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Scottish Borders COUNCIL

AUDIT AND RISK
TUESDAY, 28 MARCH 2017

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

COUNCIL HEADQUARTERS, NEWTOWN ST BOSWELLS on TUESDAY, 28 MARCH 2017 at

9.00 am.

J. J. WILKINSON,
Clerk to the Council,

21 March 2017.

	BUSINESS	
1.	**Apologies for Absence.**	
2.	**Order of Business.**	
3.	**Declaration of Interest.**	
4.	**Minute.** (Pages 1 - 6) Minute of Meeting of the Audit and Risk Committee held on 16 January 2017 to be approved and signed by the Chairman. (Copy attached.)	4 mins
5.	**Risk Management Annual Report 2016/17.** (Pages 7 - 12) Consider report by Chief Officer Audit and Risk on progress made to deliver the Council's Risk Management Strategy 2015 including an update on agreed Improvement Actions to refine the risk management arrangements at the Council to ensure their on-going effectiveness. (Copy attached.)	15 mins
6.	**Counter Fraud Annual Report 2016/17.** (Pages 13 - 20) Consider report by Chief Officer Audit & Risk on the Council's counter fraud responsibilities and the progress made to deliver the Council's Counter Fraud Strategy 2015 including an update on improvement actions to refine the arrangements to tackling fraud at the Council. (Copy attached.)	15 mins
7.	**Internal Audit Work 2016/17 to March 2017.** (Pages 21 - 34) Consider a report by Chief Officer Audit & Risk on findings from recent work carried out by Internal Audit, including the recommended audit actions agreed by Management to improve internal controls and governance arrangements, to complete the Internal Audit Annual Plan 2016/17. (Copy attached.)	15 mins
8.	**Internal Audit Annual Report 2016/17.** (Pages 35 - 44)	20 mins

	Consider report by Chief Officer Audit & Risk on the annual assurance and audit opinion to Management and Audit and Risk Committee arising from Internal Audit activity in completing the Internal Audit Annual Plan 2016/17. (Copy attached.)	
9.	**Scottish Borders Council Annual Governance Statement 2016/17.** (Pages 45 - 54) Consider report and draft Annual Governance Statement 2016/17 by Chief Executive for inclusion in Scottish Borders Council Statement of Accounts 2016/17. (Copy attached.)	10 mins
10.	**Audit and Risk Committee Annual Report 2016/17 and Annual Self Evaluation.** (Pages 55 - 72) Consider the Audit and Risk Committee Annual Report 2016/17 on their work for the year in fulfilling their remit based on their annual self-assessment. (Copies attached.)	10 mins
	BREAK	
11.	**Scottish Borders Council External Audit Plan for 2016/17.** (Pages 73 - 88) Consider overview report and plan by Audit Scotland on how they will deliver their external audit for Scottish Borders Council for the year ended 31 March 2017. (Copy attached.)	15 mins
12.	**Scottish Borders Pension Fund External Audit Plan for 2016/17.** (Pages 89 - 102) Consider overview report and plan by Audit Scotland on how they will deliver their audit for Scottish Borders Pension Fund for the year ended 31 March 2017 including the opinions on the financial statements. (Copy attached.)	15 mins
13.	**Internal Audit Strategy and Internal Audit Annual Plan 2017/18.** (Pages 103 - 114) Consider a report by Chief Officer Audit & Risk on proposed strategic direction to deliver Internal Audit assurance and support services and on proposed Internal Audit programme of work 2017/18 to enable preparation of an annual Internal Audit opinion on the adequacy of the Council's overall control environment. (Copy attached.)	20 mins
14.	**Any Other Items Previously Circulated.**	
15.	**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.**

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SCOTTISH BORDERS COUNCIL
AUDIT AND RISK

MINUTES of Meeting of the AUDIT AND RISK held in Council Headquarters, Council Headquarters, Newtown St Boswells on Monday, 16 January 2017 at 10.15 am

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Present:-   Councillors M. Ballantyne (Chair), I. Gillespie, A. J. Nicol and S. Scott.
Apologies:-   Councillors B. White, J. Campbell. Mr M. Middlemiss
In Attendance:- Chief Financial Officer, Chief Officer Audit and Risk, Democratic Services Officer (P Bolson); Mr A Haseeb – Audit Scotland and Mr G Samson – Audit Scotland.

1. **WELCOME**
    The Chairman welcomed those present to the meeting and introduced Mrs Gillian Woolman, Assistant Director of Audit Scotland who would represent the Council's external auditors on the Audit and Risk Committee along with her colleague, Mr Haseeb.

2. **ORDER OF BUSINESS**
    The Chairman varied the order of business as shown on the agenda and the Minute reflects the order in which the items were considered at the meeting.

    DECISION
    NOTED.

3. **MINUTE**
3.1 There had been circulated copies of the Minute of 14 November 2016.

    DECISION
    APPROVED for signature by the Chairman.

3.2 It was noted that all relevant reports had been presented to Council as detailed in the Minute of 14 November 2016.

    DECISION
    NOTED.

4. **RISK MANAGEMENT IN SERVICES**
4.1 Mr Stephen Renwick, Projects Manager, was in attendance to give a presentation on the strategic risks facing Assets and Infrastructure, the internal controls and governance in place to manage and mitigate those risks and the way in which risk management was embedded within the service. Mr Renwick explained that Assets and Infrastructure was formed in 2006 and had brought together seven services from across the Council, namely Catering; Cleaning; Capital Projects; Design Services which included Engineering and Architecture; Estates; Fleet; and Property. Each service had developed a Service Risk Register through the Business Planning Process and these were owned by the relevant Service Managers. Reviews were carried out by the Service Director and their Management Team and where appropriate and necessary, risks would be escalated to the Corporate Management Team. Mr Renwick explained that there had been a number of key overarching issues that had affected the way in which services had operated and provided examples to demonstrate this. These included: financial pressures along with the need for increased efficiency; time, cost, quality and inflation; statutory compliance; increasing demands and expectations; Government policies and legislation; change

management; and a historical lack of investment in property. There were a number of internal facing key risks facing Assets and Infrastructure which included Health and Safety non-compliance; legislative failure, data breaches; and breaches of the Code of Conduct. The main outward facing risks comprised third party failures; contract management of projects; and failure to inspect and maintain roads/bridges/buildings and Mr Renwick provided some examples for Members' information. There were corporate processes in place to manage these risks and they included effective project, programme and change management; change control and financial monitoring; business planning; provision of effective and appropriate training; regular risk monitoring; self-evaluation, review, inspections, scrutiny and KPI development and monitoring.

4.2   Members asked Mr Renwick questions relating to aspects of the presentation. With regard to the safety of buildings, Mr Renwick explained how those owned by SBC would be considered as part of the Risk Register whereas those under third party ownership would be dealt with by enforcement, if appropriate. Discussion followed in relation to the current property market and the strategic risks relating to the service. Members were in agreement that it would be useful to receive more detailed information relating to financial and staffing resources.to assist them in understanding the strategic risks facing services. Members noted that Internal Audit was currently undertaking work with Mr Renwick's team and progress would be reported to the Audit and Risk Committee at its March meeting. Discussion also took place regarding the utilisation of external Project Managers and Mr Renwick confirmed that they would be employed under Scottish Borders Council Conditions and that he would have oversight of any associated risks. With regard to the new Community Right to Buy section of the Community Empowerment Act, Mr Robertson advised Members that a national working group was in the process of developing guidance for public bodies affected by this legislation. The Chairman thanked Mr Renwick for his presentation.

DECISION
NOTED the presentation.

5.   **BENEFITS PERFORMANCE AUDIT UPDATE 2015/16**
There had been circulated copies of a report published in June 2016 by the Accounts Commission which provided a summary of the performance audit work carried out by Audit Scotland on Scottish Councils' housing benefit services during 2015/16. The Service Director Neighbourhood Services explained that Scottish Borders Council had not featured specifically in the report as no Audit had been carried out in 2015/16. Ms Craig summarised the report and explained how Housing Benefit subsidy claims were calculated and the reasons for the rise in monetary value of Housing Benefit overpayments. Ms Craig also advised a number of SBC practices were included in the Accounts Commission Good Practice Guide.

DECISION
NOTED.

6.   **HOUSING BENEFITS OVERPAYMENT AND DEBT RECOVERY**
6.1   The Service Director Neighbourhood Services was present to provide Members with an update in terms of Housing Benefit overpayment and debt recovery within the Scottish Borders. Ms Craig explained that Housing Benefit was administered by SBC on behalf of the Department for Work and Pensions (DWP). SBC paid in the region of £29m per year specifically for Housing Benefit across approximately 8,000 cases. Overpayments could result from claimant error, mainly where the claimant had not informed the Council of a change in circumstances; Local Authority error, where the Council had not acted correctly; or fraud, where there was a deliberate intention to make a false claim. Ms Craig explained that penalised levels of subsidy could be claimed from the DWP but that it was a complicated system which could result in no repayment being made if the level of Local Authority error was out with the parameters set by the DWP. Ms Craig went on to summarise SBC's current performance and noted that recoverable overpayments which

had accumulated over the past 20 years were currently around £2.3m, an increase of £0.8m since April 2015. Members noted that the SBC error performance was within target and a subsidy of 100% had therefore been received from the DWP. Initiatives and key national projects such as Real Time Information (RTI) and the Fraud and Error Reduction Incentive Scheme (FERIS) had been successful in identifying errors which would result in a reduction in overpayments. A range of actions was being taken to deal with the overpayment of Housing Benefit. Work was ongoing to maximise recovery of overpayments from ongoing Housing Benefit; implementation of a new system to allow deductions from other benefits such as Universal Credit; processes for invoicing were being reviewed; a new contract with Sheriff Officers which included Housing Benefit overpayments; and a full data cleanse operation to improve the accuracy of data held in the system. Ms Craig recognised that there were challenges ahead, such as the implementation of Welfare Reforms, and in particular the roll out of the full Universal Credit in March 2018; balancing the work required with the limited resources available; and the collection and use of up-to-date and accurate data.

6.2   Discussion followed and Ms Craig clarified a number of points. She confirmed that there were some issues still to be addressed. At the moment the system for calculating Council Tax reduction used the same data as for Housing Benefit however, when Housing Benefit became the remit of the DWP, there was a possibility that this data might not be accessible to SBC. Much work was being carried out nationally to address and manage this and other issues. Members were advised of the controls in respect of debt recovery and write-off and Audit Scotland also acknowledged the challenges which might arise with the implementation of Universal Credit. Following discussion, Members requested that a seminar on the impact of Universal Credit on Scottish Borders Council be arranged for an appropriate date in the future. The Chairman thanked Ms Craig.

DECISION
NOTED.
ADJOURNMENT
The meeting was adjourned at 11.45am and reconvened at 11.55am.

7.   **INTERNAL AUDIT WORK 2016/17 TO DECEMBER 2016**
7.1   With reference to paragraph 9 of the Minute of 26 September 2016, there had been circulated copies of a report by the Chief Officer Audit and Risk which provided 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 internal audit work currently in progress. The work carried out by Internal Audit during the period 1 September to 23 December 2016 was detailed in the report and it was noted that during the current period, a total of ten final internal audit reports had been issued, namely: Procure to Pay; Salaries; Hawick High School; Galashiels Academy; Jedburgh Grammar School; Primary Schools at Kingsland, Reston and Parkside; Primary Schools Support (consultancy); and the EU Funded Programmes 2014 to 2020 LEADER and EMFF. Three recommendations had been made and were accepted by management. An executive summary of the final internal audit reports issued, including audit objectives, findings, good practice, recommendations and the Chief Officer Audit and Risk's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, was included in the Appendix to the report. Areas of work in progress included Capital Investment; Adult Social Care Services; Corporate Transformation; and Workforce Planning. The Chief Officer Audit and Risk summarised other assurance and consultancy work that Internal Audit had been involved in during the reporting period.

7.2   Ms Stacey explained that the work carried out at schools focussed on financial controls and cash handling, with some primary schools being included for the first time.   It was noted that Business Administrators were generally linked to secondary schools and that in order to provide a support mechanism for primary schools, the Internal Audit report

recommended using the cluster approach already in place across the area to enable primary schools to access this business support.

7.3   Internal Audit had carried out a review of EU Funded Programmes 2014-2020 LEADER and EMFF to assess compliance with the requirements of the new Service Level Agreement (SLA) and relevant EC regulations for the LEADER Programme. Mr Hugh Williams, Principal Officer Rural Development was present to explain the processes and complexities of the LEADER Programme. LEADER was delivered nationally through the Scottish Rural Development Programme by the Scottish Government Directorate of Agriculture, Food and Rural Communities acting as the Managing Authority and Paying Agency on behalf of the EU. It was then delivered locally by Local Action Groups acting as decision making bodies. The Scottish Borders SLA between SBC (as the Accountable Body) and the Scottish Government delegated certain functions within the LEADER Programme to SBC. Mr Williams explained that guidance had eventually been issued by the Scottish Government and work was now ongoing as to how this guidance would be implemented. Discussion followed in respect of review of potential risks which could be faced by SBC in terms of changes in responsibility. The Chairman thanked Mr Williams for his attendance.

DECISION
(a)   NOTED:-

> **(i)   the final reports issued in the period from 1 September to 23 December 2016 to deliver the approved Internal Audit Annual Plan 2016/17; and**

> **(ii)   other Internal Audit assurance and consultancy work undertaken in the period.**

(b)   ACKNOWLEDGED the assurance provided on internal controls and governance arrangements in place for the areas covered by Internal Audit work.

8.   **LOCAL GOVERNMENT IN SCOTLAND - FINANCIAL OVERVIEW 2015/16**
There had been circulated copies of a report by the Accounts Commission which provided a financial overview of local government in Scotland during 2015/16. Ms Woolman explained the new approach being taken to overview reporting and advised that the current document was the first of the new overview outputs. The report included key messages for Local Authorities, noting that generally, the financial health of local government had been good during 2015/16 with a slight increase in reserves and a reduction in overall debt. The report highlighted the financial challenges ahead for Councils facing increased pressures from a long term decline in funding, increased demand for services and increasing costs. It was essential that Councils found different ways of working to be able to deal with these challenges and funding gaps. The report also highlighted the importance of long term financial strategy to ensure that Council spending was aligned with priorities and supported by financial plans and budget forecasts. A number of exhibits were included in the report, providing comparisons across all 32 Scottish Councils. Further detail was available on the Accounts Commission website. A discussion followed and officers answered questions raised by Members regarding the use of reserves and in respect of the Pensions Strategy and how employees could now access pensions. Members were advised that the new Council would be offered training to enable them to gain an understanding and to carry out their varied roles and responsibilities.

DECISION
NOTED the report.

9.   **TREASURY MANAGEMENT STRATEGY 2017/18**

9.1   There had been circulated copies of a report by the Chief Financial Officer presenting the proposed Treasury Management Strategy 2017/18 for consideration by the Audit and Risk Committee prior to Council approval. The report explained that the Treasury Management Strategy was the framework which ensured that the Council operated within prudent, affordable limits in compliance with the CIPFA (Chartered Institute of Public Finance and Accountancy) Code. The Strategy, which would be submitted to Council on 9 February 2017, was included as an Appendix to the report. It reflected the impact of the Administration's draft Financial Plans for 2017/18 onwards on the prudential and treasury indicators for the Council.

9.2   The report contained a summary of the proposed Prudential and Treasury indicators within the Strategy in Annex A to the Appendix and it was noted that Audit Scotland had recognised the good practice demonstrated by Scottish Borders Council. A query was raised in respect of the figures for 2017/18 in the table at paragraph 3.1(a) of the Strategy, and it was agreed that the detail would be examined and any adjustments would be made prior to presentation to Council.   The table at paragraph 4.1(a) of the report summarised the Council's treasury portfolio position at 31 March 2016 along with forward projections, and detailed the actual external debt against the underlying capital borrowing need whilst highlighting any over and under borrowing. The Strategy explained that the operational boundary ie the limit which external borrowing was not expected to exceed, would normally be similar to the Capital Financing Requirement ((CFR) but this could vary depending on the levels of actual debt. The Council was currently maintaining an under-borrowed position with the CFR not being fully funded by external loan debt. Cash supporting the Council's reserves, balances and cash flow had also been used as a temporary measure and this was considered prudent whilst investment returns were low and counterparty risk was still regarded as an issue. With reference to investment objectives and policy, it was noted that the security of re-payment of principal and interest of investments was considered to be of primary importance. Discussion followed and with regard to the new Kelso High School, Mr Robertson confirmed that although the project would be fully revenue funded by the Scottish Government, the school would remain an asset of SBC, would continue to appear on the balance sheet and be subject to Performance Indicators set by the Council

        DECISION
        NOTED the report and draft Treasury Management Strategy 2017/18 for presentation to Council.

10.   **NEXT MEETING**
        The next meeting of the Audit and Risk Committee was scheduled to take place on 28 March 2017. It was noted that this meeting would commence at 9.00am and conclude no later than 12.45pm to allow Members to attend a further meeting.

        DECISION
        NOTED.

The meeting concluded at 1.40 pm

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RISK MANAGEMENT ANNUAL REPORT 2016/17

Report by Chief Officer Audit & Risk

AUDIT AND RISK COMMITTEE

28 March 2017

1 **PURPOSE AND SUMMARY**

1.1 **The purpose of this report is to provide members with an overview of Scottish Borders Council's responsibilities in respect of risk management and the progress made to deliver the Council's Risk Management Strategy (approved by Council in February 2016) including an update on improvement actions to refine the arrangements to managing risk at the Council.**

1.2 Effective Risk Management is one of the foundations of effective Corporate Governance and is recognised as such in the Council's Local Code of Corporate Governance. Compliance with the principles of sound corporate governance requires the Council to adopt a coherent approach to the management of the risks that it faces every day. Common sense serves to underline the message that better and more assured risk management will bring many benefits to the Council and the people it serves.

1.3 Part of the Audit and Risk Committee's role is to scrutinise the framework of internal financial control, risk management and governance throughout the Council to ensure its adequacy.

1.4 The findings of the Risk Management review undertaken during 2014 were endorsed by the Audit and Risk Committee in January 2015, to refine the risk management arrangements at the Council to ensure their on-going effectiveness. A report on status of recommended improvement actions 2015/16 was presented to the Audit and Risk Committee in June 2016.

1.5 The Council continues to refine its approach to Risk Management and embed these key aspects into the management practices of the Council, as shown within this report which outlines progress made during 2016/17.

2 **RECOMMENDATIONS**

2.1 **I recommend that the Audit and Risk Committee**

a) **acknowledges that it is satisfied with the progress of the risk management improvement actions to refine the risk management arrangements at the Council to ensure their on-going effectiveness; and**

b) **considers whether any further action is required.**

3   BACKGROUND

3.1   Effective Risk Management is one of the foundations of effective Corporate Governance and is recognised as such in the Council's Local Code of Corporate Governance (approved by Council, May 2016). Compliance with the principles of sound corporate governance requires the Council to adopt a coherent approach to the management of the risks that it faces every day. Common sense serves to underline the message that better and more assured risk management will bring many benefits to the Council and the people it serves.

3.2   The findings of the Corporate Risk Management Review undertaken during 2014 were endorsed by the Audit and Risk Committee in January 2015. In summary, it concluded that although risk management arrangements were in place they were not fully embedded within the business planning and performance management, monitoring and reporting processes.

3.3   Management continue to be advised and supported by a central specialist support resource, 1 FTE Corporate Risk Officer post within the Audit & Risk service, to fulfil their responsibilities for managing risk. The Corporate Risk Officer provides professional advice and support and maintains an overview of risk management across the Council to ensure systems of identification, evaluation and management of key risks facing the Council continue to be robust. These include: scheduling and facilitation of risk reviews; provision of guidelines; refresh on risk management practices during risk workshops; and delivery of Risk Management training for managers within the Corporate Training Programme.

3.4   Part of the Audit and Risk Committee's role is to scrutinise the framework of internal financial control, risk management and governance throughout the Council to ensure its adequacy. A report on status of recommended improvement actions 2015/16 was presented to the Audit and Risk Committee in June 2016.

4   RISK MANAGEMENT REVIEW PROGRESS 2016/17

4.1   The risk management landscape is dynamic and as the Council, in common with other local authorities, increasingly moves towards partnerships and alternative delivery models, the spectrum of risks that the Council is exposed to also increases.

4.2   Examples are set out below of specific work carried out by the Corporate Risk Officer with relevant managers in 2016/17 outlining further progress against the improvement actions themes.

Revised Risk Management Policy

4.3   The revised Corporate Risk Management Policy statement (approved by Council in February 2015) sets out the Council's systematic approach to the identification, evaluation and effective management of the risks it faces every day, including roles and responsibilities. (Complete)

Revised Risk Management Strategy, Procedures and Guidelines

4.4   The Corporate Risk Management Strategy (approved by Council in February 2016) sets out the arrangements for applying the risk management policy in practice, building on the foundation of existing risk management arrangements and adding value by aligning risk management to the business planning and performance management processes. Guidelines, Templates and Prompt Lists are updated, as appropriate, and published on the Intranet. (Complete)

Risk Management alignment with Business Planning Process

4.5 A systematic approach to the identification, evaluation and effective management of the risks has been applied as part of the Business Planning cycle to align risks with corporate objectives. This ensures that the risks to achieving these objectives are identified and prioritised. The Business Planning process continues to evolve with the aim of consistent application across the Council's services. (Ongoing)

4.6 These risk management advisory and support services are also provided to SB Cares and the Scottish Borders Health and Social Care Integration Joint Board using the same systematic approach as part of their respective business or strategic planning processes. While Live Borders are subject to a contractual obligation to the Council to have proper risk management processes in place, they meet this obligation through their own resources.

