

# SCOTTISH BORDERS COUNCIL AUDIT AND RISK COMMITTEE

MINUTES of Meeting of the AUDIT AND RISK held in the Council Chamber, Council Headquarters, Council Headquarters, Newtown St Boswells on Tuesday 28 March 2017 at 9.00am.

Present:- Councillors M. Ballantyne (Chair), J. Campbell, I. Gillespie, A. J. Nicol, S. Scott, B. White. Mr M. Middlemiss (from Item 7).

In Attendance:- Chief Executive (for Items 6 and 7), Chief Financial Officer (from Item 6), Chief Officer Audit and Risk, Democratic Services Officer (P Bolson); Ms G Woolman – Audit Scotland and Mr G Samson – Audit Scotland.

## 1. WELCOME

The Chairman welcomed those present to the meeting.

## 2. MINUTE

There had been circulated copies of the Minute of 16 January 2017. It was noted that the Minute be amended to reflect that only Ms Woolman had represented Audit Scotland at the meeting on 16 January 2017.

## DECISION

**APPROVED for signature by the Chairman subject to the above amendment.**

## 3. RISK MANAGEMENT ANNUAL REPORT 2016/17

- 3.1 With reference to paragraph 3 of the Minute of 28 June 2016, there had been circulated copies of a report by the Chief Officer Audit and Risk providing an overview of Scottish Borders Council's responsibilities in respect of risk management and the progress made to deliver the Council's Risk Management Strategy approved by Council in February 2016, including an update on improvement actions to refine the arrangements to managing risk at the Council. The report emphasised the importance of effective risk management in terms of Corporate Governance and in turn, that compliance with the principles of sound Corporate Governance required that the Council adopted a coherent approach to the management of risks. The finding of the Risk Management review undertaken during 2014 were presented to Audit and Risk Committee in January 2015 along with recommended improvement actions to refine the risk management arrangements at the Council to ensure their on-going effectiveness. The status of recommended improvement actions for 2015/16 was then presented to the Committee in June 2016 and the report being considered today demonstrated the Council's continued commitment to refine its approach to Risk Management and to embed the key aspects into the management practices of the Council.
- 3.2 Ms Stacey advised that significant progress had been made in a number of areas such as the uptake of training by senior managers and the development of Risk Registers across the Council. Further work was still required to ensure the consistent application of arrangements for applying the Corporate Risk Management Policy across all Council services, including the development of Risk Registers and attendance of all Senior Managers at Risk Management training. The focus for 2017/18 was to identify what further work would be required to confirm systematic and effective Risk Management within the Council, including partnership arrangements with eg Health and Social Care Integrated Joint Board, ALEOs such as SB Cares and transformation and change programmes such as the Digital Transformation Programme. Discussion followed and Members raised a number of questions which were answered by officers. Ms Stacey confirmed that Covalent was still used as a management tool and as such, was used to

produce performance management reports. Members were advised that Internal Audit were involved in ensuring that appropriate governance arrangements were in place within departments when there were changes to Senior Management personal. In relation to contract arrangements and risk assurance for ALEOs, Ms Stacey confirmed that Internal Audit would carry out further work during 2017/18 and it was emphasised that all ALEOs must be included in the Financial Report by Audit Scotland.

#### **DECISION**

**(a) ACKNOWLEDGED satisfaction with the progress of the risk management improvement actions to refine the risk management arrangements at the council to ensure their ongoing effectiveness; and**

**(b) NOTED that Internal Audit would undertake contract arrangement and risk assurance work in respect of ALEOs during 2017/18.**

