

External Audit Annual Report to Members and the Controller of Audit for the year ended 31 March 2021 – Update on recommendations

Report by Gary Fairley Chief Officer Corporate Solutions

Report for Noting

1 Recommendations

Audit Committee are asked to note this update on the recommendations which were set out in the External Auditor's report for the year ended 31 March 2021.

2 Purpose of Report/Executive Summary

At its meeting of 28 September 2021 the Audit Committee considered the External Auditor's Annual Report to Members and the Controller of Audit for the year ended 31 March 2021.

Arising from that the Audit Committee action log recorded an action for a progress report to be brought back to the Committee in January 2022 on the implementation and progress of the External Auditor's recommendations.

6 January 2022

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3 Background

In accordance with the Local Government (Scotland) Act 1973, the Accounts Commission appointed EY as the external auditor of Midlothian Council with the appointment extended by 12 months to encompass financial year 2021/22.

EY undertake the audit in accordance with the Code of Audit Practice (the Code), issued by Audit Scotland in May 2016; Auditing Standards and guidance issued by the Financial Reporting Council; relevant legislation; and other guidance issued by Audit Scotland.

Each year they prepare an Annual Audit Report that summarises the key findings and conclusions from their audit work. The report is addressed to both members of the Council and the Controller of Audit, and presented to those charged with governance. The final report is provided to Audit Scotland and is published on their website.

Audit Committee considered the report for financial year ending 31 March 2021 on 28th September 2021 with full Council considering the report on 16th November 2021.

4 Progress with Recommendations in the Annual Report

Appendix D to the Annual Report included an action plan which summarised specific recommendations included within the body of the Annual Audit Report. These were graded according to the Auditors consideration of their priority for the Council or management to action.

Grade 1: Key risks and / or significant deficiencies which are critical to the achievement of strategic objectives. Consequently management needs to address and seek resolution urgently.	Grade 2: Risks or potential weaknesses which impact on individual objectives, or impact the operation of a single process, and so require prompt but not immediate action by management.	Grade 3: Less significant issues and / or areas for improvement which we consider merit attention but do not require to be prioritised by management.
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There were four recommendations made in the 2021 report. These are set out below together with an update on progress with implementation:

Findings and / or risk	Recommendation/ grading	Management response / Implementation timeframe	Progress Update
1. The accounting for assets which are subject to revaluation continues to be an area of significant estimation uncertainty.	The completion in 2020/21 of the revaluation of the major aspects of the Council's assets, would be an opportunity for the Council to consider its approach going forward as a matter of good practice. This review may include: <ul style="list-style-type: none"> Reducing the time between full valuations 	Accepted. A review of the asset valuation arrangements will be undertaken in preparation for the 2021/22 year end. Changes arising will be reflected in the formal engagement with the internal valuation team and	This action will be completed as planned by 31 March 2022 and the revised asset valuation arrangements will be reflected in the formal engagement with the internal valuation team. In addition, CMT on 22 December 2021 considered a report on the arrangements for

