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SCOTTISH BORDERS COUNCIL THURSDAY, 30 MARCH, 2017

The following item of urgent business will be considered at the MEETING of the SCOTTISH BORDERS COUNCIL to be held in the COUNCIL CHAMBER, COUNCIL HEADQUARTERS, NEWTOWN ST. BOSWELLS on THURSDAY, 30 MARCH 2017 at 10.00 am

J. J. WILKINSON,
Clerk to the Council,

28 March 2017

ADDITIONAL BUSINESS		
17.	Audit & Risk Committee Annual Report 2016/17 (Pages 1 - 4)	

NOTES

1. **Timings given above are only indicative and not intended to inhibit Members' discussions.**
2. **Members are reminded that, if they have a pecuniary or non-pecuniary interest in any item of business coming before the meeting, that interest should be declared prior to commencement of discussion on that item. Such declaration will be recorded in the Minute of the meeting.**

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**SCOTTISH BORDERS COUNCIL
AUDIT AND RISK COMMITTEE
ANNUAL REPORT FROM THE CHAIRMAN – 2016/17**

This annual report has been prepared to inform the Scottish Borders Council of the work carried out by the Council's Audit and Risk 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 and Risk Committee has met 6 times during the financial year which included meetings on 9 May, 28 June, 26 September, 14 November 2016, 16 January and 28 March 2017 to consider reports pertinent to the audit cycle. In line with best practice the meetings include an Informal Session, without Management present, to enable the members of the Committee to meet privately and separately with the external auditors and with the Chief Officer Audit & Risk to raise any matters with the auditors pertinent to the annual audit cycle of reporting. There is a structured work programme of Informal Sessions of Audit and Risk Committee which was effective to align with the audit cycle.

The remit of the Audit and Risk Committee is to have high level oversight of the Council's and the Pension Fund's framework of internal financial control, corporate governance, risk management systems and associated internal control environment. To fulfil this remit, it sought assurance on the adequacy and effectiveness of Council's and the Pension Fund'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 internal audit, external audit, other external scrutiny and inspection agencies, 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.

The 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 executive summaries of reports findings, audit opinions, good practice and recommendations and monitored their implementation. It monitored Internal Audit's performance including progress against the audit plan and conformance with Public Sector Internal Audit Standards 2013 (PSIAS), and considered the Chief Officer Audit & Risk's annual report and assurance statement.

It also reviewed external audit strategies including arrangements for effective liaison between external and internal audit, considered external audit reports including the annual reports to Members and the Controller of Audit on the annual audits of the Council and of the Pension Fund, reviewed the main issues arising from the external audit of the Council's statutory accounts and those of the Pension Fund, and monitored the implementation of agreed actions arising.

The Committee considered the effectiveness of the risk management process throughout the Council. It scrutinised progress with previously agreed Improvement Actions to meet the objectives in the revised Corporate Risk Management Strategy to fulfil the Policy requirements, both approved by the Council. It received presentations by Service Directors, using a scheduled call back programme, on the strategic risks facing the services and the internal controls and governance in place to manage those risks to demonstrate how risk management is embedded within services.

The Committee considered the adequacy and effectiveness of the Council’s systems of internal financial control including counter fraud prevention and detection controls throughout the Council. It specifically received a progress report on implementation of previously agreed Improvement Actions to meet the objectives in the revised Counter Fraud Strategy to fulfil the Policy requirements in tackling fraud, theft, corruption and crime, both approved by the Council, to ensure their on-going effectiveness.

The Audit and Risk Committee undertook the scrutiny role for the development of future Treasury Management strategy prior to its presentation to Council for approval. It also received progress reports on the extent of compliance with the approved treasury management strategy and an analysis of the performance against the targets set. During the year it recommended the Treasury Management strategy and performance monitoring reports for Council approval.

The minutes of Audit and Risk 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 and Risk Committee is part of the approved Scottish Borders Council’s Scheme of Administration (amended 20 May 2016) namely “Nine members - being six Members of the Council and three non-voting members appointed from an external source. The Council Members shall comprise six Members not on the Executive Committee (4 from the Administration and 2 from the Opposition)”. This structure complies with best practice on independence as evidenced through the use of the Checklist from the CIPFA Audit Committees Guidance for the assessment of the Audit and Risk Committee. The three (previously two) non-voting external members were appointed from the community following a recruitment and selection process carried out during autumn 2015. This enhances the robustness and independence of the Audit and Risk Committee’s role in the scrutiny process of internal controls and governance.

The Committee membership during the year included Councillor M Ballantyne (Chair), Councillor J Campbell, Councillor I Gillespie, Councillor A Nicol, Councillor S Scott, Councillor W White, Mr P McGinley (until 28 June 2016), Mr M Middlemiss and Mr H Walpole (until 14 November 2016).

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

Member	Meeting of 9 May 2016	Meeting of 28 June 2016	Meeting of 26 September 2016	Meeting of 14 November 2016	Meeting of 16 January 2017	Meeting of 28 March 2017
Cllr M Ballantyne (Chair)	Attended	Attended	Attended	Attended	Attended	Attended
Cllr J Campbell	Attended	Apologies	Attended	Attended	Apologies	Attended
Cllr I Gillespie	Attended	Attended	Attended	Attended	Attended	Attended
Cllr A Nicol	Attended	Attended	Attended	Apologies	Attended	Attended
Cllr S Scott	Attended	Attended	Apologies	Attended	Attended	Attended
Cllr W White	Attended	Attended	Attended	Attended	Apologies	Attended
Mr P McGinley	Apologies	Resigned	n/a	n/a	n/a	n/a
Mr M Middlemiss	Attended	Apologies	Attended	Attended	Apologies	Attended
Mr H Walpole	Attended	Apologies	Apologies	Resigned	n/a	n/a

Every meeting of the Audit and Risk Committee in 2016/17 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 Financial Officer, the Chief Officer Audit & Risk, and external auditors attend all Committee meetings, and other senior officers also routinely attend Committee meetings. The Democratic Services section has provided support and resources to the Committee throughout the year including a Committee Officer as the minute secretary.

