

**SCOTTISH BORDERS COUNCIL
AUDIT AND SCRUTINY COMMITTEE
ANNUAL REPORT FROM THE CHAIRMAN – 2019/20**

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 Guidance 2018 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 6 times during the financial year relating to its Audit functions which included meetings on 13 May, 25 June, 23 September, 25 November 2019, 10 February and 9 March 2020 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 18 April, 22 August, 24 October 2019 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 by way of an Annual Report which set out the risk management activity and the next steps to refine practices. It received presentations by Service Directors, as part of a scheduled programme with a new format, on the strategic risks facing their 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, 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 28 September 2017; amended 29 May 2020) namely “Nine members of the Council not on the Executive Committee” and “....considering Audit matters (for that part of the meeting only) two additional members appointed from an external source as non-voting members. 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, E Thornton-Nicol, Ms H Barnett and Mr M Middlemiss.

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

Member	13 May 2019	25 Jun 2019	23 Sep 2019	25 Nov 2019	10 Feb 2020	9 Mar 2020
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 E Thornton-Nicol		√	√		√	√
Ms H Barnett	√	√	√	√		
Mr M Middlemiss	√		√	√	√	√

Every meeting of the Audit and Scrutiny Committee in 2019/20 which considered Audit matters was quorate (i.e. at least four Elected Members present).

The Executive Director Finance and Regulatory, the Chief Officer Audit & Risk, and external auditors attend all Committee meetings; other senior officers attend Committee meetings on request. The Democratic Services section has provided 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 as part of the Informal Sessions to help Committee members extend their knowledge. For example:

- 23 September 2019 – The main focus was an opportunity for Members to discuss matters with the External Auditors (Audit Scotland) in private and to obtain feedback on its performance from the External Auditors; the latter was an area of improvement identified during the Committee's self-assessment 2018/19.
- 25 November 2019 – Refresher Informal Briefing Seminar 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).

Self-Assessment of the Committee

The annual self-assessment was carried out by members of the Audit and Scrutiny Committee on 9 March 2020 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 for the Committee was a high degree of performance against the good practice principles and a high degree of effectiveness, the latter which recognises improvements which were implemented during the year. The Committee has identified the following further improvements to its effectiveness:

- ensure appropriate governance, risk, control and assurance arrangements to support the achievement of sustainable outcomes; and
- support the development of robust arrangements for ensuring value for money through monitoring progress with Best Value Action Plan delivery.

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.

- There is effective engagement of committee members including challenge and questions relating to the business on the agendas. Recommendations are made by the Audit and Scrutiny Committee which are monitored through an Action Tracker to ensure these are acted upon within reasonable timescales to address concerns raised by the Committee.
- 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 reviewed the unaudited Annual Reports and Accounts 2019/20 of the Council and of the Pension Fund at its meeting on 23 June 2020 and will review these final audited documents in due course alongside External Audit reports on their annual audits 2019/20 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 further improvements to its effectiveness.

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

None.

Councillor Stuart Bell
Chairman of Audit and Scrutiny Committee
August 2020