Public Document Pack

Scottish Borders COUNCIL

AUDIT AND RISK COMMITTEE
MONDAY, 23RD MARCH, 2015

A MEETING of the AUDIT AND RISK COMMITTEE will be held in the COUNCIL HEADQUARTERS,

COUNCIL HEADQUARTERS, NEWTOWN ST BOSWELLS on MONDAY, 23 MARCH 2015 at 10.15

am.

J. J. WILKINSON,
Clerk to the Council.
16 March 2015

	BUSINESS	
1.	**Apologies for Absence.**	
2.	**Order of Business.**	
3.	**Declaration of Interest.**	
4.	**Minute.** (Pages 1 - 10) Minute of Meeting of the Audit & Risk Committee held on 19 January 2015 to be approved and signed by the Chairman. (Copy attached.)	4 mins
5.	**External Audit Interim Management Report 2014/15.** (Pages 11 - 30) Consider report by KPMG on interim findings from their review of Key Systems of Internal Control in connection with their audit for the year ended 31 March 2015 and associated Management Action Plan. (Copy attached.)	15 mins
6.	**External Audit Scottish Borders Pension Fund Audit Strategy 2014/15.** (Pages 31 - 48) Consider report by KPMG on how they will deliver their audit for Scottish Borders Pension Fund for the year ended 31 March 2015 including the opinions on the financial statements. (Copy attached.)	10 mins
7.	**Pension Fund Reforms.** Presentation by Corporate Finance Manager on pension fund reforms and governance implications for the Council.	15 mins
8.	**Internal Audit Work 2014/15 to February 2015.** (Pages 49 - 76) Consider a report by Chief Officer Audit & Risk on recent work carried out by Internal Audit, including the recommended audit actions agreed by Management to improve internal controls and governance arrangements, and internal audit work currently in progress. (Copy attached.)	15 mins
9.	**Internal Audit Charter.** (Pages 77 - 86) Consider a report by Chief Officer Audit & Risk on the updated Internal Audit	10 mins

	Charter for approval that defines the terms of reference for the Internal Audit function to carry out its role. (Copy attached.)		
10.	**Internal Audit Annual Plan 2015/16.** (Pages 87 - 96) Consider a report by Chief Officer Audit & Risk on proposed Internal Audit programme of work 2015/16 to enable preparation of an annual internal audit opinion on the adequacy of the Council's overall control environment. (Copy attached.)	20 mins
11.	**Any Other Items Previously Circulated.**	
12.	**Any Other Items which the Chairman Decides are Urgent.**	

NOTES

1. **Timings given above are only indicative and not intended to inhibit Members' discussions.**

2. **Members are reminded that, if they have a pecuniary or non-pecuniary interest in any item of business coming before the meeting, that interest should be declared prior to commencement of discussion on that item. Such declaration will be recorded in the Minute of the meeting.**

Membership of Committee:- Councillors M Ballantyne (Chair), W Archibald, J Campbell, A J Nicol, S Scott and B White (Vice-Chairman). Mr D Gwyther, Mr G Tait.

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SCOTTISH BORDERS COUNCIL
AUDIT AND RISK COMMITTEE

MINUTE of MEETING of the AUDIT AND RISK COMMITTEE held in the Council Chamber, Council Headquarters, Newtown St. Boswells on 19 January 2015 at 10.15 a.m.

Present: -   Councillors M. Ballantyne (Chairman), W. Archibald, A. Nicol, S. Scott, B. White; Mr D. Gwyther, Mr G. Tait.

Apologies:-   Councillor J. Campbell.

In Attendance:-   Chief Financial Officer, Chief Officer Audit and Risk, Service Director Strategy and Policy, Clerk to the Council, Democratic Services Officer (P Bolson); Mr H. Harvie – KPMG, Mr M. Swann – KPMG.

WELCOME

1. The Chairman welcomed Mr Hugh Harvie and Mr Matthew Swann from KPMG to the meeting.

MINUTE

2. There had been circulated copies of the Minute of 10 November 2014. With reference to paragraph 6, line 25, the text should have read ". . . representing a 12% gross return."

DECISION
APPROVED for signature by the Chairman subject to the above amendment.

3. With reference to paragraphs 6 and 7 of the Minute of 10 November 2014, Members requested that a report updating the Committee on the sale of surplus buildings and the use of capital receipts would be presented at its meeting in May 2015.

DECISION
AGREED that the Service Director Commercial Services provide a report updating the Committee on the sale of surplus buildings and the use of capital receipts to its meeting in May 2015.

4. With reference to the decision at paragraph 10(b) of the Minute of 10 November 2014 regarding the business case for a new finance system, Members were advised that the recommendation was agreed by Council as part of the wider budget process and financial planning.

5. With reference to the decision at paragraph 10(c) of the Minute of 10 November 2014, Members were advised that a report by the Chief Officer Audit and Risk on monitoring progress in line with the revised target completion dates would be presented to the Committee in May 2015.

6. With reference to the decision at paragraph 12(b) of the Minute of 10 November 2014 regarding the Treasury Mid-Year Report 2014/15, Members were advised that the report was presented to Council on 20 November 2014 and revised indicators were approved.

DECISION
NOTED.

DRAFT TREASURY MANAGEMENT STRATEGY 2015/16

7.   There had been circulated copies of a report by the Chief Financial Officer on the Treasury Management Strategy for 2015/16. Mr Robertson, Chief Financial Officer, explained that the report was to enable the Audit and Risk Committee to fulfil its scrutiny role in relation to Treasury Management activities and to present the proposed Strategy as attached at Appendix 1 to the report to the Audit and Risk Committee prior to Council approval. The report explained that the Strategy was the framework which ensured the Council operated within prudent and affordable limits in compliance with the CIPFA Code. Members noted that the Strategy was based on the Administration's draft Financial Plans for 2015/16 onwards. Mr Robertson detailed a number of significant changes from the 2014/15 Strategy, namely the removal of an allocation of £13m for Registered Social Landlord (RSL) on-lending within the other relevant capital expenditure amounts following the publication of new guidance relating to on-lending; the cross-referencing to the Council's overall Financial Strategy; the incorporation of reference to the Treasury Management Earmark Balance; and the ability to undertake treasury management for subsidiary companies. Mr Robertson made reference to the Council's involvement with Bridge Homes LLP, a Council-led affordable house building National Housing Trust Limited Liability Partnership with the Scottish Future's Trust. He further advised that a mid-year treasury management report and an annual treasury report, which also formed part of the overall treasury activity, would be presented separately to Council for monitoring purposes. The Strategy listed the Treasury Management issues which were covered within the document and Members noted that Capita Asset Services continued to act as the Council's external Treasury Management advisors. Mr Robertson further explained that the Council was required to operate a balanced budget, ensuring that money was available when required, including the funding of its Capital Plans and that as part of achieving these aims, the Financial Strategy set out the financing arrangements necessary to continue to invest in infrastructure through a sustainable Capital Programme. This would be financed by £20.7m of loans charges per annum, reducing to £19.9m per annum from 2017/18. The report explained how capital expenditure plans were financed by capital and revenue resources and that any shortfall in available resources resulted in a net financing need - the amount of money the Council would need to borrow to achieve the expenditure plans. The figures for 2014/15 through to 2017/18 were detailed in the report. Members noted the significant increase in the Capital Financing Requirement from 2014/15 to 2015/16 and were advised that this was driven by the shift in the estimated net financing need for the year mainly for the school building replacements. Further details of this shift were contained in the report and were explained by the Chief Financial Officer.

8.   Members requested further information regarding the schedule of loans and it was agreed that the Chief Financial Officer would bring a report to the Audit and Risk Committee on capital debt to be financed over a period extending up to 50 years Members were advised of the Council's policy on borrowing in advance of need and the Chief Financial Officer explained that such borrowing would only be considered when a significant increase in borrowing rates was anticipated. With regard to the Council's investment strategy, Members were advised of the primary investment objectives, namely the safeguarding or security of the repayment of principal and interest of investments on a timely basis; and the liquidity of its investments. Members were informed that under the Local Government Investments (Scotland) Regulations 2010, the Council was required to give approval for all types of investments to be used and to set appropriate limits for the amounts to be held within each type. These investments were entitled Permitted Investments and the report listed the cash type instruments and other investments that could be used by the Council and its subsidiary organisations. Members were advised that the HubCo model had been set up to include the Scottish Futures Trust, Scottish Borders Council and a number of other partners. This allowed the investment in the subordinated debt by the Council in HubCo for projects such as the New Kelso High School and the treasury strategy had previously been amended to

permit this investment. The report also explained the Council's creditworthiness policy and detailed the colour banding used to categorise the maximum investment duration for each.

9.   Officers responded to a number of requests for clarification raised by Members. In response to a question regarding the figure available for investment, the Chief Financial Officer advised Members that £30m was the maximum but that this could vary. Members were also advised that with regard to Capital Expenditure estimates, optimism bias was applied in terms of individual projects but was not then applied to the overall project. Discussion followed regarding housing development and the building programme for 2015/16 within the Scottish Borders. Members were advised that development was based on housing need, value for money and opportunity, and that a report would be brought forward to the Audit and Risk Committee in due course, updating the Members on the current position.

DECISION
(a)   NOTED the report and Treasury Management Strategy.

(b)   AGREED that:
(i)   the Draft Treasury Management Strategy 2015/16 be presented to Council for approval; and

(ii)   a report be brought to the Audit and Risk Committee on the schedule of loans outstanding over the last 50 years; and

(iii)   a report be brought to the Audit and Risk Committee updating Members on the current position in terms of the Council's policy on housing development and building programme.

EXTERNAL AUDIT SCOTTISH BORDERS COUNCIL AUDIT STRATEGY AND PLAN OVERVIEW 2014/15

10.   There had been circulated copies of a report by KPMG, the Council's external auditors, on the Audit Strategy Review and Plan for year ending 31 March 2015. Mr Harvie explained that KPMG's audit took into account the broad risk profile of Scottish Borders Council and included consideration of other areas of assurance such as Shared Risk Assessment (SRA). The approach was risk-based and focussed on an understanding of the Council and the wider environment within which it operated and also reflected the expectations of Audit Scotland and its Code of Audit Practice, as detailed in the report. Mr Harvie explained that the Council was responsible for financial statements which showed a true and fair view of its affairs and for establishing arrangements which ensured that fraud and other irregularity were prevented and detected; affairs were managed in accordance with proper standards of conduct; and that Best Value was achieved. In terms of Revenue, the report noted that the financial outturn for 2013/14 showed an underspend of £451,000 against the final revised budget which was, in part, due to staff cost savings as a result of the interim management structure in place prior to the implementation of the new corporate management arrangements in April 2014. Members noted that following appropriate action to deliver efficiency savings during the year, performance to date in 2014/15 indicated that the majority of savings were being delivered in line with the financial plan. The Capital expenditure for 2013/14 showed an underspend of £2.3m due mainly to re-profiling of a number of projects amounting to £2.2m and project underspend of £100,000.

11.   With regard to significant risks, KPMG had identified two areas in the initial risk assessment for 2014/15, namely fraud risk from management override of controls and fraud risk from income recognition. The report provided further details on how KPMG would continue to monitor these risks within its audit. Other focus areas identified in the report included accounting for landfill sites and noted that there was a requirement for local authorities to adhere to IAS 37 *Provisions*. The report noted that the Council had considered the future

costs of landfill sites and relevant capital costs for their decommissioning of £1.2m at 31 March 2014. The Council's future strategy in relation to landfill was still being determined therefore the costs of ongoing aftercare and monitoring costs following decommissioning had still to be identified. Mr Harvie advised Members that although there were some changes to the Code of Practice which determined the way in which financial statements were prepared by the Council, he was of the opinion that the underlying accounting policies were expected to remain substantially consistent with the previous year. With regard to the financial reporting for Charitable Trusts, it was noted that three new charitable entities had been registered and that they would be subject to audit along with existing Common Good Funds. The report went on to detail the management responsibilities and actions in relation to a number of mandatory communications required by Auditing Standards covering the areas of fraud, related party transactions and independence. With regard to materiality, the report explained that this was based on total expenditure and took into account the low risk nature of the Council. Mr Harvie informed Members that there was no materiality level attached to fraud. Mr Harvie explained that governance and scrutiny arrangements were reviewed taking into account the Shared Risk Assessment (SRA), Best Value and the Single Outcome Agreement (SOA) and that through the SRA process one area had been identified for follow-up in 2014/15 relating to the Council's review of governance and accountability. The report detailed KPMG's general administrative arrangements and the timeline for reports being presented to the Audit and Risk Committee in 2014/15.

12.   Discussion followed and Members requested clarification in relation to some aspects of fraud and its management within the Council. With regard to the risk of fraud, Members were advised that fraud tended to involve cash and that it was essential for there to be clear definitions of roles and responsibilities with fraud risk procedures being kept up to date and opportunities for staff to report any suspicion of fraud within the organisation. External fraud was addressed within assessment of risk and it was further noted that it would be Best Practice for anti-bribery procedures to be included as part of the Governance of the Council.

        DECISION
        NOTED the report.

        INTERNAL AUDIT WORK 2014/15
13.   With reference to paragraph 17 of the Minute of 23 September 2014, there had been circulated copies of a report by the Chief Officer Audit and Risk providing the Audit and Risk Committee with details of the recent work carried out by Internal Audit, the recommended audit actions agreed by Management to improve internal controls and governance arrangements and other internal audit work currently in progress. The work Internal Audit had carried out in the period from 30 August to 19 December 2014 was detailed in the report. During that period, a total of 10 final internal audit reports had been issued on Communications; Overtime; Earlston High School; Eyemouth High School; Hawick High School; LEADER Grant Funding Compliance; European Fisheries Fund Grant Funding Compliance; Homecare; St Ronan's Residential Home and Tweeddale Day Service; and Flood Risk and Coastal Management. There were 11 recommendations made (no Priority 1 [High Risk], 1 Priority 2 [Medium Risk] and 10 Priority 3 [Low Risk]) specific to 4 of the reports and management had agreed to implement the recommendations in all cases. The report detailed the work in progress to deliver the Internal Audit Annual Plan for 2014/15. Members noted that there were a further 20 audits which had been assigned or were at various stages of completion and that the findings from these would be reported at a future meeting. The Chief Officer Audit and Risk confirmed that findings from recent audits would be taken into account to inform future audit plans. Members requested clarification on a number of points and officers provided additional detail. In respect of Arm's Length External Organisations (ALEOs), Members were advised that it was likely that an ALEO's governance arrangements would be included as part of work carried out by Audit and Risk but that no details had yet been determined for the Care Company ALEO. Mr Robertson advised that Scottish Borders

Council would provide services such as Finance, Payroll, HR, IT, Audit and Risk for a transitional 2 year period to the Care Company ALEO and thereafter, any arrangements would be part of a contract. Mr Harvie, KPMG, confirmed that ALEOs would also be covered in reports by the external auditors. Members were advised that ALEOs would be responsible for establishing their own governance arrangements including audit and that the Council would be responsible for monitoring the service provision. It was further noted that, in terms of the Care Company ALEO, the Care Inspectorate also had an external scrutiny and inspection role.

DECISION
NOTED the final reports issued in the period from 30 August to 19 December 2014 and acknowledged satisfaction with the recommended audit actions agreed by Management to improve internal controls and governance arrangements.

RISK MANAGEMENT REVIEW AND REVISED POLICY STATEMENT

14. There had been circulated copies of a report by the Chief Officer Audit and Risk providing the Audit and Risk Committee with details of the outcomes from the Risk Management Review and seeking agreement to recommend the revised Risk Management Policy to Council for approval. The report explained that the previous review of the Council's management of risk arrangements had been undertaken in 2011 and that the Risk Management Policy had been in operation since September of that year. Good practice determined a need for a review of the current policy, processes and strategy that underpinned the Council's risk management arrangements and this work commenced in March 2014. The report detailed the outcomes of that review as well as recommending improvements to refine the risk management arrangements to ensure their ongoing effectiveness. These improvement actions covered areas such as Policy; Procedures and Strategy; Alignment with Business Planning process; Training; Facilitated workshops; Future use of Covalent; Roles and Responsibilities; and Reporting. The Appendix to the report laid out the Risk Management Policy Statement and Members noted that this would be supported by the revised Strategy, processes and training programme. Discussion followed regarding the Council's Waste Management process and any potential financial risk to the Council under the present scheme. Mr Robertson explained that the commercial contract had been agreed according to the Council's Waste Management Strategy. Further negotiations for financial closure of the project would be presented to Council for agreement or, if so determined, the Waste Management Strategy would be revisited. The project was part of the Council's Risk Register and the risks were therefore set out at each stage of development. In terms of the Risk Management Policy Statement, Members requested that two amendments were made to this document. These were that the words " . . . and will report to Elected Members on these risks." be added at the end of the paragraph entitled Roles and Responsibilities – Corporate Management Team; and that the process by which risk management would be applied within programme and project management be more explicitly included in the Statement within the first paragraph on page 3. It was agreed that the revised Statement be circulated to the Audit and Risk Committee prior to it being presented to Council.

15. Members discussed Covalent and the way in which it was used by officers to assist in risk management and reporting within departments and services. Following discussion, it was agreed that the Chief Executive, Depute Chief Executive People, Depute Chief Executive Place, Service Director Strategy and Policy, Corporate Transformation and Services Director and the Chief Financial Officer attend the next meeting of the Audit and Risk Committee in order to provide Members with information on the use of Covalent and the Corporate Risk Register and also to identify senior officers to attend future Audit and Risk Committee meetings as determined by the Members to outline the risks within their departments/ services.

DECISION

(a) ACKNOWLEDGED that it was satisfied with the outcomes of the risk management review and endorsed the recommendations for improvement to refine the risk management arrangements at the Council to ensure their ongoing effectiveness;

(b) AGREED that:-
  (i) within the Risk Management Policy Statement, the words " . . . and will report to Elected Members on these risks" be added at the end of the paragraph entitled Roles and Responsibilities – Corporate Management Team;

  (ii) the process by which risk management would be applied within programme and project management be more explicitly included in the Risk Management Policy Statement within the first paragraph on page 3;

  (iii) the revised Risk Management Policy Statement be circulated to the Audit and Risk Committee prior to it being presented to Council for approval; and

  (iv) the Chief Executive, Depute Chief Executive People, Depute Executive Place, Service Director Strategy and Policy, Corporate Transformation and Services Director, and the Chief Financial Officer attend future meetings of the Audit and Risk Committee in order to provide Members with information firstly on the Corporate Risk Register and then how risk management (including the use of Covalent) was embedded within their departments/services;

  (v) thereafter, Members would identify which senior officers they would wish to attend future Audit and Risk Committee meetings to outline the risks within their departments/services.

* (c) AGREED TO RECOMMEND that the revised Risk Management Policy Statement at Appendix 1 be approved.

The meeting concluded at 12.25pm.

RISK MANAGEMENT POLICY STATEMENT

Introduction

Scottish Borders Council (SBC), like all organisations, faces a wide range of risks at all levels of the organisation. The aim of this policy is to communicate why risk management should be undertaken, provide a common risk management language and a description of the approach that will be adopted by SBC to manage its risks. This policy is supported by the Risk Management Process Guide and Risk Management Strategy which is underpinned by the Management of Risk (M_o_R) Guide and its associated framework, principles, approach and processes.

SBC understands that effective Risk Management is one of the foundations of effective Corporate Governance which has been adopted in its Local Code of Corporate Governance. Compliance with the principles of sound corporate governance requires SBC to adopt a coherent approach to the identification and effective management of the risks with the outcome that better and more assured risk management will bring many benefits to SBC and the people it serves.

