

**MIDLOTHIAN COUNCIL
AUDIT COMMITTEE
ANNUAL/END OF TERM REPORT FROM THE CHAIRMAN – 2021/22**

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 2021/22. 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 to share lessons learned and areas of improvement to inform the new Audit Committee post local elections in May 2022.

Meetings

There were virtual meetings of the Audit Committee 6 times during the financial year which included meetings on 22 June, 17 August (special), 28 September, 7 December 2021, 25 January and 14 March 2022 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 reviewed the draft Annual Governance Statement 2020/21 at its meeting on 22 June 2021 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 2020/21 of the Council at its special meeting on 17 August 2021, including the enhanced Management Commentary for therein for wider stakeholders, having not received them as originally expected for consideration at its meeting on 22 June 2021. It reviewed the final audited accounts at its meeting on 28 September 2021, alongside the External Audit report on their annual audit 2020/21 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, noting that Corporate Management Team monitoring (the "second line") has been enhanced to check that Internal Audit recommendations are implemented in a more timely manner.

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. In addition, the Committee has requested self-assessment of fraud risks and counter fraud controls associated with national reports, and received assurance reports thereon from the Integrity Group.

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 2021/22 at Audit Committee meetings including the Annual Treasury Management Outturn Report 2020/21 in June 2021, the Treasury Management Mid-Year Review Report 2021/22 in December 2021, and the draft Treasury Management and Investment Strategy 2022-23 in January 2022. The Audit Committee will have the opportunity in March 2022 to scrutinise the full suite of Treasury Management Practices (TMPs) following CIPFA release of the new editions of the Treasury Management Code and Prudential Code on 20 December 2021.

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 (June 2017), 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 technical compliance with CIPFA audit committee good practice on membership i.e. separation from the executive. However, to partially mitigate this, 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 independent members were appointed from the community following a recruitment and selection process carried out during 2017. The independent Chair has a pre-meeting with senior management prior to each Audit Committee meeting to enable wider context of Council business.

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 2021	17 August 2021	28 September 2021	7 December 2021	25 January 2022	14 March 2022
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 Audit Committee meeting in 2021/22 was quorate (i.e. at least three elected members present). Cllr J Hackett attended the September and December 2021 meetings as a substitute for Cllr D Milligan.

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 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.

Development Sessions will be arranged prior to each of the Audit Committee meetings during 2022/23 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 enhanced effectiveness to fulfil its scrutiny and challenge role for the new Committee/Council post Local Government Elections in May 2022.

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

This Audit Committee in previous year's self-assessment has requested the Council through the Standing Orders Working Group 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. The new Council, as part of its Scheme of Administration arrangements post Local Government Elections in May 2022, is asked to consider this request.

Mike Ramsay
Chairman of Audit Committee
26 January 2022