

**SCOTTISH BORDERS COUNCIL  
AUDIT COMMITTEE  
ANNUAL REPORT FROM THE CHAIR – 2022/23**

This annual report has been prepared to inform the Scottish Borders Council of the work carried out by the Council's Audit 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**

On 25 August 2022 the Council approved having a separate Audit Committee (previously Audit and Scrutiny Committee) with audit and risk functions moving, arising from various proposals made by a Cross-Party Working Group to change the Interim Scheme of Administration. The Audit Committee has met 6 times during the financial year relating to its audit and risk functions, which included meetings on 27 June 2022, 12 September 2022, 23 November 2022, 12 December 2022, 13 February 2023 and 13 March 2023 to consider reports pertinent to the Audit Cycle.

The remit of the Audit Committee is to have high-level oversight of the Council'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 the Council'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 Management, Internal Audit, External Audit, and other national audit bodies.

The Audit Committee 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. This also provided the opportunity for the promotion of the highest standards of conduct and professional and ethical behaviour.

The Committee scrutinised the Annual Report and Accounts of the Council at appropriate times in accordance with its terms of reference prior to their formal approval by Council. This provided the opportunity for the Audit Committee to act as a bridge between the Council and other stakeholders, outlining the value of the audit process, and overseeing the integrity of financial reporting and governance arrangements.

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.

The Audit Committee reviewed the External Audit Plans including arrangements for effective liaison between External and Internal Audit, and 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. The Committee reviewed the main issues arising from the statutory audit process, and monitored the implementation of agreed actions arising. It welcomed a new team from Audit Scotland of appointed external auditors for the 2022/23 statutory audit process.

The Audit 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 within the year and the next steps to refine practices. The Committee received presentations by Directors, as part of a scheduled programme, on the corporate risks within their areas of responsibility and the internal controls and governance in place to manage those significant risks, and other information to demonstrate how risk management is embedded in Services.

The Committee considered the adequacy and effectiveness of the Council’s counter fraud arrangements by receiving: an Annual Report, which set out the counter fraud activity within the year; Audit Scotland national fraud reports; outcomes of a Counter Fraud Controls Assessment by the Integrity Group of officers; an update on preparations for the Council’s participation in the National Fraud Initiative (NFI) Exercise 2022-2023 and NFI Self-Appraisal by the Integrity Group; and assurances from both Internal Audit and External Audit on fraud risks and controls as part of their respective work.

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 Committee meetings were presented for approval by the Council.

### Membership

The Membership of the Audit Committee is set out in the approved Scottish Borders Council’s Interim Scheme of Administration, comprising of Ten members of the Council and Two additional members appointed from an external source as non-voting members. Four elected members are also on the Executive Committee as members of the opposition (not the Council’s Administration), although it is noted that this is to ensure effective governance of the Council and is deemed not to impair independence of Audit Committee.

Two non-voting external members were appointed from the community on a three-year term to October 2025, following an open recruitment and selection process carried out during autumn 2022 approved by the Council. This enhances the independence of the Audit 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 E. Thornton-Nicol (Chairman), N. Richards (Vice-Chairman), J. Anderson, P. Brown, J. Cox, M. Douglas, J. PatonDay, E. Robson, S. Scott, and F. Sinclair, and Mr S. Whalley and Mr P. Whitfield (since November 2022).

Those present at the virtual meetings of Audit Committee was as follows:

Member	27 Jun 2022	12 Sept 2022	23 Nov 2022	12 Dec 2022	13 Feb 2023	13 Mar 2023
<b>Clr E. Thornton-Nicol (Chair)</b>	√	√	√	√	√	√
<b>Clr N. Richards</b>	√	√	√	√	√	√
<b>Clr J. Anderson</b>	√	√	√	√	√	√
<b>Clr P. Brown</b>		√	√	√	√	
<b>Clr J. Cox</b>	√	√		√	√	
<b>Clr M. Douglas</b>	√	√	√	√	√	√
<b>Clr J. PatonDay</b>		√	√	√		
<b>Clr E. Robson</b>	√	√	√		√	√
<b>Clr S. Scott</b>		√	√	√	√	√
<b>Clr F. Sinclair</b>	√	√	√	√	√	√
<b>Mr S. Whalley</b>			√	√	√	√
<b>Mr P. Whitfield</b>			√	√	√	√

Every meeting of the Audit Committee in 2022/23 was quorate (i.e. at least four Elected Members present).

The Director Finance & Corporate Governance or Acting Chief Executive/Chief Executive and Acting Chief Financial Officer, the Chief Officer Audit & Risk, and external auditors attend all Committee meetings; other senior officers attend Committee meetings on request relevant to the business. The Democratic Services section has provided a Committee Officer as the minute secretary.

### **Skills and Knowledge**

Given the wider corporate governance remit of Audit 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 Committee members bring to the committee to fulfil its 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 CIPFA 'Audit Committees Practical Guidance for Local Authorities and Police 2018 Edition' includes an Audit Committee Members' Knowledge and Skills Framework, which has been utilised. Current members including the two external members have each completed a self-assessment using this toolkit, which is being used to inform the content of the Development Sessions as well as provide other information to individuals to meet their needs.

Core Knowledge: Organisational Knowledge; Audit Committee role and functions; Governance; Internal Audit; Financial Management and Accounting; External Audit; Risk Management; Counter Fraud; Values of Good Governance.