SBC recognise that risk management should be aligned with corporate objectives and will therefore be considered within the business planning process. This ensures that the risks to achieving these objectives are identified and prioritised. The risk management landscape is dynamic and, as local authorities increasingly move towards arms-length delivery of essential services and partnership arrangements, the spectrum of risks that SBC is exposed to also increases.

Therefore, SBC will continue to systematically identify, analyse, evaluate, control and monitor those risks that potentially endanger or have a detrimental effect upon its people, property, reputation and financial stability whether through core service delivery or through a programme of change.

Risk appetite and capacity

Risk appetite is how much risk SBC is willing to seek, accept or tolerate. This will differ dependent on the Perspective being assessed (Strategic long term, whether at Directorate or Corporate level; Programme/Project/Service level medium term or Operational short term). A consistent approach to identifying and analysing risk will therefore be followed, which will be consistent and compatible with SBC's capacity to bear and manage risk. This will be supported by the Risk Management Process Guide and Risk Management Strategy, to ensure that SBC, nor its stakeholders, are exposed to an unknown, unmanaged or unacceptable degree of risk.

Risk tolerance and thresholds

Risk tolerance will be determined by using a combination of the Risk Impact and Likelihood / Probability Matrix, as detailed in the Risk Management Process Guide; by the proximity of the risk; by considering the level of insurance cover in place (if applicable); and by determining whether a risk needs to be managed at a higher level because of the impact if the risk materialises.

Procedure for escalation and delegation

Escalation is the process whereby a risk has exceeded tolerance thresholds at the perspective in question and action or oversight is required at a more senior level. This could be because the impact if the risk materialises is too great to be managed at that level or because the risk is corporate wide. All managers have the responsibility to ensure that risks escalated to them are considered by following the Risk Escalation Procedure detailed in the Risk Management Process Guide. Escalated risks may be overseen at a higher level and actions to mitigate them delegated to another level within SBC or partner organisation.

Project level – Following discussion at project meeting, an Exception Report will be raised to the Project Executive. The risk will then be passed to the Programme Manager to escalate and/or manage appropriately.

Programme level – The Programme Manager will escalate the risk to the appropriate Service Director who will then make a decision on where the risk should be managed and/or what actions are to be taken.

Operational level – Every member of staff has a responsibility to report a risk to their line manager. The line manager must then decide at what level the risk should be managed and/or what actions are to be taken.

Roles and responsibilities

The Council will continue to support its people to develop the appropriate skills and competencies so as to enable them to manage risk effectively and will recognise risk management as a core management competency.

Corporate Management Team (CMT)

CMT will act as risk champions, driving risk from the top down, ensuring all major decisions are subject to a risk assessment and fostering a supportive culture where all members of staff are openly able to discuss and escalate risks to the appropriate level. CMT will regularly review the most serious risks threatening strategic objectives and will report to elected members on these risks.

Audit & Risk Committee

The Audit & Risk Committee will oversee the adequacy and effectiveness of the Council's risk management arrangements.

Senior Management

Senior management will ensure that they understand the risk policy, process and reporting requirements; ensure risk registers are compiled and maintained for each Service, Programme or Project; escalate risks as required by this policy; support internal and external audits; and carry out the complete risk management process on all major activities.

Chief Officer Audit & Risk

The Chief Officer Audit & Risk will develop and maintain corporate risk management strategy, policy and procedures and ensure these are communicated effectively throughout the Council and that processes are in place to embed this in the Council's culture and working practices.

Senior Risk Officer

The Senior Risk Officer will support the management of risk by: monitoring that the processes and procedures are followed; monitoring that risk registers are in place and reviewed, aligned with the business planning process; preparing management reports; offering advice, guidance, training and support; and facilitating risk workshops.

Risk management process

Risk management is not a one-off exercise. It is a continuous process because the decision making processes it underpins are continuous. Risk management must become an integrated part of good management within SBC, but not be over bureaucratic and a process for its own justification. To these ends it will be aligned with the business planning process and reporting schedule. The process to be adopted is described in the document Risk Management Process Guide.

Key performance indicators and early warning indicators

Key performance indicators (KPIs) and early warning indicators (EWIs) will be regularly monitored as part of the business planning and performance management process. As risk management is inextricably linked to this process, monitoring of the KPI's and EWI's will ensure that potential areas of risk are identified and checked.

Scope

Risk management will be applied to every level within SBC, including transformation and change programmes underpinned by robust programme and project management e.g. MSP and PRINCE2. It will be part of the decision making process when developing and reviewing business plans (core business, transformation and change) whether services are directly or externally delivered and when considering alternative service delivery arrangements including partnership, arm's length external organisations and outsourcing.

Reporting

Reporting will be in line with the business planning process and include:

- Quarterly report to CMT and Bi-annual report to the Audit & Risk Committee on the status of key risks and risk management actions.
- Monthly report to the departmental management teams on the status of key risks and risk management actions.
- Services will submit monthly key performance indicator reports in line with the business planning process.
- Individual risk reports will be prepared prior to each partnership, contract or outsourcing decision.

Budget

All the costs involved are contained within the central Risk Management or departmental budgets. Any additional costs arising from enhanced risk mitigation will have to be considered and prioritised against other pressures in the revenue budget. Integration of Risk Management activity within the business planning process should assist in supporting specific business cases for appropriate budget allocations.

Quality Assurance

This policy will be subject to document control, version control, be reviewed at least annually, and be revised to reflect changes in legislation, risk management best practice, and significant changes in corporate governance.

Annual Review

Risk management procedures will be reviewed annually to ensure their continued relevance and effectiveness.

Glossary of terms

For risk management to be effective all participants must speak the same language. A detailed glorssary of terms is included in the Risk Management Process Guide.

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KPMG

cutting through complexity

Scottish Borders Council

Interim management report and audit status summary

Audit: Year ending 31 March 2015

11 March 2015

For audit and risk committee consideration on 23 March 2015

Contents

The contacts at KPMG in connection with this report are:

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About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the *Code*").

This report is for the benefit of Scottish Borders Council ("the Council") and is made available to Audit Scotland and the Auditor General for Scotland (together "the Beneficiaries"). This report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, even though we may have been aware that others might read this report. We have prepared this report for the benefit of the Beneficiaries alone.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out within our audit strategy.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Beneficiaries) for any purpose or in any context. Any party other than the Beneficiaries that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Beneficiary's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Beneficiaries.

Complaints

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Hugh Harvie, who is the engagement leader for our services to the Council, telephone 0131 527 6682 email: hugh.harvie@kpmg.co.uk who will try to resolve your complaint. If your problem is not resolved, you should contact Alex Sanderson, our Head of Audit in Scotland, either by writing to him at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG or by telephoning 0131 527 6720 or email to alex.sanderson@kpmg.co.uk. We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Russell Frith, Assistant Auditor General, Audit Scotland, 110 George Street, Edinburgh, EH2 4LH.

Significant risks and other matters update

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Introduction

We have completed our interim audit visit, where we tested a selection of higher level, process level and general IT controls and held discussions with management to update our understanding of the key business and audit issues for the Council.

This report provides the committee with an update on:

■ the key business issues identified in our audit strategy document;

■ additional audit matters identified during our interim visit; and

■ the results of our higher level and entity wide controls testing.

Significant risks

As identified in our audit strategy document, we do not consider there to be a significant fraud risk in relation to income recognition and our audit procedures are inherently designed to consider the risk of management override of controls.

The interim testing did not identify instances where management override of controls had occurred and controls tested were found to be operating effectively.

Our risk assessment procedures identified one additional significant risk for consideration in the 2014-15 audit in relation to the Council's financial position, including revenue and capital. As outlined in our audit strategy, the Council is operating in a challenging economic environment, with funding reductions and increasing expenditure pressure and therefore requiring specific audit consideration. We have reviewed the Council's performance in these areas at the time of our interim audit work on the following pages.

We will provide an updated list of significant risks and other matters in our annual audit report, which will be reported to the audit and risk committee in September 2015.

Other focus areas

Other matters noted in the audit strategy document were in respect of the accounting for:

■ reserves;

■ property, plant and equipment;

■ landfill sites; and

■ participation in the Scottish Borders Council Pension Fund.

These are set out further on page five.

As part of our interim audit procedures we have reviewed the current financial position and anticipated outturn to the year end.

Consideration of management information and the Council's arrangements for its compilation and monitoring has not identified any additional audit risks, and the Council's financial performance appears to be broadly in line with expectations.

Financial position - revenue

Budget monitoring is carried out on a monthly basis, with quarterly reports being submitted to the Executive Committee. The Council acknowledges the need to maintain efficient departments and respond to the challenge of funding restrictions. At 30 September 2014 it was reported that all pressures identified across departments had been addressed in order to project a break even position for 2014-15 against the revised budget.

The September 2014 revenue outturn monitoring report is shown in the table on the right and this forecasts a projected outturn of £0.7 million underspend against the revised budget accompanied by appropriate adjustments to how this has been financed. This includes earmarking of additional reserves of £1.5 million for use in future years as a result of the establishment of a Treasury Reserve in September 2014.

Loan charges are forecast to be less than budget due the Council entering into less capital borrowing than anticipated when the budget was set. Management has endeavoured to finance expenditure through robust cash management and to minimise borrowing where possible.

The base budget has been updated to include increased revenue support grant funding of £10.6 million which was confirmed by government outwith the settlement letter and not included in the original revenue budget. This has allowed for a breakeven position to be forecast despite an additional £11.5 million of expenditure across various departments, largely attributable to out of area placements and the council tax reduction scheme.

Projected outturn against revised budget		
	Revised budget £'000	Projected Outturn £'000	Variance to revised budget £'000
Chief executive	30,493	30,633	(140)
People	164,678	165,356	(678)
Place	36,603	36,819	(216)
Loan charges	21,443	19,875	1,568
Other	10,536	10,403	133
TOTAL	**263,753**	**263,086**	**667**
Financed by:			
Revenue Support Grant	(174,410)	(175,199)	789
Non-domestic rates	(31,183)	(31,183)	0
Council tax income	(51,126)	(51,126)	0
Earmarked balances from 2013-14	(5,337)	(5,337)	0
Earmarked balances for future years	420	1,920	(1,500)
Transfer to/(from) reserves	(2,117)	(2,161)	44
TOTAL	**(263,753)**	**(263,086)**	**(667)**

Source: September 2014 revenue monitoring report

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We have reviewed capital expenditure forecasts for the year against budget.

Capital programme

The Council developed a five year corporate property asset strategy and management plan ("CPASMP") in 2010 which set the overall strategy for the management of the Council's property assets in order to maximise the contribution to the Council's corporate and service goals and objectives as economically, efficiently and effectively as possible – "the right space, at the right time, in the right place at the right cost".

The five year capital budget approved in February 2013 included £42.3 million of capital expenditure in 2014-15.

The spending in the capital plan 2014-15 has been re-profiled throughout the year to allow for various slippages, accelerations and additional allocation of resources. These changes have been reported to the Council's Executive Committee in quarterly update reports. The revised budget for capital expenditure in the year was £48.3 million at 30 September 2014.
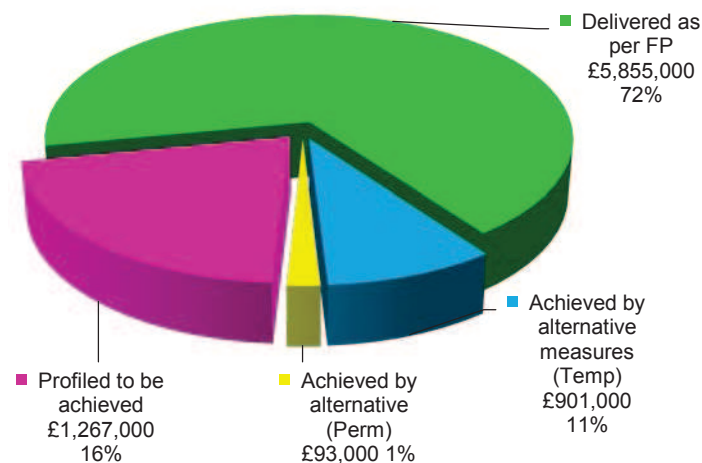
At 30 September 2014, capital expenditure of £9.2 million had been incurred. This represented 19% of the latest approved annual budget. Projected outturn is now £45.8 million representing a £2.5 million underspend against revised budget, mainly due to the re-profiling of the Selkirk Flood Protection project.

Efficiency savings

The Council's financial strategy was produced recognising the continuing difficult economic outlook and the need for tight fiscal constraint for the foreseeable future. The high level financial strategy for the next five financial years includes continued investment in business transformation and efficiency projects to deliver long term financial savings and service benefits.

The 2014-15 financial plan forecast a breakeven outturn but required savings totalling £8.1 million to be met across all Council departments for this to be achieved. Management continue to develop the reporting of the financial position, including detailed monitoring of the achievement of efficiency savings. At 30 September 2014, only 16% of planned efficiency savings were still to be achieved in the remainder of 2014-15.

2014-15 efficiency savings progress

- Delivered as per FP £5,855,000 72%
- Achieved by alternative measures (Temp) £901,000 11%
- Achieved by alternative (Perm) £93,000 1%
- Profiled to be achieved £1,267,000 16%

Source: September 2014 revenue monthly monitoring report

Reserve levels

On 9 February 2012 the council adapted its basis of setting appropriate reserve levels to one which used the corporate risk register as a starting point. The process used applies a financial amount to each risk, adjusted for the perceived probability of the risk crystalising. While this is a judgemental process it is clear and offers the opportunity to make assessments of the required level of reserves on a disaggregated basis.

The corporate risk register was last considered at the executive committee in August 2014. The total financial risk in the register is assessed to be £10.1 million and the projected useable general fund balance at 31 March 2015, at £6.8 million, is sufficient to cover 67% of risks identified at that time. The recommended balance to be maintained on the general fund reserve will continue to be monitored by the Council on a regular basis and we will comment on this in our annual audit report.

Valuation of property, plant and equipment

Under the Council's rolling basis of revaluations, Common Good and Charitable Trust properties will be subject to valuation as at 1 April 2014. As part of our year end procedures we will liaise with our internal valuation experts to review the methodology and assumptions used in the revaluation. We will also consider the accounting implications of the valuations to ensure that they are appropriately reflected in the financial statements.

Accounting for landfill sites

We have updated our understanding of the issue and continue to liaise with management over accounting for the Council's landfill obligations. We will review this in detail as part of our year end procedures. Based on our previous year's audit work, we are not expecting that this area will have a material impact on the financial statements.

Pensions

The Council accounts for its participation in the Scottish Borders Council Pension Fund in accordance with IAS 19 *Retirement benefits*, using a valuation report prepared by actuarial consultants, Barnett Waddingham. We have tested the operating effectiveness of controls designed to ensure that amendments to pensioner data are accurately updated on the pension system accessed directly by the actuary, with issues identified.

Control framework: governance arrangements

The financial and operating environment in which the Council operates continues to change, with developing priorities and emerging financial and non-financial risks. The Council's governance arrangements also continue to develop.

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Our interim audit fieldwork was based on gaining an understanding of the strategic and operating culture and framework in which services are delivered. In response to some of the challenges highlighted in the Council's financial strategy and also in response to the changing public sector environment, the Council will be required to make fundamental changes to the way that it has provided services in the past. Some of these changes have already impacted the Council, whilst some are in their infancy and will not have an impact until future years. Below we have identified some of the significant changes occurring at the Council as well as our consideration of these from an audit perspective.

Test	Description	Results
Organisational restructure	A new staffing structure has been in place since 1 April 2014. Under the revised structure, four director posts were replaced with two deputy chief executives. There will also be a reduction in the number of heads of service/chief officers from the current headcount of 19 to 12, together with a number of changes lower down the organisational hierarchy. This does not require a modification to our audit approach, but we will review any severance costs associated with the restructure as part of our audit work on the 2014-15 remuneration statement.	Satisfactory.
Employee terms and conditions	Revised set of employee terms and conditions in place since 1 April 2014. This will affect the 2014-15 financial statements, although this does not require modification to our audit approach. We will ensure we have taken these changes into account when auditing the Council's staff costs for 2014-15.	Satisfactory.
Committee restructure	There have been changes made to the committee structure to improve accountability and clarify roles and reporting lines. These have been in place since 1 January 2015. Now that the Council review of governance and accountability has been completed, we will carry out a targeted follow-up in this area as part of the final audit. This area was identified as requiring additional scrutiny by the Local Area Network (LAN).	To be assessed during final audit.
Related parties	Separate registers of interest exist for chief officers and elected members. Members are required to declare relevant interests during meetings if appropriate. Our year end audit procedures will include a review of these registers of interests to confirm that all registers are up to date and that any related party transactions have been appropriately disclosed in the financial statements.	Satisfactory.

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Test	Description	Results
Organisation-wide policies	Organisation-wide policies are important as they set the tone of the Council, outline expectations of employees, document key processes to be followed by all staff, and communicate the culture of honesty and ethical behaviour. These should be updated in a reasonable timeframe to reflect new requirements, and be easily accessible to all staff on the intranet. There are a number of polices which have not been updated in what we consider to be a reasonable timeframe. The Housing and Council Tax Benefit Counter Fraud Policy has not been updated since 2010 and this was the subject of a recommendation in 2013-14. The password policy and computer security policy both state that the policies will be reviewed on an annual basis, however they were both overdue at the time of our interim audit. We note that they have been reviewed and endorsed by the council's information governance group since our interim audit but have yet to be published on the intranet.	There are a number of polices which were not updated in what we consider to be a reasonable timeframe. We have not identified any additional audit risks created as a result of this and consequently we have not modified our audit approach. However, it would be good practice for management to review and update these policies. *Recommendation one*
Charitable trusts	From 2013-14, all charitable trust funds registered with the Office of the Scottish Charity Regulator ("OSCR") require an audit. In the prior year, the Council has two registered charitable bodies, the Scottish Borders Council Charitable Trusts and the Common Good Funds, which were subject to audit in 2013-14. Reorganisation of the Council's charities was ongoing at the time of our interim audit therefore we will continue to monitor management's progress and will agree arrangements for the relevant audits in due course.	Satisfactory.
National fraud initiative	We prepared a return to Audit Scotland in December 2014, assessing management's participation in the exercise. The review identified that more than half of the data matches for 2013-14 had been processed and that the exercise was still ongoing. There will be further data matching exercises in February and May 2015. The Council's internal team will transfer to DWP from 1 March 2015 and responsibility for investigation will pass to DWP. We will submit another return to Audit Scotland in June 2015.	Satisfactory.

Test	Description	Results
Integration of health and social care	In March 2014 the Public Bodies (Joint Working) (Scotland) Act was passed by the Scottish Government. This requires all Councils and NHS Boards to formally and legally establish integration of health and social care by April 2016. The Council has agreed that in conjunction with NHS Borders, the body corporate model should be adopted and the scheme of integration should be based on this model. Integration schemes must be submitted to Scottish Ministers for approval by 1 April 2015. We understand from management that the Council is on track to meet this deadline. A wholly-Council owned limited liability partnership, SB Cares, will be put in place as a separate legal entity from 1 April 2015. It will therefore fall within the definition of a group entity and hence be required to be included in the Council's group financial statements for 2015-16. Auditors are required to consider the Council's progress in the integration of health and social care, and report our findings in the annual audit report.	Satisfactory.
Internal audit	The annual internal audit plan is aligned to the financial year. Directors are consulted and the risk register considered as part of planning. The 2014-15 plan was approved in March 2014 and progress to December 2014 has been reported. As in previous years, we intend to place reliance on internal audit's work on non domestic rates controls and statutory performance indicators. We have had discussions with internal audit and staff are finalising the above work for 2014-15. We will review relevant internal audit files, findings and recommendations as part of our year end procedures and assess any impact on our substantive audit work. We will continue to review the findings from other internal audit reviews in order to assist in our overall risk assessment of the Council. For example, although we have not placed direct reliance on them, we have considered the reports on health and social care, sports trusts and human resources useful for our information. Other reports that may be of interest once finalised include capital investment, financial planning, procurement and governance.	Satisfactory. No additional risk areas identified through review.