Risk Management Training Programme

4.7 The Risk Management training for managers within the Corporate Training Programme is supported by senior management. The Course was reviewed in January 2017 to refresh the content and keep it relevant to the dynamic environment faced by SBC. There is an increased focus on risk management within programmes, projects and decision making. The Course Objectives are: Understand why the management of risk is an essential part of management responsibilities; Understand how managing risks is fundamental to business plan/programme/project/strategy/decision making; Be able to identify risks to achieving objectives and to put actions in place to mitigate these risks; and Understand how risks are analysed, assessed, recorded and monitored in the Council.

4.8 As of 16 March 2017, there have been 15 training events delivered by the Corporate Risk Officer. These have been attended by 129 managers, and positive feedback was received. Training course dates continue to be scheduled in 2017 on a monthly or quarterly basis dependent on demand to ensure that all relevant managers and those involved with delivering programmes and projects undertake this training. (Ongoing)

Facilitated Risk Management Workshops, Use of Covalent and Standardisation of Risk Reporting

4.9 The Council now has a standard risk management process with risk registers at Corporate and Service levels uploaded to Covalent, the Council's performance management system. Risk registers have been developed for all Service areas, with the exception of Children & Young People directorate which currently has a strategic risk register. Risks are formally reviewed with the Risk Owner and the relevant Management Team on a quarterly basis, and Covalent is updated to reflect this. Service Director sign off takes place quarterly to ensure appropriate oversight, though full engagement is required in some service areas to ensure consistent application across all Corporate and Service risk registers.

4.10 The Corporate Risk Officer continues to work with the Corporate Performance Management team to enhance Risk reporting linked with the business planning and performance monitoring reporting process within Covalent. Improved Covalent functionality has provided the opportunity for service managers to monitor their Business Plan Actions, Performance Indicators and Risks through dedicated portals, creating a valuable management information tool that needs to be fully exploited to its best use. All Portals are now set up and include risks registers for directorates or services where these exist. (Ongoing)

4.11 Facilitated Risk workshops take place to develop risk registers as requested relating to projects and programmes, and joint working and partnership arrangements. For example:

- Develop the strategic risk register for the Council's Digital Transformation Programme. Focus on ensuring that risk management of the projects initiated to deliver the Digital Transformation Programme are aligned and appropriately communicated/escalated when necessary;

- The Council's Information Governance Group now has risk management embedded into every meeting of the Group and is an excellent example of the success of the Risk Review to recognise significant risks and embed a positive risk management culture;

- Refresh of the strategic risk register for the Scottish Borders Health and Social Care Integration Joint Board, following the appointment of an interim Chief Officer. Support to project leads within the Integrated Care Fund to help achieve positive outcomes for the people of the Scottish Borders;

- On the back of similar work for the Child Protection Committee (multi agency), development of a risk register for the Adult Protection Committee (multi agency) to ensure risks to achieving their objectives are identified and prioritised. This work is almost ready to be taken to the Committee for approval.

Risk Management Roles and Responsibilities

4.12 Roles and Responsibilities have been clarified in the Policy Statement and Strategy which includes clarification of risk escalation. (Complete)

4.13 Management have the primary responsibility to systematically identify, analyse, evaluate, control and monitor risks that potentially endanger or have a detrimental effect upon the achievement of the Council's objectives and its people, property, reputation and financial stability whether through core service delivery or through a programme of change.

4.14 During 2016/17 various Service Directors representing the diverse range of Council services have made presentations to the Audit and Risk Committee at each of their meetings on the strategic risks facing their services and the internal controls and governance in place to manage / mitigate those risks to demonstrate how risk management is embedded within services. This approach has provided the opportunity to the elected and external members of the Committee as part of their oversight remit to gain a fuller understanding of how Management are discharging their risk management responsibilities in practice and to enable them to hold Management to account on the application of revised Corporate Risk Management Policy.

Conclusion

4.15 The above demonstrates that as a result of the Corporate Risk Management Review 2014 and the implementation of recommended improvement actions during 2016/17, the management of risks is being embedded and recognised as an essential part of management practice above and beyond the business planning remit. It is becoming an essential part of decision making and should help to ensure that decisions are taken and risks are fully understood. Risk management is moving away from solely being a process to being an essential part of management activities which is the key objective of the Corporate Risk Management Policy 2015.

5   RISK MANAGEMENT NEXT STEPS 2017/18

5.1   It is recognised that further work is required to ensure the consistent application of arrangements for applying the Corporate Risk Management Policy in practice. For example, development of the remaining Risk Registers in all Council services and attendance of remaining relevant senior managers on the Corporate Risk Management Training course with the support of Corporate Management Team and the full engagement of Service Directors.

5.2   The year-3 programme of work for 2017/18 for the Corporate Risk Officer will build on work undertaken in 2016/17 and the positive outcomes and working relationships that have been established.

5.3   The focus in 2017/18 is to identify where work needs to be done to confirm systematic and effective risk management arrangements including partnership arrangements, transformation and change programmes and projects. One such example is the Digital Transformation Programme in light of its strategic risk profile, and the transformation and change dynamics and requirements over the coming months. One of the expected outputs from the involvement of the Corporate Risk Officer would be the design and implementation of an approach and tools to enable consistent management of risk across the Corporate Transformation Programme.

6   IMPLICATIONS

6.1   **Financial**

There are no financial implications as a direct result of the report. All the costs involved are contained within the central Risk Management (1 FTE Corporate Risk Officer) 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.

6.2   **Risk and Mitigations**

The report sets out an overview of Scottish Borders Council's responsibilities in respect of risk management. It also describes the progress made on implementing the recommended improvements arising from the 2014 review to refine the risk management arrangements at the Council to ensure their on-going effectiveness.

6.3   **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.

6.4   **Acting Sustainably**

No direct economic, social or environmental issues with this report.

6.5   **Carbon Management**

No direct carbon emissions impacts as a result of this report.

6.6   **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.

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

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

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7 CONSULTATION

7.1 The Corporate Management Team has been consulted on this report and any comments received will be incorporated into the report.

7.2 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Chief Officer HR and the Clerk to the Council have been consulted on this report 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
Justine Leuty	Corporate Risk Officer Tel 01835 824000 Ext 8076

Background Papers: Scottish Borders Council's Corporate Risk Management Policy statement (February 2015) and Corporate Risk Management Strategy (February 2016)
Previous Minute Reference: Audit and Risk Committee 28 June 2016

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. Justine Leuty can also give information on other language translations as well as providing additional copies.

Contact us at Justine Leuty, jmleuty@scotborders.gov.uk

COUNTER FRAUD ANNUAL REPORT 2016/17

Report by Chief Officer Audit & Risk

AUDIT AND RISK COMMITTEE

28 March 2017

1 **PURPOSE AND SUMMARY**

1.1 **This report provides the Audit and Risk Committee with an update of the Council's fraud prevention, detection and investigation activity and the progress made to deliver the Council's Counter Fraud Strategy (2015) through implementation of recommended improvement actions.**

1.2 The Council is committed to minimising the risk of loss due to fraud, theft or corruption and to taking appropriate action against those who attempt to defraud the Council, whether from within the authority or from outside.

1.3 The primary responsibility for the prevention, detection and investigation of fraud rests with Management, supported by the Corporate Fraud and Compliance Officer. Internal Audit provides advice and independent assurance on the effectiveness of processes put in place by Management. Part of the Audit and Risk Committee's role is to scrutinise the framework of internal financial control including to oversee the assessment of fraud risks and to monitor counter fraud strategy, actions and resources.

1.4 The Council refreshed its approach to tackling fraud during 2015 with a refocus on prevention and detection using fraud vulnerability assessments at its core. There is a 3-year counter fraud strategy and associated improvement plan to embed anti-fraud culture across SBC, taking account of reducing resources. A report on status of recommended improvement actions 2015/16 was presented to Audit and Risk Committee in June 2016.

1.5 Further progress on recommended improvement actions has been made during 2016/17 as evidenced by the outcomes of the self-assessment shown in this report. Assurances about the effectiveness of the Council's existing systems and arrangements for the prevention, detection and investigation of fraud can be taken from the results in the Annual Fraud Report 2016/17 contained herein.

2 **RECOMMENDATIONS**

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

a) **Considers the counter fraud work undertaken to deliver the strategy and whether any further action is required; and**

b) **Notes the content of the annual fraud report 2016/17.**

3   BACKGROUND

3.1   In 2014 the Chief Officer Audit and Risk commissioned a counter fraud review anticipating the transfer of responsibility for investigating Housing Benefit fraud to the Department for Work and Pensions. A Counter Fraud Strategy was developed in 2015 with 3 year improvement plan and the establishment of a Corporate Fraud Working Group (CFWG) which has representatives from across the Council's services.

3.2   A new 1 FTE Corporate Fraud and Compliance Officer post was established in 2015 within the Audit & Risk service to ensure that the Council is able to respond to corporate fraud issues. The post-holder, an Accredited Counter Fraud Specialist since December 2015, leads on implementation of the counter fraud improvement actions and supports the CFWG in its work.

3.3   Internal Audit is required to give independent assurance on the effectiveness of processes put in place by Management to manage the risk of fraud and liaises with the Corporate Fraud and Compliance Officer on an on-going basis to ensure fraud risk is considered in every audit.

3.4   Part of the Audit and Risk Committee's role is to scrutinise the framework of internal financial control including to oversee the assessment of fraud risks and to monitor counter fraud strategy, actions and resources.

3.5   The findings of Corporate Counter Fraud Review 2014 were presented to the Audit and Risk Committee in June 2015 along with recommended improvement actions to refresh the Council's approach to tackling fraud. A report on status of recommended improvement actions 2015/16 was presented to Audit and Risk Committee in June 2016.

4   COUNTER FRAUD MANAGEMENT REVIEW PROGRESS 2016/17

4.1   Fraud risk increases during times of change and depressed economic activities so it is important to ensure that Managers remain focused on fraud vulnerabilities and members of the Committee are assured that effective controls are in place.

4.2   Establishing a counter fraud culture is fundamental to ensuring an effective response to fraud, theft, corruption or crime and the leadership part played by Corporate Management Team and senior management is key to establishing counter fraud behaviours within the organisation, its partners, suppliers and customers.

4.3   The recommended improvement actions from the Corporate Counter Fraud Review 2014 are designed to enhance the existing appropriate arrangements the Council has in place to prevent and detect fraud.

4.4   The initial focus of the CFWG was to undertake an analysis to determine whether SBC's Policies complied with the minimum requirement within the CIPFA Code of Practice on 'Managing the Risk of Fraud and Corruption (2014)'. A report in February 2016 to CFWG concluded that SBC was substantially compliant with the CIPFA Code and identified specific improvement actions to address any gaps. However, it was acknowledged that the Council should aspire to more than the minimum standard and the CFWG agreed to use the Counter Fraud Maturity Model endorsed by the Scottish Government and CIPFA as a self-assessment tool to guide development.

4.5 Appendix 1 illustrates the Council's current self-assessed position against the Counter Fraud Maturity Model based on the examples set out below:

4.5.1 ***Ethics***

The Employee Code of Conduct covers all of the areas of ethical behaviour; some further explanation has been created for Gifts and Hospitalities, and Conflict of Interests.

4.5.2 ***Policies***

A Fraud Response Plan has been written to standardise the Council's response when fraud is suspected and to assist Managers to know what options are available to them.

4.5.3 ***Training and Development***

The CFWG have overseen the development of on-line training modules covering Fraud Awareness, The Bribery Act, Conflict of Interests, and Gifts and Hospitalities. These are now mandatory for new members of staff.

4.5.4 ***Risk Assessments***

Ad-hoc fraud vulnerability assessments using a new methodology have been carried out in areas where assistance has been requested. This will be rolled out in areas identified by the "Fighting Fraud and Corruption Locally: Local Government Counter Fraud and Corruption Strategy 2016-2019". This states that known significant fraud risks include: Procurement; Payroll; Council Tax; Blue Badge; Grants; Pensions; Personal budgets; Internal Financial; Identity. Emerging areas of increasing fraud risks include: Business rates; Money Laundering; Commissioning of Services; and Cyber Crime. These will be evaluated for relevance and a fraud vulnerability assessment carried out to ensure effective controls are in place.

4.5.5 ***Monitoring***

There are a number of existing controls across service areas and Managers are supported by the Internal Audit function which also provides assurance that controls are effective. Fraud vulnerability assessments will provide a way to identify monitoring controls.

4.5.6 ***Fraud Reporting Arrangements***

This refers to the arrangements for individuals reporting suspicions to the Council. A fraud hot-line and on-line e-form are available for external customers. Internal whistle-blowing is within the HR policy.

4.5.7 ***Investigation And Response***

There were 28 suspected frauds reported from 1 April 2016 to 10 January 2017. Of these, 20 relates to Council Tax as detailed in 6.3 below. These were all below the lower limit for reporting to the Procurator Fiscal. None of the remaining 8 cases were found to be fraudulent. The areas covered were: Homeless Service (1); misuse of a Blue Badge (1); Business Rates (2); Procurement (1); and Passenger Transport (1). Two of these cases related to employees which were dealt with using the Council's HR Disciplinary Procedure.

4.5.8 ***Communications***

The Council's website includes a page developed to promote public use of the fraud hotline and on-line reporting. Communications promoting the use of this method of reporting have been produced along with internal communications to raise staff awareness.

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5 NEXT STEPS

5.1 A Fraud Action Plan will be developed to include a timetable for assessing known fraud vulnerabilities and the effectiveness of the measures currently in place to control them. This will be a rolling programme across service areas to tie in with the introduction of the Business World system. Managers will be encouraged to monitor identified controls and engage with compliance exercises to ensure that those controls are working. This will also highlight areas where controls may no longer be proportionate to the threat or where new controls are required. Training will be offered to key staff coupled with regular communications to highlight issues, best practice and fraud awareness.

5.2 The introduction of the Business World system will formalise authorisation levels within the system in line with the scheme of delegation and introduce new functionality that will allow a more systematic approach to checking and recording fraud compliance within HR, Payroll, Procurement and Finance management and administrative processes.

6 ANNUAL FRAUD REPORT 2016/17

6.1 All frauds and irregularities greater than £5,000 must be reported to Audit Scotland. There were no frauds greater than £5,000 during 2016/17 (nil in 2015/16; nil in 2014/15; one relating to Non Domestic Rates of £95,755 was reported in 2013/14). Though these are an important performance indicator of how effective the Council's fraud prevention and detection measures are, the Annual Fraud Report to the Audit and Risk Committee reports all known frauds.

6.2 In 2016/17 there was one case of corporate fraud for a value less than £1,000 which was perpetrated by an employee who repaid the amount and was subsequently dismissed. The HR led investigation was carried out due to missing vouchers. Following the investigation, process internal controls were improved. (Corporate fraud cases for less than £5,000 - nil in 2015/16; nil in 2014/15; one in 2013/14 relating to embezzlement by an employee at a day centre and a connected social enterprise).

6.3 Compliance work completed in 2016/17 related to Council Tax Single Person Discount which identified £86k Council Tax Discount wrongly claimed. A joint exercise with the Counter Fraud and Compliance Officer, Customer Services and the Electoral Registration Officer identified almost 800 households where Council Tax Discount had been claimed but it seemed from the Electoral Register details that discount was not appropriate. Claimants were canvassed and asked to confirm the occupiers in their property and their responses were investigated to verify the information supplied. Of these, 68 confirmed that there had been a change in circumstance about which they had not previously told the Council. There were 20 claimants who were found to have responded fraudulently. A further 93 failed to respond. All of these customers received adjusted Council Tax bills i.e. no discount applied.

6.4 The Council participates in the National Fraud Initiative (NFI) - computerised data matching between public bodies carried out with statutory authority and administered by Audit Scotland. External Auditors carry out reviews of the Council's NFI participation in the exercise.

6.5 Data matches for the 2016/17 NFI exercise was received in January 2017 totalling 2704 matches. Investigation work is currently being planned with service managers to fit in with work patterns with a view to completing the exercise within required timescales by December 2017.

6.6   If significant amounts of fraud or error are not found and the fraud detection measures have been utilised properly, Management and the Audit and Risk Committee can take assurances about the effectiveness of the Council's existing systems and arrangements for the prevention, detection and investigation of fraud.

7 IMPLICATIONS

7.1   **Financial**

The Council is committed to minimising the risk of loss due to fraud, theft or corruption by putting in place effective internal control systems designed to prevent and detect fraud and at the same time taking appropriate action against those who attempt to defraud the Council, whether from within the authority or from outside. This includes the operational costs of resourcing the Corporate Fraud and Compliance Officer (1 FTE) within the Audit & Risk service. Any additional costs arising from enhanced fraud risk mitigation will have to be considered and prioritised against other pressures in the revenue budget.

7.2   **Risk and Mitigations**

(a)   There is a risk that managers are not aware of fraud issues or due to competing demands on resources, do not engage with fraud prevention.

- The steps in the Counter Fraud Maturity Model should raise awareness across the organisation;
- Fraud vulnerability assessments should identify areas where there are vulnerabilities which can be escalated if not addressed;

(b)   There is a risk that frauds will not be detected:

- Members need assurance that controls are adequate to detect fraudulent activity. If significant amounts of fraud or error are not found but the fraud detection measures have been utilised properly, this gives assurances about the effectiveness of the Council's existing systems and arrangements for the prevention, detection and investigation of fraud.

(c)   There is a risk that managers will not take action against members of staff when fraud is identified for fear of criticism or reputational damage to their service or the Council;

- Managers must have confidence in the investigation process and successful investigations should be communicated;
- A standard operating procedure should keep managers informed about what steps are appropriate;

(d)   There is a reputational risk for the Council if its internal control, risk management and governance arrangements are assessed by external audit and inspection bodies as inadequate.

- The Annual Fraud Report is evidence that risk has been identified and is being mitigated.

7.3   **Equalities**

Equalities and diversities matters are accommodated by way of all alleged frauds being investigated and pursued in accordance with the appropriate legislation.

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7.4 **Acting Sustainably**

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

7.5 **Carbon Management**

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

7.6 **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.

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

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

8 CONSULTATION

8.1 The Corporate Management Team has been consulted on this report and any comments received have been incorporated in the final report.

8.2 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Chief Officer HR, and the Clerk to the Council have been consulted on this report and any comments received have been incorporated in the report.

Approved by
Jill Stacey, Chief Officer Audit & Risk   Signature ....

Author(s)

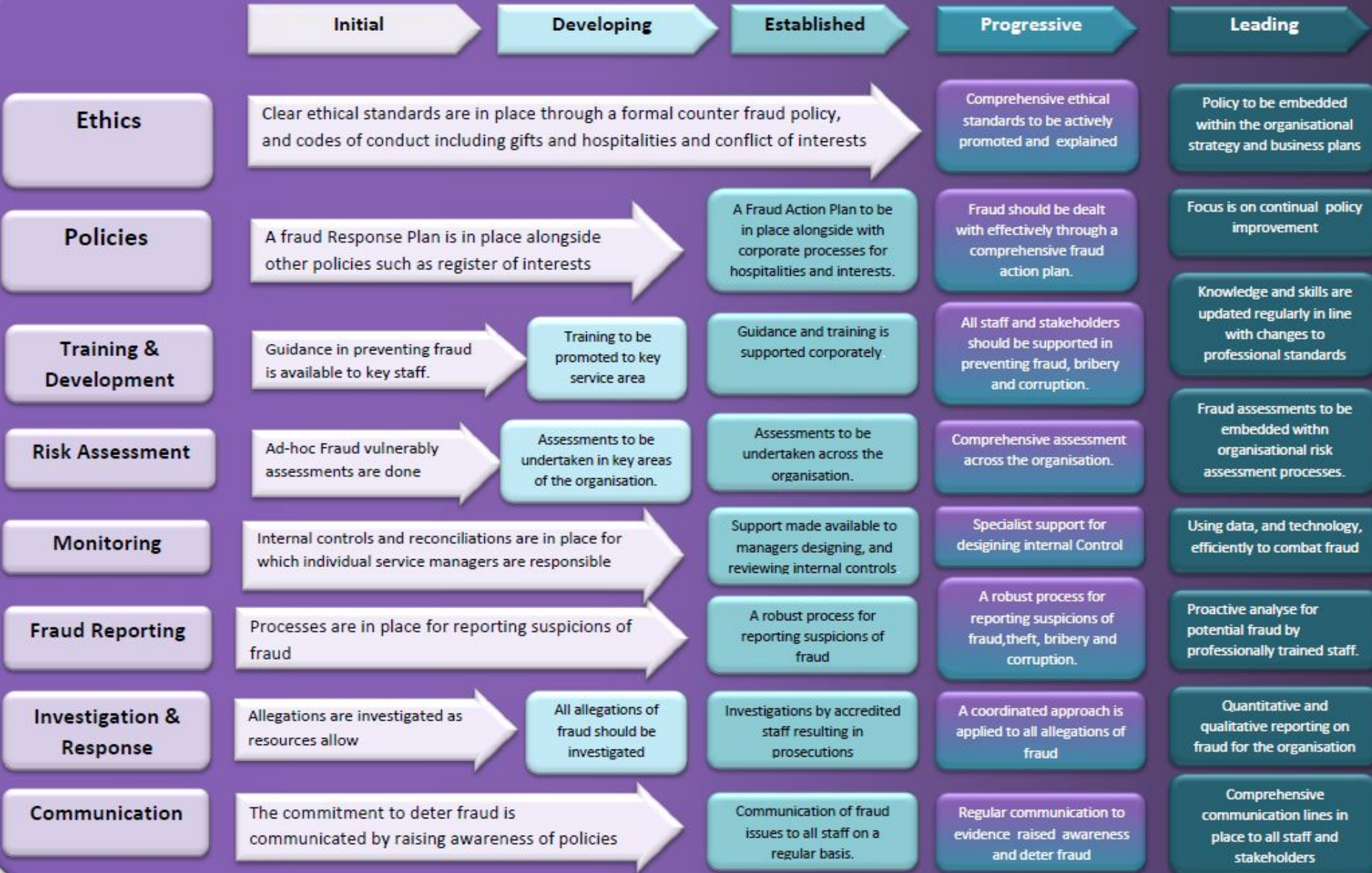| Name	Designation and Contact Number
Jill Stacey	Chief Officer Audit & Risk Tel: 01835 825036
Gary Smith	Counter Fraud and Compliance Officer Tel: 01835 826573

Background Papers: Scottish Borders Council's Corporate Counter Fraud Policy Statement (August 2015) and Corporate Counter Fraud Strategy (August 2015)
Previous Minute Reference: Scottish Borders Council 27 August 2015; Audit and Risk Committee 30 June 2015 and 28 June 2016

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. Gary Smith can also give information on other language translations as well as providing additional copies.

