

**MIDLOTHIAN COUNCIL
AUDIT COMMITTEE
ANNUAL REPORT FROM THE CHAIRMAN – 2020/21**

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

There were virtual meetings of the Audit Committee 5 times during the financial year which included meetings on 22 June, 18 August (additional), 12 October, 8 December 2020, and 9 March 2021 to consider reports pertinent to the audit cycle and its terms of reference. The meetings scheduled on 26 May 2020 and 26 January 2021 were cancelled due to pandemic lockdown restrictions.

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 2019/20 at its meeting on 22 June 2020 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 scrutinised the unaudited Annual Accounts 2019/20 of the Council at its additional meeting on 18 August 2020, having not received them as originally expected for consideration at its meeting on 22 June 2020 but received them by email on 30 June 2020. It reviewed the final audited accounts at its meeting on 12 October 2020 alongside the External Audit report on their annual audit 2019/20 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 Risk Manager during the year on corporate risks and mitigations, to ensure it has oversight of the effectiveness of the risk management process. At its meeting in June 2020 the Committee agreed that a report would be requested on the review and scrutiny of the Risk Management Policy and Strategy.

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 controls and from the Integrity Group on counter fraud controls assessment.

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. In response to a previous Internal Audit recommendation, plans were put in place for the 2020/21 schedule of meetings 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. Audit Committee scrutiny in advance of Council approval occurred in-year for the annual treasury management report 2019/20 at its meeting on 22 June 2020 and for the mid-term treasury management report 2020/21 at its meeting on 8 December 2020. The planned opportunity for Audit Committee scrutiny of 2021/22 treasury management strategy in advance of Council approval did not occur due to the cancellation of the January 2021 Audit Committee meeting during the second pandemic lockdown period. However, a Briefing for all elected members on the 2021/22 treasury management strategy was held on 17 February 2021, to which the two independent Members of the Audit Committee were also invited.

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 Council's approved Scheme of Administration (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), which is not in compliance with CIPFA audit committee good practice on membership i.e. separation from the executive. However, the current membership 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, and the Audit Committee operates with an independent Chair and a second independent member to provide the opportunity for independent scrutiny and challenge. The two non-voting external members were appointed from the community following a recruitment and selection process carried out during 2017.

The Committee membership during the year included Mr M Ramsay (Chair), Councillors C Cassidy, A Hardie, D Milligan, J Muirhead, K Parry and P Smaill, and Mr P De Vink.

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

Member	22 June 2020	18 August 2020	12 October 2020	8 December 2020	9 March 2021
Mr M Ramsay (Chair)	√	√	√	√	√
Cllr C Cassidy	√	√	√	√	√
Cllr A Hardie		√	√	√	√
Cllr D Milligan		√	√	√	√
Cllr J Muirhead	√	√	√		
Cllr K Parry		√	√	√	
Cllr P Smaill	√	√	√	√	√
Mr P De Vink	√	√		√	√

Every meeting of the Audit Committee in 2020/21 was quorate (i.e. at least three elected members present). Cllr D Alexander attended the March 2021 meeting as a substitute for Cllr K Parry.

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), 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 4 May 2021 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 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.

Informal Sessions have been arranged prior to each of the remaining Audit Committee meetings during 2021/22 to enable these improvements to be progressed and fully implemented.

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 it to fulfil its scrutiny and challenge role and to enhance its effectiveness.

Within the Internal Audit Annual Assurance Report 2019/20 that was presented to the Audit Committee in June 2020 it was stated that Members were not aware of when the Risk Management Policy and Strategy were most recently reviewed and scrutinised. In response the Audit Committee agreed that a report would be requested on the review and scrutiny of the Risk Management Policy and Strategy with the action assigned to the Waste, Risk and Resilience Manager and an expected completion date of January 2021. This is still awaited, has been twice delayed from the original expected completion date, though a revised expected completion date of December 2021 has been agreed with the Chief Officer Place. It is important that the Audit Committee is given the opportunity to regularly scrutinise the Risk Management Policy and Strategy as the basis of the Council's risk management framework in order that the Audit Committee is able to fulfil its oversight role to monitor the effective development and operation of risk management in the Council.

During the year, as a result of reviewing a number of reports in different areas, along with the recommendation follow-up reports, the Audit Committee became concerned at the length of time taken by Management to address Internal Audit recommendations. The impression has been given that Management monitoring (the "second line") is not receiving the attention it merits, and the Audit Committee looks forward to seeing noticeable improvement in the coming year as the Management restructure and post pandemic situation settles.

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

This report and the annual self-assessment indicate that two of the six Elected Members on the Audit Committee are in the Cabinet (Committee with executive decision-making powers), which is not in compliance with CIPFA audit committee good practice on membership i.e. separation from the executive. The Council is requested to give consideration to excluding the Audit Committee membership from the Scheme of Administration requirement (i.e. there should be a one third equal split on all Committees reflecting the number of Councillors for each political party), or consider an alternative arrangement, to enable the Membership of the Audit Committee to comply with the Membership requirements set out in the CIPFA audit committee good practice, i.e. separation from the executive. This would enhance the Audit Committee's independence in the high level scrutiny and oversight of internal controls, risk management and governance arrangements.

Mike Ramsay
Chairman of Audit Committee
16 July 2021