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Where an audit objective has a controls approach, we have updated our understanding of accounting and reporting activities over each significant account and identified and tested key financial controls as well as reviewing higher level organisational controls.

We have evaluated the design and implementation of these controls and, where appropriate, tested the operating effectiveness.

Our audit does not seek to test all transactions or controls established by management. Testing of the design and operation of key financial controls for the purposes of our financial statements audit, however, confirms that, with the exception of some weaknesses reported, those controls are designed appropriately and operating effectively.

Test	Description	Results
Income and expenditure	The council has a robust budget setting process, with involvement from various key members of staff. Formal revenue and capital budget monitoring is completed and reported to the corporate management team on a monthly basis and four times a year to the executive committee. Our testing confirmed that budget monitoring arrangements are designed, implemented and operating effectively. Management report progress against the achievement of efficiency saving targets as part of the suite of financial information that elected members receive in their quarterly revenue monitoring reports. The payment run control was found to be designed, implemented and operating effectively.	Satisfactory – no exceptions identified.

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Weaknesses were identified in relation to bank reconciliations and journals. We have assessed the impact of control weaknesses on our audit approach and due to the minor nature of these we do not consider it necessary to increase our substantive audit testing as a result.

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Test	Description	Results
Treasury	Testing confirmed that there are bank reconciliations prepared for each month, with bank balances reconciled to the general ledger and reconciliations signed as prepared and authorised by an appropriate member of staff.	While we conclude that this control has been designed and implemented appropriately and is operating effectively, we have suggested some control improvements that could be made to ensure that items are fully reconciled on a timely basis and evidenced as such. *Recommendation two*
Journals	A new authorisation control was introduced during 2013-14. This control appears to have been designed appropriately, implemented and operating effectively on the whole, although a control deficiency was identified. We found that 4 journals from our sample of 25 did not have documentation to support the performance of the authorisation control. Confirmation of authorisation of these journals had not been retained as required and therefore we could not confirm that this had been received before the journal was released. However, as a mitigating measure we were able to verbally confirm this, as well as reviewing supporting documentation to confirm that the journal was not posted in error, therefore we do not consider this a control failure. However, management should ensure all employees are aware of the control and are following the process as designed in all cases.	This key control appear to have been designed appropriately, implemented and operating effectively on the whole, although a control deficiency was identified. We found that 4 journals from our sample of 25 did not have supporting documentation to support the performance of the authorisation control. *Recommendation three*

Our audit approach for 2014-15 involves testing the design, implementation and operating effectiveness of the Council's general IT controls for its ledger system, FIS (financial information system).
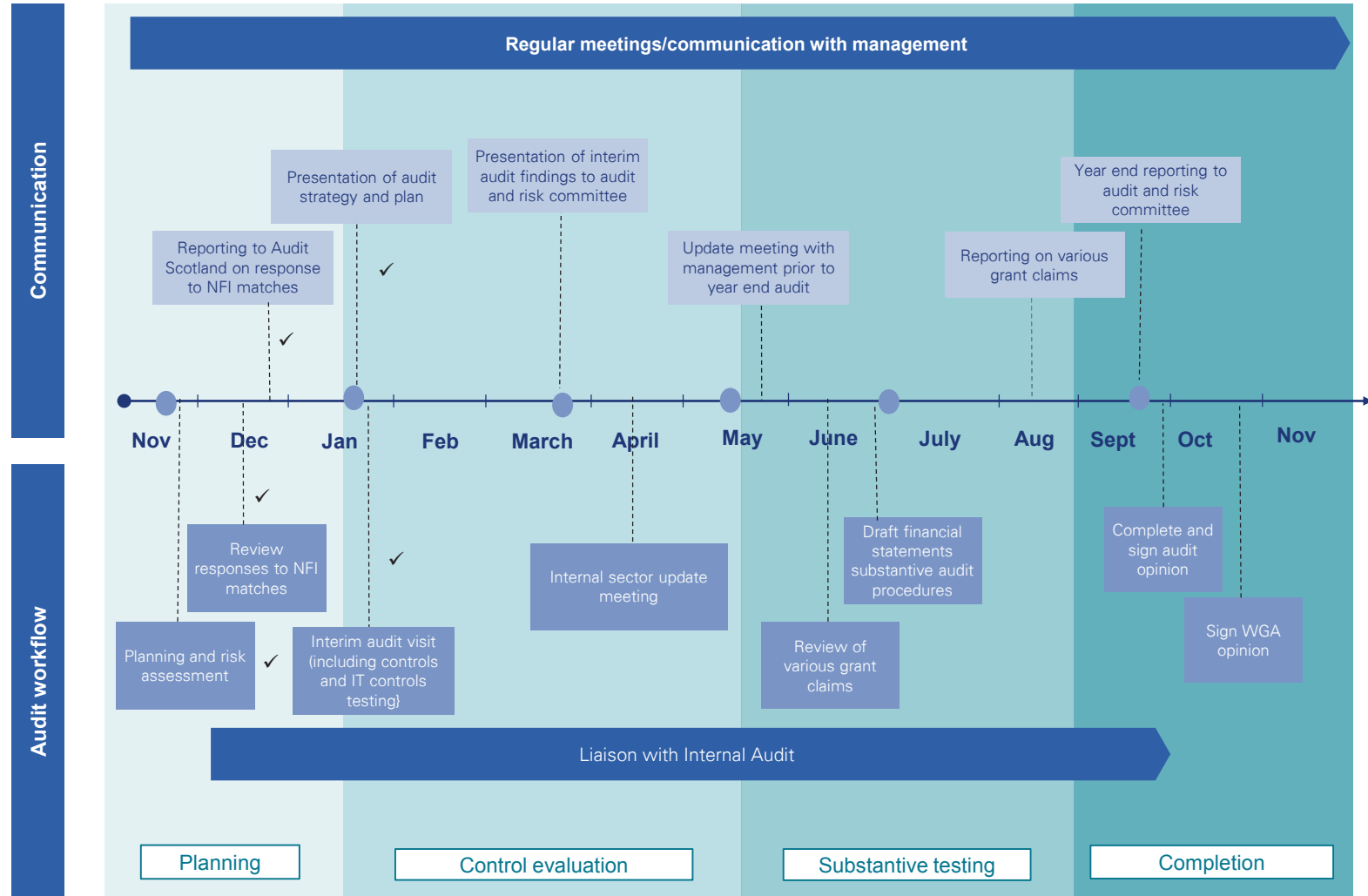
Our planning for the 2014-15 audit determined that we would test the design, implementation and operating effectiveness of a number of general IT controls to give us comfort over the information produced by the ledger and used as the basis of our audit work. Our testing gave us comfort over the controls in place for system access and program changes.

Test	Description	Results
FIS access controls	Starters, leavers and amendments were processed correctly and in line with procedures, with users added and removed from the system appropriately and in a timely manner. We noted that new start forms had a requirement for "requester" and "authoriser", but in many cases this was the same person. However after enquiry with management, IT and the system administrators we determined that this is accepted practice. As all new users were authorised by an existing user with authority to do this, showing segregation of duties, we have concluded that this is not an issue and that the control is operating effectively. Super users were deemed appropriate based on the individual's job titles. There are four generic super user accounts which management consider appropriate. The FIS system password parameters are not in compliance with the organisation's password policy which states that all organisational passwords should be a minimum of 9 characters. The FIS system can only support a maximum of 8 characters.	Satisfactory overall, although we have raised a recommendation in relation to the FIS system password parameters. *Recommendation four*
Program changes and IT policies	Requests for a program change are sent via an authorised change request form to the central IT team and then considered at the next weekly change meeting. If approved, the changes are made, tested and then implemented if there are no issues. Our testing found that the five program changes in our sample were properly authorised and implemented in a test environment before going live. There is an IT security policy in place which is sufficiently detailed and widely available to staff on the Council's intranet. However, it was last reviewed in April 2013. This is less than two years ago, however section 8 of the policy itself states that it will be reviewed at least annually. We note that since our interim audit, this been reviewed and endorsed by the council's information governance group but has yet to be published on the intranet. We will review this again at our final audit and recommend that in future review is carried out as necessary on the frequency stated in the policy.	It was found that at the time of our interim audit the IT security policy was last reviewed in April 2013. We have raised a recommendation in relation to this, but overall and as a result of subsequent review, still consider this control to be designed, implemented and operating effectively. *Recommendation one*

Appendix

Progress against the 2014-15 audit timeline communicated in our audit strategy document is shown opposite.

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Regular meetings/communication with management

Communication

Presentation of audit strategy and plan

Presentation of interim audit findings to audit and risk committee

Year end reporting to audit and risk committee

Reporting to Audit Scotland on response to NFI matches

Update meeting with management prior to year end audit

Reporting on various grant claims

Nov | Dec | Jan | Feb | March | April | May | June | July | Aug | Sept | Oct | Nov

Audit workflow

Review responses to NFI matches

Draft financial statements substantive audit procedures

Complete and sign audit opinion

Internal sector update meeting

Planning and risk assessment

Interim audit visit (including controls and IT controls testing)

Review of various grant claims

Sign WGA opinion

Liaison with Internal Audit

Planning | Control evaluation | Substantive testing | Completion

Audit and risk committee meetings

Our audit approach for 2014-15 involves increased use of data analytics to supplement existing control and substantive testing.

Data analytics takes mass data sets and analyses them to draw out potential control weaknesses or value for money concerns.

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Our planning for the 2014-15 audit determined that we would utilise data analytics to enhance the delivery of the audit. During our planning and risk assessment work, we identified a number of techniques we could use throughout our final audit work. These are set out below. This is not necessarily an exhaustive list, as other opportunities could potentially be identified, nor is this set in stone as this work depends on obtaining the relevant data from the Council and agreement that this work will be value adding.

Audit area	Proposed analysis
Income and debtors	■ Perform analysis of the debtors ledger and compare data between councils. This would allow us to provide benchmarking information to management regarding their collection of debts.
Expenditure and creditors	■ Re-age the creditors listing at year end and provide benchmarking information on Scottish Borders Council's payment of creditors in comparison to other local authorities. ■ Comment on whether or not the Council is in line with the government's prompt payment guidelines.
Procurement	■ Perform data matching to identify any duplicate bank account details in supplier data and the payroll system.
Payroll – overtime and annual leave	■ Utilise data analytics in these topical areas to provide value adding information to management.
Payroll and pensions	■ Perform analysis of payroll and contribution rates data to verify contribution payments as part of our audit testing over pensions (using average salaries and average contribution rates to calculate expected contribution payments).
NFI	■ Make use of data analytics to summarise performance and make NFI benchmarking comparisons over and above what is already reported.
Journals	■ Use data analytics to select higher value and other higher risk journals over which we will focus our testing. ■ We can also perform analysis on the volume of journals posted and other similar tests to provide value adding feedback to management.

The action plan summarises specific recommendations, together with related risks and management's responses.

We have identified no grade one ('significant') or grade two ("material") observations and four other recommendations.

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Priority rating for recommendations

Grade one (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the Council or systems under consideration. The weaknesses may therefore give rise to loss or error.

Grade two (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.

Grade three (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the control to meet their objectives in any significant way. These are less significant observations than grades one or two, but we still consider they merit attention.

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
1 Organisational policies		**Grade three**
Council policies state that they will receive an annual review, however these have not been evidenced as carried out on some of the policies we have reviewed as part of our interim audit. For example, the last review of the IT password policy is dated 11/11/2011 and the last review of the IT security policy was carried out April 2013. In addition, we made a similar recommendation in the prior year that policies should be updated, specifically the Housing and Council Tax Benefit Counter Fraud Policy (2010). It was confirmed by review of the policy on the intranet that it has not been updated.	The relevant policies should be reviewed and updated as necessary on the frequency stated in the policy. We note that since our interim audit the password policy and the security incident reporting and management procedure (associated with the computer security policy) have been reviewed and endorsed by the council's information governance group but have yet to be published on the intranet. We will review this again at our final audit and recommend that in future review is carried out as necessary on the frequency stated in the policy.	Agreed **Responsible officer(s):** Chief Officer IT **Implementation date:** 31 May 2015

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
2 Bank reconciliations		**Grade three**
Bank reconciliations have been prepared for each month, they have been signed as reviewed and prepared but they are not dated to indicate when the preparation and review took place. Therefore we cannot ensure that these are being prepared on a timely basis. In addition, bank balances are not fully reconciled to the ledger each month and there are balancing figures which cannot be explained at the time of our interim audit. The largest in the two months that we sampled was £48,500 in June 2014. Staff are looking into this and these balances will be reconciled or written off at year end (31 March 2015).	Differences become harder to reconcile as more time passes, therefore the risk is that there will be differences which cannot be reconciled. The differences identified are not material at present, therefore there are no concerns that this could potentially lead to a material misstatement. However, bank balances should be fully reconciled on a regular basis.	Agreed **Responsible officer(s):** Chief Financial Officer **Implementation date:** 31 May 2015
3 Journal authorisation		**Grade three**
We found that 4 journals from our sample of 25 did not have documentation to support the performance of the authorisation control. Confirmation of authorisation of these journals had not been retained as required and therefore we could not confirm that this had been received before the journal was released. However, as a mitigating measure we were able to verbally confirm this, as well as reviewing supporting documentation to confirm that the journal was not posted in error.	All staff should follow the authorisation control as designed. Management could consider communicating with staff and circulating a reminder of the process.	Agreed **Responsible officer(s):** Chief Financial Officer **Implementation date:** 31 March 2015

Finding(s) and risk(s)	Recommendation(s)	Agreed management actions
4 Password policy		**Grade three**
The password policy states that all organisational passwords should be a minimum of 9 characters, however this is not followed by the FIS system. In addition, we made a similar recommendation in the prior year that the policy should be updated to state the systems that this does not apply to. It was confirmed by review of the intranet that this policy has not been updated.	The password policy should be updated to explicitly state that these minimum password requirements do not apply to the systems that cannot support the required level of complexity.	**Responsible officer(s):** Chief Officer IT **Implementation date:**

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KPMG

cutting through complexity

Scottish Borders Council Pension Fund

Audit strategy review and plan

Year ending 31 March 2015

For Audit & Risk Committee consideration in March 2015

Contents

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About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the *Code*"). This report is for the benefit of only Scottish Borders Council and is made available to the Accounts Commission and Audit Scotland (together "the beneficiaries"), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

Nothing in this report constitutes an opinion on a valuation or legal advice. We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scope and objectives section of this report. This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

Complaints

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Hugh Harvie, who is the engagement leader for our services to Scottish Borders Council Pension Fund, telephone 0131 527 6682 email: hugh.harvie@kpmg.co.uk who will try to resolve your complaint. If your problem is not resolved, you should contact Alex Sanderson, our Head of Audit in Scotland, either by writing to him at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG or by telephoning 0131 52 6720 or email to alex.sanderson@kpmg.co.uk. We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Russell Frith, Assistant Auditor General, Audit Scotland, 110 George Street, Edinburgh, EH2 4LH.

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This document describes how we will deliver our audit for Scottish Borders Council Pension Fund ("the Fund") for the year ending 31 March 2015.

This includes the opinions on the financial statements prepared by the Council in accordance with relevant legal and accounting requirements.

Our audit work is undertaken in accordance with Audit Scotland's *Code of Audit Practice*. This specifies a number of objectives for our audit.

The Accounts Commission has appointed KPMG LLP as auditor of the Scottish Borders Council, and therefore Scottish Borders Council Pension Fund ("the Fund") under the Local Government (Scotland) Act 1973 ("the Act"). The period of appointment is 2011-12 to 2015-16, inclusive.

KPMG's planned audit work in 2014-15 will include:

- an audit of the financial statements and provision of an opinion on whether:
  - they give a true and fair view of the state of affairs of the Fund;
  - the accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014-15, the requirements of the Local Government (Scotland) Act 1973 and the Local Government Scotland Act 2003.
- a review and assessment of the Fund's governance arrangements including: a review of the adequacy of internal audit and review of the governance statement;
- a review of National Fraud Initiative arrangements; and
- a review of arrangements for preparing and publishing statutory performance information.

Auditors and audited bodies' responsibilities are set out in Audit Scotland's Code of Audit Practice ("the Code"). This Code states the responsibilities in relation to:

- the financial statements;
- corporate governance and systems of internal control;
- prevention and detection of fraud and irregularities;
- standards of conduct and arrangements for the prevention and detection of bribery and corruption;
- arrangements for preparing and publishing statutory performance information;
- financial position; and
- Best Value, uses of resources and performance.

The responsibilities of the auditor and management are summarised below; appendix two sets out the detailed responsibilities.

Responsibilities of the appointed auditor

We carry out our audit in accordance with our statutory responsibilities under the Act and in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and the wider responsibilities embodied in the Code.

We have set out opposite the key elements of our audit work for 2014-15 on the financial statements and corporate governance arrangements. While auditors are not responsible for preventing or detecting fraud or irregularity and do not substitute for audited bodies own responsibilities, we will review and report on these arrangements. We will review and report whether the Fund has adequate arrangements in place to maintain and promote proper standards of financial conduct and to prevent and detect bribery and corruption. We will also report on whether management has established adequate arrangements to manage performance, regularity, use of resources and performance information.

Responsibilities of the accountable officer

The audit of the financial statements does not relieve management or the audit and governance committee of their responsibilities. The Fund is responsible for financial statements which show a true and fair view of the Fund's affairs, and for making available to us all the information and explanations we require for the purposes of our audit.

The Fund is responsible for establishing arrangements for ensuring the proper conduct of its affairs and developing and implementing systems of internal control, including risk management, financial, operational and compliance controls. These systems should include arrangements to prevent and detect fraud and other irregularity. Management is responsible for implementing proper arrangements to ensure that their financial position is soundly based.

Our audit approach is risk-based, and focuses on the areas most likely to lead to material misstatement in the Funds' financial statements.

We have performed initial risk assessment procedures to identify focus areas for the 2014-15 audit.

Continued areas of audit focus are:

- **investments;**
- **governance; and**
- **value adding audit methods.**

We have developed an understanding of your key audit focus areas based on our initial risk assessment procedures, including discussions with management. The key areas identified are detailed below. Our risk assessment procedures are ongoing throughout the audit, and we will update you in respect of any emerging risks as we become aware of them.

Financial performance

Because of the nature of the longer term nature of the Fund's activities, detailed financial reporting to the Council's pension fund committee focuses on investment performance rather than the detail of dealings between Fund members and employers. These are however expected to be broadly consistent with the prior year which had contributions receivable £17.2 million and transfers in of £1.1 million and benefits payable of £17.2 million and payments to and on account of leavers of £1.5 million. Administration expenses were under £366k.

Tendering for new investment managers has now been completed and 2 new, additional fund managers have been appointed and six and now in use. The internal transaction report for the period to 31 December 2014 demonstrated positive returns to the Fund (annualised return of 9.5% per annum over the three years to 31 December 2014 which is above the benchmark for the period). At 31 December 2014, Fund investments were £520 million, with the investment adviser indicating that the funding level at that date was around 105% of the Fund's ongoing liabilities (based on the triennial valuation as at 31 March 2011). This compares to net assets in the Fund at 31 December 2014 of £520 million, this figure excludes future pension fund liabilities.

Our audit will include consideration of the process to transfer assets, if appropriate, and the associated reconciliations are performed by management. As part of our year end audit we will also obtain independent confirmation of investment balances held and undertake appropriate tests on the underlying investment information and valuations applied as at 31 March 2015.

