non-voting members appointed from an external source. Two of the six Elected Members on the Audit Committee are in the Cabinet (Committee with executive decision-making powers). However, this is considered as difficult to avoid in a small Council and the Audit Committee operates with an independent Chair and independent member to ensure adequate independence and challenge. The two non-voting external members were appointed from the community following a recruitment and selection process carried out during 2017. This enhances the robustness and independence of the Audit Committee's role in the scrutiny process of internal controls and governance.

The Committee membership during the year included Mr M Ramsay (Chair), Councillors K Baird (to 12 March 2020), A Hardie, D Milligan, J Muirhead, K Parry and P Smail, and Mr P De Vink.

The attendance by each member at the Committee meetings throughout the year was as follows:

Member	28 May 2019	24 June 2019	24 September 2019	3 December 2019	28 January 2020	10 March 2020
Mr M Ramsay (Chair)	√	√	√	√		√
Cllr K Baird						
Cllr A Hardie	√	√	√	√	√	√
Cllr D Milligan	√	√	√	√	√	√
Cllr J Muirhead	√	√	√	√	√	√
Cllr K Parry		√				
Cllr P Smail		√	√	√	√	√
Mr P De Vink	√	√	√		√	
Cllr D Alexander (substitute)	√		√	√	√	√
Cllr C Cassidy (substitute)	√	√	√	√	√	√

Every meeting of the Audit Committee in 2019/20 was quorate (i.e. at least three elected members present). At the one meeting when Mr M Ramsay was unavailable, Cllr P Smail was Chair of the meeting following approval by the Committee. Substitutes attended as indicated.

All other individuals who attended the meetings are recognised as being "In Attendance" only. The Chief Executive, Directors, Chief Officer Corporate Solutions (Section 95 Officer), External Audit (EY), and Internal Audit attend all Audit Committee meetings, and other senior officers also routinely attend Audit Committee meetings. The Council has provided support and resources to the Audit Committee throughout the year including a Democratic Services Officer as the Minute secretary.

Skills and Knowledge

Given the wider corporate governance remit of Audit Committees within local government and the topics now covered by the external and internal audit functions, it is noteworthy that there is a range of skills, knowledge and experience that Audit Committee members bring to the committee, not limited to financial and business management. This enhances the quality of scrutiny and discussion of reports at the meetings. No one committee member would be expected to be expert in all areas.

Self-Assessment of the Committee

The annual self-assessment was carried out by members of the Audit Committee on 10 March 2020 during an Informal Session facilitated by the Chief Internal Auditor using the Good Practice Principles Checklist and Evaluation of Effectiveness Toolkit from the CIPFA Audit Committees Guidance. This was useful for Members to ensure the Committee can demonstrate its effectiveness as a scrutiny body as a foundation for sound corporate governance of the Council.

The outcome of the self-assessments was a medium degree of performance against the good practice principles and a medium degree of effectiveness. Improvements were identified focussing on skills and knowledge competency to fulfil role. In summary these are:

- Check schedule of meetings for 2020/21 to ensure the sequencing of all three Treasury Management reports presentation prior to Council to enable the Audit Committee to effectively fulfil its role;
- Utilise the CIPFA Skills and Knowledge toolkit;
- Obtain feedback on its performance from a range of Directors and others who interact with the Committee;
- Review and scrutinise the Risk Management Policy and Strategy on a regular basis; and
- Understand the effectiveness of Committees fulfilling their remits on which the Audit Committee places reliance, for example Council monitoring progress of Best Value Action Plan.

Assurance Statement to the Council

The Audit Committee provides the following assurance to the Council:

- The Council has received the Minutes of the Audit Committee throughout the year.
- The Audit Committee has operated in accordance with its agreed terms of reference, covering the themes of Governance, Risk and Control, Internal Audit, External Audit, Financial Reporting, and Accountability Arrangements, and accordingly conforms to the Audit Committee principles within the CIPFA Position Statement for Audit Committees. The application in practice of the Audit Committee's treasury management scrutiny role needs further refinement i.e. to ensure the sequencing of all three treasury management reports presentation to enable the Audit Committee to effectively fulfil its role on scrutiny of treasury management, in response to a previous Internal Audit recommendation.
- It focused entirely on matters of risk management, internal control and governance, giving specialist advice to the Council on the value of the audit process, on the integrity of financial reporting and on governance arrangements, and acted as a bridge between the Council and other stakeholders. It did this through material it received from Internal Audit, External Audit, other Audit bodies, and assurances from Management relevant to audit cycle of reporting.
- The Audit Committee will review the unaudited Annual Accounts 2019/20 of the Council at its additional virtual meeting on 18 August 2020, having not received them as originally expected for consideration at its virtual meeting on 22 June 2020, though received them by email on 30 June 2020. Specifically, this is to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements. It reviewed the draft Annual Governance Statement at its meeting on 22 June 2020 to consider whether it properly reflects the risk environment and supporting assurances and approved it for

inclusion within the unaudited accounts. It will review the final audited accounts at its meeting on 29 September 2020 alongside the External Audit report on their annual audit 2019/20, to consider whether there are concerns arising from the audit that need to be brought to the attention of the Council, in order to decide whether to recommend to the Council that they be adopted.

- The Audit Committee has reflected on its performance during the year, and has agreed areas of improvements to enable it to fulfil its scrutiny and challenge role and to enhance its effectiveness.

Recommendation of the Terms of Reference for the Audit Committee for the coming year

The Council in August 2019 approved amendments to the Terms of Reference for the Audit Committee in response to recommendations made in the previous year's annual report from the Committee, to ensure they continue to be relevant to the local government operating environment and best practice and to explicitly address all the core areas identified in CIPFA's Position Statement. It is noted that these approved amendments are not yet formally reflected in the Council's Scheme of Administration, which is under review and update for approval, nor on the committee management system CMIS.

Mike Ramsay
Chairman of Audit Committee
17 July 2020