	<p>for all major individual asset classes;</p> <ul style="list-style-type: none"> • Applying indexation increases on assets not fully valued in the year to reflect some estimate of the movement in their value between formal valuations; and • Ensuring up-to-date condition surveys are in place for all assets. <p>Grade 2</p>	<p>in the final accounts project plan.</p> <p>Responsible officer: Chief Officer, Corporate Solutions</p> <p>Implementation date: 31 March 2022</p>	<p>condition surveys and agreed to recommend to Council an increase in the annual budget to help ensure that are kept up to date.</p>
<p>2. We noted there may be scope to review the current structure of the Governance Statement against good practice outlined within CIPFA's Delivering Good Governance Guidance. This includes ensuring that the statement captures the key strategic challenges and risks that face the Council and communicating significant issues alongside an action plan for improvement.</p>	<p>While the Annual Governance Statement is in line with current requirements, there is an opportunity to review the structure to ensure that it better reports on the achievement of strategic priorities and reflects areas of significant risk and challenge.</p> <p>Grade 3</p>	<p>Response: Accepted. In preparation for the 2021/22 Annual Governance Statement a review of the structure will be undertaken and changes reflected in the draft Annual Governance Statement for 2021/22</p> <p>Responsible officer: Chief Internal Auditor/Legal Services Manager</p> <p>Implementation date: May 2022</p>	<p>Meetings between relevant officers have been set up to facilitate the Annual Assurance Process for 2021/22 to ensure the Annual Governance Statement continues to meet CIPFA's Delivering Good Governance Guidance requirements.</p>
<p>3. We note that the role and membership of the Audit Committee should be considered by the new Council, following local government elections in May 2022. There is no prescribed structure for Audit Committees within local government as the structure can vary depending on the political environment. Other councils in Scotland adopt wider remits for equivalent committees, including a focus on finance, risk and Best Value.</p>	<p>The Council should review Audit Committee arrangements post election to ensure that governance arrangements reflect the political and strategic environment.</p> <p>Grade 2</p>	<p>Response: Accepted. The review will form part of the review of Standing Orders and the Scheme of Delegation in preparation for the next term of Council.</p> <p>Responsible officer: Executive Director Place</p> <p>Implementation date: May 2022</p>	<p>A report was presented to Council on 14 December 2021 which provided an update on the work of the Standing Orders Working Group, noting that the group had agreed draft revised Standing Orders and a Scheme of Administration but it is considered that further revisions were required to reflect supervening events.</p> <p>The review of Audit Committee arrangements will be considered as part of the wider review of governance arrangements in preparation for the next term of Council after the May 2022 election.</p>
<p>4. Quarterly and annual performance reports presented to Cabinet and Performance, Review and Scrutiny</p>	<p>Officers should work with members to ensure performance reports are presented in a manner which</p>	<p>Response: Accepted. Work is underway to progress dashboards which</p>	<p>Dashboards are now used to supplement the narrative reports for Cabinet and Performance</p>

Committee are heavily narrative based. Council officers have been exploring alternative formats for presenting data including the introduction of graphics such as charts, trend analysis however, Committee reports, which are also publicly available continue to contain significant narrative analysis.	<p>supports effective challenge and scrutiny, including through the use of more graphical presentations.</p> <p>Grade 3</p>	<p>will supplement quarterly reporting data currently available to elected members via 'Pentana Browser'. In addition, these will be publicly available ensuring more timely and accessible performance information is published on the Council's website. The intention is to introduce dashboards as part of improvements for the performance management cycle for 2022/23.</p> <p>Responsible officer: Continuous Improvement Manager</p> <p>Implementation date: September 2022</p>	<p>Review and Scrutiny Committee.</p> <p>The intention remains too shift fully to these graphic version of reports after the May 2022 elections.</p>
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The report also noted that there were three ongoing recommendation from previous years

Findings and / or risk	Management response / Implementation timeframe	Our assessment of progress	Progress Update
Continued work is required to finalise a medium-term financial plan, underpinned by identified and agreed budget savings over the term of the plan to not only manage in year financial positions, but also to ensure that the forecast pressures are addressed on a timely basis. The Council must continue to develop a balanced MTFP in the medium to long term.	<p>Agreed. Officers continue to support BTSG to recommend measures to Council to achieve a balanced MTFS.</p> <p>Responsible officer: BTSG</p> <p>Implementation date: 11 February 2020</p> <p>Grade 1</p>	<p>While plans are in place for the 2021/22 and 2022/23 budgets, the Council is relying on one-off measures. Significant work is required to develop a revised MTFS for the next administration.</p> <p>Our assessment: Ongoing</p>	<p>On the recommendation of BTSG Council agreed the budget for 2021/22.</p> <p>Council has considered two reports in respect of the 2022/23 budget which incorporated recommendations from BTSG to Council. Council is scheduled to determine the 2022/23 budget and Council Tax levels on 15 February 2022 with BTSG meeting on 25th January 2022 to determine its recommendations to Council.</p> <p>As highlighted in the CIPFA Financial Management Model assessment reported to Audit committee on 7 December 2021 development continues on</p>

