

SCOTTISH BORDERS COUNCIL
AUDIT COMMITTEE
ANNUAL REPORT FROM THE CHAIR – 2023/24

This annual report has been prepared to inform the Scottish Borders 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 Guidance 2022 to report to full Council on a regular basis on the Committee's performance in relation to the terms of reference and the impact and effectiveness of the Committee in meeting its purpose.

Meetings

The Audit Committee has met 6 times during the financial year relating to its audit and risk functions, which included meetings on 10 May 2023, 27 June 2023, 25 September 2023, 13 November 2023, 12 February 2024 and 11 March 2024 to consider reports pertinent to the Audit Cycle.

The remit of the Audit Committee is to have high-level oversight of the Council's framework of internal financial control, corporate governance, risk management systems and associated internal control environment. To fulfil this remit, the Committee sought assurance on the adequacy and effectiveness of the Council's systems of corporate governance and internal control for efficient operations and for the highest standards of probity and public accountability. It did this through material it received from Management, Internal Audit, External Audit, and other national audit bodies.

The Audit Committee reviewed the Annual Governance Statement 2022/23 (draft version in June 2023 and final version within Annual Report and Accounts in September 2023) to assess whether the AGS properly reflects the risk environment and whether the content is consistent with the Committee's evaluation of the internal controls and governance arrangements based on evidence received during the year. This also provided the opportunity for the promotion of the highest standards of conduct and professional and ethical behaviour as part of the Council's governance arrangements.

The Audit Committee scrutinised the Annual Report and Accounts 2022/23 of the Council (draft unaudited version in June 2023 and final audited version in September 2023) in accordance with its terms of reference prior to their formal approval by Council. This provided the opportunity for the Audit Committee to act as a bridge between the Council and other stakeholders, outlining the value of the audit process, and overseeing the integrity of financial reporting and governance arrangements. The Committee acknowledged the significant preparation work undertaken by the Finance team.

The Audit Committee in May 2023 considered the statutory annual audit opinion within the Internal Audit Annual Assurance Report 2022/23 that was used to inform the Annual Report and Accounts 2022/23 of the Council. During the year, relating to the Internal Audit Annual Plan 2023/24 that the Committee had previously approved, it considered Internal Audit's executive summaries of reports findings, audit opinions, good practice and recommendations, and scrutinised their implementation. It monitored Internal Audit's performance including progress against the Annual Plan 2023/24, conformance with Public Sector Internal Audit Standards 2017 (PSIAS), and quality assurance and improvement plan (QAIP) within Internal Audit mid-term performance report 2023/24 in November 2023. The Committee approved the terms of reference for Internal Audit (Internal Audit Charter) and the Internal Audit Strategy and Annual Plan 2024/25 at its meeting in March 2024.

The Audit Committee considered the External Audit Annual Reports 2022/23 to Members and the Controller of Audit on the annual audits of the Council and of the Pension Fund in September 2023. The Committee reviewed the main issues arising from the statutory audit process and the agreed actions arising. The Committee acknowledged the significant work undertaken by the external auditors and the Finance team to achieve the statutory reporting timescales. It reviewed the External Audit Plans for the statutory audits 2023/24 at its meeting in March 2024.

The Audit Committee considered the effectiveness of the risk management process throughout the Council by way of a Risk Management Annual Report 2022/23 in May 2023, which set out the risk management activity within the preceding year and the next steps to refine practices. At each of its meetings in 2023/24, the Committee received presentations by Directors, as part of a scheduled programme, on the corporate risks within their areas of responsibility and the internal controls and governance in place to manage those significant risks, and other information to demonstrate how risk management is embedded within their Services.

The Audit Committee considered the adequacy and effectiveness of the Council's counter fraud arrangements by receiving: a Counter Fraud Annual Report 2022/23 in May 2023, which set out the counter fraud activity within the preceding year; Audit Scotland's national Fraud and Irregularity Report 2022/23 in September 2023; outcomes of a Counter Fraud Controls Assessment 2023/24 by the Integrity Group of officers in November 2023; a Self-Appraisal on the Council's participation in the National Fraud Initiative (NFI) Exercise 2022-2023 by the Integrity Group in November 2023; and assurances from Internal Audit and External Audit on fraud risks and controls in their respective work.

The Audit Committee reviewed and monitored treasury management arrangements, in accordance with the CIPFA Treasury Management Code of Practice. This included the following, prior to their approval by Council: in September 2023, reviewed the Treasury Management Annual Report 2022/23 that set out the extent of compliance with the approved strategy and an analysis of the performance against the targets set; in November 2023, monitored the Treasury Management Mid-Year Report 2023/24 that set out performance against targets within the current year strategy; and in February 2024, undertook the scrutiny role for the development of future Treasury Management Strategy 2024/25 to check its affordability, sustainability and prudence.