Fund governance

The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 require an administering authority to prepare and publish a governance compliance statement to measure their pension funds' governance arrangements against the standards set out in guidance from the Scottish Ministers. Regulation 5 of the Local Authority Accounts (Scotland) Regulations 2014 introduces a new requirement from 2014/15 for local authorities to undertake an annual review of their system of internal control and report this in an annual governance statement. The Scottish Government has recommended that one statement be prepared which satisfies both requirements.

The annual governance statement is to be prepared in accordance with the proper practices outlined in *Delivering good governance in local government: framework* published by CIPFA and SOLACE.

Our audit will focus on the key areas of Funds' governance; for example, committee operations, provision and use of management information, the risk assessment and monitoring process, and, compliance with key areas of legislation and regulation. We are required to review the governance compliance statement and the annual governance statement (or the combined statement) and to read these to identify material inconsistencies with the financial statements and the knowledge gained through our audit work.

We will carry out a high level compliance and regulatory review as part of our normal audit procedures. Our team has access to pensions audit specialist and local authority audit specialists who can keep you and the audit team fully briefed on any emerging pensions technical and accounting matters.

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Our audit approach is risk-based, and focuses on the areas most likely to lead to material misstatement in the financial statements.

We have performed initial risk assessment procedures to identify focus areas for the 2014-15 audit.

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Significant risks

International Standard on Auditing (UK and Ireland) 315: *Identifying and assessing risks of material misstatement through understanding the entity and its environment* requires the auditor to determine whether any of the risks identified as part of risk assessment are significant risks and therefore requiring specific audit consideration. In determining whether a risk is significant, judgement is applied in respect of the whether, for example, the risk is associated with the complexity of transactions, the degree of subjectivity involved in the measurement of financial information, whether the associated transactions are outside the normal course of business, or whether there is an associated risk of fraud.

We include one significant risk below:

Significant risk and implications	Our planned audit approach
Pervasive risk: fraud risk from management override of controls Professional standards require us to communicate the fraud risk from management override of controls as significant. Management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.	We have not identified any specific additional risks of management override relating to this audit. Our audit methodology incorporates the risk of management override as a significant risk. This includes testing of journals at the year end and throughout the year, review of unusual transactions in the year, enquiries with employees outside the finance department, tests of unpredictability and controls testing, including higher level controls.

| Other focus area	Our planned audit approach
Fraud risk from income recognition Professional standards require us to make a rebuttable presumption that the fraud risk from income recognition is a significant risk.	Professional standards require us to make a rebuttable presumption that the fraud risk from income recognition is a significant risk. However, as the income of the Funds comprises contributions receivable in accordance with levels recommended by the Funds' independent actuary and can be related to the underlying employer records, we do not regard the risk of fraud from this revenue recognition as significant. In addition, the other major source of income is earned from the independently managed investments held by the Funds. This minimises the level of judgement required in revenue recognition by management and we do not regard the risk of fraud from this revenue recognition as significant.

Risk classification	
●	Significant risk
●	Other focus area

KPMG benchmarking analysis

Adding value through extended assurance

We use technology and specialists within KPMG to help us form audit conclusions for the purposes of our audit. They also provide powerful assurance to you. For example, we will use our in-house investment pricing tool, iRadar, to independently scrutinise the price of every position in your segregated investment portfolios, covering all quoted and most unquoted positions, such as over-the-counter derivatives. This service will provide independent assurance on the valuation of these investments and will quickly identify any complex or harder to value positions or any stale pricing issues which we will focus our audit on. Our results will also provide you with a view of the quality of internal controls of your custodians and/or investment managers.
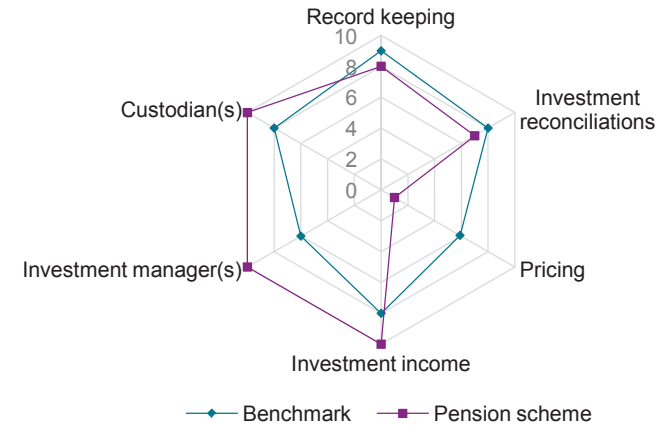
How does your scheme measure up?

As part of our annual audit, we will show you how your financial controls compare to those of other pension schemes of a similar size and what we assess as best practice through our unique pension scheme benchmarking analysis. Our audit practice comprises some 700 pension schemes, including 72 with net assets of over £200 million, giving us a comprehensive database from which to develop authoritative comparative information. Our analysis plots your scheme against a 'benchmark' which is derived from KPMG audit clients of a similar size. We present the results in a 'web-o-gram' across four categories (trustee governance, scheme administration, investments and scheme accounting). An example for 'Investments' is shown above.

This will give the Fund another lens through which to determine if the control environment within the administrator is satisfactory.

The Council is required to prepare financial statements for the Pension Fund in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2014-15 ("the Code").*

While there are some changes in the content of the Code for 2014-15, the financial statements and underlying accounting policies are expected to remain substantially consistent with the previous year.

KPMG remains committed to working with management to enhance the clarity and impact of the financial statements, including the implications of the revisions to the Code.

Code of practice on Local Authority Accounting (pension funds) in the United Kingdom 2014-15 ("the Code")	The 2014-15 financial statements will be prepared in accordance with the *Code of practice on local authority accounting in the United Kingdom 2014-15 ("*the Code*")* which is based on International Financial Reporting Standards ("IFRS"). The 2014-15 Code has a number of amendments from the 2013-14 version and management should consider if these changes will impact the financial statements. The amendments include: ■ changes in relation to changes in legislation – see Local Authority Accounts (Scotland) Regulation 2014 below; ■ new guidance in relation to management costs; and ■ new, revised or enhanced guidance from Audit Scotland's Technical Service Unit ("TSU") in relation to actuarial valuations, funding, administrative expenses/management costs, management commentary and the annual governance statement.. Audit Scotland has also provided enhanced guidance in respect of a number of technical topics, which will be considered during the audit.

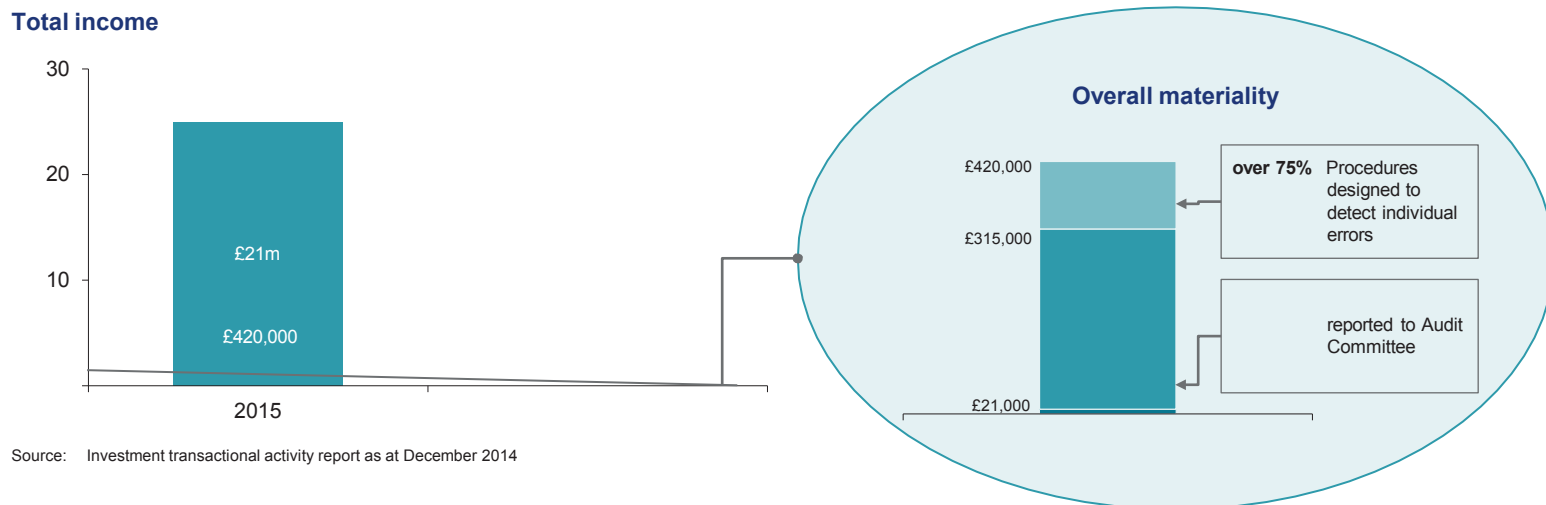**Changes to Local Authority Accounts (Scotland) Regulations**

The Local Authority Accounts (Scotland) Regulations 2014 came into force on 10 October 2014, replacing the 1985 regulations. The new regulations include a number of changes designed to help strengthen corporate governance processes. These amendments include:

■ clarification of the composition of the annual accounts, requiring the inclusion of a management commentary, a statement of responsibilities, an annual governance statement and a remuneration report;

■ changes to the process for approving the unaudited accounts, including a requirement for the audit and governance committee to consider the unaudited accounts by 31 August;

■ changes to the process for approval of the audited annual accounts, with a deadline of 30 September; and

■ changes to the requirements for the publication of the audited annual accounts.

Mandatory communications: audit materiality

Our audit work is planned to detect errors that are material to the financial statements as a whole.

Our materiality is based on income arising from dealings with members and employers and takes into account the low risk nature of the Fund.

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Total income

Source: Investment transactional activity report as at December 2014

Overall materiality

£420,000

£315,000

£21,000

over 75% Procedures designed to detect individual errors

reported to Audit Committee

Determining materiality

We consider quantitative and qualitative factors in setting materiality and in designing our audit procedures.

We have reassessed our level of materiality this year based on our knowledge and understanding of the Fund's risk profile and, therefore, financial statements. Materiality has been set at £420,000 which is approximately 2% of members, employer related and investment income in 2013-14. This will be revised once draft financial statements for 2014-15 are known.

We design our procedures to detect errors at a lower level of precision, i.e. £315,000.

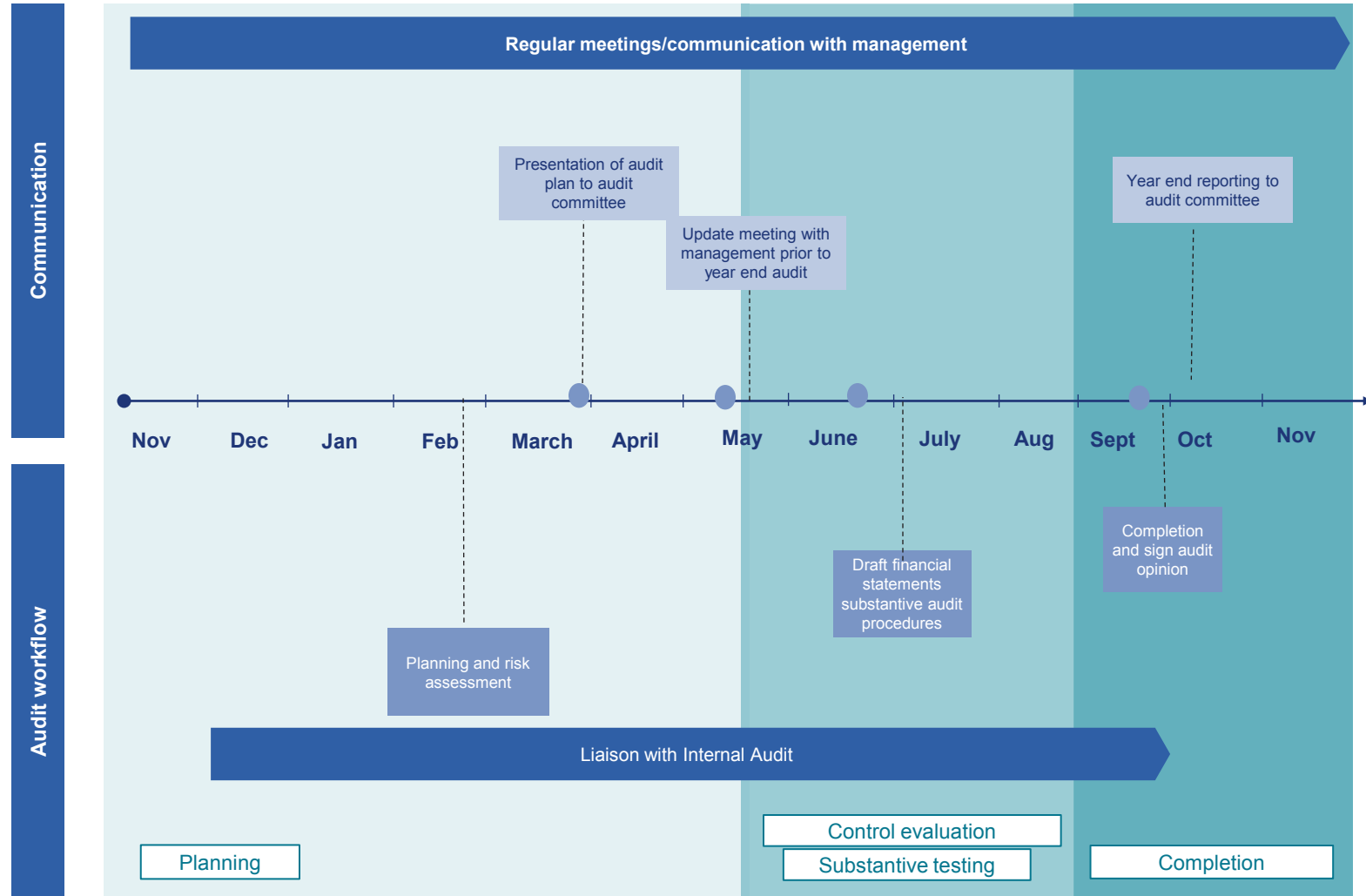We will report identified errors greater than £37,500 to the audit committee.

Reporting to audit committee

To comply with Auditing Standards, the following three types of audit differences will be reported to the audit committee:

- adjusted audit differences;
- unadjusted audit differences; and
- disclosure differences (adjusted and unadjusted).

Our timetable is largely unchanged from the prior year but will be subject to refinement through discussions with management.

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Communication

Regular meetings/communication with management

Presentation of audit plan to audit committee

Update meeting with management prior to year end audit

Year end reporting to audit committee

| Nov | Dec | Jan | Feb | March | April | May | June | July | Aug | Sept | Oct | Nov |

Completion and sign audit opinion

Draft financial statements substantive audit procedures

Planning and risk assessment

Audit workflow

Liaison with Internal Audit

Control evaluation

Planning

Substantive testing

Completion

● Audit committee meetings

The team benefits from strong relevant experience, alongside continuity at manager and in-charge level. We are able to build on our teams combined knowledge of both the Fund's activities and of the requirements of local authority guidelines and reporting.

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Team member (your main Fund contacts)
Hugh Harvie; *Partner* Hugh has overall authority and responsibility for the audit engagements, including reporting on the financial statements, and will review key conclusions reached by the engagement team on all accounting and auditing matters. Hugh undertakes work across the public sector working with a range of councils and central government bodies.
Suzanne Amabile; *Manager* Suzanne serves as the day-to-day audit liaison between management and KPMG and a first point of contact. She also provides technical accounting, regulatory and other advice in the first instance.
Alan Smith; *Pensions Specialist* Alan is a senior manager in our financial services sector. He will assist the audit team in terms of technical knowledge of the pensions arena, updates to regulation and the use of data analytics techniques taken from our financial services practice.
Juhi Srivastava; *Audit In-charge* Juhi coordinates the onsite audit fieldwork, liaising directly with the key finance staff in respect of the preparation for, and conduct of the financial statements audit work.

Team member (your main Council contacts)
Hugh Harvie; *Partner*
Matt Swann; *Senior Manager* Matt serves as the day-to-day audit liaison between management and KPMG and a first point of contact. He also provides technical accounting, regulatory and other advice in the first instance. Matt has over 7 years of public sector audit experience working with a range of councils, charities and central government bodies.
Rhona Mitchell; *Audit In-charge* Rhona coordinates the onsite audit fieldwork, liaising directly with the key finance staff in respect of the preparation for, and conduct of the financial statements audit work. She provides continuity from 2013-14 and will build on her knowledge and experience of the Council in 2014-15.

Fee proposals

Audit Scotland requires that the fee for our work is set within an indicative range, depending on the assessment of risk and other factors facing the Joint Board. The indicative fee range is calculated using a number of inputs:

■ a central estimate of the number of days needed to do the audit;

■ the average remuneration rate for the audit team;

■ the contribution to travel and expenses within the sector;

■ the contribution towards performance audits, where relevant; and

■ the contribution towards other central costs not met by the Scottish Consolidated Fund.

The indicative fee ranges are based on the following assumptions to ensure an efficient audit process:

■ draft report, financial statements and full electronic files of supporting work papers available at the start date of our on site visit agreed with officers preferably in electronic format;

■ reliance on your internal controls;

■ availability of key members of staff during the audit fieldwork; and

■ completion within the agreed timetable

The element of the fee agreed with Scottish Borders Council which we propose applying to the Fund is £23,000.

Should we be required to undertake significant additional audit work in respect of any of the areas of audit focus or other matters arising, we will discuss with management the impact of this on our proposed fee.

Mandatory communications with those charged with governance as required by International Auditing Standards are set out opposite.

These cover:

- **fraud;**

- **related party transactions; and**

- **independence.**

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Area	Management responsibility/ action	KPMG response
Fraud risks	■ It is the responsibility of management to implement accounting and internal control systems which are designed to prevent and detect fraud and error. Such systems reduce but do not eliminate the risk of misstatements caused by fraud or error. ■ Those charged with governance must ensure, through oversight of management, the integrity of these systems and that appropriate controls are in place, including those for monitoring risk, financial control and compliance with laws. This is in the context of preparing financial statements that give a true and fair view and that do not contain material misstatements arising from fraudulent reporting (intentional misstatements/ omissions to deceive the financial statement user) or from the misappropriation of assets.	■ Our audit procedures are designed to have a reasonable chance of detecting misstatements as a result of fraud or error. The audit team will review and discuss fraud related risks and controls with internal audit, the chief financial officer and senior management. ■ Our risk assessment procedures will include a number of interviews with senior personnel concerning processes to identify and respond to risks of fraud.
Related party transactions	■ Management has processes in place to identify related party transactions and a number were disclosed in the 2013-14 financial statements. All material related party transactions must be disclosed in the financial statements.	■ We will ensure that there continues to be appropriate processes in place as part of the financial statements preparation process to identify any related party transactions.
Independence	■ Auditing Standards require us to consider our independence and related matters in our dealings with the Council.	■ We have provided our formal independence communication in appendix one. In respect of non-audit services provided to the Council we have completed internal conflict checks to confirm that the services may be provided with no threat to our audit independence.

Appendices

Auditing Standards require us to communicate to the scrutiny committee on writing at least annually on any matters which may reasonably be thought to bear on our independence and set out the safeguards in place in relation to these matters and confirm that we are independent.

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Professional ethical standards require us to communicate to you as part of planning all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the partner and the audit team. This letter is intended to comply with this requirement although we will communicate any significant judgements made about threats to objectivity and independence and the appropriateness of safeguards put in place.

We are satisfied that our general procedures support our independence and objectivity, except for those detailed below where additional safeguards are in place.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the APB Ethical Standards. As a result we have underlying safeguards in place to maintain independence through:

■ Instilling professional values

■ Communications

■ Internal accountability

■ Risk management

■ Independent reviews.

