

Audit Committee Annual Report 2020/21

Report by Chair of Audit Committee

Report for Decision

1 Recommendations

The Audit Committee is asked to approve the Audit Committee Annual Report 2020/21 (Appendix 1) and its self-assessments using the CIPFA Audit Committees Guidance (Appendices 2 and 3), and agrees that the Audit Committee Annual Report 2020/21 should be presented to the Council.

2 Purpose of Report/Executive Summary

The purpose of this report is to provide Members with the Audit Committee Annual Report 2020/21, which sets out how the Audit Committee has fulfilled its remit and provides assurances to the Council, and the annual self-assessments of the Committee against best practice.

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 of the Council.

The Audit Committee Annual Report 2020/21, which is appended to this report as Appendix 1 for consideration, is intended both to provide assurance to full Council and to identify areas of improvement which are designed to enhance the Audit Committee's effectiveness as a scrutiny body. Midlothian Council continues to adopt this best practice.

Date 16 July 2021

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3 Background

- 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 2018 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. 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.

4 Audit Committee Annual Report 2020/21 and Self-Assessments

- 4.1** The Audit Committee Annual Report 2020/21, which is appended to this report as Appendix 1 for consideration, is intended both to provide assurance to full Council and to identify areas of improvement which are designed to enhance the Audit Committee's effectiveness as a scrutiny body. Midlothian Council continues to adopt this best practice.
- 4.2** The Audit Committee carried out self-assessments of Compliance with the Good Practice Principles Checklist and Evaluation of Effectiveness Toolkit from the CIPFA Audit Committees Guidance during an Informal Session on 4 May 2021 facilitated by the Chief Internal Auditor. The self-assessments are appended to this report as Appendix 2 (Good Practice Principles) and Appendix 3 (Effectiveness) for consideration.
- 4.3** 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 activity to improve its effectiveness in fulfilling its role. In summary these are:
- Utilise the CIPFA Skills and Knowledge toolkit.
 - Obtain feedback on its performance from a range of Executive Directors and others who interact with the Committee.
 - Review and scrutinise the Risk Management Policy and Strategy on a regular basis.
 - Understand the effectiveness of other Committees fulfilling their 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.
 - Enhance scrutiny and challenge on its Action Log to ensure that Audit Committee recommendations had been recorded and monitored to ensure they were 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.

5 Report Implications (Resource, Digital, Risk and Equalities)

5.1 Resource

The Council has provided support and resources to the Audit Committee throughout the year including a Democratic Services Officer as the Minute secretary.

In terms of accountability and independence to ensure conformance with the Public Sector Internal Audit Standards (PSIAS), the Chief Internal Auditor reports functionally to the Audit Committee as outlined within the Internal Audit Charter. The Chief Internal Auditor facilitated the annual self-assessment process and the prepared the Audit Committee Annual Report on behalf of the Chair.

5.2 Digital

There are no digital implications arising from this report.

5.3 Risk

The role of the Audit Committee includes the high level oversight of the effectiveness of the Council's systems of internal financial control, internal control and governance, including risk management.

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 completion of the annual self-assessment and identification of improvement actions as evidenced through this Annual Report will mitigate this risk.

5.4 Ensuring Equalities

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.

5.5 Additional Report Implications (See Appendix A)

APPENDIX A – Additional 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

Midlothian Council is committed to creating a great place to grow supported by the 9 drivers for change. Self-assessment of the Audit Committee utilising best practice toolkits underpins its own continuous improvement to ensure that modern and sustainable governance arrangements are in place.

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

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.

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 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.