			<p>the financial strategy for the term of the next Council with the aim of presenting options to elected members after the May 2022 elections.</p> <p>Status; Ongoing with completion expected after May 2022.</p>
<p>The Council continues to experience timing and data accuracy issues in relation to feeder financial information systems. The Council must ensure that services apply greater rigour to feeder financial systems to support improved reporting.</p>	<p>Agreed. As part of the review of the 2018/19 year end an issue and lessons learnt report is being prepared which will set out recommendations for future improvement required for 2019/20 year end.</p> <p>Responsible officer: Head of Finance & ISS</p> <p>Implementation date: 31 March 2020</p> <p>Grade 2</p>	<p>Within Financial Management, we noted that the level of variation in financial monitoring reports noted in prior years did not occur, signalling improved financial forecasting and control.</p> <p>Our assessment: Ongoing</p>	<p>Significant progress has been made in resolving service specific issues leading to more reliable in year reporting of service and financial performance as was recognised by External Audit.</p> <p>Where issues are identified that limit the ability to provide Service, CMT and Council with robust financial projections on any area of activity these are reported to the quarterly Financial Monitoring CMT meetings and appropriate actions identified to address these.</p> <p>A broadly similar internal audit action has been agreed by Internal Audit as complete.</p> <p>Status; Completed</p>
<p>The Best Value Assurance Report highlighted that there is scope to be clearer about priority indicators and targets to track the Council's performance. The Council should ensure that performance reporting arrangements support elected member scrutiny.</p>	<p>Responsible officer: Quality & Scrutiny Manager</p> <p>Implementation date: 31 March 2020</p> <p>Grade 3</p>	<p>While significant improvements have been made to the Council's performance reporting capability, we note within the Value for Money section that there is scope to refine key performance measures and targets.</p> <p>Our assessment: Ongoing</p>	<p>The Council continues to deliver its priorities through the Community Planning Partnership and the Single Midlothian Plan, which was supplemented during the pandemic by the Route Map through and out of the crisis and Midlothian's Listen and Learn report. As a result, Service Plans for 2021/22 have been developed and informed by these key strategic documents, ensuring alignment with SMP/ Strategic priorities and associated service priorities and performance measures. In addition, in developing Service Plans for the 2021/22 cycle, Chief Officers were also tasked with reviewing SMP and Balanced</p>

			<p>Scorecard indicators to further refine and align key measures and indicators.</p> <p>In line with the need to present a financial strategy for the term of the next Council, CMT is also developing a 5 year strategic plan with the aim of presenting this to elected members after the May 2022 elections. This, alongside existing key strategic documents, will be used to inform the 2022/23 Service Planning Cycle to better inform and target performance measures and targets.</p> <p>Status; Ongoing with completion expected after May 2022.</p>
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5 Report Implications (Resource, Digital and Risk)

5.1 Resource

There are no direct resource implications arising from this report. The continued areas of improvements will be met from existing resources.

5.2 Digital

There are no direct digital implications arising from this report.

5.3 Risk

There are no specific risks arising from this report. The progress outlined in the report strengthens the Council's financial management and governance arrangements and in turn supports effective mitigation of risk.

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

There have been no changes to policies which require an IIA to be completed.

5.5 Additional Report Implications (See Appendix A)

See Appendix A

Appendices

Appendix A – Report Implications

APPENDIX A – Report Implications

A.1 Key Priorities within the Single Midlothian Plan

Maintaining effective financial governance and effective internal controls are central to demonstrating strong financial management and financial sustainability and it is on these foundations that delivery of the priorities in the Single Midlothian Plan is based.

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

Effective Financial Governance is a core principal of Best Value.

A.5 Involving Communities and Other Stakeholders

There has been no external engagement in preparing this report.

A.6 Impact on Performance and Outcomes

In the main the arrangements set out in the report do not have a direct impact on performance or outcomes.

A.7 Adopting a Preventative Approach

Maintaining an effective Financial Governance and internal control arrangements is central to the prevention of error and or the risk of fraud.

A.8 Supporting Sustainable Development

No direct impact.