Skills and Knowledge

Given the wider corporate governance remit of Audit and Risk 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 and Risk 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.

Briefings and seminars have been delivered to help committee members keep up to date or extend their knowledge as part of the Informal Sessions or Committee business e.g. 26 September 2016 – Risk Management process including use of Covalent; 16 January 2017 – audit committee self-assessment. All Audit and Risk Committee Members received the ‘Knowledge and Skills Framework’ within CIPFA Audit Committees Guidance for use as a self-assessment tool in identifying their needs to enhance their knowledge, as appropriate.

Self-Assessment of the Committee

The annual self-assessment was carried out by members of the Audit and Risk Committee on 16 January 2017 during an Informal Session facilitated by the Chief Officer Audit & Risk 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. Improvements implemented in full during the year were that the Committee: followed-up on compliance with its 2015 recommendation to apply Gateway Review to major projects; enhanced its review of the effectiveness of performance management arrangements; and improved its scrutiny of arrangements for ensuring value for money.

Assurance Statement to the Council

The Audit and Risk Committee provides the following assurance to the Council:

- The Council has received the minutes of the Audit and Risk Committee throughout the year.
- The Audit and Risk Committee has operated in accordance with its agreed terms of reference, and accordingly the Audit and Risk Committee principles in CIPFA Position Statement.
- The Audit and Risk Committee has approved the Internal Audit charter and strategy, and received the internal and external assessments against Public Sector Internal Audit Standards (PSIAS) and quality improvement plan (QAIP), particularly to confirm Internal Audit’s organisational independence and application of code of ethics standards. The Committee has received and considered material arising from individual Internal Audit assignments in the form of executive summaries of Internal Audit reports (including audit objective, good practice, findings, recommendations, and audit opinion). At its 28 March 2017 meeting will receive the Internal Audit Annual Report 2016/17 which sets out the audit opinion, the audit work carried out to underpin the opinion, and a statement on conformance with PSIAS. The Chief Officer Audit & Risk commented positively on the Council’s governance framework, based on the Internal Audit work completed, and highlighted areas for improvement. Internal Audit Recommendations have seen a shift from missing controls to monitoring effectiveness of controls and strategic governance arrangements that reflect changes to Council delivery of services over time.
- The Audit and Risk Committee has received and considered all material arising from the External Audit strategies and plans overview for Scottish Borders Council and for Scottish Borders Pension Fund from the External Auditor, KPMG 5-year appointment to 2015/16 annual audit and Audit Scotland 5-year appointment from 2016/17 annual audit.

- For all audit reports, the Audit and Risk Committee consider whether it is satisfied that an adequate Management response is in place to ensure action will be taken to address identified areas of improvement. The Committee acknowledges that all the audit recommendations are input to Covalent, the Council's performance management system, and that there is a system of on-going follow-up by Internal Audit in place. However at its meeting on 9 May 2016 it raised concerns that audit actions outstanding from previous years were not being implemented in a timely manner by Management, and a full Progress Report was provided at its meeting on 14 November 2016 with relevant Management present. By then a number of the audit recommendations had been fully implemented to its satisfaction.
- The Audit and Risk Committee has received Risk Management presentations by various Service Directors representing the diverse range of Council services to fulfil its oversight role on the management of risks across the Council, and to hold Management to account on the application of the revised Corporate Risk Management Policy. At its meeting on 28 March 2017 it will consider a further progress report on the implementation of the recommended Improvement Actions, which it endorsed, to refresh the risk management arrangements of the Council to ensure their on-going effectiveness.
- The Audit and Risk Committee at its meeting on 28 March 2017 will monitor implementation of the recommended Improvement Actions, which it endorsed, to refine the Council's approach to tackling fraud to ensure its on-going effectiveness with a specific focus on prevention and detection.
- The Audit and Risk Committee has received and considered material to fulfil its scrutiny role on treasury management activity.
- The Audit and Risk Committee will review the draft Annual Governance Statement 2016/17 at its meeting on 28 March 2017, 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 and Risk Committee will continue to monitor progress with implementation of the improvement actions identified by Management as outlined in the Annual Governance Statement 2016/17.
- The Audit and Risk Committee will review the Annual Accounts 2016/17 in draft of the Council and of the Pension Fund at its meeting on 26 June 2017 and will review these in final at its meeting on 25 September 2017 alongside External Audit reports on their annual audits 2016/17 in order to decide whether to recommend to the Council that they be adopted.
- The Audit and Risk Committee has reflected on its performance, and confirmed evidence of improvements in respect of its scrutiny and challenge role during the year to enhance its effectiveness. It is hoped that the good practice and lessons learned within this report will be helpful for members appointed to the Audit Committee post-May 2017 elections.

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

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

Councillor Michelle Ballantyne
 Chairman of Audit and Risk Committee
 March 2017