The Committee also considered the Audit Commission's Local Government in Scotland Financial Bulletin 2022/23 in February 2024 to gain national insights on local government funding.

The Minutes of Audit Committee meetings were presented for approval by the Council.

Membership

The Membership of the Audit Committee is set out in the approved Scottish Borders Council's Interim Scheme of Administration, comprising of Ten members of the Council and Two additional members appointed from an external source as non-voting members. Four elected members are also on the Executive Committee as members of the opposition (not the Council's Administration), although it is noted that this is to ensure effective governance of the Council and is deemed not to impair the independence of the Audit Committee.

Two non-voting external members were appointed from the community on a three-year term from November 2022 to October 2025, following an open recruitment and selection process carried out during autumn 2022, which was approved by the Council. This enhances the independence of the Audit Committee's role in the scrutiny process of internal controls and governance and complies with best practice on independence, as set out in CIPFA 'Audit Committees' Guidance (2022). One of the external members resigned from the Committee in February 2024; a recruitment process will be undertaken to appoint a replacement.

The Committee membership during the year was: Councillors E. Thornton-Nicol (Chairman), N. Richards (Vice-Chairman), J. Anderson, P. Brown (to 23 November 2023), J. Cox, M. Douglas, J. PatonDay, E. Robson, S. Scott, and F. Sinclair, and Mr S. Whalley (to 8 February 2024) and Mr P. Whitfield.

Those present at the virtual meetings of Audit Committee was as follows:

Member	10 May 2023	27 Jun 2023	25 Sept 2023	13 Nov 2023	12 Feb 2024	11 Mar 2024
Cllr E. Thornton-Nicol (Chair)	√	√	√	√	√	√
Cllr N. Richards (Vice Chair)	√	√		√	√	√
Cllr J. Anderson	√	√	√		√	√
Cllr P. Brown	√					
Cllr J. Cox	√		√		√	√
Cllr M. Douglas	√	√	√	√	√	√
Cllr J. PatonDay		√	√	√		
Cllr E. Robson	√	√	√	√	√	√
Cllr S. Scott	√		√	√	√	√
Cllr F. Sinclair	√		√	√		√
Mr S. Whalley	√	√	√	√		
Mr P. Whitfield	√		√	√	√	√

Every meeting of the Audit Committee in 2023/24 was quorate (i.e. at least four Elected Members present).

The Chief Executive, the Director Finance & Procurement, the Chief Officer Audit & Risk, and external auditors attend all Committee meetings; other Directors and senior officers attend Committee meetings on request relevant to the business. The Democratic Services section has provided a Committee Officer as the minute secretary.

Knowledge and Skills

Given the wider corporate governance remit of Audit Committees within local government and the topics now covered by the Internal Audit and External Audit functions, it is noteworthy that there is a range of knowledge, skills and experience that Audit Committee members bring to the committee to fulfil its functions, 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.

The CIPFA 'Audit Committees Practical Guidance for Local Authorities and Police 2022 Edition' includes an Audit Committee Members' Knowledge and Skills Framework, which has been utilised. Current members have each completed a self-assessment using this toolkit during 2022, which has been used to inform the content of the Development Sessions as well as provide other information to individuals to meet their needs.

Core Knowledge: Organisational Knowledge; Audit Committee role and functions; Governance; Internal Audit; Financial Management and Accounting; External Audit; Risk Management; Counter Fraud; Values of Good Governance; Treasury Management (only if it is within the terms of reference of the committee to provide scrutiny) .

Core Skills: Strategic Thinking and Understanding of Materiality; Questioning and Constructive Challenge; Focus on Improvement; Able to Balance Practicality against Theory; Clear Communication skills and Focus on the Needs of Users; Objectivity; Meeting Management Skills (specifically for the Chair).

The Audit Committee, at its meeting in May 2023, approved its Development Programme 2023/24 that was designed to enhance its members' knowledge and skills during the year.