#### **4. COUNTER FRAUD ANNUAL REPORT 2016/17**

4.1 With reference to paragraph 4 of the Minute of 28 June 2016, there had been circulated copies of a report by the Chief Officer Audit and Risk. The report provided an update of the Council's responsibilities in respect of fraud prevention, detection and investigation activity and the progress made to deliver the Council's Counter Fraud Strategy 2015 through implementation of recommended improvement actions. The report explained that during 2015 the Council refreshed its approach to tackling fraud with a refocus on prevention and detection using fraud risk assessment at its core. There was in place a 3-year counter fraud strategy and associated improvement plan to embed anti-fraud culture across the Council, taking account of reducing resources. The status of recommended improvement actions was reported to the Committee in June 2016. Further progress had been made during 2016/17 as was evidenced by the outcomes of the self-assessment included in the report. Assurances in respect of the effectiveness of the Council's existing systems and arrangements for the prevention, detection and investigation of fraud were also demonstrated in the Annual Fraud report. In February 2016, the Council was considered to be compliant with the CIPFA Code of Practice on "Managing the Risk of Fraud and Corruption". Following this report, the Corporate Fraud Working Group (CFWG) agreed to use the Counter Fraud Maturity Model which had been endorsed by both the Scottish Government and CIPFA as a self-assessment tool to guide development. The Council's current position on the Maturity Model was detailed at Appendix 1 to the report. Ms Stacey emphasised that work in respect of assurance was ongoing and would continue during and following the implementation of Business World and ERP.

4.2 In response to Members' questions, Ms Stacey advised that deliberately fraudulent acts were followed up and further action taken as appropriate. She also confirmed that there were safeguards in place within procurement and that these assurances were robust and effective within the Councils' arrangements for the prevention, detection and investigation of fraud.

#### **DECISION**

**NOTED the report.**

#### **5. INTERNAL AUDIT WORK 2016/17 TO MARCH 2017**

5.1 With reference to paragraph 7 of the Minute of 16 January 2017, there had been circulated copies of a report by the Chief Officer Audit and Risk which provided details of the recent work carried out by Internal Audit, the recommended audit actions agreed by management to improve internal controls and governance arrangements and internal audit work currently in progress. The work carried out by Internal Audit during the period 4 January to 20 March 2017 was detailed in the report and it was noted that during the current period, a total of six final internal audit reports had been issued, namely: Capital Investment; Performance Management (Corporate Priorities); Workforce Planning; Adult Social Care Services; Information Governance; and ICT Contract Management. Seven

recommendations relating to three reports had been made and were accepted by management. An executive summary of the final internal audit reports issued, including audit objectives, findings, good practice, recommendations and the Chief Officer Audit and Risk's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, was included in the Appendix to the report.

- 5.2 Within Asset Management Capital Investment, it was noted that the Accounts Commission "Major capital investment in Councils" follow-up report had provided positive feedback in relation to the improvement made by Councils in managing their capital investment programmes and projects whilst indicating that there remained a need to increase the pace of implementing improvement actions and complying with the Good Practice Guide. Ms Stacey advised that Internal Audit would carry out a follow-up review during 2017/18 to report on the progress of recommended improvement actions. In relation to Corporate Governance Performance Management, Internal Audit had also carried out a review to evaluate and assess the validation processes in place for data used to develop Performance Indicators. The Workforce Planning and Development assurance audit had demonstrated a range of good practice and the report explained the reasons for delays in completion of the first phase of Service People Plans. Ms Stacey confirmed that she would be involved in Risk Management in adult social care services as part of her role within the Health and Social Care Integration Joint Board. The report also identified the improvements made and the work still to be undertaken within ICT Governance. It had been too early in the development of the ICT service/contract to carry out a full testing of the controls and performance management data therefore the review had taken the form of a Position Statement. It was noted that new legislation relating to Data Security was expected in 2018 and that this would be considered within any future review as appropriate.
- 5.2 The Chief Officer Audit and Risk summarised other assurance and consultancy work that Internal Audit had been involved in during the reporting period. This included:- involvement with testing that appropriate internal controls were in place within the Business World ERP system for implementation in April 2017; and carrying out a "peer review" External Quality Assessment of Fife Council against the Public Sector Internal Audit Standards.
- 5.3 In response to questions from Members, officers confirmed the timescales for implementation of recommendations under each priority category, namely Priority 1 – immediate action; Priority 2 – within three months; Priority 3 – within three and six months. It was noted that all Internal Audit Review reports were available for public scrutiny however, these were very rarely accessed. Discussion followed in relation to ERVS and how Workforce Planning was integral for the effective delivery of Service Planning.

