

**SCOTTISH BORDERS COUNCIL
AUDIT AND SCRUTINY COMMITTEE (AUDIT BUSINESS)
ANNUAL / END OF TERM REPORT FROM THE CHAIRMAN – 2021/22**

This annual/end of term 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 relating to its Audit functions. In addition, this end of term report is to share lessons learned and areas of improvement to inform the new Audit Committee post-local elections in May 2022.

Meetings

The Audit and Scrutiny Committee has met 6 times during the financial year relating to its Audit functions, which included meetings on 10 May, 29 June, 20 September, 21 October, 22 November 2021, 14 February and 14 March 2022 to consider reports pertinent to the audit cycle. As and when required immediately prior to the formal meeting, an Informal Session was arranged to enable the members of the Committee to meet privately and separately with the auditors to raise any matters pertinent to the annual audit cycle of reporting or to discuss matters relevant to their learning and development. The Committee met at other times during the year to consider items relating to the 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 Executive / 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 25 February 2021) 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, J Fullerton, J Greenwell, N Richards, E Robson, H Scott, S Scott, E Thornton-Nicol, Ms H Barnett and Mr M Middlemiss.

Those present at the virtual meetings which considered Audit matters was as follows:

Member	10 May 2021	29 Jun 2021	20 Sept 2021	21 Oct 2021	22 Nov 2021	14 Feb 2022	14 Mar 2022
Cllr S Bell (Chair)	√	√	√	√	√	√	
Cllr H Anderson	√	√	√	√	√	√	
Cllr J Fullerton	√	√	√	√	√	√	
Cllr J Greenwell	√	√	√	√			
Cllr N Richards	√	√	√	√	√	√	
Cllr E Robson	√	√	√	√	√	√	
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 2021/22 which considered Audit matters was quorate (i.e. at least four Elected Members present).

The Director Finance & Corporate Governance, 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.

The Informal Sessions provide the space for Committee members to reflect on their skills and knowledge, and to identify other learning and development to fulfil their role. For example:

- 29 June 2021 – To provide a refresh for Members on the Risk Management framework, process and practices, senior management and elected members' roles and responsibilities, and system.
- 22 November 2021 – The specialist advisor provided Treasury Management refresh training for Members covering legal and regulatory framework, officers and elected members' roles and responsibilities, risks (threats and opportunities), and skills and knowledge.

Self-Assessment of the Committee

The annual self-assessment was carried out by members of the Audit and Scrutiny Committee on 14 February 2022 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 (Audit functions) 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 Committee has identified the following lessons learned on how it has effectively fulfilled its Audit functions:

- The A&SC deems this a beneficial exercise on an annual basis. It provides an opportunity to reflect on how it conducts its business and to identify any areas of improvement or learning and development.
- The open recruitment and selection process to appoint external members of the Audit and Scrutiny Committee outwith the cycle of local elections facilitates continuity management of membership. In addition, the individual external members bring a different perspective to complement those Councillors appointed to A&SC. The self-assessment highlighted that the two external members have served beyond their original appointment to October 2021.
- The A&SC noted the benefits of an experienced Chair who utilises opportunities as required to meet with the key people involved in the Council's governance and conducts business effectively.
- The A&SC welcomes feedback on its performance from those interacting with the Committee or relying on its work. Those Directors who had presented to the Committee during the year provided feedback on their interaction with the Committee. This will be formally documented in future. In addition, the Director of Finance & Corporate Governance will be specifically asked for feedback as the SLT representative on A&SC.
- The approach for A&SC to receive presentations by Directors on the risks and mitigations associated with their areas of responsibility worked well.
- Recognise the importance of regular and refresher training to improve knowledge and understanding of technical areas, such as Treasury Management and Statutory Accounts, to enable them to fulfil their remit effectively.

- There is evidence of continuous improvement through appropriate scrutiny and challenge on its Action Tracker to ensure that A&SC recommendations have been recorded and are monitored to ensure they are fully implemented to its satisfaction.
- The Committee has critically evaluated progress with delivery of Best Value Action Plan. It recommends that the speed of implementation is increased by the Council to enhance the arrangements for ensuring value for money.
- The Committee endorsed the revised Counter Fraud Policy & Strategy prior to Council approval 16 December 2021. It notes that this is the beginning of the new counter fraud staff resourcing model and practices, which require close and ongoing scrutiny due to fraud risk.

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 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.
- 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.

Recommendations for the Council

Approve an extension to the appointment of the external members for one year to October 2022, noting that the current incumbents are in agreement to this.

Agree that other Committees should carry out annual self-assessments of fulfilling their remits as part of continuous improvement.

Provide the opportunity for the external members of A&SC and other Committees to be involved in the Induction Programme and ongoing Development Programme for Elected Members post-local government elections in May 2022.

Agree that the appointed Chair will have previously served on the A&SC.

Endorse a further cycle of presentations by Directors on risks and mitigations to A&SC. In addition, the A&SC should gain insights on the efficacy of the Council's risk management framework through benchmarking with other organisations.

Agree that Informal / Development Sessions continue to be used of refresher briefing / training.

Councillor Stuart Bell
Chairman of Audit and Scrutiny Committee
3 March 2022