

**SCOTTISH BORDERS COUNCIL
AUDIT AND RISK COMMITTEE
ANNUAL REPORT FROM THE CHAIRMAN – 2015/16**

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 11 May, 30 June, 28 September, 23 November 2015, 18 January and 29 March 2016 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. During the year an improvement action was implemented to 'Develop 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 report to Members and the Controller of Audit on the annual audit 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 recommended the revised Corporate Risk Management Strategy for approval by the Council to facilitate implementation of the revised policy and procedures, and previously agreed improvement actions. 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 controls throughout the Council, and specifically received a report on the outcomes of the Counter Fraud Management Review. It endorsed the recommended improvements to refine the Council’s approach to tackling fraud to ensure its on-going effectiveness and recommended the revised Counter Fraud Policy and updated Counter Fraud Strategy for approval by the Council.

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 (updated 16 November 2015) 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 W Archibald (until October 2015), Councillor J Campbell, Councillor I Gillespie (Appointed in October 2015), Councillor A Nicol, Councillor S Scott, Councillor W White, Mr D Gwyther (until October 2015), Mr G Tait (until May 2015), Mr P McGinley, Mr M Middlemiss and Mr H Walpole (latter three Appointed in November 2015).

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

Member	Meeting of 11 May 2015	Meeting of 30 June 2015	Meeting of 28 September 2015	Meeting of 23 November 2015	Meeting of 18 January 2016	Meeting of 29 March 2016
Cllr M Ballantyne (Chair)	Attended	Attended	Attended	Attended	Attended	Attended
Cllr W Archibald	Attended	Apologies	Apologies	n/a	n/a	n/a
Cllr J Campbell	Attended	Apologies	Attended	Attended	Apologies	Apologies
Cllr I Gillespie	n/a	n/a	n/a	Attended	Attended	Attended
Cllr A Nicol	Attended	Apologies	Attended	Attended	Apologies	Attended
Cllr S Scott	Attended	Attended	Attended	Attended	Attended	Apologies
Cllr W White	Attended	Attended	Attended	Attended	Attended	Attended
Mr D Gwyther	Apologies	Attended	Attended	n/a	n/a	n/a
Mr G Tait	Apologies	n/a	n/a	n/a	n/a	n/a
Mr P McGinley	n/a	n/a	n/a	Attended	Attended	Apologies
Mr M Middlemiss	n/a	n/a	n/a	Attended	Attended	Attended
Mr H Walpole	n/a	n/a	n/a	Attended	Apologies	Apologies

Every meeting of the Audit and Risk Committee in 2015/16 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. On their appointment to the Committee, Councillor Gillespie, Mr McGinley, Mr Middlemiss and Mr Walpole received an Induction pack provided by the Chief Officer Audit & Risk covering Corporate Governance, roles of Internal and External Audit, role of Audit and Risk Committee, Assurance requirements, and Audit Cycle. 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 9 May 2016 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.

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 formally obtained feedback on its performance from those interacting with the Committee, and the Committee received assurances that lessons learned are being shared across programmes and projects. To enhance and fully demonstrate the effectiveness of the Committee further steps will be taken to fully implement the following improvement actions previously identified:

- Monitor compliance and outcomes of the Committee’s recommendation to apply Gateway Review to major projects;
- Enhance the Committee’s review of the effectiveness of performance management arrangements; and
- Improve the Committee’s 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. The Committee has received and considered material arising from individual Internal Audit assignments in the form of executive summaries of Internal

Audit reports and has received the Internal Audit Annual Report 2015/16 from the Chief Officer Audit & Risk at its 9 May 2016 meeting, whose approved plan of internal audit work covers all strands of governance, namely financial, staff and other resources. The Chief Officer Audit & Risk commented positively on the Council's governance framework and, based on the Internal Audit work completed, provided an independent and objective opinion on the adequacy and effectiveness of internal controls that have been in place during the year and highlighted areas for improvement.

- 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.
- For all audit reports, the Audit and Risk Committee 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 to monitor implementation. 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, which requires to be addressed.
- 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 June 2016 it will monitor the implementation of the recommended improvements, 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 June 2016 will monitor the implementation of the recommended improvements, which it endorsed, to refine the Council's approach to tackling fraud to ensure its on-going effectiveness.
- The Audit and Risk Committee has received and considered material to fulfil its scrutiny role on treasury management activity.
- The Audit and Risk Committee has reviewed the draft Annual Governance Statement 2015/16 at its meeting on 9 May 2016, 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 2015/16.
- The Audit and Risk Committee will review the Annual Accounts 2015/16 in draft of the Council and of the Pension Fund at its meeting on 28 June 2016 and will review these in final at its meeting on 26 September 2016 alongside External Audit reports on their annual audits 2015/16 in order to decide whether to recommend to the Council that they be adopted.
- The Audit and Risk Committee has reflected on its performance, identified improvements in respect of its scrutiny and challenge role, and agreed the steps to be taken to enhance its effectiveness going forward.

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
June 2016