

**SCOTTISH BORDERS COUNCIL
AUDIT AND SCRUTINY COMMITTEE
ANNUAL REPORT FROM THE CHAIRMAN – 2018/19**

This annual report has been prepared to inform the Scottish Borders Council of the work carried out by the Council's Audit and Scrutiny 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 2018 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 Scrutiny Committee has met 7 times during the financial year relating to its Audit functions which included meetings on 14 May, 26 June, 24 September, 27 November 2018, 14 and 26 February and 11 March 2019 to consider reports pertinent to the audit cycle, and sometimes to consider Scrutiny and Other business. In line with best practice the Audit business meetings include an Informal Session, without Management present, to enable the members of the Committee to meet privately and separately with the auditors to raise any matters with the auditors pertinent to the annual audit cycle of reporting. For Scrutiny business, the Committee also met on 19 April, 7 June, 23 August, 3 September, 1, 5 and 21 November 2018 to cover its Scrutiny Programme of Work.

The remit of the Audit and Scrutiny Committee (Audit functions) 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, audit 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 scrutinised the Annual Report and Accounts of the Council and of the Pension Fund at appropriate times in accordance with its terms of reference, which also includes promotion of the highest standards of conduct and professional and ethical behaviour. The Audit Committee also reviewed the Annual Governance Statement 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 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 on a regular basis. It monitored Internal Audit's performance including progress against the annual plan, conformance with Public Sector Internal Audit Standards 2017 (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 also reviewed the External Audit Strategies and Plans 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 the risk management activity and progress with improvement actions, and endorsed the revised Risk Management Policy Statement and Strategy (2018) for approval 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 counter fraud arrangements by way of an Annual Report which set out the counter fraud activity and progress with improvement actions, endorsed the revised Counter Fraud Policy Statement and Strategy (2018) for approval by the Council, and received assurances from the Auditors on fraud risks and controls.

The Committee undertook the scrutiny role for the development of future Treasury Management strategy prior to its presentation to Council for approval. It also received mid-term and annual 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 Scrutiny 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 of the Committee.

Membership

The Membership of the Audit and Scrutiny Committee is part of the approved Scottish Borders Council’s Scheme of Administration (approved 7 November 2017; amended 28 June 2018) namely “Nine members of the Council not on the Executive Committee” and “three additional members appointed from an external source as non-voting members” (attending that part of the Audit and Scrutiny Committee meeting only which is considering Audit matters). Two non-voting external members were appointed from the community to October 2021, one as a reappointment, following a recruitment and selection process carried out during autumn 2018 approved by the Council. This enhances the independence of the Audit and Scrutiny 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 (2018).

The Committee membership during the year was Councillors S Bell (Chairman), H Anderson, K Chapman, J Fullerton, S Hamilton (Vice Chairman), N Richards, H Scott, S Scott (from September 2018), R Tatler (until August 2018), E Thornton-Nicol, Ms H Barnett (appointment from October 2018) and Mr M Middlemiss (reappointment).

The attendance by each member at the meetings which considered Audit matters was as follows:

Member	14 May 2018	26 Jun 2018	24 Sep 2018	27 Nov 2018	14 Feb 2019	26 Feb 2019	11 Mar 2019
Cllr S Bell (Chair)	√	√		√	√	√	√
Cllr H Anderson	√	√	√	√	√	√	√
Cllr K Chapman	√	√				√	√
Cllr J Fullerton	√			√	√		√
Cllr S Hamilton	√	√	√	√	√		
Cllr N Richards	√		√	√	√	√	√
Cllr H Scott	√		√	√	√	√	
Cllr S Scott			√		√	√	√
Cllr R Tatler	√	√					
Cllr E Thornton-Nicol	√	√	√	√	√	√	√
Ms H Barnett				√			√
Mr M Middlemiss	√		√	√			√

Every meeting of the Audit and Scrutiny Committee in 2018/19 which considered Audit matters was quorate (i.e. at least four Elected Members present). At the meeting that Cllr S Bell was unavailable, Cllr S Hamilton was Chair of the meeting in his role as Vice Chair.

All other individuals who attended the meetings which considered Audit matters 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 Scrutiny 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 Scrutiny Committee members bring to the committee to fulfil its Audit 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.