Please inform us if you would like to discuss any of these aspects of our procedures in more detail.

Confirmation of audit independence

We confirm that as of 13 March 2015, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partners and audit staff is not impaired.

This report is intended solely for the information of the audit committee and should not be used for any other purposes.

Yours faithfully

KPMG LLP

Audit Scotland code of audit practice – responsibilities of auditors and management

Responsibilities of auditors	Responsibilities of management
Financial statements	
Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on: ■ whether they give a true and fair view of the financial position of audited bodies and their expenditure and income; and ■ whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements. Auditors should review and report on, as appropriate, other information published with the financial statements, including the management commentary, annual governance statement, statement on internal control or statement on internal financial control and the remuneration report. Where required, auditors should also review and report on the Whole of Government Accounts return.	Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources. Audited bodies are responsible for: ■ ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate authority; ■ maintaining proper accounting records; ■ preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the relevant financial reporting framework (e.g., the Financial Reporting Manual or an Accounting Code of Practice); ■ preparing and publishing with their financial statements an annual governance statement, statement on internal control or statement on internal financial control and a remuneration report; and ■ preparing consolidation packs and, in larger bodies, preparing a Whole of Government Accounts return.
Corporate governance arrangements	
Consistent with the wider scope of public audit, the Code gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to: ■ bodies' reviews of corporate governance and systems of internal control, including their reporting arrangements; ■ the prevention and detection of fraud and irregularity.	Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.

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Audit Scotland code of audit practice – responsibilities of auditors and management (continued)

Responsibilities of auditors	Responsibilities of management
Corporate governance arrangements (continued)	
■ standards of conduct and arrangements for the prevention and detection of corruption; and ■ the financial position of audited bodies.	
Systems of internal control	
Auditors are required to review and report on the compliance statements given by bodies under the relevant code or framework before their publication. This is discharged by reviewing and, where appropriate, examining evidence relevant to audited bodies' arrangements in accordance with any guidance issued by Audit Scotland. Auditors are not required to consider whether the statements cover all risks and controls, or form an opinion on the effectiveness of procedures, but report where compliance statements are not consistent with their knowledge of the body.	Audited bodies are responsible for developing and implementing systems of internal control, including risk management, financial, operational and compliance controls. They are required to conduct annual reviews of the effectiveness of their governance, systems of internal control, or internal financial control, and report publicly that they have done so. Such reviews should take account of the work of internal audit and be carried out by those charged with governance, usually through bodies' audit committees.
Prevention and detection of fraud and irregularities	
Auditors should review and report on these arrangements. While auditors do not substitute for audited bodies own responsibilities, and are not responsible for preventing or detecting fraud or irregularity, they should be alert to the potential for breaches of procedures, and of fraud and irregularity. Auditors examine evidence that is relevant to these arrangements, particularly aspects of internal financial control such as segregation of duties, authorisation and approval processes and reconciliation procedures.	Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. This includes: ■ developing, promoting and monitoring compliance with standing orders and financial instructions; ■ developing and implementing strategies to prevent and detect fraud and other irregularity; ■ receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity; and ■ participating, when required, in data matching exercises carried out by Audit Scotland.

Audit Scotland code of audit practice – responsibilities of auditors and management (continued)

Responsibilities of auditors	Responsibilities of management
Best Value, use of resources and performance	
The Local Government (Scotland) Act 1973 places a duty on the auditors of local government bodies to be satisfied that proper arrangements have been made for securing Best Value and complying with responsibilities relating to community planning. Auditors of local government bodies also have a responsibility to review and report on the arrangements that specified audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission. Auditors should undertake appropriate work to satisfy themselves that bodies have put in place adequate arrangements for the collection, recording and publication of statutory performance information by reviewing and examining evidence that is relevant to these arrangements in accordance with any guidance issued by Audit Scotland.	Local authorities have a statutory duty to make arrangements to secure Best Value; defined as the continuous improvement in the performance of functions. In securing Best Value, local authorities must maintain a balance of quality and cost considerations and have regard, among other things, to economy, efficiency and effectiveness (or 'value for money') and the need to meet equal opportunity requirements and contribute to the achievement of sustainable development. Local authorities also have a duty for community planning, which is to initiate, maintain and facilitate consultation among and with public bodies, community bodies and others about the provision of services in the area of the local authority and the planning of that provision. Achievement of Best Value or value for money depends on the existence of sound management arrangements for services, including procedures for planning, appraisal, authorisation and control, accountability and evaluation of the use of resources. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily. The Local Government Act 1992 requires the Accounts Commission to specify information which local authorities must publish about their performance.

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Scottish Borders COUNCIL

Internal Audit Work 2014/15 to February 2015

Report by Chief Officer Audit & Risk

Audit & Risk Committee

23 March 2015

1 **PURPOSE AND SUMMARY**

   1.1 **The purpose of this report is to provide the Audit & Risk Committee with details of:**

   (a) **the recent work carried out by Internal Audit and the recommended audit actions agreed by Management to improve internal controls and governance arrangements, and**

   (b) **internal audit work currently in progress.**

   1.2 The Internal Audit Annual Plan 2014/15 was approved by the Audit Committee on 10 March 2014. The work Internal Audit has carried out in the period from 20 December 2014 to 27 February 2015 is detailed in this report. During this period a total of 6 final internal audit reports have been issued. There were 8 recommendations made (0 Priority 1 High Risk, 0 Priority 2 Medium Risk, and 8 Priority 3 Low Risk) specific to 3 of the reports. Management have agreed to implement the recommendations in all cases to improve internal controls and governance arrangements. The report goes on to detail current work in progress to deliver the Internal Audit Annual Plan 2014/15 and other productive work relevant to the Internal Audit function fulfilling its remit as set out in its approved Charter.

   1.3 An executive summary of the final internal audit reports issued, including audit objective, findings, good practice, recommendations and the Chief Officer Audit & Risk's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1.

   1.4 A position statement on Management's Progress with implementation of Improvement Actions within the Annual Governance Statement 2013/14 is shown in Appendix 2 to this report.

2 **RECOMMENDATION**

   2.1 **I recommend that the Audit & Risk Committee:**

   a) **Notes the final reports issued in the period from 20 December 2014 to 27 February 2015, and**

   b) **Acknowledges that it is satisfied with the recommended audit actions agreed by Management to improve internal controls and governance arrangements.**

3   PROGRESS REPORT

3.1   The Internal Audit Annual Plan 2014/15 was approved by the Audit Committee on 10 March 2014. Internal Audit has carried out the following work in the period 20 December 2014 to 27 February 2015 to deliver the plan to meet its objective of providing an opinion on the efficacy of the Council's risk management, internal control and governance arrangements.

3.2   **Audit Reports**

Internal Audit issued final internal audit reports on the following subjects:

- Procurement to Payment
- Contract Management
- Scottish Welfare Fund
- Income Charging, Billing & Collection
- Criminal Justice
- Neighbourhood Management

3.3   An executive summary of each final internal audit report including audit objective, findings, good practice, recommendations and the Chief Officer Audit & Risk's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1 to this report.

The definitions for Internal Audit assurance categories are as follows:

Level of Assurance	Definition
Comprehensive assurance	Sound risk, control, and governance systems are in place. These should be effective in mitigating risks to the achievement of objectives. Some improvements in a few, relatively minor, areas may be required.
Substantial assurance	Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement as current arrangements could undermine the achievement of objectives or leave them vulnerable to error or misuse.
Limited assurance	Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives and leave them vulnerable to an unacceptable risk of error or misuse.
No assurance	The systems for risk, control, and governance are ineffectively designed and operated. Objectives are not being achieved and the risk of serious error or misuse is unacceptable. Significant improvements are required.

3.4 **Current Work in Progress**

Internal Audit work in progress to deliver the Internal Audit Annual Plan 2014/15 consists of the following:

Audit Area	Audit Stage
Revenues (Council Tax and Non Domestic Rates)	Drafting the Report
Benefits Assessment	Drafting the Report
Capital Investment	Fieldwork nearly completed
Passenger Transport	Fieldwork nearly completed

3.5 **Other Productive Work**

Internal Audit have been involved in the following to meet its aims and objectives, and its roles and responsibilities in accordance with the approved Internal Audit Charter:

- Internal Auditors are attending relevant seminars, development workshops and user groups, and feedback to colleagues as relevant.
- Attendance at Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) meetings. The Chief Officer Audit & Risk is currently Chairman of this internal audit forum. Topics at 20 March 2015 meeting will include Health & Social Care Integration (Risks, Challenges, Opportunities, and the role of Internal Audit) and the National Fraud Initiative.
- Offering advice on internal controls and governance to managers on request and a number of clients are proactively engaging internal audit in consultancy work as the Council's continues to transform its services.
- Reviewing outstanding and overdue audit recommendations to ensure management action that has been taken has had the desired effect in improving internal controls and governance and is reflected in the corporate performance systems for reporting purposes. The standard follow-up process has a particular focus on Priority 1 and 2 recommendations and those audit recommendations arising from previous years that have not yet been implemented. In this period this included the areas of Property Asset Management, ICT Infrastructure, and ICT Business Systems which were included in the Internal Audit Annual Plan 2014/15. We are satisfied that progress has been made to implement the previous internal audit recommendations and management actions. We do not require to bring any further matter to the attention of Management and the Audit & Risk Committee.
- Offering advice on improvements to fraud prevention controls and detection processes put in place by management.
- Follow-up on Management's progress with implementation of Improvement Actions within the Annual Governance Statement 2013/14. This included the areas of Performance Management, Business Transformation Programme & Project Management, Local Code of Governance, Workforce Planning, Financial Planning, Management Reporting and Efficiency Savings, Data Security & Information Management, and Health & Social Care Integration Programme which were included in the Internal Audit Annual Plan 2014/15. A position statement on Management's Progress with implementation of Improvement Actions within the Annual Governance Statement 2013/14 is shown in Appendix 2 to this report.

3.6 Recommendations in reports are suggested changes to existing procedures or processes, to improve the controls or to introduce controls where none exist. The grading of each recommendation reflects our risk assessment of non-implementation, being the product of the likelihood of the risk materialising and its impact. The gradings are:

a) **Priority 1**: Significant weaknesses in existing controls, leaving the Council or Service open to error, fraud, financial loss or reputational damage, where the risk is sufficiently high to require immediate action and to be included in the relevant risk register and for the matter to be reported in the relevant Assurance Statement on Internal Control and Governance;

b) **Priority 2**: Substantial weaknesses in existing controls, leaving the Council or Service open to high risk of error, fraud, financial loss or reputational damage requiring reasonably urgent action;

c) **Priority 3**: Moderate weaknesses in existing controls, leaving the Council or Service open to medium risk of error, fraud, financial loss or reputational damage requiring action to improve the efficiency, effectiveness and economy of operations or which otherwise require to be brought to the attention of senior management;

d) **Other**: Minor administrative weaknesses posing little risk of error, fraud, financial loss or reputational damage.

The action plans in audit reports address only recommendations rated **Significant, Substantial** or **Moderate**. Outwith the audit report, we inform local management about **Minor** matters.

3.7 **Recommendations**

	2014/15 Number of Recommendations
Reported this period	
Priority 1	0
Priority 2	0
Priority 3	8
Total reported this period	**8**
Previously reported	23
Total	**31**

Recommendations agreed with action plan	31
Not agreed; risk accepted	0
Total	**31**

4 IMPLICATIONS

4.1 Financial

(a) It is anticipated that cost efficiencies will arise as a direct result of Management implementing some of the recommendations made by Internal Audit during this period.

4.2 Risk and Mitigations

(a) Internal Audit provides assurance to management and the Audit Committee on the effectiveness of internal controls and governance within the Council. The Internal Audit Annual Plan 2014/15 has been developed using a risk-based approach which includes the use of the Risk Registers within Covalent as the basis of the audit coverage and consultation with appropriate stakeholders on the audit coverage. This will ensure that the Internal Audit plan continues to reflect the key risks facing the organisation.

(b) If audit recommendations are not implemented, there is a greater risk of financial loss and/or reduced operational efficiency and effectiveness, and management may not be able to demonstrate improvement in internal control and governance arrangements.

4.3 **Equalities**

(a) It is anticipated there will be no adverse impact due to race, disability, gender, age, sexual orientation or religious/belief arising from the work contained in this report.

4.4 **Acting Sustainably**

(a) There are no direct economic, social or environmental issues with this report.

4.5 **Carbon Management**

(a) There are no direct carbon emissions impacts as a result of this report.

4.6 **Rural Proofing**

(a) This report does not relate to new or amended policy or strategy and as a result rural proofing is not an applicable consideration.

4.7 **Changes to Scheme of Administration or Scheme of Delegation**

(a) No changes to the Scheme of Administration or Scheme of Delegation are required as a result of this report.

5   CONSULTATION

5.1   The Corporate Management Team has been consulted on this report and any comments received have been taken into account.

5.2   The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Service Director Strategy and Policy, the Chief Officer HR, and the Clerk to the Council have been consulted and any comments received have been incorporated into the report.

Approved by

Jill Stacey, Chief Officer Audit & Risk   Signature …………………………………..

Author(s)

Name	Designation and Contact Number
Jill Stacey	Chief Officer Audit & Risk Tel 01835 825036
James Collin	Internal Audit Manager Tel 01835 824000 Ext 5232

Background Papers: Appropriate Internal Audit files
Previous Minute Reference: Audit Committee 10 March 2014

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. James Collin, Chief Executive's Department, can also give information on other language translations as well as providing additional copies.

Contact us at James Collin, Chief Executive's Department jcollin@scotborders.gov.uk

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Subject: Procurement to Payment No: 078/008 Date issued: 9 March 2015 Risk rating: High, fundamental system Level of Assurance: Substantial assurance	The purpose of the review was to ensure that procurement and payment controls are adequate throughout the Council and that there is effective governance, control and reporting. We found effective practices in operation in the following areas: • The Corporate Procurement Strategy 2012-2015 has been refreshed and will be revised when the regulations arising out of the Procurement Reform (Scotland) Act 2014 and the new EU Procurement Directives are known. • Significant work is underway to populate the Scottish Government Information Hub ('Spikes Cavell') Contracts Register to meet the statutory obligation to publish a public facing version by April 2016. The Scottish Government are working to create this facility and it is likely that it will be delivered via the Public Contracts Scotland Portal (PCS). • Using a phased approach during 2014 for newly contracted services that went through Procurement, the Procurement Handover Document was introduced (Scotland Excel Best Practice) to aid contract managers to understand their responsibilities relating to management of the contract during its life. • Within the year the organisational structure of Procurement has changed to fit the strategy of Sustainable Procurement, (the aim of the new EU Directives) and it now resides within the Finance service and incorporates Accounts Payable, recognising the synergies and opportunities that exist by single control of these two related areas. • Proactis has now been rolled out to the extent that it has replaced the previous pink slip manual process, covering 72% of payments.	0	0	0	Management have agreed the report findings.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Subject: Procurement to Payment (cont'd)	• In the Scotland Excel Procurement Capability Assessment (PCA Oct 2014 draft results) - a benchmarking exercise between local authorities with the aim of working towards establishing best practice in procurement for the sector - SBC Procurement scored 65% against an average of 62%.				
	• SBC Procurement won a Highly Commended at the Go (Government Opportunities) Awards 2014 for a submission made around a unique procurement approach for a new Day Opportunities Services.				
	The Retail Purchase Card initiative Business Case has yet to be approved. It is the intention of the Finance service to take it to Corporate Management Team in the near future. To echo the Chief Financial Officer, we would like to highlight to the Project the need for a seamless process so that partial workarounds are avoided and the benefits originally sought are not negated. A cost benefit analysis needs to take place. Controls need to be established to ensure that risks are managed effectively such as billing reconciliation and the impact on the procurement power of the organisation should also be considered.				
	Some invoices by agreement bypass Proactis and are processed automatically through interface between Framework-i and FIS. Other payments that bypass Proactis include Servitor payments and 'template' payments, which are regular payments such as rents and kinship care. During this year's audit we did not perform audit procedures on the systems and controls of these processes and therefore cannot provide any assurance on their effectiveness. Internal Audit intends to look at these in future audit programmes.				
	Internal Audit considers that the level of assurance we are able to give is substantial. Largely satisfactory risk, control, and governance systems are in place.				
	We have made no recommendations.				

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Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Subject: Contract Management

No: 078-555-001

Date issued: 10 March 2015

Risk rating: Consultancy

Level of Assurance: Substantial assurance | This review was carried out concurrent with the Procurement to Payment audit to look at the whole of life upstream supply chain management as it is practiced at the Council. The purpose of the review was to assess governance, control and reporting of contracts with third parties.

With the increased delivery of public services through outsourcing, commissioning and partnership working the quality of contracts and thereafter contract management are essential components to the Council maintaining control, managing risk and ultimately evidencing value for money. The risks within these contractual relationships that require to be effectively managed are not limited to financial and service delivery risk but encompass a whole array of business risks including data protection, legal and regulatory, reputational, health and safety, insurance, business probity, environmental and ethical.

The Corporate Procurement Strategy and Policy 2012-2015, its revised version 2015-2017 and the Purchasing Guidelines (Sept 2013) clearly state that Contract Management is the responsibility of the Services and make clear that it should be taking place. However Contract Management is not specifically delegated through the Procedural Standing Orders, the Scheme of Delegation nor the Financial Regulations and we have recommended that this be remedied to ensure clarity of governance and accountability in this regard.

With no formal Framework in place to support Contract Managers coupled with different levels of understanding of what contract management entails the result has been inconsistent application of contract management across the Council. Historically Section 5: Contract Management of Scotland Excel's Procurement Capability Assessment (PCA), is the lowest scoring area across the 32 Local Authorities. Scottish Borders Council achieved 38% in this section compared with the local authority average of 40% (October 2013) and so the Council does not stand out in this area benchmarked against its contemporaries. | 0 | 0 | 2 | Management have agreed to implement the recommendations |

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Subject: Contract Management (cont'd)	At a national level Value for Money is seen to be achievable in the Procurement Cycle at market research and commissioning stage (Procurement) and then at performance and supplier management stage (Contract Management). Good progress has been made in the former at the Council and the need for improvements in Contract Management has been acknowledged by Management and included in the Corporate Transformation Programme under Business Process Transformation, one of the four Themes. Improved contract management has been identified at a national level as key to unlocking the Supply Chain Value. We have recommended a first step to facilitate the planned improvement to deliver an effective Contract Management Framework which to be a success will require to be embedded in the business practices and culture of the Council.

We have made the following recommendations:

• Separate standalone Procurement Procedural Standing Orders (PSOs) should be added to the suite of high level governance documents and should include clarification of delegated authority and accountability for contract management, and detail roles and responsibilities and monitoring and reporting requirements to evidence effective internal control and value for money. The Scheme of Delegation and the Financial Regulations should be updated to include delegated authority and accountability for contract management and be cross-referenced to the Procurement PSOs as appropriate. (P3)

• A Business Case for Contract Management Framework should be developed by Corporate Procurement following discussions and input from Transformation Projects relating to business process transformation proposals. (P3) | | | | |

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Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Subject: Scottish Welfare Fund No: 085/999/001 Date issued: 12 March 2015 Risk rating: Contingency Level of Assurance: Comprehensive assurance	We have undertaken this review on request by Customer Services Senior Management regarding discussions held around assurance which arose during the Counter Fraud Management Review. The purpose of the review was to ensure that the processes in place to administer the payment of Crisis Grants and Community Care Grants for the Scottish Welfare Fund (SWF) are effective, appropriate and consistent. We found effective practices in operation in the following areas: • Administration of the process is improving with a dedicated team in place • Processes and procedures are in place, with best practice notes and training available for staff • Improved use of the notes facility on applications recording decisions and awards made and showing consistency • Appropriate test checks and reviews are carried out • Segregation of duties exists between approving awards and processing payments • Regular performance statistics are submitted and published on the Scottish Government website Arrangements are now in place for the delivery of household items direct to a claimant therefore no cash is awarded in these cases. This is providing greater control over use of SWF grant. Internal Audit considers that the level of assurance we are able to give is comprehensive. Sound risk, control, and governance systems are in place. These should be effective in mitigating risks to the achievement of objectives. Some improvements in a few, relatively minor, areas may be required. We have made no recommendations.	0	0	0	Management have agreed the report findings.