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Scottish Borders Council's Progress on the Counter Fraud Maturity Model

	Initial	Developing	Established	Progressive	Leading
Ethics	Clear ethical standards are in place through a formal counter fraud policy, and codes of conduct including gifts and hospitalities and conflict of interests			Comprehensive ethical standards to be actively promoted and explained	Policy to be embedded within the organisational strategy and business plans
Policies	A fraud Response Plan is in place alongside other policies such as register of interests		A Fraud Action Plan to be in place alongside with corporate processes for hospitalities and interests.	Fraud should be dealt with effectively through a comprehensive fraud action plan.	Focus is on continual policy improvement
Training & Development	Guidance in preventing fraud is available to key staff.	Training to be promoted to key service area	Guidance and training is supported corporately.	All staff and stakeholders should be supported in preventing fraud, bribery and corruption.	Knowledge and skills are updated regularly in line with changes to professional standards
Risk Assessment	Ad-hoc Fraud vulnerably assessments are done	Assessments to be undertaken in key areas of the organisation.	Assessments to be undertaken across the organisation.	Comprehensive assessment across the organisation.	Fraud assessments to be embedded withn organisational risk assessment processes.
Monitoring	Internal controls and reconciliations are in place for which individual service managers are responsible		Support made available to managers designing, and reviewing internal controls	Specialist support for desigining internal Control	Using data, and technology, efficiently to combat fraud
Fraud Reporting	Processes are in place for reporting suspicions of fraud		A robust process for reporting suspicions of fraud	A robust process for reporting suspicions of fraud, theft, bribery and corruption.	Proactive analyse for potential fraud by professionally trained staff.
Investigation & Response	Allegations are investigated as resources allow	All allegations of fraud should be investigated	Investigations by accredited staff resulting in prosecutions	A coordinated approach is applied to all allegations of fraud	Quantitative and qualitative reporting on fraud for the organisation
Communication	The commitment to deter fraud is communicated by raising awareness of policies		Communication of fraud issues to all staff on a regular basis.	Regular communication to evidence raised awareness and deter fraud	Comprehensive communication lines in place to all staff and stakeholders

based on Scottish Government counter fraud maturity model 2015

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INTERNAL AUDIT WORK 2016/17 TO MARCH 2017

Report by Chief Officer Audit and Risk

AUDIT AND RISK COMMITTEE

28 March 2017

1   PURPOSE AND SUMMARY

1.1   The purpose of this report is to provide the Audit and Risk Committee with details of the recent work carried out by Internal Audit and the recommended audit actions agreed by Management to improve internal controls and governance arrangements.

1.2   The work Internal Audit has carried out in the period from 4 January to 20 March 2017 to deliver the Internal Audit Annual Plan 2016/17 in full is detailed in this report. During this period a total of 6 final Internal Audit reports have been issued. There were 7 recommendations made relating to 3 of the reports which have been accepted by Management for implementation.

1.3   An Executive Summary of the final Internal Audit reports issued, including audit objective, findings, good practice, recommendations (where appropriate) and the Chief Officer Audit and 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.

1.4   The SBC Internal Audit function conforms to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective 1 April 2013 including the production of this report to communicate the results of the reviews.

2   RECOMMENDATIONS

2.1   I recommend that the Audit and Risk Committee:

  a)   Notes the final assurance reports issued in the period from 4 January to 20 March 2017 to deliver the approved Internal Audit Annual Plan 2016/17 in full;

  b)   Notes the Internal Audit consultancy and other work undertaken in this period; and

  c)   Acknowledges the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work.

3   PROGRESS REPORT

3.1   The Internal Audit Annual Plan 2016/17 was approved by the Audit and Risk Committee on 29 March 2016. Internal Audit has carried out the following work in the period 4 January to 20 March 2017 to deliver the plan in full to meet its objective of providing an opinion on the efficacy of the Council's risk management, internal control and governance arrangements.

3.2   The SBC Internal Audit function conforms to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective 1 April 2013 including the production of this report to communicate the results of the reviews.

Internal Audit Reports

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

- Capital Investment
- Performance Management (Corp Priorities)
- Workforce Planning
- Adult Social Care Services
- Information Governance
- ICT Contract Management

3.4   An Executive Summary of the final Internal Audit assurance reports issued, including audit objective, findings, good practice and recommendations (where appropriate), and the Chief Officer Audit and 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.

The definitions for Internal Audit assurance categories, as outlined in the approved Internal Audit Charter, are as follows:

Level	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.

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Internal Audit Consultancy and Other Work

3.5   Internal Audit staff 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:

3.5.1   Involvement in testing to ensure that appropriate internal controls are within the new Business World ERP system which will be used from April 2017 for HR, Payroll, Procurement and Finance management and administrative processes.

3.5.2   Offering advice on internal controls and governance to Managers on request through engagement in a number forums as the Council continues to transform its services. For example, Information Governance Group, and Business World ERP Project Board.

3.5.3   Carrying out some contingency audit work on request by Management where we have offered advice on improvements to internal controls and financial administration processes within a Social Work Area Office.

3.5.4   Reviewing outstanding and overdue audit recommendations to ensure their implementation.

3.5.5   Providing intelligence via data sharing requests from Police Scotland. Liaising with the Corporate Fraud & Compliance Officer on an on-going basis to ensure fraud risk is considered in every audit.

3.5.6   Attending relevant seminars, development workshops and user groups, and feedback to colleagues as relevant, to ensure their skills and knowledge are kept up-to-date and to fulfil their Continuing Professional Development (CPD) requirements.

3.5.7   Developing Internal Audit Strategy and Plan for 2017/18 including workshops to fully analyse audit universe, to use governance self-assessment to clarify existing assurance framework, and to check current corporate risks to ensure risk-based audit approach.

3.5.8   Carrying out a "peer review" External Quality Assessment of Fife Council against the Public Sector Internal Audit Standards.

3.5.9   Our planned audit work on the Corporate Transformation Programme has not yet reached final report stage with Management; therefore findings will be reported at the next meeting. It is hoped that any observations or recommendations will be considered by Management as part of their planned review and possible reshaping of the Corporate Transformation Programme.

Recommendations

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 the risk assessment of non-implementation, being the product of the likelihood of the risk materialising and its impact:

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 within one month of formally raising the issue. Added to the relevant Risk Register and included in the relevant Assurance Statement.
Priority 2: Substantial weaknesses in existing controls, leaving the Council or Service open to medium risk of error, fraud, financial loss or reputational damage requiring reasonably urgent action within three months of formally raising the issue.
Priority 3: Moderate weaknesses in existing controls, leaving the Council or Service open to low risk of error, fraud, financial loss or reputational damage requiring action within six months of formally raising the issue to improve efficiency, effectiveness and economy of operations or which otherwise require to be brought to the attention of senior management.

The action plans in audit reports address only recommendations rated Priority 1, 2 or 3. Outwith the report, Internal Audit informs operational managers about other matters as part of continuous improvement.

3.7 The table below summarises the number of Internal Audit recommendations made during 2016/17:

	2016/17 Number of Recs
Priority 1	0
Priority 2	5
Priority 3	2
Sub-total reported this period	**7**
Previously reported	3
Total	**10**

Recommendations agreed with action plan	10
Not agreed; risk accepted	0
Total	**10**

4   IMPLICATIONS

4.1 **Financial**

There are no costs attached to any of the recommendations in this report.

4.2 **Risk and Mitigations**

(a)   The Objectives of Internal Audit are set out in its Charter. "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." Internal Audit provides assurance to Management and the Audit and Risk Committee on the effectiveness of internal controls and governance within the Council. Specifically as "a contribution to the Council's corporate management of risk" this includes responsibility in "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."

(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. During the development of the Internal Audit Annual Plan 2016/17, to capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted and risk registers have been considered.

(c)   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**

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**

There are no direct economic, social or environmental issues in this report.

4.5 **Carbon Management**

No direct carbon emissions impacts arise as a result of this report.

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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**

No changes are required as a result of this report.

5 CONSULTATION

5.1 The Service Directors relevant to the Internal Audit reports issued have signed off the relevant Executive Summary within Appendix 1.

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

5.3 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Chief Officer HR, and the Clerk to the Council have been consulted on this report and any comments received have been incorporated into the report.

Approved by

Jill Stacey, Chief Officer Audit and Risk   Signature ....

Author(s)

Name	Designation and Contact Number
Jill Stacey	Chief Officer Audit and Risk Tel 01835 825036

Background Papers: Appropriate Internal Audit files
Previous Minute Reference: Audit and Risk Committee 29 March 2016

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Contact us at Internal Audit intaudit@scotborders.gov.uk

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Audit Plan Category: Asset Management Subject: Capital Investment No: 007/016 Date issued: 20 March 2017 Level of Assurance: Substantial	The purpose of this assurance audit was to review the management and governance systems in place for Strategic Asset Planning and Capital Investment to ensure that both asset and capital planning are informed on the basis of the Council's priorities and outcomes; to review governance in place to ensure that capital projects are being managed efficiently and effectively from inception to completion; and to assess progress with implementation of identified improvement actions to ensure compliance with established good practice. In performing our Internal Audit 'critical friend' role in confidence and providing some independent challenge, we have undertaken an assessment of both current practice within the Council and the proposals under development against the key recommendations of the Accounts Commission Report "Major capital investment in councils" (March 2013) and accompanying 'Good Practice Guide', covering the following elements: • Strategic Asset Management Plans (SAMPs) • Governance of Capital Investment • Capital Planning (Development of the Capital Programme) • Review, Scrutiny and Challenge • Capital Financial Budget Monitoring • Delivery of Capital Programme and Capital Plan Projects The Accounts Commission have published "Major capital investment in councils Follow up" report in January 2016; which reports the extent to which councils have improved in managing their capital investment programmes and projects since the 2013 Report. The message within is that councils have made limited progress and need to increase the pace of change in implementing improvement actions and in complying with the 'Good Practice Guide'.	0	0	0	Management have agreed the report findings.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Subject: Capital Investment (cont'd)	It is still the case that Strategic Asset Management Plans (SAMPs) are not currently in place for all classes of asset; however plans are being developed for the design and implementation of an asset management framework. The Capital Planning Process has been further developed for the 2017/18 Capital Programme; Strategic Planning of all concurrent projects at programme level is facilitated by the Capital Planning Process and the Project Business Case evaluation, prioritisation and selection. Improved quality of the information is received by Elected Members as whole of project costs are included within 2016/17 Capital Financial Budget Monitoring reports.				
	Internal Audit considers that implementation of the proposals developed and those under development will allow the Council to demonstrate satisfactory compliance with the Accounts Commission's Good Practice Guide. Roles and responsibilities are clear, and Capital Financial Planning and Monitoring arrangements are sound. There is, however, some scope for improvement to fully achieve the good practice recommendations including: • the development of SAMPs for all remaining asset classes; • a continuing programme of training for elected members on Capital issues; • enhancement of information on capital projects (quality, risk, delivery of benefits); and • monitoring via a formal governance framework, including a Capital Programme Board to facilitate standardised reporting, workflow protocols and gateway reviews.				
	To illustrate the current governance and the best practice governance arrangements to be developed and implemented, Internal Audit have created some visuals that have been provided to Management as part of this Internal Audit report.				

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Audit Plan Category: Corporate Governance Subject: Performance Management (Corporate Priorities) No: 016/010b Date issued: 16 March 2017 Level of Assurance: Substantial	The purpose of this assurance audit was to evaluate and assess what validation processes are in place to verify the data that feeds into the Performance Management reporting on the 8 Council Priorities and to agree the data back to management systems and reports. The following good practice was found: • Public facing Performance Management reports are published quarterly on the Council's website with clear links to the Corporate Priorities to which they relate. In relation to current processes on quality assurance and service area validation of the data we found that although some areas were carrying out validation others were not (2 of 21 sample PIs had no validation completed). Internal Audit validation found that for most part the source data provided corresponded to that reported in the Quarterly Performance Management Report November 2016. During the audit some minor improvements were discussed and agreed for implementation. The Performance Management Framework will fall within the review of the existing Business Intelligence environment which was reflected in the Corporate Transformation Annual Progress Report to Council on 9 February 2017. 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. There is, however, some scope for improvement as current arrangements could undermine the achievement of objectives or leave them vulnerable to error. We have not made any recommendations in view of the Business Intelligence project that will be undertaken over the next few months, though we would hope that the Internal Audit findings and observations within the report would be considered as part of that work.	0	0	0	Management have agreed the report findings.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Audit Plan Category: Corporate Governance Subject: Workforce Planning No: 033/006 Date issued: 15 March 2017 Level of Assurance: Limited	The purpose of this assurance audit was to examine the approach to workforce development, and to evaluate the alignment with business and financial planning processes, to provide skills, knowledge and competency requirements for service delivery to meet the Council's objectives. The following good practice was found: • The structure of the Business Plan and People Plan templates, which gave the required framework to be adopted by all services to enable consistent planning processes; • Clear links to the Council's priorities in the Business and People Plans; • Risk management of HR that considers risks throughout the Council; • There was the opportunity for elected members to scrutinise the future plans and progress on delivery in relation to Workforce Transformation Programme; • The Performance Review and Development (PRD) guidance and the structure of templates, which gave the required framework to be adopted by all services. The People Planning process approved by CMT was introduced on the basis that it would be implemented in two phases: Service People Plans would be developed first, to strengthen forecasting staff numbers and skills, knowledge and competency requirements at an operational level; then the Council's Strategic People Plan would be developed, informed by the Service People Plans. There have been delays with the completion of the first phase Service People Plans as there are a number of Services that have not yet provided any People Plans that relate to a relatively large proportion of the overall workforce which has a knock-on effect in delaying the development of the Strategic People Plan.	0	2	0	Management have agreed the report findings, and to implement the recommendations within reasonable timescales.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Subject: Workforce Planning (cont'd)	Internal Audit concurs with HR Management that the Strategic People Plan is of significant importance in that it would provide strategic direction for ongoing people planning in a similar way to that given by the Corporate Plan for the Business Planning Process and the Financial Strategy for the Financial Planning Process.				
	Internal Audit considers that we are able to provide limited assurance. Risk, control, and governance systems have some satisfactory aspects, in that the framework, templates and guidance for the People Planning and PRD processes are in place and are supported by HR staff resource. There are, however, some substantial weaknesses likely to undermine the achievement of objectives which requires consistent application of the People Planning and PRD processes across all services governed by the corporate transformation programme and CMT.				
	We made the following recommendations:				
	• CMT should ensure all remaining Services' People Plans are completed to enable development of the Council's Strategic People Plan, thus ensuring a consistent approach is applied across the Council to how it staffs its services. (P2)				
	• Management should ensure that financial, people and business plans are developed concurrently and continue to be aligned to the Council's corporate plan and priorities. (P2)				

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Audit Plan Category: Corporate Governance Subject: Adult Social Care Services No: 181/001 Date issued: 16 March 2017 Level of Assurance: Substantial	The purpose of this assurance audit was to ensure that the Council's Adult Social Care service is making changes in order to effectively deliver integrated services commissioned by the Scottish Borders Health and Social Care Integration Joint Board. Our review for 2016/17 focused on corporate governance and scrutiny, financial governance, and performance management. Adult Social Care has developed a new management structure, building capacity in anticipation of changes to services resulting from Health and Social Care integration. For 2016/17, the Integration Joint Board (IJB) issued a direction for "business as usual". Consequently reconfiguration of services has not been necessary. Notwithstanding, Adult Social Care is beginning to reconfigure services most notably at present relating to Transitional Care and Reablement in line with IJB current thinking and strategic objectives. Budget monitoring reports are produced on a monthly basis. Arrangements in place make it straightforward to identify and separate the costs of operating services delegated by the IJB from those areas that have not been delegated. 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. There is, however, some scope for improvement as current arrangements could undermine the achievement of objectives. We made the following recommendations: • Key risks facing Adult Social Care which arise from integration should be formally identified, assessed and appropriate mitigating actions put in place. Risks and mitigating actions should be documented in the service risk register. (P2) • Adult Social Care should align performance monitoring to better measure its support of the Integration Joint Board's strategic objectives. (P2)	0	2	0	Management have agreed the report findings, and to implement the recommendations within reasonable timescales.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Audit Plan Category: Corporate Governance Subject: Information Governance No: 236/010 Date issued: 10 March 2017 Level of Assurance: Substantial	The purpose of this assurance audit was to examine the Information Governance framework including roles and responsibilities, policy development and implementation, and to assess progress with the implementation of improvement actions including transformation project. In undertaking this assurance work we employed a continuous audit approach and a Senior Internal Auditor attends Information Management Project progress meetings in an assurance and "critical friend " capacity and the Chief Officer Audit and Risk is a member of the Information Governance Group (IGG). This year there is evidence of substantial improvement. The IGG meets regularly and follows an agreed themed programme of work: Records Management; Information Access; Information Security; and Information Governance. The 2nd Project has successfully delivered a number of key deliverables including the all-important Information Asset Register and is on track to deliver the Records Management Plan in time for its submission date of end of April 2017. Data Protection, Information Management and Information Security Risks have been identified and are being managed. Internal Audit considers that the level of assurance that we are able to give is substantial. 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. To clarify, this is largely because the governance framework is now in place and working effectively, whereas previously it had not been and because of progress made on key deliverables on which other improvement actions are dependant. Work is ongoing to implement remaining Improvement Actions and further work is planned to enable compliance with General Data Protection Regulations, due to come into force May 2018.	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	
Audit Plan Category: ICT Governance Subject: ICT Contract Management No: 238/002 Date issued: 17 March 2017 Level of Assurance: Substantial	As a follow-up report on our previous ICT Change Programme Report published September 2016, the purpose of this assurance audit was to establish whether, following the start of the CGI Contract for provision of ICT Services from 1 October 2016 and completion of ICT Change Programme, a Contract Management Framework had been put in place and was being followed. It is too early in terms of the relationship and partially established processes for Internal Audit to carry out walk through testing of the controls and substantive testing on contract management and performance management data. Instead, our assurance report takes the form of a Position Statement on the progress made towards establishing the client management function and implementing contract management. It also covered key person dependency, PSN compliance, transformation change deliverables, governance and reporting, and risk management. The SBC IT function has been established under the direction of the Chief Financial Officer and reports into the Digital Transformation Programme Board for the transformation elements and via the Performance Management Reporting process for service delivery performance. SBC IT is responsible for client management of CGI and monitoring and assurance of Service Delivery and Compliance with the Terms of the Contract including contractually agreed deliverables. The SBC IT team consists of 4 FTE that includes the ICT Manager (covered by the interim Head of IT); 2 Business Partners (1 vacant – appointment offer made) and an Enterprise Architect. A significant key person dependency risk exists with the contract knowledge and skills of the individuals who make up this team, partially mitigated by wider knowledge out with the ICT function. Contract management is in its early stages of development, focusing mainly on transformation change deliverables agreed within the contract; and some Service Delivery Monitoring is undertaken but not all that has been specified within contract.	0	1	2	Management have agreed the report findings, and to implement the recommendations within reasonable timescales.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Subject: ICT Contract Management (cont'd)	Internal Audit considers that the level of assurance we are able to give in respect of ICT Contract Management governance arrangements and proposed processes is substantial. 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. We made the following recommendations: • Establish a formal Corporate Support Services Forum to provide expert advice for client relationship management and the CGI contract and to support SBC IT in its contract monitoring responsibilities. This should include representation from HR, Finance, Audit and Risk, and Legal. (P3) • SBC IT review the contract and its relationship with CGI and devise a Compliance Plan within the Contract Management Framework in which they identify exactly what contract monitoring and management will be done against each element within the schedules to enable them to provide their management assurance and evidence that it is comprehensive. (P3) • Management should ensure that ICT risks are reflected in the relevant risk registers and ensure that the suite of risk registers is comprehensive and adequately reflects the relevant risks; and that the relationships between the ICT risk registers is clarified to ensure accountabilities are understood by Management and those charged with governance. (P2)				

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Agenda Item 8

INTERNAL AUDIT ANNUAL REPORT 2016/17

Report by Chief Officer Audit and Risk

AUDIT AND RISK COMMITTEE

28 March 2017

1 **PURPOSE AND SUMMARY**

   1.1 The purpose of this report is to present to the Audit and Risk Committee the Internal Audit Annual Report for the year to 31 March 2017 which includes the Chief Officer Audit & Risk's independent assurance opinion on the adequacy of the Council's overall control environment.

   1.2 In support of the overall governance arrangements of the Council, as set out in the Local Code of Corporate Governance, and the Public Sector Internal Audit Standards (PSIAS) which require that the Chief Officer Audit & Risk provides an annual internal audit opinion and report to the Chief Executive on the adequacy and effectiveness of the Council's internal control and governance arrangements to support the preparation of the Annual Governance Statement.

   1.3 The Remit of the Audit and Risk Committee indicates that it should ensure an adequate framework of internal control, risk management and governance throughout the Council.

   1.4 The Internal Audit Annual Report 2016/17, at Appendix 1, includes the annual internal audit opinion regarding the adequacy and effectiveness of internal control within the Council, provides details of the Internal Audit activity and performance during the year to fulfil its role, and summarises the outcomes of assessments of the Internal Audit service against the Public Sector Internal Audit Standards (PSIAS).

