

**MIDLOTHIAN COUNCIL
AUDIT COMMITTEE
ANNUAL/END OF TERM REPORT FROM THE CHAIR – 2023/24**

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 2023/24. The content and presentation of this report meets the requirements of the CIPFA Audit Committees Practical Guidance for Local Authorities and Police 2022 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 meetings of the Audit Committee 5 times during the financial year which included meetings on 26 June 2023, 30 October 2023, 5 December 2023, 29 January 2024 and 18 March 2024 to consider reports pertinent to the audit cycle and its terms of reference. Additionally at the start of the 2023/24 financial year a meeting has been held on the 24 June 2024.

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 2022/23 at its meeting on 26 June 2023, and for 2023/24 at its meeting on the 24 June 2024 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 2023/24 of the Council at its meeting on 24 June 2024 and for a period until publication later in the month. It reviewed the final audited accounts for 2022/23 at its meeting on 30 October 2023, alongside the External Audit report on their annual audit 2022/23 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 Chief Officer Place during the year on strategic risks and mitigations. The Internal Audit Report on risk management concluded that

level of assurance was substantial in relation to the Council’s Risk Management Policy and application of the policy at a strategic level. This review recommended some improvements to risk reporting to the Audit Committee to provide an update on the status of service risk registers in compliance with the Risk Management Policy which is due to be implemented by the start of 2025.

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.

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 2023/24 at Audit Committee meetings including the Annual Treasury Management Outturn Report 2022/23 and a 2023/24 Credit Risk Update in June 2022, the Treasury Management Mid-Year Review Report 2023/24 in December 2023, and the Treasury Management and Investment Strategy 2024/25 & Prudential Indicators in January 2024.

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 (May 2022), being five Members of the Council. A recruitment advert for an Independent Audit Committee Chair and Member was issued in May 2022, however no candidates applied for these positions, as a result agreement to rotate the Chair across the three political parties was agreed. The lack of independent members does not comply with the CIPFA Position Statement which recommends that each authority audit committee should include at least two co-opted independent members. However, this situation is similar to many Local Authority Audit Committees.

The Committee membership during the year included Councillors D Bowen, D McCall, W McEwan, D Milligan (Chair from September 2023), and P Smaill (Chair until September 2023).

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

Member	26 June 2023	30 October 2023	5 December 2023	29 January 2024	18 March 2024
Cllr D Bowen	√	√	√	√	√
Cllr D McCall	√	√	√	√	X
Cllr W McEwan	X	√	X	√	√
Cllr D Milligan	X	X	√	√	√
Cllr P Smaill	√	√	√	√	√
Cllr Russell (as substitute)	-	√	-	-	-
Cllr Imrie (as substitute)	-	-	√	-	-

Every Audit Committee meeting in 2023/24 was quorate and attended by all members.

All other individuals who attended the meetings are recognised as being “In Attendance” only. The Chief Executive, Executive Directors, Chief Financial Officer(Section 95 Officer), External Audit (Audit Scotland), 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

An annual self-assessment was carried out by members of the Audit Committee during August 2024 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 responses from all members of the Committee to identify development needs and any requirements for the consideration of any potential Independent Member recruitment, formulate a plan for any development needs.
- 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.
- 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 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 independent members of the Audit Committee within the next year.
- Move to 4 scheduled meeting of the Audit Committee each year from the 7 meetings currently scheduled, whilst retaining the capability to call further meetings when required.

These actions will all be taken forward during 2024/25.

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.

Derek Milligan
Chair of Audit Committee
30 September 2024