Briefings and seminars have been delivered to help Committee members extend their knowledge as part of the Informal Sessions e.g. 14 May 2018 Members Seminar on ‘Managing Risk within the Council’ providing an overview of the processes and practices that are important and integral parts of effective governance and crucial to the achievement of outcomes, the role of elected Members in ensuring that risk is considered and addressed as part of all decision making activities, and the specific risk management oversight role of the Audit and Scrutiny Committee; 24 September 2018 – Refresh Briefing on ‘Borrowing and Treasury Management in Councils’ which covered the following headings from the Audit Scotland Scrutiny checklist for councillors (Treasury management strategy and related reports; Borrowing and other financing decisions; Affordability and sustainability; Performance and benchmarking); 27 November 2018 – Members Briefing on Governance, Assurance and Audit which acted as the Induction session for the new external member and a refresh for other Members on the Council’s governance framework and sources of assurance including Internal and External Audit, and the role of the Audit Committee and its reporting cycle; 11 March 2019 – Audit Committee annual self-assessment.

Self-Assessment of the Committee

The annual self-assessment was carried out by members of the Audit and Scrutiny Committee on 11 March 2019 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 ‘Knowledge and Skills Framework’ from the CIPFA ‘Audit Committees Guidance’ was also used as part of the annual self-assessment in identifying their needs to enhance their knowledge.

The outcome of the self-assessments for the Committee was a high degree of performance against the good practice principles and a medium-high degree of effectiveness, the latter which recognises improvement which were implemented during the year as the Committee becomes more familiar with its role and the Audit reporting cycle. The formal assessment against the Knowledge and Skills Framework concluded that the Committee had satisfactory skills and knowledge, though refresh briefings and seminars would continue to be helpful. The following further improvements have been identified by the Committee: obtain feedback on its performance from a range of Service Directors who interact with the Committee on a periodic basis and from the External Auditors; and enhance its scrutiny and challenge of internal controls, risks management, and governance including those to ensure effective change, value for money and quality through the full reporting cycle.

Assurance Statement to the Council

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

- The Council has received the Minutes of the Audit and Scrutiny Committee meetings throughout the year.
- The Audit and Scrutiny Committee has operated in accordance with its agreed terms of reference, and accordingly with the audit committee principles in CIPFA Position Statement relating to its Audit functions.
- It did this through material it received from Internal Audit, External Audit, other audit and inspection bodies, and assurance from Management. It focussed 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 its stakeholders.
- For all audit reports, the Audit and Scrutiny 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. The Committee acknowledges that there is a system in place of on-going follow-up by Internal Audit and External Audit, as appropriate, with reporting thereon.
- The Audit and Scrutiny 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.
- The Audit and Scrutiny Committee will review the unaudited Annual Reports and Accounts 2018/19 of the Council and of the Pension Fund at its meeting on 25 June 2019 and will review these final audited documents at its meeting on 23 September 2019 alongside External Audit reports on their annual audits 2018/19 in order to decide whether to recommend to the Council that they be adopted.
- The Audit and Scrutiny Committee has reflected on its performance during the year in respect of its Audit functions, and has identified areas for improvements.

Recommendation of amendments to the Terms of Reference for the Audit and Scrutiny Committee

During the annual self-assessment 2018/19 the Committee considered its current Membership and recommends that the Terms of Reference for the Committee in the Council's Scheme of Administration be changed to "two" additional members in line with current appointments.

Furthermore it proposes the following amended Audit functions to explicitly address all the core areas identified in CIPFA's Position Statement (2018):

1. Assess the adequacy and effectiveness of the Council's systems of internal financial control and framework of internal control relating to the Council's service delivery models including partnership and collaboration to provide reasonable assurance of effective and efficient operations, and ensure the Council's ongoing resilience to the threats of fraud and corruption.
2. Assess the adequacy and effectiveness of the Council's risk management arrangements relating to the Council's service delivery models including partnership and collaboration.
3. Assess the adequacy and effectiveness of corporate governance arrangements and consider annual assurance reports relating to the Council's service delivery models including partnership and collaboration to ensure that the highest standards of probity, public accountability and ethical standards are demonstrated to underpin the delivery of value for money or best value services.
6. Monitor and review the performance of internal audit, conformance to the Public Sector Internal Audit Standards and code of ethics.

Councillor Stuart Bell
Chairman of Audit and Scrutiny Committee
June 2019