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Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Subject: Income Charging, Billing and Collection

No: 086/009

Date issued: 9 March 2015

Risk rating: High, fundamental system of internal financial control

Level of Assurance: Substantial assurance | The purpose of the review was to ensure that controls are adequate throughout the Council to set fees and charges for services in support of sound budgetary controls and income management.

The following best practice was found:

- There has been a significant improvement in the average time taken to raise an invoice (reduced from 56 to 42 days) and to receive the invoice payment (reduced from 36 to 22 days).
- Improvements in recovery processes and procedures has significantly reduced write-offs in 2013/14 by some 40%, and improvements in the debt collection of sundry overdue debts has reduced the overdue debt from £3.5m in March 2013 to £2.4m in March 2014. Progress has also continued to reduce the aged debt balance.
- The AR Team continue to hold regular meetings with Legal Services, the Care Resource Team and Estates to discuss any problems and recurring issues.
- A Debt Recovery Module has been placed on SBLearn for those staff involved in invoicing and income collection. This training has been made mandatory for some staff. FIS training on credit control and invoicing is ongoing.

We reviewed the process for setting external fees and charges in the Council. This is a complex area where some charging regimes are mandatory and there is no scope for discretion. An External Charging Policy was approved in November 2012 but has not been updated since then. It was agreed during the audit that as part of the review of fees and charges for 2015/16 the External Fees and Charges policy would be reviewed and updated at the same time. Consultation, guidance and legislation have been utilised to ensure that the Council is creating a sustainable process for income maximisation. | 0 | 0 | 0 | Management have agreed the report findings.

Internal Audit will follow-up on progress with the Management review of External Fees and Charges Policy and will continue to follow-up on progress with the implementation of Social Care Review associated audit recommendations and staff training and performance reporting audit recommendations |

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Subject: Income Charging, Billing and Collection (cont'd)	Social Work has undergone an extensive review of all services regarding its fees and charging regime, and a report was presented to Council on 20 November 2014 with the results of this review together with a series of recommendations for approval regarding future service charges and policy. Audit Scotland's guidance "Charging for services: are you getting it right?" has been taken into account as well as COSLA guidance, CRAG legislation, benchmarking with other local authorities, and consultation with client groups and workshops were held.				
	Our review and testing of the process for raising charging orders demonstrated the correct procedures are being followed. Whilst there has been some improvement, there are still some time delays in the process from someone going into care and invoices being raised, primarily due to poor and incomplete information being collected at assessment interview. This further scope for improvement is being addressed through the Social Care Review implementation of associated audit recommendations.				
	A much improved process has seen all commercial rental properties established on TechForge system. Procedures for rent reviews and lettings procedures are documented. Finance service manages the process for rent collection, recovery and arrears, and regular meetings are held between the Estates Team and the AR Team to discuss any problematic cases. Visits to properties or business owners often result in rental payments being made.				
	Internal Audit considers that the level of assurance we are able to give is substantial, largely satisfactory risk, control, and governance systems are in place in respect of the income charging, billing and collection processes and procedures which have seen significant improvements within the past few years. There are still some further improvements required relating to staff training and performance reporting, which are already underway though full implementation is required of these previous internal audit recommendations.				

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Subject: Criminal Justice

No: 178/002

Date issued: 10 March 2015

Risk rating: Medium

Level of Assurance: Substantial assurance | The purpose of the review was to assess the adequacy of internal controls, administrative procedures, resources in place to meet statutory obligations, and management procedures to supervise the work of offenders. Our audit relates only to Community Payback Orders (CPO) with an unpaid work requirement which is the most common type of order issued by the Courts.

The Criminal Justice Social Work (CJSW) Service provides social work services to Sheriff Courts in the Scottish Borders and to the High Court and District Courts as required. Staff provide advice and guidance to the Sheriff and the Court staff, victims, families of offenders and the offender with the aim of assisting the court in dealing with cases. CJSW is responsible for the management of offenders who have been sentenced by the court to a CPO.

We found effective practices in operation in the following areas:
- Cases are generally managed well taking into account the chaotic lifestyle of some service users;
- Criminal Justice Social Work reports are produced when requested by the court.

Detailed process and procedure notes are not yet fully developed, and this is an action in the Criminal Justice business plan. Management have also acknowledged the need to improve data collection and performance management information including target setting and monitoring.

Internal Audit considers that the level of assurance we are able to give is substantial, largely satisfactory risk, control, and governance systems are in place in respect of administrative procedures to meet statutory obligations, case management procedures for supervising the work of service users, and grant claim. There are, however, some improvements required to ensure that standards are met on a consistent and comprehensive basis and that this can be fully evidenced. | 0 | 0 | 5 | Management have agreed to implement the recommendations |

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Subject: Criminal Justice (cont'd)	We have made the following recommendations which are designed to improve procedures and practices within the Criminal Justice Social Work Service to complement the other management improvement actions that are either underway or planned: • There should be recorded evidence that the offender has confirmed their understanding of responsibilities and obligations under the CPO and the consequences of non-compliance (breach procedures). (P3) • An initial risk assessment should be completed in all cases, even if the offender has already undertaken this as part of an ongoing CPO. (P3) • Case management plans should always be prepared where applicable and within agreed timescales. (P3) • Where professional judgement has been used to deviate from the prescribed breach procedures, the justification should be evidenced and recorded in the case notes within Framework-i. (P3) • On completion of the CPO, ensure that all exit questionnaires are completed and recorded. (P3)				

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Subject: Neighbourhood Management No: 216/006 Date issued: 12 March 2015 Risk rating: Medium Level of Assurance: Comprehensive assurance	The purpose of the review was to assess whether controls are in place to ensure efficient and effective use of operational resources within the Neighbourhood Management initiative providing a range of environmental services including parks and open spaces, street cleansing, public conveniences and burial services. The current year's audit work focussed on parks and open spaces, and street cleansing activities. The following good practice was found: • Clear and effective working practices and procedures exist for the area teams; • Good processes exist for bookings and income management; • The Council's Cleanliness Indicator is above the national acceptable standard; • Information for the public regarding reporting of litter, dog fouling, fly tipping, graffiti, vandalism, abandoned vehicles and removal of a dead animal is on the Council's website; and • Street cleansing statutory duties are met. Our review of inspections, planning and work schedules shows that the area teams now work on a more flexible approach which ensures that the Council has the ability to move teams or target specific areas as necessary regarding parks and open spaces, street cleansing, litter picking, snow clearing, gritting, etc. Internal Audit considers that the level of assurance we are able to give is comprehensive. Sound risk, control, and governance systems are in place. These should be effective in mitigating risks to the achievement of objectives. Some improvements in a few, relatively minor, areas may be required. We have made the following recommendation: • The list provided to Keeping Scotland Beautiful mapping the Council's roads/streets should be updated in order to have complete and accurate asset data for planning, inspection and auditing, and performance reporting purposes. (P3)	0	0	1	Management have agreed to implement the recommendation.

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Ref.	Annual Governance Statement 2013/14 improvement action	Management Progress in implementing improvement action during 2014/15
(a)	The ongoing implementation of recommendations made by Internal Audit, External Audit and other audit and inspection bodies relating to internal control and governance, with particular emphasis on prompt implementation of high priority recommendations.	Management has responsibility for ensuring that agreed audit actions are implemented to address the identified weaknesses and mitigate risks. Audit recommendations have been input to Covalent, the Council's corporate performance monitoring system, to assist with management tracking of implementation, to link with relevant risks and to evidence improvement in internal control and governance arrangements.

Internal Audit perform follow-up activity to ensure that actions have been implemented, particularly those where risks are high.

Internal Audit Follow-Up Recommendations 2013/14 Report to Audit Committee 10 November 2014 provided summary of progress by Management in implementing the seven Priority 1 (High Risk) and the six related Priority 2 (Medium Risk) recommendations issued by Internal Audit during 2013/14 to appropriately address the identified control weaknesses.

For those actions which are yet to be completed an explanation has been provided of the reason for delay in implementation, including some cases where there are dependencies on computer based systems, and where appropriate revised timescales have been agreed for their full implementation.

A further report monitoring progress in line with the revised target completion dates will be brought to Audit & Risk Committee in May 2015. |

Ref.	Annual Governance Statement 2013/14 improvement action	Management Progress in implementing improvement action during 2014/15
(b)	Full implementation of the Community Planning structure and arrangements with its partners to provide the mechanism for monitoring progress with delivery of programmes and projects across the three community planning themes.	Internal Audit Report on Community Planning, Joint Working and Partnerships executive summary report presented to Audit Committee 23 September 2014. We found that good progress has been made against each element of the improvement plan. Where actions have not yet been completed, the partnership has a clear understanding of dependencies on other processes and has made a realistic appraisal of timescales for completion. Audit Scotland wrote to the Leader of the Council on 21 July 2014, giving feedback on a recent visit. In the letter, which was presented to Community Planning Strategic Board on 11 September 2014, Audit Scotland comment that they "…were encouraged to see the progress made by the CPP against its improvement agenda", and that "…it is clear that the CPP is taking action to address all of the areas in its improvement agenda". A report was presented to Community Planning Strategic Board on 11 September 2014 proposing an approach to presenting performance information and progress updates for the community planning partnership (CPP) in order to assess how effectively it is addressing its priorities. To take matters forward the Chief Executive of NHS Borders had agreed to be the Executive Sponsor and a Performance Sub-Group had been established. The 'Grow Our Economy' Priority had been addressed first in terms of performance management information to monitor progress. It was agreed that the Performance Sub-Group would continue to develop appropriate frameworks, incorporating feedback, for Reducing Inequalities and Low Carbon priorities.

Ref.	Annual Governance Statement 2013/14 improvement action	Management Progress in implementing improvement action during 2014/15
(c)	Implementation of approved shadow governance arrangements associated with the Integration programme for Health & Social Care, ensuring delivery of structural reforms in local authority and NHS services in compliance with new legislation and regulations. These will be reviewed and refined over the year to inform the arrangements to establish the Joint Integration Board from 1 April 2015.	In March 2014 the Public Bodies (Joint Working) (Scotland) Act was passed by the Scottish Government. This requires all Councils and NHS Boards to formally and legally establish integration of health and social care by April 2016.

The Council has established a Health & Social Care Integration Shadow Board to be in place until 1 April 2016, with the same responsibilities for services as the final Joint Integration Board will have when legislation has been fully enacted.

A Health & Social Care Integration programme is ongoing and working groups have been established, covering Integration & Governance, Finance, Strategic Planning, Workforce Development, Information and Technology, and Clinical and Care Governance and involving officers from the Council and NHS Borders, to progress activities.

The Chief Officer for Health and Social Care Integration was appointed in July 2014.

Consultation on the local integration scheme has commenced. The integration scheme is due to be submitted to the Scottish Government prior to 1 April 2015. Work has commenced on the development of the strategic plan which will become live on 1 April 2016. |

Ref.	Annual Governance Statement 2013/14 improvement action	Management Progress in implementing improvement action during 2014/15
(d)	In light of the ongoing significant challenges in addressing cost pressures and responding to the changes in government funding: (i) ensuring that financial, workforce and other key plans are aligned to the Council's corporate plan and priorities, (ii) ensuring that the programme of change and transformation delivers efficient and effective services to customers, whilst maintaining a robust control environment, and (iii) continuing to take account of demographic and other pressures associated with particular services within joint resource planning.	Progress has been made to integrate the corporate plan, service business plans, employees' performance review and development process, and the financial plan aligned to SOA. The report and the proposed Corporate Transformation Programme which was presented to Council for approval on 12 February 2015 highlighted the following: • The Council's Business Transformation Programme has achieved significant and far reaching change over the last 5 years and delivered substantial savings of £17.8m. Moving forward, in order to respond effectively to the social, demographic and economic challenges facing the Council a much more comprehensive and ambitious transformation programme is now required that will deliver corporate change and service improvement right through the Council and into the wider community. • The Programme has been developed around the following themes in the Council's Financial Strategy 2015/16 to 2019/20: (a) Making best use of our People; (b) Working with our Partners; (c) Looking after the Borders; and (d) Business Process Transformation. • The Programme provides a framework for the development and delivery of activities and projects to achieve a sustainable financial position over the next 5 years and beyond and underpins the delivery of Elected Member, Corporate and Partnership priorities. • The creation of an Arms-Length Council Care company and proposals for transferring Cultural Services to a Trust are both being progressed as a way of ensuring that services can continue to be delivered in sustainable way despite the continued squeeze on budgets and rises in demand for services due to changing demographics.

Ref.	Annual Governance Statement 2013/14 improvement action	Management Progress in implementing improvement action during 2014/15
(e)	Ongoing implementation of the Performance Management Framework to ensure it reflects performance measurement accurately and effectively linked to the delivery of the Single Outcome Agreement and the Council's Corporate Plan and Priorities, and enables the Council to fulfil its Public Performance Reporting duty.	The Council has an approved 5 year Corporate Plan 2013 – 2018, Priorities, Performance Management Framework and Performance Review and Development aligned to the approved Single Outcome Agreement (the 'Golden Thread'). The Corporate Plan sets out the Council's Vision, Values and Standards, its eight identified corporate priorities and how progress will be monitored. These have been appropriately communicated through management and across the Council's workforce in accordance with the communications plan to ensure integration and alignment of these elements (the 'Golden Thread') are understood and applied in practice.
		Under each of these priorities, there is a set of performance indicators, which management reports on quarterly, allowing elected members and officers to assess how well work is progressing towards addressing the priorities. These are more outcome focussed and are published on the Council's website. In addition CMT receive monthly performance reports including indicators of a more operational nature.
		Significant development work has been carried out by the Corporate Performance team within the Strategic Policy service during the year to complete the Local Government Benchmarking Framework (LGBF) exercise developed to help Councils compare their performance using a standard set of indicators. Results are analysed in 'family groups' to ensure comparison between authorities with similar characteristics - based on population size or the rural nature of the local authority area - and to the Scottish local authority average. The LGBF benchmarking information has been published on the Council's website allowing for local context to be presented. Council officers actively engage in the 'family group' programme coordinated by the Improvement Service.

Ref.	Annual Governance Statement 2013/14 improvement action	Management Progress in implementing improvement action during 2014/15
(f)	Application of an appropriate self-assessment process in all Council services as a self-evaluation tool to demonstrate achievement of Best Value, including a self-assessment of Committees' effectiveness within 12 months of implementation of revised arrangements.	The Corporate Management Team in October 2014 has approved the business planning process for 2015/16, the use of standard templates, and timetable for implementation including challenge sessions within service directorates, all of which were developed and proposed by the Corporate Performance team within the Strategic Policy service in consultation with departmental performance / business managers. The plans are being developed both top down from the SOA and Corporate Plan and from the bottom up including operational services business plans, service directorate plans, and People and Place plans to enable clarity of direction and activity for senior management.

The standard Directorate Business Plan template for the business planning process for 2015/16 includes a section on "Evidence of Self-Assessment". This will enable baseline information on self-assessment processes across all Council services to be gathered to inform the next steps within the implementation of the Performance Management Framework.

One example of significant self-assessment relates to equalities. In November 2014, a self-evaluation exercise was carried out across all services to evaluate performance in relation to the requirements of the Equality Duty. An analysis of the exercise is being used to inform the business planning process alongside a set of corporate recommendations put forward by the Corporate Equality Officers Forum.

Management have agreed the audit recommendation to evaluate the new Committee structure arising from the 2014 review within 12 months of its operation to assess the effectiveness of elected member scrutiny of plans and performance. This is scheduled for January 2015. |

Ref.	Annual Governance Statement 2013/14 improvement action	Management Progress in implementing improvement action during 2014/15
(g)	Development of written guidelines and procedures of the key financial planning, management and administration processes linked to the Financial Regulations and provision of financial training to managers and budget holders across the whole Council.	The need to review and document key financial policies and processes has been the subject of Internal Audit Reports since 2008/09 as written policies and procedures form an essential part of the internal control environment and serve an important business continuity purpose. Specifically audit recommendation 2013/14 to review and update Financial Regulations and Budget Monitoring Codes of Practice by January 2015 to reflect the new corporate management structure and the arrangements for the new Health & Social Care Integration Shadow Board, and the 5 year financial planning & efficiency monitoring respectively. The gap in income management policies and procedures has been addressed in recent years – External Charging Policy, Income Management Policy, Debt Recovery Policy, and Anti-Money Laundering Policy. A Fraud Policy Working Group has been established in response to the Counter Fraud Management Review during 2014 to review and update relevant policy and procedure documents. The Chief Officer Audit & Risk regularly meets with the Chief Financial Officer to discuss progress with update of Financial Regulations and review and update of associated procedures and guidelines. Progress has been slower than planned due to resource issues, other priorities, and the sheer body of work involved. Internal Audit will continue to follow-up on progress. Provision of financial training is ongoing through e-learning and as part of budget setting and monitoring activity.

Ref.	Annual Governance Statement 2013/14 improvement action	Management Progress in implementing improvement action during 2014/15
(h)	Ensuring the framework and principles of good corporate governance are in place within joint working and partnerships.	The Council is currently undertaking two significant strategic developments involving alternative service delivery arrangements. Firstly, from April 2015 several of the Council's adult care services (care at home, residential care, extra care housing, Bordercare, older peoples' day services, learning disability services and Borders ability equipment store) are set to transfer to SB Cares, an arms-length external organisation (ALEO). Secondly, a feasibility study of options for Cultural services is underway including an option for an integrated sports and culture trust.

Within both projects Management have reviewed the guidance from the Accounts Commission issued in 2011 – *How Councils Work: an improvement series for councillors and officers – Arm's length external organisations (ALEOs): are you getting it right*?*)* at appropriate stages and are using the toolkit included in that document in designing governance and scrutiny processes relating to the projects.

In relation to the adult care services ALEO, the Partnership Agreement setting out the key governance arrangements for the establishment of a Limited Liability Partnership, SB Cares, was considered by Council on 29 January 2015.

The appointments of the Managing Director (MD) and the Finance Director (FD) on a secondment basis were considered by Council on 29 January 2015. A process is currently underway to recruit the Chair of the Board.

The Council's Scheme of Administration was updated by Council on 19 February 2015 to include the LLP Strategic Governance Group, a Sub-Committee of Council, set up to carry out the monitoring and control functions required by the Council in connection with the SB Cares LLP. |

Ref.	Annual Governance Statement 2013/14 improvement action	Management Progress in implementing improvement action during 2014/15

(i)	Ensuring effective frameworks and robust governance structures are fully utilised for programme and project management to deliver the required return on investment and efficiencies in support of performance improvement and to support the achievement of the Council's change and transformation objectives and other Priorities.	The report on the proposed Corporate Transformation Programme which was presented to Council for approval on 12 February 2015 highlighted the following:
		
		• Previous experience with transformation projects has demonstrated that the robust definition of Business Case and Benefits, Return on Investment, and Programme and Change Management are absolutely key features of success. These will therefore be applied consistently across all the activity in the Corporate Transformation Programme so that there is confidence of the delivery of improvements and savings.
		