The Development Sessions provide the space for Audit Committee members to receive induction and other training, to reflect on their knowledge and skills, and to identify other learning and development to fulfil their role. The following were delivered during the year 2023/24:

- 27 June 2023 – The Director of Finance & Procurement provided an overview presentation ‘Statutory Accounts 2022/23’ to provide insights on the accounts format and key content in advance of the consideration of the unaudited accounts 2022/23 during the formal meeting.
- 29 August 2023 – The External Auditors, Audit Scotland, delivered a presentation ‘Role of External Audit in the Public Sector’. The presentation covered: Public audit in Scotland; the Role of Audit Scotland; the Code of Audit Practice; Wider Scope Areas and Best Value; Key Stages of the Audit; Key Concepts; Annual Audit Plan; Financial Statements Audit; and Reports.
- 30 October 2023 – The Chief Officer Audit & Risk provided a refresh ‘Overview of Role of Internal Audit’ specific to local government in Scotland to outline the Who, Why, What, How, When, Where of Internal Audit. The presentation covered: the Definitions of Internal Auditing; the Statutory requirement for Internal Auditing in Scotland; the Chartered Institute of Internal Auditors’ Three Lines Model; Independence and Objectivity; Categories of Internal Audit activity; Performing an Internal Audit review; and the Public Sector Internal Audit Standards (PSIAS).
- 6 November 2023 – The Council’s Treasury Advisor, Link Group, provided training for Members on Capital Strategy and Treasury Management covering an outline of what Treasury Management involves, the legal and regulatory framework, the role officers and elected members’ in decisions, risk management, capital programme and capital financing, economics and the markets, debt management, treasury deposit strategy, and governance and scrutiny.
- 5 February 2024 – The Procurement Business Partner delivered a presentation ‘Overview of the Council’s Procurement framework’ to outline the control environment and arrangements for value for money of the procurement framework within which officers must operate. The presentation covered: the key principles of public procurement; the Scottish model; regulated procurement; key statutory requirements; unregulated procurement; procurement approval processes; and the purchase order approval process.

Self-Assessment of the Committee

The annual self-assessment of the Audit Committee was undertaken during a virtual session on 5 March 2024. There was an opportunity for all Members of the Audit Committee to contribute to the self-assessment.

The Chief Officer Audit & Risk facilitated the annual self-assessment using the updated ‘Good Practice Principles Checklist’ and ‘Evaluation of Impact and Effectiveness Toolkit’ from the CIPFA Audit Committees Guidance 2022. There was focus on the additional requirements and new bases of evidence that were set out in both documents. The former was used to assess the application of the good practice principles aiming for effective audit committee arrangements. The latter states that “An audit committee’s effectiveness should be judged by the contribution it makes to and the beneficial impact it has on the authority’s business. Since it is primarily an advisory body, it can be more difficult to identify how the audit committee has made a difference. Evidence of effectiveness will usually be characterised as ‘influence’, ‘persuasion’ and ‘support’.”

The outcome of the self-assessments for the Committee was a high degree of compliance against the good practice principles and a medium degree of impact and effectiveness, which is to be expected when first utilising updated guidance which contains additional requirements and new bases of evidence.

The self-assessment identified the following improvement actions to enable its development as a fully effective Audit Committee:

1. Arrange an opportunity to meet privately with external auditors in 2024/25 as part of the statutory audit process.
2. Ensure delivery by dates agreed on Action Tracker to hold Management to account on implementation of improvements to address Committee's significant concerns over controls (ongoing).
3. Support Management proposals to implement risk management benchmarking i.e. Risk Management Maturity Assessment 2023/24 to enable the Committee to fully assess effectiveness of risk management arrangements (ongoing).
4. Refresh training to be arranged for Audit Committee members on External Audit role and to gain understanding of the best value area of focus.
5. Refresh training to be arranged for Audit Committee members on role of Internal Audit and process with a corporate audit example.
6. Update on role of Capital Programme Management Office (PMO).
7. Ensure the Action Tracker includes follow-up to critically evaluate progress with delivery of Best Value actions.
8. Request Development Session by Monitoring Officer covering ethical standards in public life – relevant to Audit Committee remit.
9. When Committee scrutinises the unaudited accounts 2023/24 it needs to confirm that feedback has been considered and has been addressed as appropriate.

Assurance Statement to the Council

The Audit Committee provides the following assurance to the Council:

- a) The Audit Committee has operated in accordance with its agreed terms of reference, and accordingly with the audit committee principles in the CIPFA Position Statement 2022. It did this through material it received from Management, Internal Audit, External Audit, and other national audit bodies. It focussed entirely on matters of risk management, internal control and governance.
- b) For all audit reports, the Audit Committee considered whether it was satisfied that an adequate Management response was in place to ensure action would be taken to manage risk and address concerns on internal controls and governance arrangements.
- c) The Audit Committee has received and considered material to fulfil its scrutiny role on treasury management activity in advance of the treasury management strategy and monitoring reports being presented for Council approval.
- d) There is evidence of continuous improvement through Actions recommended by the Audit Committee, which are monitored through an Action Tracker and scrutinised to ensure these are acted upon within reasonable timescales to address concerns raised by the Committee to its satisfaction. Key issues escalated in the year: recommended to the IJB Audit Committee to look at Best Value of the learning disability service; requested counter fraud maturity assessment to confirm effectiveness of counter fraud controls; requested further quarterly update as not satisfied with the Q2 progress by Management on implementation of Internal Audit recommendations.
- e) There is an opportunity for committee members to engage and raise salient matters in virtual meetings, noting that their knowledge, skills and experience of the Council and its Audit Committee are developing over time.
- f) The self-assessment was useful for Members in that it provides an opportunity to reflect on how the Audit Committee conducts its business and to identify any areas of improvement or learning and development. This ensures the Committee can demonstrate its impact and effectiveness as a scrutiny body as a foundation for sound corporate governance for the Council.

Recommendations for the Council including proposed amendments to the Terms of Reference of the Audit Committee

The Audit Committee recommends that other Council Committees should carry out an annual evaluation to assess whether they are fulfilling their remits to support continuous improvement and learning for their members.

During the annual self-assessment 2023/24 the Audit Committee reviewed its Terms of Reference considering the additional requirements and new bases of evidence that were set out in the CIPFA Audit Committees Guidance 2022, and specifically the CIPFA Position Statement 2022: Audit Committees.

It proposes adding the Purpose of the Audit Committee to the remit for the Audit Committee in the SBC Scheme of Administration for clarity, as follows:

Purpose

To provide an independent and high-level focus on the adequacy of governance, risk and control arrangements.

Furthermore, it proposes to update the Terms of Reference for the Audit Committee in the SBC Scheme of Administration with the following amended functions 1-9 to explicitly address all the core areas identified in the 'CIPFA Position Statement 2022: Audit Committees':

Maintenance of governance, risk and control arrangements

1. Support a comprehensive understanding of governance across the Council and amongst all those charged with governance, fulfilling the principles of good governance.
2. Consider the effectiveness of the Council's risk management arrangements. Understand the risk profile of the Council and seek assurances that active arrangements are in place on risk-related matters across the Council's full range of operations and collaborations with other entities.
3. Monitor the effectiveness of the system of internal control, including arrangements for financial management, ensuring value for money, supporting standards and ethics, and managing the Council's exposure to the risks of fraud and corruption.

Financial and governance reporting

4. Be satisfied that the Council's accountability statements, including the annual governance statement, properly reflect the risk environment, and any actions required to improve it, and demonstrate how governance supports the achievement of the Council's objectives.
- *5. Support the maintenance of effective arrangements for financial reporting and review the statutory statements of account and any reports that accompany them, prior to their submission to Council for approval.

Establishing appropriate and effective arrangements for audit and assurance

6. Consider the arrangements in place to secure adequate assurance across the Council's full range of operations and collaborations with other entities.
7. In relation to the Council's Internal Audit function:
 - oversee its independence, objectivity, performance and conformance to professional standards;
 - support effective arrangements for Internal Audit, including approval of its Terms of Reference (Charter), and Internal Audit Strategy and Annual Plan; and
 - promote the effective use of Internal Audit within the assurance framework, including all matters relating to the implementation by management of recommendations contained within Internal Audit reports.

8. Consider the opinion, reports and recommendations of external audit and their implications for governance, risk management or control, and monitor management action in response to the issues raised by external audit.
9. Contribute to the operation of efficient and effective external audit arrangements, supporting the independence of auditors and promoting audit quality.

Expand function 10 as follows:

10. The scrutiny of treasury management strategy and monitoring reports in advance of their submission to Council for approval, in accordance with the CIPFA Treasury Management Code of Practice.

Transfer function 11 to the Pension Fund Committee to reflect the practice that separate Internal Audit Annual Plans and Annual Assurance Reports covering internal control, risk and governance arrangements of the Pension Fund are submitted to the Pension Fund Committee:

11. Assess the adequacy and effectiveness of the Pension Fund's systems of internal financial control, including counter fraud, theft or corruption and framework of internal control to provide reasonable assurance of effective and efficient operations.

Remove function 12 to avoid duplication as the review of the statutory statements of account of the Pension Fund and any reports that accompany them is already included in the Terms of Reference of the Pension Fund Committee:

~~*12. Note the Pension Fund's audited Statement of Accounts and the Annual Report from the External Auditor to members and the Controller of Audit, prior to submission to Council.~~

Councillor Elaine Thornton-Nicol
Chair of Audit Committee
24 April 2024