   1.5 The Chief Officer Audit & Risk's opinion is that, based on internal audit reviews, risk assessments and knowledge, the systems of internal control and governance arrangements within the Council are operating satisfactorily. Some improvements are required.

   1.6 The Internal Audit Annual Report 2016/17 has been used to inform the Chief Executive's Annual Governance Statement 2016/17.

2 **RECOMMENDATIONS**

   2.1 I recommend that the Audit and Risk Committee:

   a) Considers the Internal Audit Annual Report 2016/17 and provides any commentary thereon.

   b) Agrees that the Internal Audit Annual Report 2016/17 be published on the Council's website.

3   BACKGROUND

3.1   The Public Sector Internal Audit Standards (PSIAS) that became effective for local authorities on 1 April 2013 requires that:

"The chief audit executive [SBC's Chief Officer Audit & Risk] must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report must incorporate:

- the opinion;
- a summary of the work that supports the opinion; and
- a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme."

3.2   The Remit and Terms of Reference of the Audit and Risk Committee indicate that it should:

- Ensure adequate framework of internal control, risk management and governance throughout the Council
- Encourage propriety and probity throughout the Council
- Assist in accountability to stakeholders

4   INTERNAL AUDIT ANNUAL REPORT 2016/17

4.1   The Internal Audit Annual Report 2016/17, at Appendix 1, includes the Chief Officer Audit & Risk's independent and objective opinion regarding the adequacy and effectiveness of internal control within the Council, provides details of the Internal Audit activity that supports the opinion and of the performance during the year to fulfil its role, and summarises the outcomes of assessments of the Internal Audit service against the Public Sector Internal Audit Standards (PSIAS).

4.2   The Chief Officer Audit & Risk's opinion is that, based on Internal Audit reviews, risk assessments and knowledge, the systems of internal control and governance arrangements within the Council are operating satisfactorily.

4.3   Continuous improvements in internal controls and governance arrangements can be demonstrated through Management-initiated improvements complemented by the implementation of audit recommendations. Further improvements in internal control and governance have been agreed by Management as highlighted in Internal Audit reports and recommendations made during the year or outstanding from previous years.

4.4   The Internal Audit Annual Report 2016/17 provides assurances in relation to the Council's corporate governance framework that is a key component in underpinning delivery of the corporate priorities within the Council's Corporate Plan and has been used to inform the Chief Executive's Annual Governance Statement 2016/17.

4.5   The annual internal self-assessment demonstrates sufficient evidence that the Council's Internal Audit section complies with the Public Sector Internal Audit Standards (PSIAS) in all significant respects. An area of further improvement is shown in the Quality Assurance and Improvement Plan (QAIP) that is also included in the Internal Audit Annual Report 2016/17.

5   IMPLICATIONS

5.1   **Financial**

(a)   It is anticipated that efficiencies will arise either as a direct or indirect result of Management implementing the recommendations made by Internal Audit during 2016/17 through improved internal controls and governance arrangements.

(b)   The net cost (projected outturn at February 2016) of the Internal Audit service was £246k (2015/16 £250k). The majority of service expenditure relate to staff costs (99%) for resources comprising Chief Officer Audit & Risk (50% allocation), Internal Audit Manager (part year), three Senior Internal Auditors, and one Internal Auditor.

5.2   **Risk and Mitigations**

(a)   Internal Audit provides assurance to Management and the Audit and Risk Committee on the adequacy and effectiveness of internal controls and governance within the Council, including risk management, and to highlight good practice and recommend improvements. 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.

(b)   Continuous improvements in internal controls and governance arrangements can be demonstrated through Management-initiated improvements complemented by the implementation of Audit recommendations.

(c)   It is anticipated that improvements in the management and mitigation of risks will arise as a direct result of Management implementing the Internal Audit recommendations made during the year or outstanding from previous years which will enable Management to demonstrate further improvement in internal controls and governance arrangements.

(d)   Delivery of the Internal Audit services in conformance with the PSIAS will enable the Council to meet the requirements of the Local Authority Accounts (Scotland) Regulations 2014 to consider the findings of assessments as part of the consideration of the system of internal control required by regulation 5.

5.3   **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.

5.4   **Acting Sustainably**

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

5.5   **Carbon Management**

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

5.6   **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.

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

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

6   CONSULTATION

6.1   As the Chief Officer Audit & Risk is required to give an independent opinion on the internal control and governance arrangements of the Council, consultation on Appendix 1 is not appropriate.

6.2   The Corporate Management Team has been advised to take into account the work of Internal Audit and independent opinion on the adequacy and effectiveness of the systems of internal control and governance when completing the annual self-evaluation and assurance process for the Council's Annual Governance Statement 2016/17.

6.3   The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Chief Officer HR, and the Clerk to the Council have been consulted on the covering report and any comments received have been incorporated into the report.

Approved by

Jill Stacey, Chief Officer Audit and Risk   Signature …………………………………

Author(s)

Name	Designation and Contact Number
Jill Stacey	Chief Officer Audit and Risk Tel 01835 825036

Background Papers: Appropriate Internal Audit files
Previous Minute Reference: Audit and Risk Committee 29 March 2016

Note – You can get this document on tape, in Braille, large print and various computer formats by using the contact details below. Information on other language translations can also be given as well as provision of additional copies.

Contact us at Internal Audit intaudit@scotborders.gov.uk

Chief Officer Audit & Risk's Annual Report and Opinion 2016/17

1   Introduction

1.1   It is Management's responsibility to design and maintain proper risk management, governance and internal control processes and systems to ensure probity in systems and operations, including the prevention, detection and resolution of fraud and irregularities. Management is also responsible for checking that the arrangements and controls are operating effectively. These are known as the first and second lines of defence which are not fixed but evolve as the Council changes.

1.2   Internal Audit, as the third line of defence, 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   The Internal Audit activity adds value to the organisation (and its stakeholders) when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management and control processes; and objectively provides relevant assurance.

1.4   The Objectives of Internal Audit are set out in its Charter: "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."

1.5   The Public Sector Internal Audit Standards (PSIAS) that became effective for local authorities on 1 April 2013 requires that:

   "The chief audit executive [SBC's Chief Officer Audit & Risk] must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

   The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

   The annual report must incorporate:
   - the opinion;
   - a summary of the work that supports the opinion; and
   - a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme."

1.6   This Annual Report provides the annual internal audit opinion and summarises the work carried out by Internal Audit during the year to 31 March 2017 that underpins the opinion in accordance with the Internal Audit Charter, strategy and annual plan. The report also summarises the outcomes of assessments of the Internal Audit service against the Public Sector Internal Audit Standards (PSIAS).

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2   Opinion on the systems of Internal Control and Governance

2.1   My opinion is that, based on our reviews, risk assessments and knowledge, the systems of internal control and governance are operating satisfactorily.

2.2   Continuous improvements in internal controls and governance arrangements can be demonstrated through Management-initiated improvements complemented by the implementation of audit recommendations. Internal Audit reports during the year confirm improvements in internal controls and governance, internal financial control and risk management.

2.3   Reasonable assurance can be provided on the adequacy of the internal controls and governance arrangements in place. There is adequate awareness and observation of the Council's Local Code of Corporate Governance (approved May 2016; revised and awaiting approval) and key governance documents including Scheme of Administration (approved January 2015; amended January 2017), Procedural Standing Orders (approved March 2016), Scheme of Delegation (approved June 2014; amended March 2016), Financial Regulations (approved June 2016), and Codes of Conduct for Councillors and for Employees which can be demonstrated by way of the findings of Internal Audit reviews during 2016/17.

2.4   The Chief Officer Audit & Risk facilitates the annual review of the Council's governance arrangements against its Local Code of Corporate Governance (Local Code) carried out by a self-evaluation working group of officers from across the Council's services. This is part of the process to produce the Annual Governance Statement. The Local Code has been updated as part of the annual review process and it is anticipated to be presented to full Council for approval post May 2017. This is to ensure this key document continues to be relevant and complete to reflect the appropriate framework for effective governance of the Council's affairs and facilitate the exercise of its functions to deliver best value.

2.5   Further improvements in internal control and governance have been agreed by Management as highlighted in Internal Audit reports and recommendations made during the year or outstanding from previous years.

3   Internal Audit Annual Plan 2016/17 Delivery

3.1   The following table shows the analysis of audit days and numbers by audit theme:

	Plan days 2016/17	Actual days 2016/17	Plan Nos. 2016/17	Actual Nos. 2016/17
Corporate Governance	190	221	7	7
Financial Governance	180	166	7	7
IT Governance	60	34	4	4
Internal Controls	45	36	2	1
Asset Management	55	47	2	2
Legislative and other Compliance	50	50	4	4
Consultancy and Advice	90	93		
Other	69	42		
Non-SBC	70	96		
Total	809	785	26	25

3.2   The level of Actual Audit days was broadly on plan (97%) despite the reduction of Internal Audit staff resources during the year, and all planned assurance Audits bar one were completed. The planned audit on Community Safety has been rescheduled to 2017/18 on request by the relevant Senior Management. This has not affected the assurance that Internal Audit is able to give.

3.3   The wide range of Internal Audit work performed during the year is listed below:

Corporate Governance Audits

3.4   To provide assurances in relation to the Council's corporate governance framework that is a key component in underpinning delivery of the corporate priorities within the Council's Corporate Plan, reviews included:

- Corporate Governance (Assessment of progress on implementation of Improvement action plans and Annual Evaluation against Local Code of Corporate Governance to ensure it complies with the CIPFA / SOLACE Revised Code 2016).

- Information Governance (Review of the framework including roles and responsibilities, policy development and implementation, and assess progress with implementation of improvement actions).

- Performance Management (Validation of performance indicators and benchmarking information that feeds the Performance Management reporting on the 8 Council Priorities and the submission for Local Government Benchmarking Framework to support self-assessment and continuous improvement).

- Workforce Planning (Review of approach to workforce development in alignment with business and financial planning processes to provide skills, knowledge and competency requirements for service delivery to meet objectives).

- Corporate Transformation (Review of governance and accountability arrangements including programme and project management, and of processes for benefit (financial and other) identification, tracking and realisation, to demonstrate value for money.

- Adult Social Care Services (Review governance and service arrangements being developed to effectively deliver integrated services commissioned by the Scottish Borders Health and Social Care Integration Joint Board (IJB).

- Roads Services (Review governance arrangements being developed as part of proposals for alternative service delivery models for Roads services, and utilisation of best practice guidance and lessons learned).

Financial Governance Audits

3.5   To provide assurance on the internal financial controls in place and substantive testing of transactions to ensure completeness and accuracy of data in core financial systems, reviews included:

- Financial Policies and Procedures (Assess design of key processes and controls by Management and progress with review and update of Financial Regulations and associated procedures and guidelines as part of the Business World system project).

- Counter Fraud, Theft, Corruption & Crime (Review of fraud prevention controls and detection processes put in place by Management, assess progress with Improvement Plan actions, and provide intelligence via data sharing requests from Police Scotland).

- Income Charging, Billing & Collection (Follow-up the implementation of areas of improvements and assess key controls in Business World Sales to Cash workstream).

- VAT (Review of treatment of supplies and services made by the Council to customers).

- Procure to Pay Service (Review of payments processes at Service level including authorisation and assess key controls in Business World P2P workstream).

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- Salaries (Review of controls at Service level including authorisation and assess key controls in Business World Payroll workstream).
- Revenues – Council Tax (Assess completeness and accuracy of Council Tax income associated with the new 2016/17 approved policy, and key controls introduced including application of discretionary exemptions).

ICT Governance Audits

3.6 To provide assurances that computer systems are secure, reliable and conform to nationally agreed standards, reviews included:

- ICT Change Programme including Security Controls and Operational Processes (Evaluate the ICT governance arrangements prior to transition to next phase of ICT Contract provision by CGI; assess the adequacy of proposed arrangements to manage the security of the Council's equipment, software and data; and review proposed change management and incident management controls).
- Public Sector Network (PSN) Compliance (Examine the Council's compliance with PSN requirements and progress with implementation of actions to achieve full compliance).

Internal Controls Audits

3.7 To provide assurances in relation to a range of the Council's internal controls in areas identified by Management, reviews included:

- Schools – Hawick High School, Galashiels Academy, Jedburgh Grammar, Kingsland PS, Reston PS and Parkside PS (Review of internal financial controls and business administrative procedures in place to ensure the efficient and effective use of resources in the school establishments, to complement the assurance received from Education Scotland arising from their inspection programme of schools).

Asset Management Audits

3.8 To provide assurances that Council assets are safeguarded and properly accounted for, and used economically, efficiently and effectively, reviews included:

- Asset Registers (Review of Property, Fleet, and IT asset registers and the reconciliations between the source computer-based systems and FIS, and assess key controls in Business World Record to Report workstream).
- Capital Investment (Review of Capital Planning basis against the priorities set by the Council; 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 assess progress with implementation of identified improvement actions to ensure compliance with established good practice).

Legislative and Other Compliance Audits

3.9 To test compliance with the terms of the funders' service level agreements or legislative requirements as part of the wider assurance framework, reviews included:

- Selkirk Conservation Area Regeneration Scheme (CARS) (Review as part of programme compliance and evaluation requirements of the external funders).
- EU LEADER Grants (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 Maritime and 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).

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- Carbon Reduction (Annual audit as part of the requirement under the Carbon Reduction Commitment Energy Efficiency Scheme prior to the Council's annual submission to Department of Energy and Climate Change).

Other Work

3.10 Internal Audit responded to specific control issues highlighted by Managers during the year by incorporating those aspects within specific audit scopes or performing Contingency Audits approved by the Chief Officer Audit & Risk.

3.11 Resources were deployed in the delivery of the Follow-up work to check that recommendations have been implemented and to ensure that the new controls had the desired effect on improving internal control and governance. The following table highlights the current position (Source: Covalent as at 17 March 2017) with regards to Internal Audit recommendations arising from current and previous years:

Year identified	Total	Implemented	Not Yet Due	Overdue
2016/17	10	2	8	0
2015/16	21	19	1	1
2014/15	34	27	7	0

Consultancy Work

3.12 The most significant piece of consultancy work related to full involvement in the design and implementation phases of the new Business World ERP system which will be used by the Council from April 2017 for HR, Payroll, Procurement and Finance management and administrative processes. The Chief Officer Audit & Risk is a member of the Business World ERP Project Board providing project assurance. Internal Audit has carried out testing to ensure that appropriate internal controls are in place and has performed the independent reconciliation and validation of extracted data from existing systems and of uploaded data into Business World system. Management expect improved internal financial controls via the Business World ERP System, it being a more modern system.

3.13 Internal Audit performed 'critical friend' role by undertaking in confidence an assessment of both current practice within the Council and the proposals under development against the key recommendations of the Accounts Commission Reports "Major capital investment in councils" and 'Good Practice Guide' (March 2013) and "Follow-Up" (January 2016). This adds value to the Council by influencing and offering ways to enhance the governance and internal control environment in alignment to the Council's strategic priorities.

3.14 Senior Internal Auditors continued to provide project assurance relating to the Welfare Reform Programme and Information Management Project, and the Chief Officer Audit & Risk is a member of the Information Governance Group providing support and advice.

3.15 Some independent challenge on governance arrangements and risk management has been provided through Internal Audit engagement in various forums as the Council continues to transform its services. For example, Alternative Service Delivery Models Board, Digital Customer Access Project, and Business Intelligence workshops.

3.16 Internal Audit contributed to the Council's Procurement PCIP assessment (specifically Internal Controls, Risk Management, and Fraud Prevention) whereby positive outcomes were noted with a final score of 71.9% into the highest possible scoring band of F1.

3.17 Opportunities were highlighted in connection with the Schools Internal Audit work to improve the effectiveness, efficiency and sustainability of the Primary Schools business support arrangements.

3.18 Internal Auditors responded to a number of requests for ad hoc advice and assistance on internal controls, risk management and governance.

4   Public Sector Internal Audit Standards and Quality Assurance & Improvement Plan

4.1   The professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective 1 April 2013 include:

➢   Definition of Internal Auditing;
➢   Code of Ethics;
➢   Attribute Standards (Purpose, Authority and Responsibility; Independence and Objectivity; Proficiency and Due Professional Care; Quality Assurance and Improvement Programme);
➢   Performance Standards (Managing the Internal Audit Activity; Nature of Work; Engagement Planning; Performing the Engagement; Communicating Results; Monitoring Progress).

4.2   The Quality Assurance and Improvement Plan (QAIP) is designed to enable evaluation of Internal Audit's conformance with the Definition of Internal Auditing and the Standards, along with an evaluation of whether Internal Auditors apply the Code of Ethics, and an action plan to implement identified improvements.

4.3   The PSIAS includes the requirement to report the results of the QAIP to senior management and elected members. The following table provides Corporate Management Team and the Audit and Risk Committee with a summary overview and current status of not yet completed improvement actions arising from the External Quality Assessment (EQA) Peer Review by Renfrewshire Council carried out in October 2015 and the internal self-assessment 2015/16 against the PSIAS:

Standard	Improvement Action	Target Date	Action Owner
2000.6 Risk management	Continued improvement in identification and management of risk within the Council	March 2018	Chief Officer Audit & Risk

4.4   An internal self-assessment of Internal Audit practices against the Standards was carried out in 2016/17, as required by the PSIAS, taking into account the improvement actions implemented since the previous year's self-assessment. The 2016/17 self-assessment has indicated an improved level of conformance with both the Attribute Standards and Performance Standards and improved evidence of applying the Code of Ethics. The Summary of Conformance with the PSIAS indicates either 'Fully Conforms' or Generally Conforms' against the 13 Assessment Areas.

Jill Stacey BA(Hons) ACMA CGMA
Chief Officer Audit & Risk
17 March 2017

ANNUAL GOVERNANCE STATEMENT 2016/17

Report by Chief Executive

AUDIT AND RISK COMMITTEE

28 March 2017

1   PURPOSE AND SUMMARY

1.1   **This report proposes that the Audit and Risk Committee considers and approves the Annual Governance Statement that will be published in the Statement of Accounts 2016/17 of Scottish Borders Council.**

1.2   The CIPFA/SOLACE framework 'Delivering Good Governance in Local Government' urges local authorities to review the effectiveness of their existing governance arrangements against their Local Code, and prepare a governance statement in order to report publicly on the extent to which they comply with their own code on an annual basis, including how they have monitored the effectiveness of their governance arrangements in the year, and on any planned changes for the coming period.

1.3   Part of the Audit and Risk Committee's remit is to assess the effectiveness of internal controls, risk management, and governance arrangements. This includes to 'Be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievements of the authority's objectives'[1].

1.4   The Annual Governance Statement 2016/17 at Appendix 1 details the Governance Framework, including the key elements of the Council's governance arrangements, the Review of Framework outlining the annual review process and overall opinion, and further Improvement Areas.

1.5   In terms of overall corporate governance it is the Chief Executive's opinion that, although there are a few areas of work to be completed for full compliance with the Local Code, the overall governance arrangements of the Council are considered sound. The Annual Governance Statement is informed by the self-assessment of compliance against the Local Code by the officer Governance Self-Assessment Working Group, the work of Internal Audit, External Audit and Inspection agencies, and by Depute Chief Executives' and Service Directors' assurance statements. The SBC Annual Governance Statement 2016/17 will be published in Report and Accounts.

2   RECOMMENDATIONS

2.1   **I recommend that the Audit and Risk Committee considers the details of the Annual Governance Statement at Appendix 1, and approves the actions identified by Management to improve internal controls and governance arrangements.**

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[1] CIPFA guidance note for local authorities 'Audit Committees' (2013)

3 BACKGROUND

3.1 Scottish Borders Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council approved a revised local code of corporate governance (Local Code) on 19 May 2016 to reflect the strategic developments and changes to governance, consistent with the principles and requirements of the CIPFA/SOLACE framework 'Delivering Good Governance in Local Government' (2007).

3.2 A new 'CIPFA/SOLACE Framework' was published in Spring 2016 to ensure it remains fit for purpose, which applies to Annual Governance Statements prepared for the financial year 2016/17 onwards, and associated guidance for Scottish Authorities was published in November 2016. The revised Framework defines the seven core principles of good governance.

3.3 The Framework urges local authorities to review the effectiveness of their existing governance arrangements against their Local Code, and prepare a governance statement and report compliance on an annual basis.

3.4 Part of the Audit and Risk Committee's remit is to assess the effectiveness of internal controls, risk management, and governance arrangements in place and this includes to 'Be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievements of the authority's objectives''[2].

4 ANNUAL GOVERNANCE STATEMENT

4.1 In January and February 2017 the officer Governance Self-Assessment Working Group (the 'Group') undertook the annual self-assessment of the effectiveness of internal control and governance arrangements and compliance against the Local Code for the year ended 31 March 2017. The Chief Officer Audit & Risk led on this process as part of HIA[3] role to be champion for sound governance.

4.2 The Group has considered examples of evidence such as systems, processes and documentation to demonstrate local compliance with the 2016 'Framework's' seven core principles of good governance, supporting principles and a range of specific requirements (with a particular focus on the two new governance principles). The Group has evaluated progress with implementation of actions regarding previously identified improvement areas of governance.

4.3 The Group concluded that revisions are required to the Local Code to ensure it reflects the changing context of Scottish Borders Council, and complies with the new Framework that includes two new governance principles. This is subject to a separate report for approval by the Council post May 2017.

4.4 The Annual Governance Statement 2016/17 at Appendix 1 sets out the Governance Framework including the key elements of the Council's governance arrangements as set out in the Local Code, the annual Review of Framework undertaken, overall opinion, and Improvement Areas of Governance required to ensure full compliance with the Local Code and best practice.