		• The new Corporate Transformation Programme builds on current transformation activity and is a comprehensive and ambitious programme. It will need to be resourced in a different way involving more staff from across the organisation and making much better use of the skills and expertise of our workforce to supplement the existing core Transformation Team. There are a number of benefits to this overall resourcing approach:
		
		  o There is better use of in-house skills and expertise
		  o There are opportunities for staff development
		  o It supports succession planning
		  o Staff are more involved in the corporate programme of change, have opportunities to do different types of work and therefore feel more motivated.

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Ref.	Annual Governance Statement 2013/14 improvement action	Management Progress in implementing improvement action during 2014/15
(j)	Ensuring comprehensive information management across the Council and within each department in all relevant aspects of service delivery through appropriate awareness of and adherence to procedures, practices and guidelines to ensure full compliance with legislation and regulations.	Progress by Management with implementation of the two Priority 1 and three Priority 2 Internal Audit recommendations on Data Security and Information Management was included in the Internal Audit Follow-Up Recommendations 2013/14 Report to Audit Committee 10 November 2014.

Further information on the progress in response to the two Priority 1 and three Priority 2 recommendations made in relation to Data Security and Information Management was given to the Committee by the Chief Legal Officer who had recently taken over responsibility for the Information Management team. Progress had not been as expected due to two members of staff leaving the organisation, resulting in significant under-staffing of the team. However despite this backdrop the Corporate Transformation and Services Director, the Senior Information Risk Owner (SIRO), had put in place significant improvements in processes which had been reflected in improved response times to Freedom of Information requests in recent months. Revised target completion dates of April 2015 were agreed by the Committee for three of the actions. Re-establishing the Information Governance Group was a priority to facilitate full implementation of the recommended improvements. Responsibility for SIRO role is due to transfer to the Service Director Regulatory Services.

A further report monitoring progress of Internal Audit Recommendations 2013/14 in line with the revised target completion dates will be brought to Audit & Risk Committee in May 2015. |

Ref.	Annual Governance Statement 2013/14 improvement action	Management Progress in implementing improvement action during 2014/15
(k)	Monitoring and review to ensure there is a consistent approach to staff performance appraisal and development (PRD) in all Council services, and roll out workforce planning and succession planning across the Council as part of its people management arrangements.	CMT receive monthly reports on PRD completion dates within People, Place and Chief Executives departments. Further efforts have been made to enhance recording in Resourcelink system and SOPRA (schools) system though it is recognised the challenges of a diverse workforce, with a significant proportion who do not have IT access. The roll out of workforce planning and succession planning across the Council services is progressing with support from the HR service.

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INTERNAL AUDIT CHARTER

Report by Chief Officer Audit & Risk

AUDIT & RISK COMMITTEE

23 March 2015

1 PURPOSE AND SUMMARY

1.1 This report provides the Audit & Risk Committee with the updated Internal Audit Charter for approval that defines the terms of reference for the Internal Audit function to carry out its role.

1.2 Internal Audit is an independent appraisal function established for the review of the internal control system as a service to Scottish Borders Council. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources and the management of risk.

1.3 In terms of the Public Sector Internal Audit Standards (PSIAS), the Council should formally define the terms of reference for the Internal Audit service i.e. the Charter. The authority for Internal Audit to operate in Scottish Borders Council is contained in the Local Code of Corporate Governance and in the Financial Regulations. This Internal Audit Charter expands upon that framework: defines the detailed arrangements and sets out the Head of Internal Audit's strategy for discharging its role and providing the necessary annual assurance opinions. The Chief Officer Audit & Risk is the Head of Internal Audit (hereinafter referred to as HIA) at Scottish Borders Council.

1.4 Approval of the Internal Audit Charter as shown in Appendix 1 to this report will ensure that Internal Audit is tasked to carry out its role in accordance with best Corporate Governance practice.

2 RECOMMENDATIONS

2.1 I recommend that the Audit & Risk Committee approves the updated Internal Audit Charter, as shown in Appendix 1 to this report.

3 BACKGROUND

3.1 Internal Audit is an independent appraisal function established for the review of the internal control system as a service to Scottish Borders Council. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources and the management of risk.

3.2 The SBC Internal Audit function follows the professional standards as set out in the Public Sector Internal Audit Standards (PSIAS) which came into effect on 1 April 2013, along with the CIPFA Local Government Application Note for the United Kingdom. The PSIAS have been developed by the standard setters (CIPFA for local government) through the Internal Audit Standards Advisory Board (IASAB) and have been based on the Institute of Internal Auditors International Standards of Professional Practice. The PSIAS sit alongside the CIPFA Role of the Head of Internal Audit document.

3.3 In terms of the PSIAS, the Council should formally define the terms of reference for the Internal Audit service i.e. the Charter. The authority for Internal Audit to operate in Scottish Borders Council is contained in the Local Code of Corporate Governance and in the Financial Regulations. This Internal Audit Charter expands upon that framework: defines the detailed arrangements and sets out the Head of Internal Audit's strategy for discharging its role and providing the necessary annual assurance opinions. The Chief Officer Audit & Risk is the Head of Internal Audit (hereinafter referred to as HIA) at Scottish Borders Council.

3.4 The Terms of Reference i.e. Charter for the Internal Audit function were last presented to the Audit Committee for approval on 11 March 2013 and includes details of the arrangements that are in place for auditing areas within Audit & Risk service to ensure the independence and objectivity of internal audit are maintained and demonstrated within the current management arrangements. The Internal Audit Charter has been updated to incorporate relevant improvement actions that were identified as part of the PSIAS internal self-assessment 2013/14 which was reported to Audit Committee in November 2014.

4 IMPLICATIONS

4.1 **Financial**

(a) Internal Audit must have sufficient staff and other resources to enable it to carry out the objectives of the Charter.

(b) In real terms the 2015/16 budget for Internal Audit is broadly equivalent to 2014/15 levels to support the realisation of the Charter.

4.2 **Risk and Mitigations**

(a) The aim of Internal Audit is to help Scottish Borders Council discharge its responsibilities and achieve its objectives by systematically reviewing how well it manages its risks and operates good internal control and governance procedures.

(b) Approval of the Internal Audit Charter as shown in Appendix 1, as recommended in this report, will ensure that Internal Audit is tasked to carry out its role in accordance with best Corporate Governance practice.

4.3 Equalities

It is anticipated there will be no adverse impact due to race, disability, gender, age, sexual orientation or religious/belief arising from the work contained in this report, as internal audit work is carried out in accordance with the appropriate legislation and professional standards.

4.4 Acting Sustainably

It is anticipated that there are no adverse economic, social or environmental effects of this report.

4.5 Carbon Management

It is anticipated that there are no carbon management issues associated with this report.

4.6 Rural Proofing

This report does not relate to new or amended policy or strategy and as a result rural proofing is not an applicable consideration.

4.7 Changes to Scheme of Administration or Scheme of Delegation

It is anticipated that no changes are required to either the Scheme of Administration or the Scheme of Delegation as a result of the proposals in this report.

5 CONSULTATION

5.1 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Service Director Strategy and Policy, the Chief Officer HR and the Clerk to the Council have been consulted on this report and any comments received have been taken into account.

5.2 The Corporate Management Team has been consulted on this report and any comments received have been taken into account.

Approved by

Jill Stacey, Chief Officer Audit & Risk   Signature ………………………………..

Author(s)

Name	Designation and Contact Number
Jill Stacey	Chief Officer Audit & Risk, Tel. 01835 825036
James Collin	Internal Audit Manager, Tel. 01835 825232

Background Papers: Local Code of Corporate Governance; Financial Regulations
Previous Minute Reference: Audit Committee 11 March 2013

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**SBC Internal
Audit Section**

INTERNAL AUDIT CHARTER

INTRODUCTION

Internal Audit is an independent appraisal function established for the review of the internal control system as a service to Scottish Borders Council. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources and the management of risk.

In terms of the Public Sector Internal Audit Standards (PSIAS), the Council should formally define the terms of reference for the Internal Audit service i.e. the Charter. The authority for Internal Audit to operate in Scottish Borders Council is contained in the Local Code of Corporate Governance and in the Financial Regulations. This Internal Audit Charter expands upon that framework: defines the detailed arrangements and sets out the Head of Internal Audit's strategy for discharging its role and providing the necessary annual assurance opinions. The Chief Officer Audit & Risk is the Head of Internal Audit (hereinafter referred to as HIA) at Scottish Borders Council.

INTERNAL AUDIT

The Council has adopted the definition of Internal Auditing as given in the PSIAS:

Internal Auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes[1].

The scope of Internal Audit allows for unrestricted coverage of the Council's activities and unrestricted access to all records and assets deemed necessary in the course of audit activity.

RESPONSIBLITIES OF INTERNAL AUDIT

Internal Audit's responsibility is to report to the Council on its assessment of the adequacy of the entire control environment, through the Corporate Management Team ('senior management') and the Audit & Risk Committee (the 'board' for the purposes of internal audit activity).

It does this by:

> Providing high quality, independent internal audit services to the Council and its management.

> Performing a systematic and continuous review of the Council's internal control, risk management and governance arrangements in accordance with a risk-based annual plan approved by the Audit & Risk Committee.

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[1] Internal Audit Standards Advisory Board (IASAB) Public Sector Internal Audit Standards (PSIAS) (2013)

Discussing any matters to support and assist the Chief Financial Officer discharge the statutory responsibilities of the role, including reviewing the adequacy of the systems of internal financial control and recommending improvements.

Assisting management to improve the risk identification and management process in particular where there is exposure to significant financial, strategic, reputational and operational risk to the achievement of the Council's objectives.

Highlighting opportunities to reduce costs through greater economy, efficiency and effectiveness within existing internal controls throughout the Council's systems and activities.

Advising on cost effective controls for new systems and activities.

Reviewing the effectiveness of controls put in place by management to manage the risk of fraud. This requirement may involve Internal Audit in the following roles:

- reviewing and recommending improvements to fraud prevention controls and detection processes put in place by management;
- investigating the cause of fraud;
- considering fraud risk in every audit;
- advising the Audit & Risk Committee on counter fraud matters;
- leading, assisting or liaising in fraud investigations where appropriate and requested by management; and
- responding to whistleblowers.

Focussing towards, and culminating each year in, the provision of the HIA's assurance statements and annual report to the Audit & Risk Committee on the annual internal audit opinion on the adequacy of the Council's overall control environment.

Internal Audit will do this in accordance with:

Relevant codes of ethics standards and guidelines issued by the professional institutes and Scottish Borders Council's Code of Conduct for Employees.

Scottish Borders Council's Local Code of Corporate Governance and other relevant corporate governance documents, standards, policies and procedures.

Its own Audit Manual and other internal standards, which will be adhered to by its entire staff including contracted external specialists where appropriate.

In particular, Internal Audit will adhere to the Public Sector Internal Audit Standards issued by the Internal Audit Standards Advisory Board in April 2013 which will sit alongside the CIPFA Role of the Head of Internal Audit document.

Internal Audit will consult with the Council's external auditor and with other relevant inspection and review bodies in order to coordinate effort and avoid duplication.

Internal Audit procedures are designed to ensure that all statutory and professional standards governing confidentiality of information are observed at all times.

OBJECTIVES OF INTERNAL AUDIT

As part of Scottish Borders Council's system of corporate governance, Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives and to do so:

> As a contribution to the Council's corporate management of risk.

> As an aid to ensuring that the Council and its Members, managers and officers are operating within the law and relevant regulations.

> In support of the Council's vision, values and priorities.

> As a contribution towards establishing and maintaining a culture of honesty, integrity, openness, accountability and transparency throughout the Council in all its activities and transactions.

> As a contribution towards ensuring that financial statements and other published information are accurate and reliable.

POSITION OF INTERNAL AUDIT WITHIN THE ORGANISATION

Internal Audit is an independent review activity. It is not an extension of, or a substitute for, the functions of line management and must remain free from any undue influence or other pressure affecting its actions and reporting.

At all times, management's responsibilities include:

> Maintaining proper internal controls in all processes for which they have responsibility to ensure probity in systems and operations.

> The prevention, detection and resolution of fraud and irregularities.

> Co-operating fully with Internal Audit and ensuring that Internal Audit can properly fulfil their role.

> Considering and acting upon Internal Audit findings and recommendations or accepting responsibility for any resultant risk from not doing so.

In terms of the PSIAS, the status of Internal Audit should enable it to function effectively, with recognition of the independence of Internal Audit fundamental to its effectiveness. The HIA should have "sufficient status to facilitate the effective discussion of audit strategies, plans, results and improvement plans with senior management of the organisation[2]"

Within Scottish Borders Council, the Chief Officer Audit & Risk (HIA) has unrestricted access to those charged with governance, specifically the Members, the Chief Executive, the Chief Financial Officer, who is the Council's nominated Section 95 Officer, the Service Director Regulatory Services, who is the Council's nominated Monitoring Officer, the Chief Social Work Officer, and the Depute Chief Executives, other Service Directors and Chief Officers who make up the Corporate Management Team. The HIA has direct access to the Chairman of the Audit & Risk Committee to discuss any matters the committee or auditors believe should be raised privately. One of the functions of the Audit & Risk Committee is to ensure that no unjustified restrictions and limitations are made to the scope and activities of Internal Audit. Additionally, unrestricted access to all Chief Officers and employees of the Council is accorded to all members of the Internal Audit service.

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[2] Internal Audit Standards Advisory Board (IASAB) Public Sector Internal Audit Standards (PSIAS) (2013)

In terms of accountability and independence, the HIA reports functionally to the Audit & Risk Committee. In this context functional reporting[3] means the Audit & Risk Committee will:

Approve the internal audit charter.

Approve the Internal Audit risk assessment and strategic and annual plans.

Receive reports from the HIA on the results of Internal Audit activity or other matters the HIA determines necessary.

Ratify all decisions regarding the appointment or removal of the HIA.

Make enquiries of management to ensure that Internal Audit is adequately resourced to meet assurance and other key responsibilities.

The Chief Officer Audit & Risk (HIA) reports administratively to the Service Director Strategy & Policy who reports directly to the Chief Executive. However, the open access rights above allow the HIA discretion to apply the reporting arrangement determined to be most appropriate for the specific task undertaken.

In this context administrative reporting[4] means reporting in relation to:

Budgeting and management accounting.

Human resource administration.

Internal communications and information flows.

Administration of the Council's internal policies and procedures.

The administrative reporting line will be managed in a manner which: ensures the HIA is accorded open and direct communication with management; ensures the HIA and the Internal Audit function have an adequate and timely flow of information concerning the activities, plans and initiatives of the Council; and ensures budgetary controls and considerations imposed by this reporting line do not impede the ability of Internal Audit to discharge its responsibilities.

It is recognised the administrative reporting line does not have authority over the scope of reporting of results of Internal Audit activity. Ultimate authority in this regard vests in the HIA, who reports in their own name and retains final right of edit over all Internal Audit reports.

The Chief Officer Audit & Risk has managerial responsibility for the functions which develop, support and advise on the frameworks in place at the Council on Risk Management and Counter Fraud. In order to ensure that internal audit independence and objectivity is maintained and demonstrated, the internal audit work on these areas will be carried out by Internal Audit with the Chief Officer Audit & Risk as the client and therefore with no involvement in the delivery and reporting of the internal audit review and the report will submitted in the name of the Internal Audit Manager.

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[3] Chartered Institute of Internal Auditors (CIIA) – International Standards for the Professional Practice of Internal Auditing
[4] Chartered Institute of Internal Auditors (CIIA) – International Standards for the Professional Practice of Internal Auditing

SCOPE OF INTERNAL AUDIT ACTIVITY

Internal Audit shall review, appraise and report upon:

The effectiveness of all controls and other arrangements put in place to manage risk.

The completeness, reliability and integrity of information, both financial and operational.

The systems established to ensure compliance with policies, plans, procedures, laws and regulations whether established by the Council or externally.

The effectiveness of arrangements for safeguarding the Council's assets and interests.

The economy, efficiency and effectiveness with which resources are deployed.

The extent to which operational are being carried out as planned and objectives and goals are met.

Internal Audit's work covers:

All Council activities, systems, processes, policies and protocols that are currently existing or under development.

All Council departments, cost centres and other business units and establishments.

All services and other activities for which the Council is responsible or accountable, whether delivered directly or by third parties through contracts, partnerships or other arrangements.

RIGHTS OF ACCESS

The Chief Officer Audit & Risk and any member of Internal Audit service has authority to:

Enter at all reasonable times and without notice any premises or land of the Council, provided that where such premises or land are leased to a third party that the terms of the lease are observed.

Have access to, and remove, all records (both paper and electronic), documents and correspondence within the possession or control of any officer of the Council, relating to any financial or other transactions of the Council.

Be provided with a separate log-in to any computer system within the Council and have full access to any system, personal computer or other device in the ownership of the Council.

Require and receive explanations concerning any matter under examination from any employee including Chief Officers.

Require any employee of the Council to produce cash, stores or any other Council assets under their control.

CONSULTANCY WORK

Internal Audit, using its systematic and disciplined approach, plays an important role for the Council within its transformation and change programme and its performance improvement framework through the provision of advice and consultancy services to:

> advise on cost effective controls for new systems and activities to balance risk and control;

> highlight opportunities to reduce costs through greater economy and efficiency within systems and activities as part of strategic and service reviews;

> provide quality assurance on projects involving major change and systems development;

> provide an independent and objective assessment of the evidence on progress with implementing action plans to demonstrate continuous improvement; and

> provide independent validation of performance indicators and benchmarking information to support self-assessment and continuous improvement of the Council's services.

Increasingly management have engaged Internal Audit at an early stage in new developments and transformation programmes and projects to conduct consultancy work. Acceptance of the assignment will be dependant on available resources, the nature of the assignment and any potential impact on assurances.

The role of Internal Audit in a consultancy assignment is to provide advice, facilitation and support to management who retain the responsibility for the ultimate decisions taken within the area under review.

REPORTING

Internal Audit:

> Reports after each audit assignment its findings and audit opinion, highlights good practice and deficiencies, and makes recommendations as appropriate addressed to the relevant Depute Chief Executive, Service Director and such other levels of management as need to know and are capable of ensuring that appropriate action is taken to improve the mechanisms put in place to ensure systems and activities achieve their objectives.

Findings and recommendations are prioritised as follows:	Generally we would expect recommendations to be implemented within the following time scales:
Priority 1 High risk, material observations requiring immediate action. Added to the relevant department's Risk Register.	within one month of formally raising the issue
Priority 2 Medium risk, significant observations requiring reasonably urgent action.	within three months of formally raising the issue
Priority 3 Low risk, minor observations which require action to improve the efficiency, effectiveness and economy of operations or which otherwise require to be brought to the attention of senior management.	within six months of formally raising the issue

Accepts that its responsibility does not cease at the point where a report is issued and will take reasonable action to follow up the implementation of agreed actions to ensure they are in place and are effective.

Failure to address recommendations within the agreed timescales will be reported to the Audit & Risk Committee. In some cases it will not be practicable to implement recommendations within the above timescales and in these cases background circumstances and progress to date will be taken into account.

Will report as required on the results of its work (including summarising the findings arising from each completed review, and progress made in delivering the agreed Audit Plan) to the Audit & Risk Committee. An annual report will be presented to Corporate Management and the Audit & Risk Committee which will contain the annual audit opinion on the effectiveness of the Council's internal control and corporate governance arrangements. Progress on implementation of all Priority 1 items will be highlighted on an annual basis as appropriate to inform the Audit & Risk Committee of the current areas of greatest risk and how management is managing these effectively.

Will make available, as requested, to Members of the Audit & Risk Committee its final internal audit reports in accordance with statutory and professional standards governing confidentiality of information.

Will evaluate its performance and maintain and publish information accordingly.

The work of Internal Audit (including its opinion on the control environment) shall contribute to the Council's review of its corporate governance arrangements the outcome of which is published in the Annual Governance Statement.