Core Skills: Strategic Thinking and Understanding of Materiality; Questioning and Constructive Challenge; Focus on Improvement; Able to Balance Practicality against Theory; Clear Communication skills and Focus on the Needs of Users; Objectivity; Meeting Management Skills (for the Chair).

The Development Sessions provide the space for Committee members to receive induction and other training, to reflect on their skills and knowledge, and to identify other learning and development to fulfil their role. The following were delivered during the year 2022/23:

- 27 June 2022 – The Chief Officer Audit & Risk provided an Induction on Governance, Assurance and Audit including: Outline of Corporate Governance; the Audit Assurance Framework; the roles of Internal Audit and External Audit; the role of the Audit Committee; and the Audit Cycle that defines the programme of work for the Audit Committee.
- 7 September 2022 – The Chief Officer Audit & Risk and Corporate Risk Officer provided an overview to Members on the Risk Management framework, process and practices, and senior management and elected members' roles and responsibilities (the What, Why, How, When, Where, and Who of Risk and Risk Management).
- 9 November 2022 – The Council's Treasury Advisor, Link Group, provided training for Members on Capital Strategy and Treasury Management covering an outline of what Treasury Management involves, the legal and regulatory framework, the role officers and elected members' in decisions, risk management, capital programme and capital financing, economics and the markets, debt management, treasury deposit strategy, and governance and scrutiny.
- 1 December 2022 – The Chief Officer Audit & Risk presented the content of the CIPFA Micro Modules on Internal Audit (an overview of the role of Internal Audit in providing independent assurance as an essential component of organisational governance, code of ethics and public sector standards), and on Fraud – the Fundamentals (an introduction to fraud, the different types of fraud, and the consequences of fraud for public bodies).
- 2 February 2023 - The Chief Officer Audit & Risk facilitated a refresh on the Audit Committee Members' Knowledge and Skills Framework to provide an opportunity to reflect on the impact of learning and development during 2022 on their own skills and knowledge.

## **Self-Assessment of the Committee**

The Chief Officer Audit & Risk facilitated the annual self-assessment during virtual sessions using the 'Good Practice Principles Checklist' (on 1 March 2023) and 'Evaluation of Effectiveness Toolkit' (on 6 March 2023) from the CIPFA 'Audit Committees Guidance'. For those members of the Audit Committee who were unable to join both sessions, there was an opportunity to contribute by email and these points were considered during the virtual sessions.

The outcome of the self-assessments for the Committee was a high degree of compliance against the good practice principles and a medium degree of effectiveness, which is to be expected in the first year of a new Committee membership following the local elections in May 2022. The Committee has four continuing elected members, including the Chair, which provides some valuable continuity in knowledge and experience. There are six new elected members and two new external members, who are new to local government. The self-assessment identified the following improvement actions to enable its development as a fully effective Audit Committee:

1. Chair to meet Audit Committees' Chairs of IJB and NHS Borders on an annual basis (as a minimum) to understand partners' audit committees and governance arrangements.
2. Ensure delivery by dates agreed on Action Tracker to hold Management to account on implementation of improvements to address Committee's significant concerns over controls.
3. Support Management proposals to implement risk management benchmarking to enable the Committee to fully assess effectiveness of risk management arrangements.
4. Refresh training to be arranged for Audit Committee members to enable the Committee to fully understand the role of External Audit in the Public Sector.
5. Refresh training to be arranged for Audit Committee members on role of Internal Audit.
6. All Audit Committee Members to review the Minutes of Executive Committee to consider how it fulfils its performance monitoring role.
7. Request Development Session covering overview of the Council's Procurement framework to outline control environment and arrangements for value for money.
8. Refresh training to be arranged for Audit Committee members on counter fraud fundamentals.

## **Assurance Statement to the Council**

The Audit Committee provides the following assurance to the Council:

- a) The Audit Committee has operated in accordance with its agreed terms of reference, and accordingly with the audit committee principles in the CIPFA Position Statement. It did this through material it received from Management, Internal Audit, External Audit, and other national audit bodies. It focussed entirely on matters of risk management, internal control and governance.
- b) For all audit reports, the Audit 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.
- c) In response to an External Audit recommendation, the Audit Committee has scrutinised progress towards full completion of actions within the Best Value Action Plan to enhance the Council's arrangements for ensuring value for money.
- d) The Audit 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.
- e) There is evidence of continuous improvement through Actions recommended by the Audit Committee, which are monitored through an Action Tracker and scrutinised to ensure these are acted upon within reasonable timescales to address concerns raised by the Committee to its satisfaction.

- f) There is an opportunity for committee members to engage and raise salient matters in virtual meetings, noting that there are six new Elected Members and two new External Members of the Committee whose knowledge and experience of the Council and its Audit Committee is anticipated to develop over time.
- g) The self-assessment was useful for Members in that it provides an opportunity to reflect on how the Audit Committee conducts its business and to identify any areas of improvement or learning and development. This ensures the Committee can demonstrate its effectiveness as a scrutiny body as a foundation for sound corporate governance for the Council.

### **Recommendations for the Council**

The Audit Committee recommends that other Council Committees should carry out an annual evaluation to assess whether they are fulfilling their remits as part of continuous improvement.

Councillor Elaine Thornton-Nicol  
Chair of Audit Committee  
11 April 2023