

**MIDLOTHIAN COUNCIL
AUDIT COMMITTEE
ANNUAL/END OF TERM REPORT FROM THE CHAIR – 2022/23**

This annual/end of term report has been prepared to inform the Midlothian Council of the work carried out by the Council's Audit Committee during the year 2022/23. The content and presentation of this report meets the requirements of the CIPFA Audit Committees Practical Guidance for Local Authorities and Police 2022 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 to share lessons learned and areas of improvement to inform the new Audit Committee post local elections in May 2022.

Meetings

There were meetings of the Audit Committee 5 times during the financial year which included meetings on 29 June, 27 September, 6 December 2022, 7 February and 7 March 2022 to consider reports pertinent to the audit cycle and its terms of reference. Additionally at the start of the 2023/24 financial year a meeting has been held on the 26 June 2023.

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 reviewed the draft Annual Governance Statement 2021/22 at its meeting on 29 June 2022, and for 2022/23 at its meeting on the 26 June 2023 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. Members of the Audit Committee have continued to be involved in the ongoing BMS review and have requested a report to be provided to the Audit Committee. The Audit Committee scrutinised the unaudited Annual Accounts 2022/23 of the Council at its meeting on 26 June 2023 the chair contributed several suggestions. It reviewed the final audited accounts for 2021/22 at its meeting on 27 September 2022, alongside the External Audit report on their annual audit 2021/22 to consider any concerns or improvements arising from the audit, prior to recommending to the Council that they be adopted. 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 approved the Internal Audit Charter, and the Internal Audit Strategy and Annual Plan. 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. 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.

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 received quarterly update reports from the Chief Officer Place during the year on strategic risks and mitigations. The report requested in June 2020 on the review and scrutiny of the Risk Management Policy and Strategy is still awaited (twice delayed from original December 2020 target) and monitored on the Action Log. There is a dependency on this to enable Audit Committee oversight of Risk Management Framework to ensure it is able to demonstrate its effectiveness in carrying out its remit.

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 associated with the refreshed Counter Fraud Policy and Strategy approved by Council in August 2020.

The Audit Committee is the governance body responsible for scrutiny of the treasury management strategy, mid-term and annual performance reports prior to their presentation to Council for approval, in accordance with the CIPFA Treasury Management Code of Practice. This scrutiny occurred during 2022/23 at Audit Committee meetings including the Annual Treasury Management Outturn Report 2021/22 in June 2022, the Treasury Management Mid-Year Review Report 2022/23 in December 2022, and the Treasury Management and Investment Strategy 2023/24 & Prudential Indicators in January 2022.

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 reflects the Council’s approved Scheme of Administration i.e. there should be a one third equal split on all Committees reflecting the number of Councillors for each political party (May 2022), being five Members of the Council. 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. The lack of independent members does not comply with the CIPFA Position Statement which recommends that each authority audit committee should include at least two co-opted independent members. However, this situation is similar to many Local Authority Audit Committees.

The Committee membership during the year included Councillors W McEwan, S McKenzie, D Milligan, E Scott and P Smaill (Chair).

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

Member	29 June 2022	27 September 2022	6 December 2022	7 February 2023	7 March 2023
Cllr W McEwan	√	√	√	√	√
Cllr S McKenzie	√	√	√	√	√
Cllr D Milligan	√	√	√	√	√
Cllr E Scott	√	√	√	√	√
Cllr P Smaill	√	√	√	√	√

Every Audit Committee meeting in 2022/23 was quorate and attended by all members.

All other individuals who attended the meetings are recognised as being “In Attendance” only. The Chief Executive, Executive Directors, Chief Officer Corporate Solutions (Section 95 Officer), External Audit (EY/Audit Scotland), 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

An annual self-assessment was carried out by members of the Audit Committee on 25 January 2022 during a Development 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/high degree of compliance against the good practice principles and an improving and medium degree of effectiveness. Improvements were identified focussing on activity to improve its effectiveness in fulfilling its role. In summary these are:

- Utilise the CIPFA Skills and Knowledge toolkit, to complement the Induction Programme following the Local Government Elections in May 2022, at an appropriate time in line with the Audit Cycle to support new and continuing members to fulfil their remit.
- Continue to obtain feedback on its performance in fulfilling all aspects of the Committee's remit from a range of Executive Directors and others who interact with the Committee to support continuous learning and improvement.
- Review and scrutinise the revised Risk Management Policy and Strategy (expected in March 2022). It is important that the Audit Committee is given the opportunity to regularly scrutinise the Council's Risk Management Policy and Strategy (Risk Management Framework). This enables the Audit Committee to fulfil its oversight role to monitor the effective development and operation of risk management consistently across the Council and an Area where the Audit Committee can add value by supporting improvement (No. 3 - Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks).
- Continue to rely on the knowledge of those members appointed to other Committees, to evaluate their effectiveness in fulfilling remits, on which the Audit Committee places reliance.
- Continue to ensure the application in practice of the Audit Committee's treasury management scrutiny role in advance of Council approval. Ensure that the Members on the Audit Committee and Council receive Briefings and Refresher sessions on this technical area of business of Treasury Management and Investment and Prudential Indicators to enable them to consider reports for scrutiny and decision respectively.
- Continue to ensure appropriate scrutiny and challenge on its Action Log to ensure that Audit Committee recommendations have been recorded and monitored to ensure they are fully implemented to its satisfaction.
- Schedule a recruitment, selection and appointment process for the independent members of the Audit Committee prior to May 2022 local government elections to enable those appointed to benefit from the elected members' induction programme.

These actions have all been implemented and the Committee have had further briefings in addition to the Induction programme when relevant. A further self-assessment of the Audit Committee has been completed by the Chief Internal Auditor in conjunction with the Chair of the Audit Committee in August 2023 to update the assessment based on the revised CIPFA Audit Committee Guidance 2022. This statement demonstrated full compliance with the majority of the Guidance with the exception of the following improvements that will be taken forward during 2023/24:

- A private meeting of all Committee members with external audit and the Chief Internal Auditor should be arranged on an annual basis moving forward.

- Despite a recruitment campaign in May 2022 the committee does not include two lay/co-opted independent members in accordance with the CIPFA Guidance, consideration of any other routes to recruit independent members should be given.
- A review of any ongoing training needs of Committee members covering the core areas set out in the 2022 CIPFA Guidance.

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.
- 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 has reflected on its performance during the year, and has agreed areas of improvement to enable enhanced effectiveness to fulfil its scrutiny and challenge role.

Peter Smail
Chair of Audit Committee
26 September 2023