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[2] CIPFA guidance note for local authorities 'Audit Committees' (2013)
[3] CIPFA 'the role of the head of internal audit in public service organisations' (2010)

Audit and Risk Committee 28 March 2017   2

4.5   In terms of overall corporate governance it is the Chief Executive's opinion that, although there are a few areas of work to be completed for full compliance with the Local Code, the overall governance arrangements of the Council are considered sound. The Annual Governance Statement is informed by the self-assessment of compliance against the Local Code by the officer Governance Self-Assessment Working Group, the work of Internal Audit, External Audit and Inspection agencies, and by Depute Chief Executives' and Service Directors' assurance statements. The Council's Annual Governance Statement 2016/17 will be published in the Scottish Borders Council Annual Report and Statement of Accounts 2016/17.

5   IMPLICATIONS

5.1   Financial

There are no direct financial implications arising from this report.

5.2   Risk and Mitigations

The Annual Governance Statement 2016/17 details areas where additional work would further enhance the internal control environment, or improve risk management, and corporate governance arrangements.

5.3   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.

5.4   Acting Sustainably

Core principle of good governance "C. Defining outcomes in terms of sustainable economic, social, and environmental benefits" is included within the new CIPFA/SOLACE framework 'Delivering Good Governance in Local Government' (2016). The officer Governance Self-Assessment Working Group considered examples of evidence such as systems, processes and documentation to demonstrate local compliance with all the 2016 'Framework's' seven core principles of good governance, supporting principles and a range of specific requirements.

5.5   Carbon Management

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

5.6   Rural Proofing

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

5.7   Changes to Scheme of Administration or Scheme of Delegation

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

6   CONSULTATION

6.1   The Corporate Management Team has been engaged in the governance annual assurance process 2016/17 and has been consulted on the report and appendix and any comments received have been incorporated into the report.

6.2   The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Chief Officer Human Resources, and the Clerk to the Council have been consulted on the report and appendix and any comments received have been incorporated into the report.

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Approved by

Chief Executive, Tracey Logan   **Signature ……………………………….**

Author(s)

Name	Designation and Contact Number
Jill Stacey	Chief Officer Audit & Risk Tel: 01835 825036

Background Papers: CIPFA/SOLACE framework 'Delivering Good Governance in Local Government'; Scottish Borders Council Local Code of Corporate Governance
Previous Minute Reference: Scottish Borders Council 19 May 2016; Audit and Risk Committee 9 May 2016

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Annual Governance Statement 2016/17

Introduction

Scottish Borders Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for. The Council also has a statutory duty of Best Value under the Local Government in Scotland Act 2003 to make arrangements to secure continuous improvement and performance, while maintaining an appropriate balance between quality and cost; and in making these arrangements and securing that balance, to have regard to economy, efficiency and effectiveness.

In discharging this overall responsibility, elected members and senior officers are responsible for putting in place proper arrangements for the governance of Scottish Borders Council's affairs and facilitating the exercise of its functions in a timely, inclusive, open, honest and accountable manner. This includes setting the strategic direction, vision, culture and values of the Council, effective operation of corporate systems, processes and internal controls, engaging with and, where appropriate, lead communities, monitoring whether strategic objectives have been achieved and services delivered cost effectively, and ensuring that appropriate arrangements are in place for the management of risk.

A new 'CIPFA/SOLACE Framework' was published in Spring 2016 to ensure it remains fit for purpose, which applies to Annual Governance Statements prepared for the financial year 2016/17 onwards, and associated guidance for Scottish Authorities was published in November 2016. The overall aim of the Framework is to ensure that: resources are directed in accordance with agreed policy and according to priorities; there is sound and inclusive decision making; and there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

The revised 'Framework' defines the seven (previously six in 2007) core principles of good governance, namely:

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;

B. Ensuring openness and comprehensive stakeholder engagement;

C. Defining outcomes in terms of sustainable economic, social, and environmental benefits;

D. Determining the interventions necessary to optimise the achievement of the intended outcomes;

E. Developing the entity's capacity, including the capability of its leadership and the individuals within it;

F. Managing risks and performance through robust internal control and strong public financial management; and

G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

Revisions were required to the Council's Local Code of Corporate Governance to ensure it reflects the changing context of Scottish Borders Council and is consistent with the principles and recommendations of the new CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' (2016) and the supporting guidance notes for Scottish authorities. This will be presented to Council in due course for approval and a copy of the Local Code of Corporate Governance will be published on the Council's website.

This Annual Governance Statement explains how the Council has complied with the terms of the new CIPFA/SOLACE Framework (2016) for the year ended 31 March 2017. The statement also covers relevant governance issues as they affect those entities included as part of the Council's Group Accounts.

The Governance Framework

The Council's Local Code of Corporate Governance sets out the framework and key principles, which require to be complied with, to demonstrate effective governance. The key elements of the Council's governance arrangements as set out in the Local Code include:

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting rule of law

The roles and responsibilities of elected members and officers and the processes to govern the conduct of the Council's business are defined in procedural standing orders, scheme of administration, scheme of delegation, and financial regulations which are regularly reviewed and revised where appropriate.

Codes of conduct are in place for, and define the high ethical values and standards of behaviour expected from, elected members and officers to make sure that public business is conducted with fairness and integrity.

The Monitoring Officer is responsible for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with. An annual report is presented to the Standards Committee on councillors' compliance with the ethical standards framework.

The Council seeks feedback from the public through its complaints and comments procedures for Corporate and Social Work (statutory) service areas, responds to the outcomes, as appropriate, and reports the results annually.

Professional advice on the discharge of statutory social work duties is provided to the Council by the Chief Social Work Officer (CSWO). The CSWO promotes values and standards of professional practice and acts as the 'agency decision maker' taking final decisions on a range of social work matters including adoption, secure accommodation, guardianship, etc.

B. Ensuring openness and comprehensive stakeholder engagement

Council meetings are held in public unless there are good reasons for not doing so on the grounds of confidentiality.

Unless confidential, decisions made by Council, the Executive Committee or other Committees are documented in the public domain. All decisions are explicit about the criteria, rationale and considerations used. The impact and consequences of all decisions are clearly set out.

The Council seeks community views on a wide range of issues and undertakes regular consultation and engagement with citizens and service users. The Scottish Borders CPP Community Engagement Framework (2015) sets out principles for engagement and the Toolkit shares best practice methods.

C. Defining outcomes in terms of sustainable economic, social, and environmental benefits

The Council has a Single Outcome Agreement (SOA) in place agreed with the Scottish Government and Scottish Borders community planning partners. The Council's vision, strategic objectives and priorities underpinned by the Strategic Assessment are reflected in the Council's Corporate Plan and the SOA which are approved by Council. The SOA will be replaced by the Local Outcomes Improvement Plan (October 2017) underpinned by Locality Plans.

Asset management planning (which is under development) and capital investment is structured to consider and balance the combined economic, social and environmental impact of policies and plans when taking decisions about service provision.

Equalities as well as environmental and rural implications are considered during the decision making process to promote fair access to services.

D. Determining the interventions necessary to optimise the achievement of the intended outcomes

Decision makers receive objective analysis of a variety of options indicating how intended outcomes would be achieved together with the risks associated with those options.

In determining how services and other courses of action should be planned and delivered the Council is increasingly engaging with internal and external stakeholders. Community benefit is an important consideration in the procurement of goods and services.

The Council fosters effective relationships, collaborative working and contractual arrangements with other public, private, and voluntary organisations in delivering services that meet the needs of the local community as stated in the Council's Vision, Values and Standards within Corporate Plan. For example, significant partner engagement in health and social care Strategic and Locality Plans.

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E. Developing the entity's capacity, including the capability of its leadership and the individuals within it

The corporate management structure consists of the Chief Executive, two Depute Chief Executives and ten Service Directors (in place during the year but subject to change commencing 2017/18). The roles of officers are defined in agreed job profiles. Staff performance is reviewed on an annual basis in accordance with the performance review and development (PRD) process.

The Chief Executive is responsible and accountable to the Council for all aspects of management including promoting sound governance, providing quality information/support to inform decision-making and scrutiny, supporting other statutory officers, and building relationships with all Councillors.

The Elected Members Development Programme includes the comprehensive Induction programme which is periodically supplemented by additional training. Members appointed to certain committees have also received specific training related to the responsibilities on these committees e.g. licensing, planning, audit, pensions, employment.

F. Managing risks and performance through robust internal control and strong public financial management

The Council which has overall responsibility for directing and controlling the organisation has approved an Executive / Scrutiny model of decision making. The Executive Committee is the key decision-making and monitoring committee and the Scrutiny Committee for reviewing policy decisions.

The Council has a risk management policy and approach whose main priorities are the robust systems of identification, evaluation and control of risks which threaten the Council's ability to meet its objectives to deliver services to the public.

The Chief Financial Officer (the Section 95 officer) is responsible for the proper administration of all aspects of the Council's financial affairs including ensuring appropriate advice is given to the Council on all financial matters.

The Council's system of internal financial control is based on a framework of financial regulations, regular management information, administrative procedures (including segregation of duties), management supervision and a system of delegation and accountability.

The Council has a proactive, holistic approach to tackling fraud, theft, corruption and crime, as an integral part of protecting public finances, safeguarding assets, and delivering services effectively and sustainably.

A Medium Term Financial Strategy, and associated Risk Register, and plans for revenue (5-year) and capital (10-year) based on corporate priorities are developed, led by the Corporate Management Team, and presented for approval by Council in February each year, along with the Corporate Transformation Programme proposals.

Revenue and Capital Budget Monitoring reports are presented to the Executive Committee on a quarterly basis for monitoring and control purposes including the annual outturn. The Management Commentary in the Statement of Accounts provides financial and other performance information regarding the operation of the Council, its wider achievements and areas for development.

G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability

The Chief Officer Audit & Risk (Chief Audit Executive) provides an independent and objective annual opinion on the effectiveness of internal control, risk management and governance. This is carried out by an in-house Internal Audit team in conformance with the Public Sector Internal Audit Standards.

The Council responds to the findings and recommendations of Internal Audit, External Audit, Scrutiny and Inspection bodies. The Audit and Risk Committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control and governance.

Review of Framework

The Council carries out an annual review of the effectiveness of its overall governance framework which is presented to the Audit and Risk Committee whose role includes high level oversight of the Council's governance, risk management, and internal control arrangements.

The review was informed by the work of an officer Governance Self-Assessment Working Group which undertook an annual self-assessment against the Council's Local Code of Corporate Governance consistent with the principles and recommendations of the new CIPFA/SOLACE Framework (2016). This group has responsibility for monitoring compliance with the Local Code and making recommendations to ensure continuous improvement of the systems in place.

The review was also informed by assurances from: the Depute Chief Executives and Service Directors, who have responsibility for the development and maintenance of the governance environment within their departments and services and who in turn identify actions to improve governance at a departmental level; the Chief Officer Audit & Risk's annual report on the work of Internal Audit and independent opinion on the adequacy and effectiveness of the systems of internal control and governance; and comments made by External Auditors and other external scrutiny bodies and inspection agencies.

The conclusion from the review activity outlined above is that in 2016/17 the Council continued to demonstrate that the governance arrangements and framework within which it operates are sound and effective, and are consistent with the principles and recommendations of the new CIPFA/SOLACE Framework (2016).

Improvement Areas of Governance

The collective review activity outlined above has identified the following areas where further improvement in governance arrangements can be made to enhance compliance with the Local Code:

1) In light of the on-going significant challenges in addressing cost pressures and responding to the changes in government funding: (i) complete remaining service people planning and succession planning to enable the Council's Strategic People Plan to be developed; (ii) ensure that financial, people and business plans are developed concurrently and continue to be aligned to the Council's corporate plan and priorities thus managing service users' expectations effectively with regard to determining priorities and making the best use of the resources available; and (iii) continue to monitor governance of arms-length external organisations (ALEOs).

2) On-going monitoring and review of the Performance Management Framework to ensure it informs improvement activity and decision making. This will include the full application of appropriate and proportionate self-assessment processes in all Council services as a self-evaluation tool to demonstrate achievement of Best Value, acting as a focus for evidencing value for money in service provision and linked to financial, people and business planning.

3) The Council's decision to implement the new Business World ERP System from April 2017 means that there will be a requirement to review and agree amended Financial Regulations, policies, procedures and guidelines of the key financial planning, management and administration processes linked to the Financial Regulations.

4) Review and possible reshaping of the Corporate Transformation Programme and consistent application across all the activity of the demonstrated key success factors including the robust definition of Business Case and Benefits, Return on Investment, Programme and Change Management, and Risk Management to ensure there is confidence in the delivery of improvements and savings to enable delivery of efficient and effective services to customers in a sustainable way.

5) Further actions to ensure comprehensive data and 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, both current and planned.

6) Continue to improve the reporting arrangements to: (i) Evidence that learning from complaints is taking place and SPSO decisions are being reported to elected members; and (ii) Expand the volume of compliments and other comments, to gather a wide range of feedback from service users, and ensure these are reflected alongside the arrangements in place for dealing with complaints.

7) Development and implementation of standardised framework for reviewing strategic asset management plans to inform investment in assets and infrastructure to ensure they are fit for the future, comply with community empowerment principles, and meet locality needs and priorities, and for enhancing on-going delivery of capital programmes and projects linked to the corporate priorities.

These actions to enhance the governance arrangements in 2017/18 are incorporated where appropriate within the Council's service directorate business plans and their implementation and operation will be driven and monitored by the Corporate Management Team in order to inform the next annual review. Internal Audit work planned in 2017/18 is designed to test improvements and compliance.

Certification

It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of Scottish Borders Council's systems of internal control and governance. Although areas for further improvement have been identified the annual review demonstrates sufficient evidence that the Council's Local Code of Corporate Governance is operating effectively and that the Council complies with that Local Code in all significant respects.

_____   _____

Tracey Logan   Councillor David Parker
Chief Executive   Leader of the Council
mm 2017   mm 2017

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Audit and Risk Committee Annual Report 2016/17

Report by Chief Officer Audit & Risk

Audit and Risk Committee

28 March 2017

1   PURPOSE AND SUMMARY

1.1   The purpose of this report is to provide members with the Audit and Risk Committee Annual Report 2016/17 which incorporates its annual self-assessment using the CIPFA Audit Committees Guidance.

1.2   It is important that the Council's Audit and Risk Committee fully complies with best practice guidance on Audit Committees to ensure it can demonstrate its effectiveness as a scrutiny body as a foundation for sound corporate governance for the Council.

1.3   The CIPFA Audit Committees Practical Guidance for Local Authorities and Police 2013 Edition (hereinafter referred to as CIPFA Audit Committees Guidance) includes the production of an annual report on the performance of the Audit and Risk Committee against its remit for submission to the Council. The Audit and Risk Committee Annual Report 2016/17 is appended to this report as Appendix 1 for consideration. This is the ninth such annual report and Scottish Borders Council continues to be a lead authority in adopting this best practice.

1.4   The Audit and Risk Committee carried out self-assessments of Compliance with the Good Practice Principles Checklist and Evaluation of Effectiveness Toolkit from the CIPFA Audit Committees Guidance during the Informal Session on 16 January 2017 facilitated by the Chief Officer Audit & Risk. The self-assessments are appended to this report as Appendix 2 (Good Practice Principles) and Appendix 3 (Effectiveness) for consideration. The outcome of the self-assessments was a high degree of performance against the good practice principles.

2   RECOMMENDATIONS

2.1   I recommend that the Audit and Risk Committee:

a) **Approves the Audit and Risk Committee Annual Report 2016/17 (Appendix 1) which incorporates its self-assessments (Appendices 2 and 3) using the CIPFA Audit Committees Guidance; and**

b) **Agrees that the Audit and Risk Committee Annual Report 2016/17 should be presented to the Council at its next meeting on 30 March 2017 and then published on the Council's website.**

3   BACKGROUND

3.1   It is important that the Council's Audit and Risk Committee fully complies with best practice guidance on Audit Committees to ensure it can demonstrate its effectiveness as a scrutiny body as a foundation for sound corporate governance.

3.2   The Chartered Institute of Public Finance and Accountancy (CIPFA) issued an updated guidance note Audit Committees Practical Guidance for Local Authorities and Police 2013 Edition (hereinafter referred to as CIPFA Audit Committees Guidance). It incorporates CIPFA's 2013 Position Statement: Audit Committees in Local Authorities and Police which sets out CIPFA's view of the role and functions of an Audit Committee.

3.3   The CIPFA Audit Committees Guidance includes the production of an annual report on the performance of the Audit and Risk Committee against its remit for submission to the Council. The Audit and Risk Committee Annual Report 2016/17 is appended to this report as Appendix 1 for consideration. This is the ninth such annual report and Scottish Borders Council continues to be a lead authority in adopting this best practice.

3.4   The Audit and Risk Committee carried out self-assessments of Compliance with the Good Practice Principles Checklist and Evaluation of Effectiveness Toolkit from the CIPFA Audit Committees Guidance during the Informal Session on 16 January 2017 facilitated by the Chief Officer Audit & Risk. The self-assessments are appended to this report as Appendix 2 (Good Practice Principles) and Appendix 3 (Effectiveness) for consideration.

3.5   The outcome of the self-assessments was a high degree of performance against the good practice principles. Improvements implemented in full during the year were that the Committee: followed-up on compliance with its 2015 recommendation to apply Gateway Review to major projects; enhanced its review of the effectiveness of performance management arrangements; and improved its scrutiny of arrangements for ensuring value for money.

3.6   The Audit and Risk Committee Annual Report 2016/17 is designed both to provide assurance to full Council and to provide some good practice and lessons learned for members appointed to the Audit Committee post-May 2017 elections.

4   IMPLICATIONS

4.1   **Financial**

There are no direct financial implications associated with this report.

4.2   **Risk and Mitigations**

(a)   The role of the Audit and Risk Committee includes the high level oversight of the effectiveness of the Council's systems of internal financial control, internal control and governance, including risk management.

(b)   There is a risk that the Audit and Risk Committee does not fully comply with best practice guidance thus limiting its effectiveness as a scrutiny body as a foundation for sound corporate governance. The completion of the annual self-assessment and identification and implementation of improvement actions as evidenced through this Annual Report will mitigate this risk.

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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.

4.4 Acting Sustainably

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

4.5 Carbon Management

There are no direct carbon emissions impacts as a result of 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

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 will be consulted on this report and any comments received will be reported at the meeting.

5.2 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Chief Officer HR, and the Clerk to the Council will be consulted on this report and any comments received will be reported at the meeting.

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

Background Papers:
Previous Minute Reference: Audit and Risk Committee 28 June 2016; Scottish Borders Council 25 August 2016

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SCOTTISH BORDERS COUNCIL
AUDIT AND RISK COMMITTEE
ANNUAL REPORT FROM THE CHAIRMAN – 2016/17

This annual report has been prepared to inform the Scottish Borders Council of the work carried out by the Council's Audit and Risk Committee during the financial year. The content and presentation of this report meets the requirements of the CIPFA Audit Committees Practical Guidance for Local Authorities and Police 2013 Edition (hereinafter referred to as CIPFA Audit Committees Guidance) to report to full Council on a regular basis on the Committee's performance in relation to the terms of reference and the effectiveness of the Committee in meeting its purpose.

Meetings

The Audit and Risk Committee has met 6 times during the financial year which included meetings on 9 May, 28 June, 26 September, 14 November 2016, 16 January and 28 March 2017 to consider reports pertinent to the audit cycle. In line with best practice the meetings include an Informal Session, without Management present, to enable the members of the Committee to meet privately and separately with the external auditors and with the Chief Officer Audit & Risk to raise any matters with the auditors pertinent to the annual audit cycle of reporting. There is a structured work programme of Informal Sessions of Audit and Risk Committee which was effective to align with the audit cycle.

The remit of the Audit and Risk Committee is to have high level oversight of the Council's and the Pension Fund's framework of internal financial control, corporate governance, risk management systems and associated internal control environment. To fulfil this remit, it sought assurance on the adequacy and effectiveness of Council's and the Pension Fund's systems of corporate governance and internal control for efficient operations and for the highest standards of probity and public accountability. It did this through material it received from internal audit, external audit, other external scrutiny and inspection agencies, and assurances from Management. It focused entirely on matters of risk management, internal control and governance, giving specialist advice to the Council on the value of the audit process, on the integrity of financial reporting and on governance arrangements, and acted as a bridge between the Council and other stakeholders.

The Committee approved the terms of reference for Internal Audit (Internal Audit Charter) and the internal audit strategy and annual plan. It considered Internal Audit's executive summaries of reports findings, audit opinions, good practice and recommendations and monitored their implementation. It monitored Internal Audit's performance including progress against the audit plan and conformance with Public Sector Internal Audit Standards 2013 (PSIAS), and considered the Chief Officer Audit & Risk's annual report and assurance statement.

It also reviewed external audit strategies including arrangements for effective liaison between external and internal audit, considered external audit reports including the annual reports to Members and the Controller of Audit on the annual audits of the Council and of the Pension Fund, reviewed the main issues arising from the external audit of the Council's statutory accounts and those of the Pension Fund, and monitored the implementation of agreed actions arising.

The Committee considered the effectiveness of the risk management process throughout the Council. It scrutinised progress with previously agreed Improvement Actions to meet the objectives in the revised Corporate Risk Management Strategy to fulfil the Policy requirements, both approved by the Council. It received presentations by Service Directors, using a scheduled call back programme, on the strategic risks facing the services and the internal controls and governance in place to manage those risks to demonstrate how risk management is embedded within services.

The Committee considered the adequacy and effectiveness of the Council's systems of internal financial control including counter fraud prevention and detection controls throughout the Council. It specifically received a progress report on implementation of previously agreed Improvement Actions to meet the objectives in the revised Counter Fraud Strategy to fulfil the Policy requirements in tackling fraud, theft, corruption and crime, both approved by the Council, to ensure their on-going effectiveness.

The Audit and Risk Committee undertook the scrutiny role for the development of future Treasury Management strategy prior to its presentation to Council for approval. It also received progress reports on the extent of compliance with the approved treasury management strategy and an analysis of the performance against the targets set. During the year it recommended the Treasury Management strategy and performance monitoring reports for Council approval.

