

**MIDLOTHIAN COUNCIL
AUDIT COMMITTEE
ANNUAL REPORT FROM THE CHAIRMAN – 2017/18**

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 2013 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

The Audit Committee has met 4 times during the financial year which included meetings on 20 June, 26 September, 12 December 2017, and 13 March 2018 to consider reports pertinent to the audit cycle.

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 considered the Internal Audit Annual Assurance Report 2016/17 (June 2017) which includes the annual opinion, Internal Audit's performance against the audit plan that underpin the annual opinion, and conformance with Public Sector Internal Audit Standards (PSIAS). It considered Internal Audit's reports arising from each review setting out findings, audit opinions, good practice and recommendations. It monitored the implementation of agreed actions through receipt of two reports during the year from Internal Audit to ensure that audit recommendations had been fully implemented to its satisfaction. The Committee approved the terms of reference for Internal Audit, the Internal Audit Charter, and the Internal Audit Strategy and Annual Plan 2018/19 (March 2018).

The Audit Committee has received and considered all material arising from the External Audit strategies and plans overview for Midlothian Council from the External Auditor, EY, relating to their 5-year appointment from 2016/17 annual audit. It considered the report to Members and the Controller of Audit on the 2016/17 annual audit of the Council and reviewed the main issues arising from the external audit of the Council's statutory accounts (September 2017).

The Audit Committee considered the effectiveness of the risk management process throughout the Council through the receipt of periodic reports from the Risk Manager during the year on corporate risks and mitigations and the appropriate challenge of Senior Management to ensure that the most significant risks are being identified, evaluated and managed.

The Audit Committee considered the adequacy and effectiveness of the Council's counter fraud arrangements by way of an update report on the National Fraud Initiative, which set out the Council's participation and outcomes, and assurances from Auditors on fraud risks and counter fraud controls.

The Audit Committee is the body responsible for scrutiny of the treasury management strategy, mid-term and annual performance reports prior to their presentation to Council for approval. An Internal Audit review has highlighted that this was inconsistently applied during the year and this scrutiny role was not effectively fulfilled; recommendations are expected in this regard to improve arrangements.

The minutes of Audit Committee meetings were presented for approval by the Council, and referred any exceptional items to the Council in accordance with the remit.

Membership

The Membership of the Audit Committee is part of the approved Midlothian Council's Standing Orders (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). However, this is considered as difficult to avoid in a small Council and the Audit Committee operates with an independent Chair and independent member and there is therefore effective independence and challenge. The two non-voting external members were appointed from the community following a recruitment and selection process carried out during 2017. This enhances the robustness and independence of the Audit Committee's role in the scrutiny process of internal controls and governance.

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

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

Member	Meeting of 20 June 2017	Meeting of 26 September 2017	Meeting of 12 December 2017	Meeting of 13 March 2018
Mr M Ramsay (Chair)	n/a	Attended	Attended	Attended
Cllr K Baird	Attended	Attended	Attended	Attended
Cllr A Hardie	Attended	Attended	Attended	Attended
Cllr D Milligan	Attended	Attended	Attended	Apologies
Cllr J Muirhead	Attended	Attended	Attended	Attended
Cllr K Parry	Attended	Apologies	Attended	Apologies
Cllr P Smail	Attended (Chair for this meeting)	Attended	Attended	Attended
Mr P De Vink	n/a	n/a	Attended	Attended

Every meeting of the Audit Committee in 2017/18 was quorate (i.e. at least three elected members present).

All other individuals who attended the meetings are recognised as being "In Attendance" only. The Chief Executive, Directors, Head of Finance and Integrated Support (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.

An Induction presentation was delivered by EY in June 2017 to the newly appointed members of the Audit Committee which outlined the External Audit implications for Midlothian, Role of the Audit Committee, CIPFA Guidance on the Audit Committee, Internal Control, Governance, the Annual Governance Statement, Risk Management, Internal Audit Role, What is expected of Audit Committee Members, Fraud, Role of the Audit Committee Chair, Key elements of an effective audit committee, and Key Evaluation Questions. The Internal and External Audit Plans for the Council and the Annual Reporting Calendar were also provided for information.

Self-Assessment of the Committee

The annual self-assessment was carried out by members of the Audit Committee on 1 May 2018 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 for the Council.

The outcome of the self-assessments was a high degree of performance against the good practice principles and a medium degree of effectiveness, the latter in recognition of the significant change in membership during 2017 and the early stages of its 5-year journey. Improvements were identified focussing on skills and knowledge competency to fulfil role. In summary these are: Members Briefings / Seminars on Statutory Accounts and Treasury Management to help their understanding of these technical areas; utilising other self-assessments such as the CIPFA Skills and Knowledge toolkit; Informal Session prior to each Audit Committee meeting, without Management present, to enable the members of the Committee to meet privately and separately to raise any matters with the external and internal auditors pertinent to the annual audit cycle of reporting, in line with best practice; understanding the effectiveness of other Committees fulfilling their remits on which the Audit Committee places reliance; and establishing an Action Tracker for Audit Committee to monitor completion of their recommended actions.

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 did this through material it received from Internal Audit, External Audit, other Audit bodies, and assurances from Management. 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.
- A theme that has repeated in a number of specific reports this year refers to the effectiveness of management receiving, understanding, and acting on management information on a timely basis, and this will be an area of focus for the Audit Committee in the years ahead.
- In March 2018 the Audit Committee was advised of an ongoing fraud investigation in the Roads Service following allegations raised with Councillors in October 2017. Preliminary reports following the year-end have raised serious questions on the effectiveness of the internal controls and governance arrangements in place. When full details can be made available to the Audit Committee, the implications raised will be considered, and any recommendations made by Internal Audit and by others will be actively monitored, and reported on further in next year's report from the Chairman.
- The Audit Committee will review the Internal Audit Annual Assurance Report 2017/18 and the draft Annual Governance Statement 2017/18 at its meeting on 19 June 2018, in order to assess whether the content is consistent with its evaluation of the internal control environment and governance arrangements based on evidence received during the year.
- The Audit Committee will review the Annual Accounts 2017/18 in draft of the Council at its meeting on 19 June 2018 and will review these in final at its meeting on 25 September 2018 alongside the External Audit report on their annual audit 2017/18 in order to decide whether to recommend to the Council that they be adopted.

- The Audit Committee has reflected on its performance during the year, and has agreed areas of improvements to enable it to fulfil its scrutiny and challenge role and to enhance its effectiveness.

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

There are no proposals to change the Terms of Reference for the Committee at this time.

Mike Ramsay
Chairman of Audit Committee
1 June 2018