AUDIT RESOURCES AND WORK PRIORITISATION

The internal audit annual plan as approved by the Audit & Risk Committee shall be the main determinant of the relative priority to be placed on each part of the work of Internal Audit. The Chief Officer Audit & Risk (HIA) shall determine the actual deployment of available resources covering the range and breadth of audit areas which are integral to the assurance gathering process across the Council's activities in order to provide an annual internal audit opinion.

This plan also requires to be sufficiently flexible to reflect the changing risks and priorities of the organisation. The plan will have within it provision of resources to address unplanned work. This contingency shall be directed towards responding to specific control issues highlighted by managers during the year by carrying out specific unplanned work within audit scopes and covering other unforeseen variations in the level of resources available to Internal Audit, such as staff vacancies.

In the event that there is a need for greater audit work than there are resources available, the HIA will identify the shortfall in the plan and initially advise the Chief Executive and Chief Financial Officer followed by the Audit & Risk Committee as required. It shall be for the Audit & Risk Committee to decide whether to accept the risks associated with the non-delivery of such audit work or to recommend to the Council that it requires management to identify additional resources.

APPROVAL

The Internal Audit Charter was reported to and approved by the Audit & Risk Committee at its meeting on *23 March 2015* and shall be subject to regular review by the Chief Officer Audit & Risk and the Audit & Risk Committee.

Internal Audit Annual Plan 2015/16

Report by Chief Officer Audit & Risk

Audit & Risk Committee

23 March 2015

1 PURPOSE AND SUMMARY

1.1 The purpose of this report is to provide details of the proposed Internal Audit programme of work 2015/16 to enable the Chief Officer Audit & Risk to prepare an annual internal audit opinion on the adequacy of the Council's overall control environment and to gain approval of the Internal Audit Annual Plan 2015/16 for Scottish Borders Council.

1.2 The SBC Internal Audit function follows the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective 1 April 2013 which requires the chief audit executive to establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals. This plan also requires to be sufficiently flexible to reflect the changing risks and priorities of the organisation.

1.3 A fundamental role of the Council's Internal Audit function is to provide senior management and members with independent and objective assurance which is designed to add value and improve the Council's operation. In addition, the Chief Officer Audit & Risk is also required to prepare an annual internal audit opinion on the adequacy of the Council's overall control environment. The proposed Internal Audit Annual Plan 2015/16, which is attached as Appendix 1, sets out the programme of work necessary to enable the Chief Officer Audit & Risk to prepare such an opinion.

1.4 Key components of the audit planning process include a clear understanding of the Council's functions, associated risks, and potential range and breadth of audit areas for inclusion within the plan.

1.5 There are staff and other resources in place to achieve the Internal Audit Annual Plan 2015/16 and to meet its objectives.

2 RECOMMENDATION

2.1 I recommend that the Audit & Risk Committee approves the Internal Audit Annual Plan 2015/16.

3   BACKGROUND

3.1   A fundamental role of the Council's Internal Audit function is to provide senior management and members with independent and objective assurance which is designed to add value and improve the Council's operation. In addition, the Chief Officer Audit & Risk is also required to prepare an annual internal audit opinion on the adequacy of the Council's overall control environment.

3.2   Management are responsible for establishing and maintaining appropriate risk management, governance and internal control processes and systems to ensure robust and efficient governance of the Council. Management are also responsible for managing fraud risks and ensuring that internal controls systems are designed to guard against fraud and misappropriation. Internal Audit is not a substitute for these management responsibilities. Rather it is the review function which will challenge current practices and recommend best practice and improvements to lead to a strengthening of the control environment and therefore assisting the Council in achieving its objectives.

3.3   The Local Authority Accounts (Scotland) Regulations 2014 were laid before the Scottish Parliament on 7 July 2014 and came into force on 10 October 2014. The regulations require a local authority to operate a professional and objective internal auditing service. This service must be provided in accordance with recognised standards and practices in relation to internal auditing. Recognised standards and practices are those set out in the *Public Sector Internal Audit Standards: Applying the IIA International Standards to the UK Public Sector* (PSIAS). The standards require internal audit to have suitable operational independence from the authority.

4   INTERNAL AUDIT RESOURCES

4.1   The Council's Internal Audit function must be adequately resourced to meet its objectives, in terms of diverse range of experience, knowledge, skills and technical competencies needed to complete the planned programme of work. The staffing position within the function has been stable for some years now, with a good mix of experience, qualifications and skills.

4.2   The Internal Audit Annual Plan 2015/16 has been developed on the assumption that existing staff resources will not change and it is estimated that the total productive days available for audit work will be of the order of 809 days. Staff resources comprise the Chief Officer Audit & Risk (50% allocation to Audit), Internal Audit Manager (75%), two Senior Internal Auditors, and two Internal Auditors.

4.3   Internal Auditors will continue to attend relevant seminars, development workshops and user groups as part of their personal development plans, to meet Continuing Professional Development requirements as appropriate, ensuring that all remain well versed in new and emerging working practices, issues and risks.

5   INTERNAL AUDIT ANNUAL PLAN 2015/16

5.1   The SBC Internal Audit function follows the professional standards as set out in the Public Sector Internal Audit Standards (PSIAS) which came into effect on 1 April 2013, along with the CIPFA Local Government Application Note for the United Kingdom.

5.2 The key standards within the PSIAS which relate to the preparation of the internal audit plan are summarised below:

- Standard 2010 – Planning which states that "the chief audit executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals"

- Standard 2020 – Communication and Approval which states that "the chief audit executive must communicate the internal audit activity's plans and resource requirements, including significant interim changes, to senior management and the board for review and approval. The chief audit executive must also communicate the impact of resource limitations."

5.3 The CIPFA Publication 'Audit Committees: Practical Guidance for Local Authorities and Police – 2013 Edition' states that "The audit committee should seek to make best use of the internal audit resource within the assurance framework. In particular, the audit committee should seek confirmation from internal audit that the audit plan takes into account the requirement to provide an annual internal audit opinion that can be used to inform the Annual Governance Statement. Specific activities will include:

- Approving (but not directing) the risk-based plan, considering the use made of other sources of assurance."

5.4 In practice within Scottish Borders Council, a risk-based plan for the organisation, outlining the planned programme of work to be undertaken by the Internal Audit function, is developed annually by the Chief Officer Audit & Risk. The Internal Audit Annual Plan includes sufficient work to enable the Chief Officer Audit & Risk to prepare an annual internal audit opinion on the adequacy of the Council's overall control environment. The audit opinion is included within the Internal Audit Annual Report which is reported to senior management and members of the Audit & Risk Committee on an annual basis.

5.5 Key components of the audit planning process include a clear understanding of the Council's functions, associated risks, and potential range and breadth of audit areas for inclusion within the plan. This exercise is also informed by key developments at both a national and local level and other relevant background information contained for example within the Corporate Plan, Directorate Business Plans, reports from external audit and inspection bodies, and committee reports. In addition, as in previous years, to capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted. This consultation has included discussions with senior management at various Service and Departmental Management Teams and other key stakeholders such as KPMG, the Council's appointed external auditor.

5.6 The proposed programme of work to be included in the Internal Audit Annual Plan 2015/16 is summarised at Appendix 1. The proposed reviews have been grouped into key themes which are integral to the assurance gathering process across the Council's activities. For each review area included within the plan there is a brief commentary. For each review and in line with recognised good practice an Audit Assignment detailing the scope, objectives and timing will be prepared and agreed with the relevant Service Director and manager prior to commencement of the audit fieldwork.

5.7 The following table summarises how the initial allocation of available audit days will be for the Internal Audit Annual Plan 2015/16.

Areas	Audit Days 2015/16
Corporate Governance	*185*
Financial Governance	*195*
IT Governance	*60*
Internal Controls	*85*
Asset Management	*25*
Legislative & Other Compliance	*50*
Consultancy	80
Other	129
Total Audit Days	**809**

5.8 The past twelve months has resulted in significant changes in the Council including the senior management restructuring, implementation of approved shadow governance arrangements associated with the Integration programme for Health & Social Care, development and implementation of alternative service delivery arrangements including feasibility of options for Cultural services and SB Cares for Adult Social Care services, and the emerging corporate transformation agenda. In recognition that it is envisaged that 2015/16 will continue to be year of change for the Council, the plan should be considered to be flexible and will be periodically reviewed, and amended as required, to reflect any new need or arrangements or changing risks and priorities of the Council. Any amendments will be brought to the Audit & Risk Committee for approval.

5.9 The Internal Audit Annual Plan 2015/16 allows for the provision of internal audit services to SB Cares, the Council's new arms-length external organisation (ALEO) providing Adult Social Care services, under a service level agreement. The internal audit work will be determined and agreed with the SB Cares Board and Management.

6 MONITORING AND REPORTING ARRANGEMENTS

6.1 Internal Audit is committed to delivering its service to meet the needs of Management and the Audit & Risk Committee in support of the Council discharging its responsibilities and achieving its objectives. The Internal Audit plan will be delivered in accordance with the Internal Audit Charter that is included within the agenda for approval by Audit & Risk Committee on 23 March 2015. This sets out the role, professional requirements and overall responsibilities of Internal Audit as well as the authority, access rights and reporting arrangements for the Internal Audit function.

6.2 On completion of each review Internal Audit will issue a draft report to the relevant Depute Chief Executive, Service Director and manager. The report will include an overall opinion on the adequacy of internal control and governance arrangements in the area under review and an action plan, as appropriate, setting out any recommendations for improvement. The Service Director and manager will be required to provide responses on the factual content of the report and to each recommendation, as appropriate. Internal Audit will issue a final report, including completed action plan as appropriate, to the Chief Executive, relevant Depute Chief Executive, Service Director and manager, and KPMG, the Council's appointed external auditor.

6.3   The Chief Officer Audit & Risk will provide the required assurance to Corporate Management and the Audit & Risk Committee in relation to corporate governance, risk management and internal controls throughout the year. Periodic reports on progress with completing the annual plan and executive summaries on the findings arising from each completed internal audit review will be presented. An overall summary of Internal Audit work carried out and opinion on the adequacy of corporate governance of the Council will be provided in the Internal Audit Annual Report which is reported to Corporate Management and the Audit & Risk Committee.

6.4   Assurance reports relating to Internal Audit work carried out for SB Cares, the Council's new arms-length external organisation (ALEO) providing Adult Social Care services, under a service level agreement, will be reported to the SB Cares Board.

7   IMPLICATIONS

7.1   **Financial**

(a)   The Internal Audit function within the Audit & Risk Management service has established staff resources comprising Chief Officer Audit & Risk (50% allocation to Audit), Internal Audit Manager (75%), two Senior Internal Auditors, and two Internal Auditors.

(b)   The Scottish Borders Council financial plans for 2015/16 were approved by the Council on 12 February 2015 and the following table shows the analysis of Internal Audit budget for 2015/16 relative to the above resources:

Budget Heading	2015/16 £	2014/15 £
Employee Costs	240,671	239,449
Transport Related Expenses	1,500	800
Supplies & Services	1,520	3,509
TOTAL	243,691	243,758

7.2   **Risk and Mitigations**

(a)   The Objectives of Internal Audit are set out in its Charter, including "As part of Scottish Borders Council's system of corporate governance, Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives and to do so: As a contribution to the Council's corporate management of risk."

(b)   Key components of the audit planning process include a clear understanding of the Council's functions, associated risks, and potential range and breadth of audit areas for inclusion within the plan. As in previous years, to capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted.

7.3   **Equalities**

(a)   It is anticipated there will be no adverse impact due to race, disability, gender, age, sexual orientation or religious/belief arising from the work contained in this report.

7.4   **Acting Sustainably**

(a)   There are no direct economic, social or environmental issues with this report.

7.5 **Carbon Management**

(a) There are no direct carbon emissions impacts as a result of this report.

7.6 **Rural Proofing**

(a) This report does not relate to new or amended policy or strategy and as a result rural proofing is not an applicable consideration.

7.7 **Changes to Scheme of Administration or Scheme of Delegation**

(a) No changes to the Scheme of Administration or Scheme of Delegation are required as a result of this report.

8 CONSULTATION

8.1 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Service Director Strategy and Policy, the Chief Officer HR and the Clerk to the Council have been consulted on this report and any comments received have been taken into account.

8.2 The Corporate Management Team has been consulted on this report and any comments received have been taken into account.

8.3 The Depute Chief Executives, Service Directors and service managers at Department Management Teams have been consulted on the risk-based audit approach and the resultant planned audit coverage to ensure it will provide assurance to management on controls and governance relating to the key risks facing the Council and to assist them in discharging their roles and responsibilities within the Council.

8.4 Other key stakeholders including KPMG, the Council's appointed external auditor, have been consulted on the approach and the resultant planned internal audit coverage to ensure that audit work is co-ordinated and programmed to avoid duplication and maximise assurance.

Approved by

Jill Stacey, Chief Officer Audit & Risk   **Signature ………………………………….**

Author(s)

Name	Designation and Contact Number
Jill Stacey	Chief Officer Audit & Risk, Tel. 01835 825036
James Collin	Internal Audit Manager, Tel. 01835 825232

Background Papers: Appropriate Internal Audit files
Previous Minute Reference: Audit Committee 10 March 2014

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Contact us at James Collin, Chief Executive's Department
jcollin@scotborders.gcsx.gov.uk

AUDIT	COMMENTARY
Corporate Governance	

AUDIT	COMMENTARY
Corporate Governance - annual evaluation and statement 2015/16	Interim review of the Local Code of Corporate Governance and progress on improvement action plans. Annual evaluation against Local Code of Corporate Governance covering the corporate whole and individual Service Directorates.
Risk Management	Progress on the implementation of corporate risk management improvement actions including policy, strategy, training and toolkits.
Information Governance	Review of the Information Governance framework including roles and responsibilities, policy development and implementation.
Performance Management	Provide independent validation of performance indicators and benchmarking information to support self-assessment and continuous improvement of the Council's services.
Workforce Planning	Review of approach to workforce development to provide skills, knowledge and competency requirements for service delivery to meet the Council's objectives.
Corporate Transformation	Review of governance and accountability arrangements for the Corporate Transformation programme including programme and project management. Review of processes for benefit (financial and other) identification, tracking and realisation.
Health and Social Care Integration	Review governance arrangements being developed to meet new statutory obligations which are designed to promote closer integration and partnership working to meet the needs of the community.
Cultural Services	Review governance arrangements being developed as part of proposals for transferring Cultural Services to a Trust.

AUDIT	COMMENTARY
Financial Governance	

AUDIT	COMMENTARY
Financial policies and procedures	Assess progress with review and update of Financial Regulations and associated procedures and guidelines including revenue and capital budgetary control codes of practice.
Income Charging, Billing & Collection	Review of income management controls in place throughout the Council to set fees and charges for services, raise invoices promptly, and collect debts efficiently resulting in debtors' balances that are complete, accurate and recoverable.
VAT	Review of the VAT treatment of supplies and services made by the Council to customers.
Revenues (Council Tax, NDR)	Assess completeness and accuracy of Revenues (Council Tax and Non Domestic Rates) income, including application of relevant reductions, discounts, reliefs and exemptions.
Grants	Review of authorisation and monitoring procedures including criteria to evaluate grant applications and monitoring compliance with conditions of grant. Assess process against following the public pound code of practice.
Contract Management	Assess controls in place over contract monitoring arrangements with third parties including sports trusts, and arms-length external organisations.
Creditors Payments	Review of payments processes at Service level including authorisation and non-Proactis source systems such as Servitor, Framework-I and Template payments.
Salaries (incl expenses)	Review of controls at Service level.

AUDIT	COMMENTARY
IT Governance	

AUDIT	COMMENTARY
Security controls	Assess the adequacy of the physical access and environmental controls to the Council's ICT equipment, software and data to prevent unauthorised access and damage including third party access agreements.
Public Secure Network (PSN) Compliance	Examine the Council's compliance with the requirements of the Public Secure Network (PSN) and progress with implementation of actions required to achieve full compliance.
Disaster Recovery	Review of ICT disaster recovery strategies and plans to ensure they are aligned with business continuity requirements, are fit for purpose (i.e. no critical single points of failure) and tested appropriately.
ICT Operational Processes	A review of the change / incident / problem management operational controls to ensure they are designed appropriately and that all parties are adhering and complying with them. Specifically with change management, the review will consider business as usual change vs a corporate transformation project.

AUDIT	COMMENTARY
Internal Controls	

AUDIT	COMMENTARY
Homelessness	Review of controls in place to ensure efficient and effective use of social and private sector housing and B&B accommodation to ensure achievement of obligations for the homeless, specifically Rent Accounting processes and procedures, including collection and recovery of rents, training and guidance notes.
Primary Schools	Review of internal financial controls and business administrative procedures in place to ensure the efficient and effective use of resources in the establishments.
Waste & Recycling	Review of operational and financial controls in place for the effective delivery of waste and recycling services.
Capital Projects	Review of management systems in place to ensure that capital projects are being managed efficiently and effectively from inception to completion including post project evaluation, and capacity is reviewed and monitored to utilise available funding as planned (sample of specific projects per year). Capital planning basis on priorities and outcomes set by the Council.

AUDIT	COMMENTARY
Asset Management	

AUDIT	COMMENTARY
Asset Registers	Review of processes and controls management have implemented to ensure complete and accurate records of all Property, Fleet, and IT assets that underpin Asset Management Plans to deliver Council's strategies, plans and priorities.

AUDIT	COMMENTARY
Legislative & Other Compliance	

AUDIT	COMMENTARY
Kelso THI	Review as part of end of programme compliance and evaluation requirements of the two external funders (the Heritage Lottery Fund and Historic Scotland) including audit requirements.
LEADER	Annual review of LEADER programme required by the Service Level Agreement (SLA) between Scottish Ministers (Managing Authority and the Paying Agency (RPID)) and Scottish Borders Council (Lead Partner for Scottish Borders Local Action Group (LAG)) to assess compliance by SBC with the terms of the SLA.
European Fisheries Fund	Annual audit under the terms of the SLA and legislative compliance including an assessment of compliance with the requirements of the SLA and the relevant EC Regulations.
Carbon Reduction	Annual audit as part of the requirement under the Carbon Reduction Commitment Energy Efficiency Scheme (CRC) prior to the Council's annual submission to Department of Energy and Climate Change (DECC).

AUDIT	COMMENTARY
Consultancy	

AUDIT	COMMENTARY
Reviews	Provision of internal audit advice, facilitation and consultancy support to management at an early stage in new developments and within change and transformation programmes and projects.
Specific Requests	Highlight opportunities to reduce costs through greater economy and efficiency within systems and activities as part of strategic and service reviews.
Project Boards / Teams e.g. **- Information Governance** **- Welfare Reform** **- Serious Organised Crime**	Provision of internal audit advice and support to management within change and transformation programmes and projects.

AUDIT	COMMENTARY
Other	

AUDIT	COMMENTARY
Contingency	Investigations and other reative work to ensure high risk issues and concerns identified by Management during the year are appropriately addressed.
Follow-Up	Recommendations are followed-up to ensure management implementation to improve the internal control and governance arrangements.
National Fraud Initiative	Submission of data sets and case management of data matches arising from NFI exercise.
Counter Fraud, Theft, Corruption & Crime	Progress on the implementation of corporate counter fraud improvement actions. Review of fraud prevention controls and detection processes put in place by management. Proactive data matching exercises, spot checks and visits. Independent validation of self-assessment of Local Authority Readiness Serious Organised Crime and Corruption Risk 2015/16 Checklist and progress with implementation of associated Improvement Plan actions.
SB Cares	To be determined and agreed with SB Cares Board and Management.
Scottish Borders Pension Fund	To be determined and agreed with Pension Fund Committee and Management.

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