The minutes of Audit and Risk Committee meetings were presented for approval by the Council, and referred any exceptional items to the Council in accordance with the remit.

Membership

The Membership of the Audit and Risk Committee is part of the approved Scottish Borders Council's Scheme of Administration (amended 20 May 2016) namely "Nine members - being six Members of the Council and three non-voting members appointed from an external source. The Council Members shall comprise six Members not on the Executive Committee (4 from the Administration and 2 from the Opposition)". This structure complies with best practice on independence as evidenced through the use of the Checklist from the CIPFA Audit Committees Guidance for the assessment of the Audit and Risk Committee. The three (previously two) non-voting external members were appointed from the community following a recruitment and selection process carried out during autumn 2015. This enhances the robustness and independence of the Audit and Risk Committee's role in the scrutiny process of internal controls and governance.

The Committee membership during the year included Councillor M Ballantyne (Chair), Councillor J Campbell, Councillor I Gillespie, Councillor A Nicol, Councillor S Scott, Councillor W White, Mr P McGinley (until 28 June 2016), Mr M Middlemiss and Mr H Walpole (until 14 November 2016).

The attendance by each member at the Committee meetings throughout the year was as follows:

Member	Meeting of 9 May 2016	Meeting of 28 June 2016	Meeting of 26 September 2016	Meeting of 14 November 2016	Meeting of 16 January 2017	Meeting of 28 March 2017
Cllr M Ballantyne (Chair)	Attended	Attended	Attended	Attended	Attended	
Cllr J Campbell	Attended	Apologies	Attended	Attended	Apologies	
Cllr I Gillespie	Attended	Attended	Attended	Attended	Attended	
Cllr A Nicol	Attended	Attended	Attended	Apologies	Attended	
Cllr S Scott	Attended	Attended	Apologies	Attended	Attended	
Cllr W White	Attended	Attended	Attended	Attended	Apologies	
Mr P McGinley	Apologies	Resigned	n/a	n/a	n/a	n/a
Mr M Middlemiss	Attended	Apologies	Attended	Attended	Apologies	
Mr H Walpole	Attended	Apologies	Apologies	Resigned	n/a	n/a

Every meeting of the Audit and Risk Committee in 2016/17 was quorate (i.e. at least three elected members present).

All other individuals who attended the meetings are recognised as being "in attendance" only. The Chief Financial Officer, the Chief Officer Audit & Risk, and external auditors attend all Committee meetings, and other senior officers also routinely attend Committee meetings. The Democratic Services section has provided support and resources to the Committee throughout the year including a Committee Officer as the minute secretary.

Audit and Risk Committee 28 March 2017   2

Skills and Knowledge

Given the wider corporate governance remit of Audit and Risk Committees within local government and the topics now covered by the external and internal audit functions, it is noteworthy that there is a range of skills, knowledge and experience that Audit and Risk Committee members bring to the committee, not limited to financial and business management. This enhances the quality of scrutiny and discussion of reports at the meetings. No one committee member would be expected to be expert in all areas.

Briefings and seminars have been delivered to help committee members keep up to date or extend their knowledge as part of the Informal Sessions or Committee business e.g. 26 September 2016 – Risk Management process including use of Covalent; 16 January 2017 – audit committee self-assessment. All Audit and Risk Committee Members received the 'Knowledge and Skills Framework' within CIPFA Audit Committees Guidance for use as a self-assessment tool in identifying their needs to enhance their knowledge, as appropriate.

Self-Assessment of the Committee

The annual self-assessment was carried out by members of the Audit and Risk Committee on 16 January 2017 during an Informal Session facilitated by the Chief Officer Audit & Risk using the Good Practice Principles Checklist and Evaluation of Effectiveness Toolkit from the CIPFA Audit Committees Guidance. This was useful for Members to ensure the Committee can demonstrate its effectiveness as a scrutiny body as a foundation for sound corporate governance for the Council.

The outcome of the self-assessments was a high degree of performance against the good practice principles. Improvements implemented in full during the year were that the Committee: followed-up on compliance with its 2015 recommendation to apply Gateway Review to major projects; enhanced its review of the effectiveness of performance management arrangements; and improved its scrutiny of arrangements for ensuring value for money.

Assurance Statement to the Council

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

- The Council has received the minutes of the Audit and Risk Committee throughout the year.
- The Audit and Risk Committee has operated in accordance with its agreed terms of reference, and accordingly the Audit and Risk Committee principles in CIPFA Position Statement.
- The Audit and Risk Committee has approved the Internal Audit charter and strategy, and received the internal and external assessments against Public Sector Internal Audit Standards (PSIAS) and quality improvement plan (QAIP), particularly to confirm Internal Audit's organisational independence and application of code of ethics standards. The Committee has received and considered material arising from individual Internal Audit assignments in the form of executive summaries of Internal Audit reports (including audit objective, good practice, findings, recommendations, and audit opinion). At its 28 March 2017 meeting will receive the Internal Audit Annual Report 2016/17 which sets out the audit opinion, the audit work carried out to underpin the opinion, and a statement on conformance with PSIAS. The Chief Officer Audit & Risk commented positively on the Council's governance framework, based on the Internal Audit work completed, and highlighted areas for improvement. Internal Audit Recommendations have seen a shift from missing controls to monitoring effectiveness of controls and strategic governance arrangements that reflect changes to Council delivery of services over time.
- The Audit and Risk Committee has received and considered all material arising from the External Audit strategies and plans overview for Scottish Borders Council and for Scottish Borders Pension Fund from the External Auditor, KPMG 5-year appointment to 2015/16 annual audit and Audit Scotland 5-year appointment from 2016/17 annual audit.

- For all audit reports, the Audit and Risk Committee consider whether it is satisfied that an adequate Management response is in place to ensure action will be taken to address identified areas of improvement. The Committee acknowledges that all the audit recommendations are input to Covalent, the Council's performance management system, and that there is a system of on-going follow-up by Internal Audit in place. However at its meeting on 9 May 2016 it raised concerns that audit actions outstanding from previous years were not being implemented in a timely manner by Management, and a full Progress Report was provided at its meeting on 14 November 2016 with relevant Management present. By then a number of the audit recommendations had been fully implemented to its satisfaction.
- The Audit and Risk Committee has received Risk Management presentations by various Service Directors representing the diverse range of Council services to fulfil its oversight role on the management of risks across the Council, and to hold Management to account on the application of the revised Corporate Risk Management Policy. At its meeting on 28 March 2017 it will consider a further progress report on the implementation of the recommended Improvement Actions, which it endorsed, to refresh the risk management arrangements of the Council to ensure their on-going effectiveness.
- The Audit and Risk Committee at its meeting on 28 March 2017 will monitor implementation of the recommended Improvement Actions, which it endorsed, to refine the Council's approach to tackling fraud to ensure its on-going effectiveness with a specific focus on prevention and detection.
- The Audit and Risk Committee has received and considered material to fulfil its scrutiny role on treasury management activity.
- The Audit and Risk Committee will review the draft Annual Governance Statement 2016/17 at its meeting on 28 March 2017, in order to assess whether the content is consistent with its evaluation of the internal control environment and governance arrangements based on evidence received during the year. The Audit and Risk Committee will continue to monitor progress with implementation of the improvement actions identified by Management as outlined in the Annual Governance Statement 2016/17.
- The Audit and Risk Committee will review the Annual Accounts 2016/17 in draft of the Council and of the Pension Fund at its meeting on 26 June 2017 and will review these in final at its meeting on 25 September 2017 alongside External Audit reports on their annual audits 2016/17 in order to decide whether to recommend to the Council that they be adopted.
- The Audit and Risk Committee has reflected on its performance, and confirmed evidence of improvements in respect of its scrutiny and challenge role during the year to enhance its effectiveness. It is hoped that the good practice and lessons learned within this report will be helpful for members appointed to the Audit Committee post-May 2017 elections.

Recommendation of the Terms of Reference for the Audit and Risk Committee for the coming year

There are no proposals to change the Terms of Reference for the Committee at this time.

Councillor Michelle Ballantyne
Chairman of Audit and Risk Committee
March 2017

Scottish Borders Council Audit and Risk Committee – self-assessment of Good Practice at 16 January 2017

Audit committee purpose and governance	Yes/Partly /No	Comments
Does the authority have a dedicated audit committee?	Yes	Scheme of Administration approved by the Council 1 January 2015 (amended 16 January 2017) includes the remit of the Audit and Risk Committee.
Does the audit committee report directly to full council?	Yes	Council approves Minute of each Audit and Risk Committee meeting.
Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement	Yes	Review has been completed by Chief Officer Audit & Risk against CIPFA 'audit committees' Practical Guidance for Local Authorities and Police 2013 (CIPFA guidance 2013 'audit committees').
Is the role and purpose of the audit committee understood and accepted across the authority?	Yes	Scheme of Administration is published on the shared X:drive. References to Audit and Risk Committee role and reports are made to Senior Officers at Management Team meetings on a regular basis and to Corporate Management Team in advance of each Audit and Risk Committee meeting by Chief Officer Audit & Risk.
Does the audit committee provide support to the authority in meeting the requirements of good governance?	Yes	The Audit and Risk Committee is a key part of the Council's governance framework as outlined in the SBC Local Code of Corporate Governance approved by the Council on 19 May 2016.
		The Audit and Risk Committee Annual Report is presented to and approved by the Council each year. SBC continues to be a lead authority in adopting this best practice. As part of its annual self-assessment 2016/17 the Audit and Risk Committee has provided evidence of improvements implemented during the year to enhance its scrutiny and challenge role.
Are the arrangements to hold the committee to account for its performance operating satisfactorily?	Yes	The Audit and Risk Committee annually reviews its terms of reference as part of it carrying out an annual self assessment of performance against best practice checklists.
		The Audit and Risk Committee Annual Report is presented to the Council. It sets out the activities to enable stakeholders to understand how the Audit and Risk Committee has discharged its duties and identifies areas of improvement to fulfil its remit. SBC continues to be a lead authority in adopting this best practice.

Scottish Borders Council Audit and Risk Committee – self-assessment of Good Practice at 16 January 2017

Functions of the committee	Yes/Partly /No	Comments
Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?		
• good governance	Yes	Included in remit nos. 1, 3, 10 & 11
• assurance framework	Yes	Included in all aspects of remit
• internal audit	Yes	Included in remit nos. 5, 6 & 7
• external audit	Yes	Included in remit nos. 8 & 9
• financial reporting	Yes	Included in remit nos. 4 & 12
• risk management	Yes	Included in remit no. 2
• Value for money or best value	Yes	Included in remit nos. 3 & 11 (implicit in 11 e.g. assurance of effective and efficient operations)
• Counter-fraud or corruption	Yes	Included in remit nos. 1 & 11

Scottish Borders Council Audit and Risk Committee – self-assessment of Good Practice at 16 January 2017

Functions of the committee (cont'd)	Yes/Partly /No	Comments
Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?	Yes	The Audit and Risk Committee annually reviews its terms of reference as part of it carrying out an annual self assessment of performance against best practice checklists.
Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be approriate for the committee to undertake them?	Yes	The Audit and Risk Committee reviews and monitors treasury management arrangements in accordance with the CIPFA Treasury Management Code of Practice (remit no. 10).
Where coverage of core areas has been found to be limited, are plans in place to address this?	Yes	The Assurance Framework and the Audit Cycle that define the programme of work for the Audit and Risk Committee are included in the Induction training pack along with Essential Questions for the Committee members to ask those charged with governance when considering the relevant reports as part of the Audit Cycle (under the three topics of Internal Control, Risk Management, and Governance).
Has the committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its core purpose?	Yes	As reflected in Scheme of Administration through its membership and functions referred.

Scottish Borders Council Audit and Risk Committee – self-assessment of Good Practice at 16 January 2017

Membership and support	Yes/Partly/No	Comments
Has an effective audit committee structure and composition of the committee been selected? This should include: • separation from the executive • an appropriate mix of knowledge and skills among the membership • a size of committee that is not unwieldy • where independent members are used, that they have been appointed using an appropriate process.	Yes	The membership of the Audit and Risk Committee comprises six elected members not on the Executive Committee (4 from the Administration and 2 from the Opposition) and one non-voting independent member appointed from an external source. The latter helps to enhance the robustness and independence of the Audit and Risk Committee's operations. There is an open recruitment and selection process to appoint external members of the Audit and Risk Committee outwith the cycle of local elections to facilitate continuity management of membership (Selection Committee; appointment for 3 years to October 2018).
Does the chair of the committee have appropriate knowledge and skills?	Yes	Further to members' training, the chair of the Audit and Risk Committee meets regularly with the Chief Officer Audit & Risk including pre-meetings.
Are there arrangements in place to support the committee with briefings and training?	Yes	There is a comprehensive Induction Programme for those appointed to the Audit and Risk Committee including: Outline of Corporate Governance; role of the Audit and Risk Committee; role of Internal and External Audit; Assurance Framework; and Audit Cycle. Informal Sessions involving Internal and External Auditors usually prior to each Audit and Risk Committee meeting are used for the purpose of briefing and training to coincide with the Audit Cycle.
Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?	Yes	A formal assessment against the Knowledge and Skills Framework was carried out 16 January 2017 as part of the annual self-assessment with conclusion of improving and satisfactory skills and knowledge.
Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?	Yes	Members, in particular the chair of the Audit and Risk Committee, utilise opportunities as required to keep in touch on a continuing basis with the key people involved in the Council's governance e.g. the Leader of the Council, the Chief Executive, the Chief Financial Officer, the External Auditor and the Chief Officer Audit & Risk.
Is adequate secretariat and administrative support to the committee provided?	Yes	A Committee Officer is assigned to the Audit and Risk Committee. There are six scheduled meetings of the committee each year – January, March, April/May, June, September and November – to coincide with the Audit Cycle. Additional meetings can be arranged as required.

Scottish Borders Council Audit and Risk Committee – self-assessment of Good Practice at 16 January 2017

Effectivenss of the committee	Yes/Partly /No	Comments
Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?	Yes	During the year the Audit and Risk Committee formally obtained feedback on its performance from a range of Service Directors who interacted with the Committee on a periodic basis. The Audit and Risk Committee Annual Report is presented to the Council each year. It sets out the activities to enable stakeholders to understand how the Committee has discharged its duties. SBC continues to be a lead authority in adopting this best practice.
Has the committee evaluated whether and how it is adding value to the organisation?	Yes	The Audit and Risk Committee carries out an annual self assessment of performance against best practice checklists. On 16 January 2017 as part of the Informal Session prior to the meeting using the toolkit 'Evaluating the Effectiveness of the Audit Committee' from the CIPFA guidance 2013 'audit committees', it evaluated progress on implementation of previously identified areas of improvement. The Audit and Risk Committee Annual Report is presented to the Council each year. It sets out the activities to enable stakeholders to understand how the Committee has discharged its duties. SBC continues to be a lead authority in adopting this best practice. As part of its annual self-assessment 2016/17 the Committee has confirmed improvements in respect of its scrutiny and challenge role and has recommended good practice and lessons learned to future Committee members.
Does the committee have an action plan to improve any areas of weakness?	Yes	The Audit and Risk Committee Annual Report which is presented to the Council each year identifies areas of improvement to fulfil its remit and to further add value.

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Areas where the Audit Committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment 5-1 See key below
1. Promoting the principles of good governance and their application to decision making	Providing robust review of the Annual Governance Statement (AGS) and the assurances underpinning it. Working with key members/governors to improve their understanding of the AGS and their contribution to it. Supporting reviews/audits of governance arrangements. Participating in self-assessments of governance arrangements. Working with partner audit committees to review governance arrangements in partnerships.	Committee scrutinised the AGS including assurances and the improvement actions. Chair met with Chief Executive / Chief Financial Officer on a regular basis. Committee supports the role of audit in improving internal control and governance. Committee received presentations and reports from Management and Auditors. Chair has met Audit Committees' Chairs of other local authorities, IJB and NHS Borders.	4
2. Contributing to the development of an effective control environment.	Monitoring the implementation of recommendations from auditors. Encouraging ownership of the internal control framework by appropriate managers. Raising significant concerns over controls with appropriate senior managers.	Committee received periodic progress reports from Auditors e.g. follow-up activity. Service Directors attended Committee meetings on request to discuss progress with improvement actions to manage risks.	4
3. Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks.	Reviewing risk management arrangements and their effectiveness, eg risk management benchmarking. Monitoring improvements. Holding risk owners to account for major/strategic risks.	Committee endorsed the identified actions from Corporate Risk Review and approved revised Risk Management Policy and Strategy. Committee received presentations by various Service Directors on their key risks and mitigations to hold Management to account.	4
4. Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively.	Specifying its assurance needs, identifying gaps or overlaps in assurance. Seeking to streamline assurance gathering and reporting. Reviewing the effectiveness of assurance providers, eg internal audit, risk management, external audit.	Annual Strategies and Plans and periodic progress Reports received from Auditors, and from other external audit and inspection agencies e.g. Local Scrutiny Plan. Induction programme outlines Governance and Assurance Framework and Audit Cycle.	4

Areas where the Audit Committee can add value by supporting improvement	Examples of how the audit committee can add value and provide evidence of effectiveness	Self-evaluation, examples, areas of strength and weakness	Overall assessment 5-1 See key below
5. Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence.	Reviewing the audit charter and functional reporting arrangements. Assessing the effectiveness of internal audit arrangements and supporting improvements.	Committee approved the Internal Audit charter and strategy, and received assessment against Public Sector Internal Audit Standards (PSIAS) and quality improvement plan (QAIP).	4
6. Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements	Reviewing major projects and programmes to ensure that governance and assurance arrangements are in place. Reviewing the effectiveness of performance management arrangements.	Auditors provided assurance on change and performance management, including lessons learned and sharing best practice. Committee followed-up on compliance with its recommendation made in 2015 to apply Gateway Review to major projects.	4 (2015/16=3)
7. Supporting the development of robust arrangements for ensuring value for money.	Ensuring that assurance on value for money arrangements is included in the assurances received by the audit committee. Considering how performance in value for money is evaluated as part of the AGS.	Auditors provided assurance on value for money arrangements e.g. transformation, sustainability, and performance management. AGS sets out the Governance Framework including arrangements for best value.	4 (3)
8. Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks.	Reviewing arrangements against the standards set out in CIPFA's *Managing the Risk of Fraud* (Red Book 2). Reviewing fraud risks and the effectiveness of the organisation's strategy to address those risks. Assessing the effectiveness of ethical governance arrangements for both staff and governors.	Committee endorsed the identified actions from Counter Fraud Review and approved revised Counter Fraud Policy and Strategy. Auditors provided assurance on fraud risks and counter fraud controls.	4
9. Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability.	Improving how the authority discharges its responsibilities for public reporting; for example, better targeting at the audience, plain English. Reviewing whether decision making through partnership organisations remains transparent and publicly accessible and encouraging transparency.	Committee scrutinised annual accounts and reports prior to publication and audit, and commented on the format/content for users. Committee received reports from Auditors covering governance of ALEOs.	4

Assessment key	
5	Clear evidence is available from a number of sources that the committee is actively supporting improvements across all aspects of this area. The improvements made are clearly identifiable.
4	Clear evidence from some sources that the committee is actively and effectively supporting improvement across some aspects of this area.
3	The committee has had mixed experience in supporting improvement in this area. There is some evidence that demonstrates their impact but there are also significant gaps.
2	There is some evidence that the committee has supported improvements, but the impact of this support is limited.
1	No evidence can be found that the audit committee has supported improvements in this area.

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Scottish Borders Council

Annual Audit Plan 2016/17

Prepared for members of Scottish Borders Council
February 2017

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.

- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.

- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.

About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money

- reporting our findings and conclusions in public

- identifying risks, making clear and relevant recommendations.

Contents

Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit of Scottish Borders Council ("the council") and is carried out in accordance with International Standards on Auditing (ISAs), the *Code of Audit Practice*, and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit including the new approach to Best Value. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Audit risks

2. Based on our discussions with management, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for the council. We have categorised these main risks into financial risks and wider dimension risks and the planned audit work is detailed in Exhibit 1.

Exhibit 1

Audit Risk	Management assurance	Planned audit work
Financial statement issues and risks		
1 **Risk of management override of controls** ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.	*Owing to the nature of this risk, assurances from management are not applicable*	Detailed testing of journal entries. Review of accounting estimates. Focused testing of accruals and prepayments. Evaluation of significant transactions that are outside the normal course of business.
2 **Risk of fraud over income** Scottish Borders Council receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means that, in accordance with ISA240, there is an inherent risk of fraud.	Regular budget monitoring and reporting. Robust internal controls in financial systems to mitigate risks of error or manipulation. Internal audit coverage of internal financial controls. Participation in the National Fraud Initiative.	Analytical procedures on income streams. Detailed testing of revenue transactions focusing on the areas of greatest risk.
3 **Risk of fraud over expenditure** Practice Note 10 (Audit of financial statements of public sector bodies in the UK) and the	Regular budget monitoring and reporting. Robust internal controls in financial systems to mitigate	Audit work on the National Fraud Initiative matches. Assessing the overarching controls in grant schemes.