## **DECISION**

### **(a) NOTED:-**

- (i) the final assurance reports issued in the period from 4 January to 20 March 2017 to deliver the approved Internal Audit Annual Plan 2016/17 in full; and**
  - (ii) the Internal Audit consultancy and other work undertaken in the period.**
- (b) ACKNOWLEDGED the assurance provided on internal controls and governance arrangements in place for the areas covered by Internal Audit work.**
- (c) AGREED that all outstanding items from previous Minutes be summarised in a report to be presented to the new Audit and Risk Committee following the Local Government election in May 2017.**

## **ADJOURNMENT**

The meeting was adjourned at 10.15am and reconvened at 10.25am.

### **6. INTERNAL AUDIT ANNUAL REPORT 2016/17**

- 6.1 With reference to paragraph 6 of the Minute of 9 May 2016, there had been circulated copies of a report by the Chief Officer Audit and Risk presenting the Committee with the Internal Audit Annual Report for the year to 31 March 2017, which included the Chief Officer Audit and Risk's independent assurance opinion on the adequacy and effectiveness of the Council's overall control environment. In support of the overall governance arrangements of the Council, the Local Code of Corporate Governance and the Public Sector Internal Audit Standards required the Chief Officer Audit and Risk to provide an annual internal audit opinion and report to the Chief Executive on the adequacy and effectiveness of the Council's internal control and governance arrangements to support the preparation of the Annual Governance Statement. The Remit of the Audit and Risk Committee indicated that it should ensure an adequate framework of internal control, risk management and governance throughout the Council. The Chief Officer Audit and Risk's opinion, based on internal audit reviews, risk assessments and knowledge, was that the systems of internal financial control and internal control and governance arrangements were operating satisfactorily, with some improvements being identified. The Chief Officer Audit and Risk's Annual Report for 2016/17 was detailed at Appendix 1 to the report.
- 6.2 Following discussion of the Annual Report, Members requested clarification on a number of items. In relation to the analysis of the planned and actual days of audit delivery by theme during 2016/17, Members noted that there had been a reduction in planned days by 24 and Ms Stacey advised that this had been due to changes in governance arrangements. Members were also advised that following a slight delay in relation to ICT disaster recovery arrangements, completion of this work was anticipated within amended timescales.

## **DECISION**

- (a) **NOTED the Internal Audit Annual Report for 2016/17; and**
- (b) **AGREED that the Internal Audit Annual Report for 2016/17 be published on the Council's website.**

### **7. SCOTTISH BORDERS COUNCIL ANNUAL GOVERNANCE STATEMENT 2016/17**

- 7.1 With reference to paragraph 4 of the Minute of 9 May 2016, there had been circulated copies of a report by the Chief Executive seeking approval of the Annual Governance Statement to be published in the Council's Statement of Accounts for 2016/17. The report explained that the CIPFA/SOLACE framework "Delivering Good Governance in Local Government" urged Local Authorities to review the effectiveness of their existing governance arrangements against their Local Code and to prepare a governance statement in order to report publicly on the extent to which they complied with their own Code on an annual basis, including how they had monitored the effectiveness of their governance arrangements in the year, and on any planned changes for the coming period. Part of the Audit & Risk Committee's remit was to assess the effectiveness of internal controls, risk management and governance arrangements and this included 'being satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflected the risk environment and any actions required to improve it, and demonstrated how governance supported the achievements of the authority's objectives'. The Annual Governance Statement 2016/17 was detailed in Appendix 1 to the report and this explained the Governance Framework, including the key elements of the Council's governance arrangements and the Review Framework, outlining the annual review process, overall opinion and areas of further improvement. In terms of

overall corporate governance, it was the Chief Executive's opinion that, although there were a few areas of work to be completed for full compliance with the Local Code, the overall governance arrangements of the Council were considered sound. The Annual Governance Statement was informed by the self-assessment of compliance against the Local Code by the officer self-evaluation working group, the work of internal audit, external audit and inspection agencies, and by Depute Chief Executives' and Service Directors' assurance statements. This Statement would be published in the Statement of Accounts 2015/16. A number of areas for further improvement to ensure compliance with the Local Code were highlighted and were detailed in Appendix 1, paragraphs (1) to (7). The Chief Executive advised Members that the Council had improved and developed its Governance Framework and continued to demonstrate that the governance arrangements within which it operated were sound and effective.

