

**MIDLOTHIAN COUNCIL
AUDIT COMMITTEE
ANNUAL REPORT FROM THE CHAIRMAN – 2018/19**

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

The Audit Committee has met 9 times during the financial year which included meetings on 1 and 15 May, 18 and 19 June, 28 August, 25 September, 11 December 2018, 29 January and 12 March 2019 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 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 also reviewed the Annual Governance Statement 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 approved the terms of reference for Internal Audit (Internal Audit Charter) and the Internal Audit Strategy and Annual Plan. 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. 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.

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 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 annual report which set out the counter fraud activity and outcomes, and received 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 additional meeting was arranged to accommodate the reporting cycle and consideration by the Committee in advance of Council approval, in response to an Internal Audit recommendation, though the sequencing of reports presentation was inconsistently applied during the year and this scrutiny role was not effectively fulfilled.

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 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 Smaill, and Mr P De Vink.

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

Member	1 May 2018	15 May 2018	18 Jun 2018	19 Jun 2018	28 Aug 2018	25 Sep 2018	11 Dec 2018	29 Jan 2019	12 Mar 2019
Mr M Ramsay (Chair)	√	√	√	√	√	√			√
Cllr K Baird	√	√	√			√			√
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 2018/19 was quorate (i.e. at least three elected members present). At the two meetings when Mr M Ramsay was unavailable, Cllr P Smaill was Chair of the meetings following approval by the Committee. Cllr Parry was on maternity leave during the year.

All other individuals who attended the meetings are recognised as being “In Attendance” only. The Chief Executive, Directors, Head of Finance and Integrated Support Services (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 28 May 2019 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 medium degree of performance against the good practice principles and a medium degree of effectiveness. 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; utilise the CIPFA Skills and Knowledge toolkit; Informal Sessions to enable the members of the Committee to meet privately and separately to raise any matters with the External and Internal Auditors; obtain feedback on its performance from a range of Directors and others who interact with the Committee on a regular basis; and understand the effectiveness of other Committees fulfilling their remits on which the Audit Committee places reliance.

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, with the exception of scrutiny of Treasury Management arrangements whereby the sequencing of reports presentation was inconsistently applied during the year and this scrutiny role was not effectively fulfilled.
- 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.
- A theme that has repeated in a number of specific reports this year and was stated in the Internal Audit Annual Assurance Report 2018/19 presented to the Committee on 28 May 2019 refers to the inadequacy of Management monitoring the effectiveness of their internal controls and governance arrangements, and this will continue to be an area of focus for the Audit Committee.
- In December 2018 the Audit Committee received an update report to enable them to monitor progress with the implementation of Internal Audit recommendations arising from May 2018 Report. Monitoring their implementation in full to enhance the effectiveness of internal controls and governance will continue to be an area of focus for the Audit Committee.
- The Audit Committee will review the unaudited Annual Accounts 2018/19 of the Council at its meeting on 24 June 2019. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements. It will review the draft Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances. It will review the final audited accounts at its meeting on 24 September 2019 alongside the External Audit report on their annual audit 2018/19 to consider whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council, and 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

The Audit Committee recommends to Council that the Terms of Reference for the Audit Committee be amended as follows, to ensure they continue to be relevant to the local government operating environment and best practice and to explicitly address all the core areas identified in CIPFA's Position Statement (2018):

3. To review the council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances, relating to the council's service delivery models including partnership and collaboration, to ensure that the highest standards of probity, public accountability and ethical standards are demonstrated.
6. To consider the council's framework of assurance, relating to the council's service delivery models including partnership and collaboration, and ensure that it adequately addresses the risk and priorities of the council.
7. To monitor the effective development and operation of risk management in the council relating to the council's service delivery models including partnership and collaboration.
12. To monitor controls operating over Treasury Management, through the scrutiny of the treasury management strategy, mid-term and annual performance reports prior to their presentation to Council for approval, and the Council's approach to establishing ethical standards.
19. To consider the Chief Internal Auditor's annual report:
 - a) The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note (including code of ethics) and the results of Assurance and Improvement Programme that supports the statement – these will indicate the reliability of the conclusions of internal audit.

Mike Ramsay
Chairman of Audit Committee
14 June 2019