Audit Risk	Management assurance	Planned audit work
Code of Audit Practice expands the ISA assumption on fraud over income to aspects of expenditure. Scottish Borders Council incurs significant expenditure in areas such as welfare benefits, social care payments and grants.	risks of error or manipulation. Internal audit coverage of internal financial controls. Participation in the National Fraud Initiative.	Detailed testing of expenditure and housing benefit transactions.
4 Estimation and judgements There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets, pensions and provisions. This subjectivity represents an increased risk of misstatement in the financial statements.	Valuation and impairment review of non-current assets by professional valuer in line with 5 year rolling programme. Actuarial valuation to provide pension figures for the financial statements. Officer review of actuary information to ensure data and assumptions used are reasonable. Confirmation from legal services of all potential cases together with an assessment of potential liability and likelihood of settlement.	Completion of 'review of the work of an expert' for the professional valuer. Focused substantive testing of key areas.
5 Integration Joint Board (IJB) / Group accounts The Scottish Borders IJB was established on 6 February 2016 and assumed responsibility for delegated services from 1 April 2016. The IJB will need to be accounted for in the council's group financial statements for the first time in 2016/17. There is a risk that the IJB is not correctly accounted for in the group financial statements.	Agreed timetable with the IJB for the provision of figures and assurances required. Arrangements in place to receive assurances over the validity of IJB financial results.	Review treatment as part of financial statements audit.
6 Change in financial systems The council is replacing its general ledger and other financial systems with Business World Enterprise Resource Solution (ERP) from April 2017. As part of this replacement the existing general ledger close down will take place around three weeks earlier than normal. There is a risk that there will be a substantial amount of manual accruals and adjustments required as part of this process. The audit timetable may also be affected by absences of key staff at key periods, which will require careful planning.	Detailed instructions issued to staff regarding the close down process. Comprehensive working papers supported by sufficient evidence for year end transactions and balances.	On-going discussions with finance officers on progress with the preparation of the financial statements and discussions on the accounts/audit timetable. Increased testing of transactions and balances around the year end.

Audit Risk	Management assurance	Planned audit work
Wider dimension risks		
7 Financial sustainability The 2017/18 Scottish Budget outlined significant reductions for councils' revenue grants. The financial settlement for Scottish Borders Council was a reduction of 4.1 per cent, significantly greater than the assumed 2.0 per cent reduction outlined in the medium term financial plan agreed in February 2016. Following an announcement of additional funding of £2.9 million in February 2017, the funding gap for 2017/18 is now £6.6 million. There is a risk that the council will be unable to manage its budget pressures within available resources, leading to a reduction in the provision of services.	Medium term financial strategy regularly updated and reported to members. Budget monitoring reports presented to members on a regular basis. Transformation programme monitoring and reporting.	Review budget setting process and monitor updates provided to members. Comment in Annual Audit Report.
8 Local government elections The 2017 local government elections will result in changes in the elected members. There is a risk that there is a loss of skills and experience amongst members. To ensure members understand their roles and have the necessary skills to make informed decisions and provide effective scrutiny, development and training will be required. The Audit Scotland How Councils Work publication on the role of councillors provides guidance in this area.	Induction training planned for new members.	Review of the council's induction and training arrangements for councillors following the elections. Assess the effectiveness of decision making and scrutiny arrangements as part of on-going audit work.
9 Transistion to new ICT provider During 2016 the council contracted CGI to provide ICT services for a period of at least 13 years, as part of the council's Tranformation Programme. This included the majority of the council's existing ICT staff transferring to CGI in October 2016 as part of the contract. There are risks that the new ICT arrangements do not deliver the anticipated efficiencies or services may not be delivered to the standards prescribed in the contract.	Effective governance arrangements in place to oversee the change. Regular reporting to council's Executive committee, CMT and Digital Transformation Board regarding progress with the ICT change programme.	Monitor the effectiveness of governance and risk management arrangements relating to the ICT contract.

3. The Charities Accounts (Scotland) Regulations 2006 specify the accounting and auditing requirements for Scottish registered charities. The council administers seven trusts with charitable status. We will perform the audit of the council's charitable trusts in parallel with the audit of Scottish Borders Council's financial statements. There are no specific risks for these audits which we require to bring to your attention.

Reporting arrangements

4. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in Exhibit 2, and any other reports on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

5. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy.

6. We will provide an independent auditor's report to Scottish Borders Council and the Accounts Commission summarising the results of the audit of the annual accounts. We will provide them with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

Exhibit 2
2016/17 Audit outputs

Audit Output	Target date	Audit & Risk Committee Date
Interim Management Report	16 June 2017	27 June 2017
National Fraud Initiative (NFI) return	30 June 2017	N/A
Education Maintenance Allowance grant certification	31 July 2017	N/A
Bus Operators grant certification	31 July 2017	N/A
Annual Audit Report including ISA 260 requirements	15 September 2017	TBC
Signed Independent Auditor's Report	30 September 2017	N/A
Criminal Justice Authority return certification	30 September 2017	N/A
Non Domestic Rate return certification	31 October 2017	N/A
Housing Benefits return certification	30 November 2017	N/A

Audit fee

7. The fee for the 2016/17 audit of Scottish Borders Council is £270,170. This fee includes £7,000 for the audit of the charitable entities. In determining the audit fee we have taken account of the risk exposure of Scottish Borders Council, the management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package, by 30 June 2017.

8. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may

also be required in relation to any work or other significant exercises outwith our planned audit activity.

Responsibilities

Audit and Risk Committee and Management

9. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance and propriety that enable them to successfully deliver their objectives.

10. The audit of the financial statements does not relieve management or the Audit and Risk Committee, as those charged with governance, of their responsibilities.

Appointed auditor

11. Our responsibilities as independent auditor are established by the 1973 Act for local government and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

12. Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements within the audited body to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Financial statements

13. The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of Scottish Borders Council and the associated risks which could impact on the financial statements

- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements

- identifying major transaction streams, balances and areas of estimation and understanding how Scottish Borders Council will include these in the financial statements

- assessing the risks of material misstatement in the financial statements

- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

14. We will give an opinion on the financial statements as to:

- whether they give a true and fair view of the financial position of the council and its group and their expenditure and income

- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.

characteristics

responsibilities

principal activities

risks

governance arrangements

Materiality

15. Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements. We calculate materiality at different levels as described below. The calculated materiality values for Scottish Borders Council are set out in Exhibit 3.

Exhibit 3
Materiality values

Materiality level	Amount
Planning materiality - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2016 (the latest audited accounts).	£3.469 million
Performance materiality - This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 50% of planning materiality.	£1.735 million
Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 1% of planning materiality.	£0.035 million

16. Materiality levels for the charitable trusts have been set at 1% of the gross assets for each charity.

17. We review and report on other information published with the financial statements including the management commentary, annual governance statement and the remuneration report. Any issue identified will be reported to the Audit and Risk Committee.

Timetable
18. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at Exhibit 4 which takes account of submission requirements and planned Audit and Risk Committee dates:

Exhibit 4
Financial statements timetable

Key stage	Date
Consideration of unaudited financial statements by those charged with governance	27 June 2017
Latest submission date of unaudited financial statements with complete working papers package	27 June 2017
Latest date for final clearance meeting with Chief Financial Officer	8 September 2017
Agreement of audited unsigned financial statements; Issue of Annual Audit Report including ISA 260 report to those charged with governance	TBC
Independent auditor's report signed	By 30 September 2017
Latest date for signing of WGA return	30 September 2017

Internal audit

19. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by a team of Scottish Borders Council staff overseen by the Chief Officer Audit & Risk.

Adequacy of Internal Audit
20. Our review of internal audit concluded that the internal audit function operates in accordance with the Public Sector Internal Audit Standards and has sound documentation standards and reporting procedures in place.

Areas of reliance
21. To support our audit opinion on the financial statements we plan to place formal reliance on the following planned internal audit reviews:

- Procure to Pay Service

- Salaries (incl expenses)

- Revenues (Council Tax)

22. In respect of our wider dimension audit responsibilities we also plan to consider other areas of internal audit work including:

- Performance Management

- Capital Investment

- ICT Change Programme

National Fraud Initiative (NFI)

23. NFI is a data-matching exercise led by Audit Scotland to aid the detection of fraudulent payments. NFI allows public bodies to investigate matches and, if fraud or error has taken place, to stop payments and attempt to recover the amounts involved. It also allows auditors to assess the arrangements that the bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.

24. The current data matching exercise collected data in October 2016 and match investigation work is due to begin in January 2017. We will monitor the council's participation and progress with the NFI and complete an NFI audit questionnaire which will reflect the activity undertaken by the council to June 2017.

Audit dimensions

25. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in <u>Exhibit 5</u>.

Exhibit 5
Audit dimensions

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26. In the local government sector, the appointed auditor's annual conclusions on these four dimensions will contribute to an overall assessment and assurance on best value.

Financial sustainability
27. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the council's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and longer term

- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps

- whether the council can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

28. The council's Corporate Transformation Programme is critical in achieving many of the savings in the Financial Plan approved in February 2016. The Transformation Programme is expected to deliver savings over a 5-year period of £23.1m. Of this, £8.0m is to be delivered in 2016/17.

Financial management
29. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether the council has arrangements in place to ensure systems of internal control are operating effectively

- whether the council can demonstrate an effective budgetary control system in communicating accurate and timely financial performance

- how the council has assured itself that its financial capacity and skills are appropriate

- whether the council has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

Governance and transparency

30. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information. We will review, conclude and report on:

- whether the council can demonstrate that the governance arrangements in place are appropriate and operating effectively including for services delivered by, or in partnership with, others such as arm's length external organisations (ALEOs)

- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports

- the quality and timeliness of financial and performance reporting.

31. An additional area we will cover in our 2016/17 audit is a follow-up review of a previous Audit Scotland national performance audits:

- The Role of Boards. This report was published in September 2010. The follow up review will assess the governance, decision-making and scrutiny arrangements of the council.

Value for money

32. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether:

- the council can provide evidence that it is demonstrating value for money in the use of its resources

- the council can demonstrate that there is a clear link between money spent, outputs and outcomes delivered

- the council can demonstrate that outcomes are improving

- there is sufficient focus on improvement and the pace of it.

Best Value

33. The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. The introduction of the new approach coincides with the new five year audit appointments. As such, auditors will use the framework for their audit work from October 2016.

34. A key feature of the new approach is that it integrates Best Value into the wider scope annual audit, which will influence audit planning and reporting. Best Value will be assessed comprehensively over the five year audit appointment, both through the on-going annual audit work, and also through discrete packages of work to look at specific issues. Conclusions and judgements on Best Value will be reported through:

- the Annual Audit Report for each council, that will provide a rounded picture of the council overall

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- an Annual Assurance and Risks report that the Controller of Audit will provide to the Commission that will highlight issues from across all 32 council annual audit reports

- a Best Value Assurance Report (BVAR) for each council that will be considered by the Accounts Commission at least once in a five year period.

35. The first six councils on which a BVAR will be published during the first year of the new approach are listed in Exhibit 6 below. Reports will be considered by the Accounts Commission in the period between May 2017 and March 2018.

Exhibit 6
2016/17 Best Value Assurance Reports

Clackmannanshire Council	Orkney Islands Council
East Renfrewshire Council	Renfrewshire Council
Inverclyde Council	West Lothian Council

36. The work planned in Scottish Borders Council this year will focus on the council's arrangements for demonstrating Best Value in financial and service planning, financial governance and resource management. The work will be integrated with that described above. It will involve us gaining an understanding of how effective the council's self evaluation processes are in driving improvement across the council. The results of this work will be reported in our Annual Audit Report.

Independence and objectivity

37. Auditors appointed by the Accounts Commission must comply with the Code of Audit Practice. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland's Ethics Partner.

38. The engagement lead for Scottish Borders Council is Gillian Woolman, Assistant Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Scottish Borders Council.

Quality control

39. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

40. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Accounts Commission. To ensure that we achieve the required quality standards Audit

Scotland conducts peer reviews, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

41. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

Scottish Borders Council
Annual Audit Plan 2016/17

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Scottish Borders Council Pension Fund

Annual Audit Plan 2016/17

AUDIT SCOTLAND

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.

- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.

- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.

About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money

- reporting our findings and conclusions in public

- identifying risks, making clear and relevant recommendations.

Contents

Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit of Scottish Borders Council Pension Fund ("the fund") and is carried out in accordance with International Standards on Auditing (ISAs), the *Code of Audit Practice*, and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Audit risks

2. Based on our discussions with management, attendance at audit and risk committee meetings and a review of supporting information we have identified the following main risk areas for the Scottish Borders Council Pension Fund. We have categorised these risks into financial risks and wider dimension risks. These risks, and the planned audit work, are detailed in Exhibit 1.

Exhibit 1

Audit Risk	Management assurance	Planned audit work
Financial statement issues and risks		
1 **Risk of management override of controls** ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.	Owing to the nature of this risk, assurances from management are not applicable in this instance.	Detailed testing of journal entries. Review of accounting estimates. Focused testing of accruals and prepayments. Evaluation of significant transactions that are outside the normal course of business.
2 **Risk of fraud over expenditure** Practice Note 10 (Audit of financial statements of public sector bodies in the UK) and the Code of Audit Practice expands the ISA 240 requirements to aspects of expenditure such as pension payments and investments.	Regular budget monitoring and reporting Robust internal controls in financial systems to mitigate risk of error or manipulation	Analytical procedures on payment streams. Detailed testing of payments focusing on the areas of greatest risk.
3 **Estimation and judgements** There is a significant degree of subjectivity in the measurement	Actuarial valuation to provide pension figures for the financial statements. Officer	Completion of 'review of the work of an expert' for the actuary.

Audit Risk	Management assurance	Planned audit work
of investment assets for a pension fund by investment managers. This subjectivity represents an increased risk of misstatement in the financial statements.	review of actuary information to ensure data and assumptions used are reasonable.	Focused substantive testing of key areas.
4 **Disclosure Requirements** New disclosure requirements require the application of International Financial Reporting Standard (IFRS) 13 for pension fund investment assets, as well as changes to the way management expenses are disclosed per the 2016/17 Code of Practice in local authority accounting in the United Kingdom ("the Code") . These changes introduce the risk that the financial statements are not prepared in accordance with financial reporting standards.	Officers preparing the accounts keep their knowledge of the Code up to date.	Review and assess the valuation methodology, the presentation of investments held at fair value and management expenses.
Wider dimension risks		
5 **Financial sustainability** There is a risk to financial sustainability as a result of pension fund maturing and the number of pension benefits paid out becoming greater than the contributions paid in. Additionally, should scheduled or admitted bodies to the fund fold whilst their share of assets are in deficit, the remaining bodies to make up the shortfall.	Management review & revise funding strategy every 3 years based on actuary's triennial valuation. Funds are managed to ensure that deficits are minimised.	Review of the financial position of the fund and comment in annual audit report. Review scheduled or admitted bodies for instances of failure and assess the impact on the fund as part of standard audit procedures.
6 **Change in Custodian** During the year there was a change in Custodian. This introduces the risk that investment assets aren't properly managed and secured.	Custodian procured to ensure experienced and secure management of investment assets.	Substantive testing of investment assets will provide assurance that investment assets are complete with the proper rights and obligations in place.
7 **Budgetary control** The fund does not prepare an annual budget; there is a risk of lack of transparency and scrutiny available over the costs that can be controlled by the pension fund such as administration and investment costs.	Budget setting will be assessed to determine the value of scrutiny.	An assessment on the adequacy of the budget procedures in place.

Reporting arrangements

3. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in Exhibit 2, and any other reports on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

4. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy.

5. We will provide an independent auditor's report to Scottish Borders Council Pension Fund and the Accounts Commission summarising the results of the audit of the annual accounts. We will also provide them with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

Exhibit 2
2016/17 Audit outputs

Audit Output	Target date	Pension Fund Committee Date
Annual Audit Report including ISA 260 requirements	15 September 2017	TBC
Signed Independent Auditor's Report	30 September 2017	N/A

Audit fee

6. The fee for the 2016/17 audit of Scottish Borders Council Pension Fund is £19,710. In determining the audit fee we have taken account of the risk exposure of the fund, the management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package by 30 June 2017.

7. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Responsibilities

Pension Fund Committee and Chief Financial Officer
8. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance and propriety that enable them to successfully deliver their objectives.

9. The audit of the financial statements does not relieve management or the Pension Fund Committee, as those charged with governance, of their responsibilities.

Appointed auditor
10. Our responsibilities as independent auditor are established by the 1973 Act for local government, and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

11. Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements within the audited body to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Financial statements

12. The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of Scottish Borders Council Pension Fund and the associated risks which could impact on the financial statements

- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements

- identifying major transaction streams, balances and areas of estimation and understanding how Scottish Borders Council Pension Fund will include these in the financial statements

- assessing the risks of material misstatement in the financial statements

- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

13. We will give an opinion on the financial statements as to:

- whether they give a true and fair view in accordance with applicable law and the 2016/17 Code of the financial transactions of the fund during the year ended 31 March 2017, and of the amount and disposition at that date of its assets and liabilities

- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.

characteristics

responsibilities

principal activities

risks

governance arrangements

Materiality

14. Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements. We calculate materiality at different levels as described below. The calculated materiality values for Scottish Borders Council Pension Fund are set out in Exhibit 3.

Exhibit 3
Materiality values

Materiality level	Amount
Planning materiality - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 10% of gross value of benefits and transfers out for the year ended 31 March 2016 (the latest audited accounts).	£2.150 million
Performance materiality - This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 60% of planning materiality.	£1.290 million
Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 4% of planning materiality (rounded).	£ 0.085 million

15. When establishing the audit approach, materiality for the financial statements is determined as a whole. However in certain circumstances it is appropriate to apply a lower level of materiality to one or more particular classes of transactions, account balances or disclosures, where misstatements of lesser amounts could influence the economic decisions of users taken on the basis of the financial statements. In the case of a pension fund this applies to member contributions and pensions payments and therefore we will use a lower materiality level when assessing these income and expenditure streams.

16. We review and report on other information published with the financial statements including the management commentary and annual governance report. Any issue identified will be reported to the Pension Fund Committee.

Timetable
17. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at Exhibit 4 which takes account of submission requirements and planned Pension Fund Committee dates.

Exhibit 4
Financial statements timetable

Key stage	Date
Consideration of unaudited financial statements by those charged with governance	27 June 2017
Latest submission date of unaudited financial statements with complete working papers package	27 June 2017
Latest date for final clearance meeting with Chief Financial Officer	8 September 2017
Agreement of audited unsigned financial statements; Issue of Annual Audit Report including ISA 260 report to those charged with governance	TBC
Independent auditor's report signed	30 September 2017

Internal audit

18. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by a team of Scottish Borders Council staff overseen by the Chief Officer Audit & Risk.

Adequacy of Internal Audit

19. Our review of internal audit concluded that the internal audit function operates in accordance with the Public Sector Internal Audit Standards and has sound documentation standards and reporting procedures in place.

Audit dimensions

20. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in Exhibit 5.

Exhibit 5
Audit dimensions

Financial sustainability
21. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the body's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and longer term

- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps

- whether the pension fund can demonstrate the effectiveness of funding and investment decisions it has made.

Financial management

22. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether the pension fund has arrangements in place to ensure systems of internal control are operating effectively

- whether the pension fund can demonstrate an effective budgetary control system in communicating accurate and timely financial performance

- how the pension fund has assured itself that its financial capacity and skills are appropriate

- whether the pension fund has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

Governance and transparency

23. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information. We will review, conclude and report on:

- whether the pension fund can demonstrate that the governance arrangements in place are appropriate and operating effectively

- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports

- the quality and timeliness of financial and performance reporting.

24. An additional area we will cover in our 2016/17 audit is a follow-up review of the previous Audit Scotland national performance audit:

- The Role of Boards. This report was published in September 2010. The follow up review will assess the governance, decision-making and scrutiny arrangements of the pension fund committee and board.

Value for money

25. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether:

- the pension fund can provide evidence that it is demonstrating value for money in the use of its resources

- the pension fund can demonstrate that it has focus on administrative improvement and efficiency

- the pension fund can demonstrate that investment costs are minimised whilst receiving good quality investment advice.

Independence and objectivity

26. Auditors appointed by the Accounts Commission must comply with the Code of Audit Practice. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to

ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland's Ethics Partner.

27. The engagement lead for Scottish Borders Council Pension Fund is Gillian Woolman Assistant Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Scottish Borders Council Pension Fund.

Quality control

28. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

29. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice approved by the Accounts Commission. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

30. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

Scottish Borders Council Pension Fund

Annual Audit Plan 2016/17

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INTERNAL AUDIT STRATEGY AND INTERNAL AUDIT ANNUAL PLAN 2017/18

Report by Chief Officer Audit & Risk

AUDIT AND RISK COMMITTEE

28 March 2017

1   PURPOSE AND SUMMARY

1.1   The purpose of this report is to gain approval to the proposed Internal Audit Strategy and Internal Audit Annual Plan 2017/18 for Scottish Borders Council to enable the Chief Officer Audit & Risk to prepare an Internal Audit annual opinion on the adequacy of the Council's overall control environment.

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 Internal Audit annual opinion on the adequacy of the Council's overall control environment.

1.4   The report presents the background to the Internal Audit Strategy at Appendix 1 that outlines the strategic direction for Internal Audit to provide independent and objective assurance on the systems of internal control, risk management, and governance.

1.5   The proposed Internal Audit Annual Plan 2017/18 in Appendix 2 sets out the range and breadth of audit areas and sufficient work within the audit programme of work to enable the Chief Officer Audit & Risk to prepare an Internal Audit annual opinion. Key components of the audit planning process include a clear understanding of the Council's functions, associated risks, and assurance framework.

1.6   There are staff and other resources currently in place to achieve the Internal Audit Annual Plan 2017/18 and to meet its objectives.

2   RECOMMENDATION

2.1   I recommend that the Audit and Risk Committee approves the Internal Audit Strategy (Appendix 1) and Internal Audit Annual Plan 2017/18 (Appendix 2).

3   BACKGROUND

3.1   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 STRATEGY

4.1   The key standards within the PSIAS which relate to Managing the Internal Audit Activity are summarised below:

"The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organisation.

The internal audit activity is effectively managed when:

- The results of the internal audit activity's work achieve the purpose and responsibility included in the internal audit charter;
- The internal audit activity conforms with the Definition of Internal Auditing and the Standards; and
- The individuals who are part of the internal audit activity demonstrate conformance with the Code of Ethics and the Standards.

The internal audit activity adds value to the organisation (and its stakeholders) when it provides objective and relevant assurance, and contributes to the effectiveness and efficiency of governance, risk management and control processes."

4.2   The Internal Audit Strategy at Appendix 1 outlines the strategic direction for Internal Audit to provide independent and objective assurance on the systems of internal control, risk management, and governance.