- 7.2 The Chief Executive advised Members of the progress of implementation of the new ERP system and reiterated the related benefits in terms of financial systems and processes across the Council. Within Human Resources, significant progress in Workforce Planning had been made during the past year. Members were also advised of the progress of the local CGI Centre to be based in Tweedbank.

#### **DECISION**

- (a) NOTED the details of the Annual Governance Statement 2016/17 as detailed in Appendix 1 to the report; and**
- (b) APPROVED the actions identified by Management to improve internal controls and governance arrangements.**

#### **8. AUDIT AND RISK COMMITTEE ANNUAL REPORT 2016/17 AND ANNUAL SELF EVALUATION**

With reference to paragraph 5 of the Minute of 28 June 2016, there had been circulated copies of a report by the Chief Officer Audit and Risk seeking approval of the Audit and Risk Committee Annual Report 2016/17, incorporating its annual self-assessment using the CIPFA Audit Committees Guidance. The Audit and Risk Committee Annual Report 2016/17 was appended as Appendix 1 to the report. The Committee carried out self-assessments of Compliance with the Good Practice Principles Checklist and Evaluation of Effectiveness Toolkit from the CIPFA Audit Committees Guidance during the Informal Session on 16 January 2017, facilitated by the Chief Officer Audit & Risk. The self-assessments were appended to the report at Appendix 2 (Good Practice Principles) and Appendix 3 (Effectiveness) for consideration. The outcome of the self-assessments was a high degree of performance against the good practice principles. Discussion followed and officers responded to Members' questions. Audit Scotland had carried out individual interviews with Members of the Committee and these views would be reflected in the Audit Scotland Annual Report when published

#### **DECISION**

- (a) APPROVED the Audit and Risk Committee Annual Report 2016/17 (Appendix 1 to the report) which incorporated its self-assessments (Appendices 2 and 3 to the report), using the CIPFA Audit Committees Guidance; and**
- (c) AGREED to:**
  - (i) present the Audit and Risk Committee Annual Report 2016/17 to Council on 30 March 2017 and then publish it on the Council's website; and**
  - (ii) provide a report summarising all outstanding issues to the new Audit and Risk Committee following the Local Government elections in May 2017.**

## **9. SCOTTISH BORDERS COUNCIL EXTERNAL AUDIT PLAN FOR 2016/17**

9.1 There had been circulated copies of a report by Audit Scotland providing an overview of the planned scope and timing of the audit of Scottish Borders Council which was carried out in accordance with the International Standards on Auditing Code of Audit Practice and other relevant guidance. The Plan identified Audit Scotland's work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit, including the new approach to Best Value. The wider scope of public audit contributed to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability. Ms Woolman explained that a number of risks to the Council had been identified and that these had been categorised into either financial or wider dimension risks along with the planned audit work for each and were detailed in the report. Ms Woolman went on to summarise the 2016/17 audit outputs and advised that the Audit Scotland fee for 2016/17 had been reduced by 24% whilst noting that a supplementary fee could be added as detailed in paragraphs 7 and 8 of the report. Materiality values and levels were detailed in the report along with those agreed for the Charitable Trusts. A financial statements timetable for the production of the unaudited accounts was included in the report. This took account of the submission requirements and Audit and Risk Committee dates and indicated that the independent auditor's report would be signed by the end of September 2017. Ms Woolman advised that the review of internal audit had concluded that the internal audit function operated in accordance with the Public Sector Internal Audit and Standards and had sound documentation standards and reporting procedures in place.

9.2 The National Fraud Initiative (NFI) assisted Council's to identify and take appropriate action in respect of fraudulent payments and allowed auditors to assess the arrangements that public bodies had in place to prevent and detect fraud. Ms Woolman advised that there was an audit carried out in this regard every two years. Discussion followed in respect of Best Value Assurance Reports and quality control and in response to a question from Members, Ms Woolman advised that Audit Scotland was held to account by the Scottish Government for its budget.

### **DECISION**

**NOTED the report.**

## **10. SCOTTISH BORDERS PENSION FUND EXTERNAL AUDIT PLAN FOR 2016/17**

There had been circulated copies of a report by Audit Scotland providing an overview of the planned scope and timing of the audit of Scottish Borders Council Pension Fund which was carried out in accordance with the International Standards on Auditing Code of Audit Practice and other relevant guidance. The Plan identified Audit Scotland's work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit. The wider scope of public audit contributed to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability. Ms Woolman explained that a number of risks to the Council Pension Fund had been identified and that these had been categorised into either financial or wider dimension risks along with the planned audit work for each and were detailed in the report. Ms Woolman went on to summarise the 2016/17 audit outputs and advised that the Audit Scotland fee for 2016/17 in relation to the Council's Pension Fund was £19,710 whilst noting that a supplementary fee could be added as detailed in paragraph 7 of the report. Materiality values and levels and a financial statements timetable for the production of the unaudited accounts were detailed in the report. This took account of the submission requirements and Pension Fund Committee dates and indicated that the independent auditor's report would be signed by the end of September 2017. Discussion followed and Ms Woolman provided clarification to Members in relation to the financial statements timetable. The Chief Financial Officer also clarified the governance in place for the Pension Fund. The

Chairman thanked Ms Woolman for the input from and advice given on behalf of Audit Scotland.

## **DECISION**

**NOTED the report.**

### **11. INTERNAL AUDIT STRATEGY AND INTERNAL AUDIT ANNUAL PLAN 2017/18**

- 11.1 With reference to paragraph 6 of the Minute of 29 March 2016, there had been circulated copies of a report by the Chief Officer Audit and Risk seeking approval for the Internal Audit Strategy and Internal Audit Plan 2017/18 to enable the preparation of the annual internal audit opinion on the adequacy of the Council's overall control environment. Ms Stacey explained that the Internal Audit function followed the professional standards as set out in the Public Sector Internal Audit Standards (PSIAS) and required the establishment of risk-based plans to determine the priorities of internal audit activity and that these plans were capable of reflecting the changing risks and priorities within the organisation. The Internal Audit function also included the requirement to provide senior management and Elected Members with independent and objective assurance on internal control, risk management and governance to support and improve the Council's operation. The Internal Audit Strategy was laid out in Appendix 1 to the report and the Internal Audit Annual Plan 2017/18 was detailed in Appendix 2. Ms Stacey explained that Internal Audit's programme of work set out the range and breadth of audit areas and work within the audit programme to enable the Chief Officer Audit and Risk to prepare her Internal Audit Annual Opinion and advised that resources were in place to achieve the Internal Audit Annual Plan 2017/18. Members were advised that the Plan for 2017/18 included an updated approach to periodic planning and reporting. A detailed Plan which would incorporate scope and timescales and which would be capable of responding to changes and developments within the Council, would be presented to the new Audit and Risk Committee in due course.
- 11.2 Discussion followed in relation to the areas covered by Internal Audit Reviews; the way in which relationships and commissioning with ALEOs might develop; the potential need for audit reviews in areas such as operational processes and procedures; the implementation of ERP; compliance of financial procedures in schools; and assurance that contractual responsibilities and requirements were adhered to. With reference to areas of business included in the Internal Audit Plan, Members requested that further information be added to future reports to explain why items had been included in the Plan.

## **DECISION**

**AGREED:-**

- (a) **to approve the Internal Audit Strategy and Internal Audit Annual Plan 2017/18;**
  - (b) **that the Internal Audit Strategy and Internal Audit Annual Plan 2017/18 remain dynamic and responsive to input from external scrutiny bodies including Audit Scotland;**
  - (c) **that Senior Management continue to engage with Internal Audit to ensure continuous improvement across all departments of the Council; and**
  - (d) **that additional information be added to future reports to explain why items had been included in the Internal Audit Plan.**
12. **AUDIT AND RISK COMMITTEE EXTERNAL MEMBERSHIP**  
Members discussed the external membership of the Committee which, according to the current Scheme of Administration, remained at three. Discussion following regarding the criteria for external members and it was agreed that this would be referred for consideration by the new Audit and Risk Committee.

**DECISION**

**AGREED** that the external membership of the Audit and Risk Committee be referred for consideration by the new Committee following the Local Government elections in May 2017.

**13. CHAIR'S REMARKS**

As this was the final meeting of the Audit and Risk Committee during the current period of office of this Council, the Chair thanked fellow Members and officers for their support during what had been a challenging period and wished everyone well for the future.

*The meeting concluded at 12.10 pm*