5   INTERNAL AUDIT ANNUAL PLAN 2017/18

5.1   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."

5.2   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."

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The CIPFA Publication also states that "The committee will wish to seek assurance from the HIA that appropriate risk assessment has been carried out as part of the preparation of the internal audit plans when they are presented."

5.3 The Internal Audit Annual Plan 2017/18 developed by the Chief Officer Audit & Risk is presented at Appendix 2. The proposed reviews have been grouped into key themes as set out in the Internal Audit Strategy at Appendix 1. For each review area included within the plan there is a brief commentary.

5.4 The following table summarises how the initial allocation of available Audit Days will be for the Internal Audit Annual Plan 2017/18:

Areas	Audit Days 2017/18
Corporate Governance	140
Financial Governance	165
ICT Governance	50
Internal Controls	60
Asset Management	65
Legislative & Other Compliance	45
Consultancy	70
Other	52
SBC	**647**
Non SBC	65
Total Audit Days	**712**

5.5 The past twelve months has resulted in significant changes for the Council including the outsourcing of ICT Service Delivery to CGI and the design and implementation of the Business World ERP system. In recognition that it is envisaged that 2017/18 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 arrangement or changing risks and priorities of the Council. Any amendments will be brought to the Audit and Risk Committee for approval.

6 IMPLICATIONS

6.1 Financial

The Revenue Financial Plans approved by the Council on 9 February 2017 include budget 2017/18 for the Internal Audit function within the Audit & Risk service. The Internal Audit staff resources comprise Chief Officer Audit & Risk (50% allocation to Audit), three Senior Internal Auditors, and one Internal Auditor, to deliver the Internal Audit Annual Plan 2017/18 in a collaborative way with the Corporate Risk Officer and the Corporate Fraud and Compliance Officer.

6.2 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.

6.3   **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.

6.4   **Acting Sustainably**

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

6.5   **Carbon Management**

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

6.6   **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.

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

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

7   CONSULTATION

7.1   The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, 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.

7.2   The Corporate Management Team has 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.

7.3   Other key stakeholders including Audit Scotland, 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

Background Papers:
Previous Minute Reference:

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INTERNAL AUDIT STRATEGY

1. AIM OF STRATEGY

1.1.   The aim of this strategy is to guide Internal Audit in delivering a high quality internal audit service, which is capable of:

- providing an audit opinion, to Management and the Audit and Risk Committee, on the adequacy of Scottish Borders Council's risk management, internal control and governance arrangements;
- carrying out all other objectives contained in Internal Audit's Charter; and
- adding value to the organisation by influencing and offering ways to enhance the governance and internal control environment in alignment to the strategic priorities of the Council and providing the required assurance.

2. STRATEGY OBJECTIVES

2.1.   The objectives of this strategy are to:

- Outline the Council's assurance framework which comprises assurances from within the organisation and from external providers of assurance to improve the organisational understanding of the expectations of Internal Audit;
- State how the key themes which are integral to the assurance gathering process across the Council's activities will be covered to inform the annual audit opinion statement;
- Describe the approach to the development and preparation of the risk based Internal Audit annual plan;
- Outline how the Internal Audit programme of work will be delivered to add value;
- Set out the relative allocation of Internal Audit resources; and
- Describe the monitoring and reporting of the Internal Audit findings from its work and progress with its plans.

3. ASSURANCE FRAMEWORK

3.1.   It is Management's responsibility to design and maintain proper risk management, governance and internal control processes and systems to ensure probity in systems and operations, including the prevention, detection and resolution of fraud and irregularities. Management is also responsible for checking that the arrangements and controls are operating effectively. These are known as the first and second lines of defence. Internal Audit, as the third line of defence, 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.

3.2.   The organisation's assurance framework is the means by which the Corporate Management Team ('senior management') and the Audit and Risk Committee (the 'board' for the purposes of Internal Audit activity) ensures that they are properly informed on the risks of not meeting its objectives or delivering appropriate outcomes and that it has adequate assurances on the design and operation of the systems in place to mitigate those risks.

3.3.   The assurance framework comprises assurances from within the organisation (from Management and independent and objective assurance from Internal Audit) and from external providers of assurance. Examples of the latter include the Accounts Commission, External Audit (Audit Scotland - 5 year appointment 2016/17 to 2020/21 inclusive), and Education Scotland, Care Inspectorate, Scottish Housing Regulator and other regulators.

3.4.   The assurances are considered during the annual review of the effectiveness of the Council's overall governance framework carried out by the Governance Self-evaluation Officer Working Group led by Internal Audit. The output is the Annual Governance Statement which is scrutinised by the Audit and Risk Committee in advance of its inclusion within the Council's Annual Report and Accounts.

3.5. Where audit assurance is required on services that are delivered jointly by public sector joint working and partnership arrangements which include the Council as a partner, these assurances will be sought as appropriate from partners' Internal Audit service providers and Management. Where SBC Internal Audit is the lead provider of audit services for other organisations it will follow its Charter, conform with the PSIAS, and report assurances to the relevant audit committee(s).

4. KEY THEMES INTEGRAL TO INTERNAL AUDIT ASSURANCE

4.1. The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Fundamentally corporate governance is about the systems and processes, and cultures and values that are used by the Council to discharge those responsibilities in a timely, inclusive, open, honest and accountable manner. This includes: setting the strategic direction, vision, culture and values of the Council; effective operation of corporate systems; processes and internal controls; engaging with and, where appropriate, lead communities; monitoring whether strategic objectives have been achieved and services delivered cost effectively; and ensuring that appropriate arrangements are in place for the management of risk. Within the themed *corporate governance* and *internal control* assurance work the Council's Local Code of Corporate Governance will be used by Internal Audit as an integrated toolkit to test the extent of compliance.

4.2. The Council's statutory Section 95 Officer (Chief Financial Officer) is responsible for the proper administration of the Council's financial affairs. Under his direction, the Council's system of internal financial control is based on a framework of Financial Regulations (rules and regulations for financial management or administration arrangements linked to other key financial documents that set out the policy framework, associated strategy, and the more detailed procedures and guidelines), regular Management Information, administrative procedures (including segregation of duties), Management Supervision, and a system of Delegation and Accountability. Within the themed *Financial Governance* and *Asset Management* assurance work, end to end reviews of financial management and administration processes will be undertaken by Internal Audit to test the extent of compliance (as integral part of protecting public finances, safeguarding assets, and delivering services effectively and sustainably), and substantive testing of transactions and balances will be carried out to ensure completeness and accuracy of data in core financial systems. The Plans (Financial and Asset Management) to deliver the Council's strategies, plans and priorities will be reviewed against best practice standards.

4.3. Scottish Borders Council has outsourced ICT Service Delivery to CGI and continues to invest in computer systems to support service delivery and corporate transformation through electronic service delivery. Delivery of the Council's ICT Strategy is subject to regular monitoring and review, as part of corporate transformation, to ensure it continues to be linked to Corporate Priorities. The ICT Security Policy is the overarching policy that provides the framework to protect the Council from attack in relation to data integrity and availability. The objective of *ICT Governance* assurance audit work is to provide assurance that computer systems are secure, reliable and conform to nationally agreed standards, and that arrangements support delivery of the ICT Strategy linked to Corporate Priorities.

5. APPROACH TO PERIODIC PLANNING

5.1. The Internal Audit Strategy and the Internal Audit Annual Plan 2017/18 have been prepared in accordance with the Public Sector Internal Audit Standards (PSIAS) to fulfil the requirement to produce an Internal Audit annual opinion.

5.2. As part of the Internal Audit planning process it was necessary to consider the Council's priorities, plans, strategies, objectives, risks and mitigating controls, and the internal and external assurances provided to determine the priorities of the Internal Audit activity consistent with the Council's goals, as follows:

- Extensive analysis was undertaken of Internal Audit work during the past 5 years against the Audit Universe to ensure appropriate coverage, and Corporate and Service Business Plans and Risk Registers were checked to confirm coverage on key corporate risks; and
- Account is taken of known external audit and inspection activities to avoid duplication of assurance work. For example: Discussions are held to agree which Internal Audit assurance work will be relied upon by External Audit for its annual audit; the schools Internal Audit work on internal financial controls is designed to complement inspections carried out by Education Scotland; and any matters raised by other inspection and regulatory bodies, including Care Inspectorate and Scottish Housing Regulator, are considered within Internal Audit self-assessment validation work agreed with Management.

5.3. The audit planning process involves consultation with key stakeholders including discussions with Senior Management and with External Auditors to capture potential areas of risk and uncertainty more fully.

6. ALLOCATION OF INTERNAL AUDIT RESOURCES

6.1. The Available Audit Days has been reduced to reflect the reduction in Internal Audit resources which came into effect during 2016/17. The reduction has been applied across the plan as a whole following discussions with Management and taking account of the risks and the assurance framework in place.

6.2. It is estimated that around 81% of Internal Audit's available days will be spent on *assurance, legislative and other compliance, and other* activities combined. The Assurance work includes sufficient work across a range and breadth of audit areas within the key themes of *Corporate Governance*, *Financial Governance*, *ICT Governance*, *Internal Controls* and *Asset Management* which assure those processes that are currently in place and which Management rely on to deliver services, and to enable preparation of the required annual audit opinion on the adequacy of the Council's overall control environment.

6.3. An estimate of around 10% of Internal Audit's available days will be utilised on consultancy activities which support Management in delivering innovation and transformational change. Management seek this value added activity during this unprecedented period of change for Local Government though this allocation reflects a reasonable estimate of what is actually deliverable within the boundaries of the role of Internal Audit and the resources available.

6.4. It is estimated that around 9% of Internal Audit's available days will be spent on the provision of Internal Audit services to non-Council organisations. This reflects the Council's contribution of corporate support resources as it has changed its governance arrangements in response to: utilisation of alternative service delivery models; legislative requirements governing the pension fund; and statutory partnership working for the provision of health and social care integration.

7. APPROACH TO DELIVERY OF PROGRAMME OF WORK

7.1. To facilitate operational delivery an Internal Audit Programme of work is developed which provides an indication of when work will be scheduled during the year, taking account of discussions with Senior Management and the availability of Internal Audit resources.

7.2. The *assurance* audits include sufficient work across a range and breadth of audit areas within the key themes of *Corporate Governance*, *Financial Governance*, *ICT Governance*, *Internal Controls* and *Asset Management* to enable preparation of an annual internal audit opinion on the adequacy of the Council's overall control environment. For each assurance 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 Internal Audit fieldwork. During the course of all assurance work Internal Audit will consider fraud risk and prevention and detection controls, and other appropriate cross-cutting risks and controls (such as performance management, community engagement, equalities, and health and safety), and will highlight examples of effective internal controls and share good practice across Council areas. National reports that give rise to introducing best practice arrangements or lessons learned from other local authorities or

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other public sector bodies will be considered and applied as part of the Internal Audit process to enable Management to evidence improvements in the Council's practices on a continuous basis. This enables Internal Audit to fulfil its role to influence and offer ways to enhance the governance and internal control environment aligned to the strategic priorities of the Council.

7.3.   The *Legislative and Other Compliance* work will include testing in accordance with the terms of the funders' service level agreements or legislative requirements, as part of the wider assurance framework.

7.4.   Within *Consultancy* activities Internal Audit will continue to add value to the Council as it transforms its service delivery models, re-designs its business processes, and utilises technology to automate processes by influencing and offering ways to enhance the governance and internal control environment. Internal Audit in its 'critical friend' role will provide internal challenge as part of strategic and service reviews, advise on effective controls for new systems and activities, highlight opportunities to reduce costs through greater economy and efficiency, provide quality assurance on a sample of projects involving major change and systems development, and provide an independent and objective assessment of the evidence to support self-evaluation and improvement.

7.5.   *Other* work will include: performing potentially high risk *Contingency* audits, investigations and review of issues highlighted during the year that may be the result of a weakness in internal controls or that may be requested by Management or the Audit and Risk Committee; carrying out *Follow-Up* to monitor progress with implementation of Audit recommendations and ensure that management actions have been timeously and effectively implemented, to check that these have had the desired effect to manage identified risks, and to demonstrate continuous improvement in internal control and governance. To facilitate the Internal Audit follow-up activity, Audit recommendations will continue to be input to Covalent, the Council's corporate performance management system, to assist Management in tracking and recording their implementation in a consistent way; and responding on behalf of the Council to *Counter Fraud* data sharing requests from Police Scotland, Audit Scotland (as part of the National Fraud Initiative), and Other partners as part of the wider assurance framework on counter fraud and crime controls.

8.   MONITORING THE WORK OF INTERNAL AUDIT

8.1.   Internal Audit work completed and work in progress will be reported periodically during the year to the Corporate Management Team and the Audit and Risk Committee. These reports will include an Executive Summary of the audit objective, good practice, findings, recommendations, and audit opinion of assurance for each Final Internal Audit Report issued to relevant Service Management in the period.

8.2.   Internal Audit's compliance with its Strategy, delivery of its risk-based Annual Plan, and outcomes of assessment(s) against Public Sector Internal Audit Standards (PSIAS) will be considered by the Chief Officer Audit & Risk on a regular basis and reported every six months to the Corporate Management Team and the Audit and Risk Committee, through a Mid-Term Performance Report and an Annual Report. The Internal Audit Annual Report will provide the required opinion statement on the levels of assurance based on audit findings over the year.

8.3.   The PSIAS requires an annual Internal Self-Assessment and an External Quality Assessment (EQA) each five years by appropriately qualified and independent reviewers. Reporting on outcomes includes a statement on conformance with PSIAS and the quality assurance and improvement plan (QAIP). The Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) have implemented a "peer review" framework as a cost effective means of complying with the EQA requirement. Scottish Borders Council was peer reviewed by Renfrewshire Council in 2015 and will peer review Fife Council in 2017.

AUDIT	2017/18 (Days)	COMMENTARY
Corporate Governance		
Local Code of Corporate Governance / Corporate Governance annual evaluation and statement 2017/18	40	Ensure SBC's Local Code of Corporate Governance complies with the CIPFA / SOLACE Revised Framework (2016). Continuous audit approach on compliance with 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. In connection with local elections involvement in the review of the Scheme of Delegation and Scheme of Administration, and associated Code of Conduct for Members and Members Induction Training.
Information Governance	25	Continual Audit approach performing 'critical friend' role through the review of the Information Governance framework including roles and responsibilities, policy development and implementation, and assess progress with implementation of improvement actions. Assess preparedness for the General Data Protection Regulations (GDPR) to come into force May 2018.
Performance Management	30	Provide independent validation of performance indicators and benchmarking information to support self-assessment and continuous improvement of the Council's services, specifically to ensure accuracy of data submitted for Local Government Benchmarking Framework and Corporate Priorities PIs.
Corporate Transformation Programme	30	Continual Audit approach performing 'critical friend' role plan through input to the planned review and possible refresh of the Corporate Transforamtion Programme to influence the governance and accountability arrangements, including processes for benefit (financial and other) identification, tracking and realisation (return on investment and value for money), and evaluation of outcomes and lessons learned.
Complaints	10	Review and assess arrangements in place for both Corporate and Social Work complaints to provide assurance on whether the complaints process is being applied consistently to enable successful outcomes and realisation of the benefits associated with efficient resolution of complaints.
Community Engagement	5	Evaluate systems and procedures in place to assist the Council deliver an effective, consistent and integrated approach to engage with and communicate to the community in setting, delivering and reporting on its vision, priorities and plans. Assess Community Empowerment Act implications and extent to which the Council is complying with key elements of the legislation.
	140	

AUDIT	2017/18 (Days)	COMMENTARY
Financial Governance		
Financial Policy Framework	15	Continual Audit approach to assess the Financial Policy Framework established as part of Business World implementation, review progress with update of Financial Regulations and associated policies, procedures and guidelines, and evaluate whether there is a comprehensive programme in place to review, update and develop relevant policies, procedures and guidelines.
Payroll	20	Business World assurance work on Payroll processes; compliance testing of controls at Service level.
Sales to Cash	20	Business World assurance work on Sales to Cash processes. 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.
Procurement to Payment	20	Business World Assurance work on Procure to Pay. Review of purchase to payments processes at Service level including authorisation to test compliance.
Record to Report	20	Assurance work on Record to Report processes to determine if expected improved internal financial controls via the Business World ERP System are being achieved. Key controls work relating to core General Ledger and Management Reporting.

Contract Management	20	Assess governance and internal controls in place over contract monitoring arrangements with third parties including integated sports and culture trust (Live Borders) and ALEO (SB Cares).
Revenues (Council Tax)	30	Assess the application of the Council Tax increase in 2017/18 and the legislative changes to the 2017 Council tax multiplier affecting bands E - H. Follow-up testing on completeness and accuracy of Council Tax income associated with the new 2016/17 approved policy on second homes, and key controls introduced including application of discretionary exemptions.
Grants incorporating Following the Public Pound	20	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 in support of securing best value.
	165	

AUDIT	2017/18 (Days)	COMMENTARY
ICT Governance		
ICT Contract Management	20	Review of client relationship and contract management with CGI contract to assess compliance with Service Delivery and terms and conditions.
ICT Security	20	Assess the adequacy of the security arrangements including: physical and environmental; disaster recovery; third party access; and operational controls.
Public Secure Network (PSN) Compliance	10	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. Assess fulfilment of roles and responsibilities within the Council and CGI under contract.
	50	

AUDIT	2017/18 (Days)	COMMENTARY
Internal Controls		
Schools	30	Review of internal financial controls and business administrative procedures in place to ensure the efficient and effective use of resources in the school establishments (sample of 3 High Schools and 3 Primary Schools), to complement the assurance received from Education Scotland arising from their inspection programme of schools, including evaluation of the systems in place to set and monitor budgets devolved to head teachers to ensure adherence to DSM standards and practices.
Community Safety	10	Evaluate the partnership working within Community Safety to ensure responsibilities and accountabilities of partners are clearly defined and to ensure funds are used effectively and economically for the intended purpose to meet local priorities. Specific review of operational and financial controls in place for the effective and sustainable delivery of Domestic Abuse services and use of resources.
Children and Young People Services	20	Continual audit approach and 'critical friend' role to provide independent challenge of the evidence to support self evaluation and improvement arising from the inspection programme. Discrete review to assess what controls and processes are in place to ensure safety of children and young people on excursions.
	60	

AUDIT	2017/18 (Days)	COMMENTARY
Asset Management		
Asset Registers	20	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. Review of stock management controls relating to inventory turnover, and prevention and detection of fraud.
Capital Investment	10	Continual audit approach to assess progress with implementation of identified improvement actions to ensure compliance with established good practice by Accounts Commission - strategic asset management plans; governance of capital investment; capital planning; review, scrutiny and challenge; capital financial budget monitoring; delivery of the capital programme and capital plan projects.
Industrial and Business Premises	20	Assess the corporate governance and financial governance arrangements linked to priorities within the Economic Strategy relating to Industrial and Business Premises and associated estate management including: strategy; development and implementation of infrastructure; demand analysis; estate management end to end processes from lease agreements, voids, and income management.
Fleet Management	15	Evaluate controls in place to ensure fleet asset records are complete and accurate and fleet replacement decisions represent value for money. Review procurement practices for compliance and consider options for volume / value invoice processing. Consider repair and maintenance processes and supporting evidence associated with insurance claims.
	65	

AUDIT	2017/18 (Days)	COMMENTARY
Legislative & Other Compliance		
Selkirk Conservation Area Regeneration Scheme (CARS)	10	Review as part of programme compliance and evaluation requirements of the external funders including audit requirements.
LEADER	15	Annual audit of EU grant-funded 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 Maritime Fisheries Fund (EMFF)	15	Annual audit of EU grant-funded EMFF programme 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	5	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).
	45	

AUDIT	2017/18 (Days)	COMMENTARY
Consultancy		
Advice	20	Provision of ad-hoc Internal Audit advice and assistance on internal controls, risk management and governance in response to requests.
Corporate Transformation Project Boards / Teams (for example): **-Digital Transformation Programme (incuding Benefits Realisation)** **-Business Intelligence** **-Other Project Boards / Teams (for example):** **-Serious Organised Crime** **-Welfare Reform**	50	Provision of Internal Audit consultancy activities to support Management in delivering innovation and transformational change and continue to add value to the Council by influencing and offering ways to enhance the governance and internal control environment. In its 'critical friend' role provide: internal challenge as part of strategic and service reviews; quality assurance on a sample of projects involving major change and systems development; and an independent and objective assessment of the evidence to support self-evaluation and improvement.
	70	

AUDIT	2017/18 (Days)	COMMENTARY
Other		
Contingency	10	Carry out investigations and other reactive work to ensure high risk issues and concerns identified by Management during the year are appropriately addressed.
Follow-Up	22	Carry out Follow-Up activity to monitor progress with implementation of Audit recommendations and ensure that Management Actions have been timeously and effectively implemented, to check that these have had the desired effect to manage identified risks, and to demonstrate continuous improvement in internal control and governance.
Counter Fraud	20	Provide intelligence via data sharing requests from Police Scotland, and submission of data sets and case management of data matches arising from National Fraud Initiative (NFI) exercise in liaison with the Corporate Fraud and Compliance Officer as part of the wider assurance framework on counter fraud and crime controls.
	52	

SBC Total   647

AUDIT	2017/18 (Days)	COMMENTARY
Non Scottish Borders Council		
SB Cares	25	To be determined and agreed with SB Cares Board and Management for review of the adequacy of the arrangements for risk management, governance and control of SB Cares.
Scottish Borders Pension Fund	5	To be determined and agreed with Pension Fund Committee and Management for review of governance of the pension fund, and support with the provision of its annual governance statement.
Scottish Borders Health and Social Care Integration Joint Board	35	To be determined and agreed by the Scottish Borders Health and Social Care Integration Joint Board for review of the adequacy of the arrangements for risk management, governance and control of the delegated resources.
	65	

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