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## AUDIT AND SCRUTINY COMMITTEE MONDAY, 19 MARCH 2018

A MEETING of the AUDIT AND SCRUTINY COMMITTEE will be held in the COUNCIL CHAMBER, COUNCIL HEADQUARTERS, NEWTOWN ST BOSWELLS on MONDAY, 19 MARCH 2018 at 10.15 am.

As previously agreed, there will be a meeting of Members of the Committee at 9.30 am prior to the main meeting. The primary focus of the informal session will be to discuss the self-assessment against the 'Scrutiny Tool for Councillors' from the Audit Scotland report 'Local Government in Scotland – Financial Overview 2016/17'.

J. J. WILKINSON,  
Clerk to the Council,

12 March 2018

<b>BUSINESS</b>		
1.	<b>Apologies for Absence.</b>	
2.	<b>Order of Business.</b>	
3.	<b>Declarations of Interest.</b>	
4.	<b>Minute.</b> (Pages 3 - 6)  Minute of Meeting of the Audit and Scrutiny Committee held on 15 February 2017 to be approved and signed by the Chairman. (Copy attached.)	5 mins
5.	<b>Risk Management in Services</b>  Presentation by Chief Social Work Officer on the Strategic risk facing the Council and social care services and the internal controls and governance in place to manage/mitigate those risks to demonstrate how risk management is embedded within services. (Verbal presentation)	30 mins
6.	<b>Internal Audit Work to February 2018</b> (Pages 7 - 20)  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, and internal audit work currently in progress. (Copy attached).	15 mins
7.	<b>Scottish Borders Council External Audit Plan for 2017/18</b> (Pages 21 - 36)  Consider overview report and plan by Audit Scotland on how they will deliver	20 mins

	their external audit for Scottish Borders Council for the year ended 31 March 2018 (Copy attached).	
8.	<b>Scottish Borders Pension Fund External Audit Plan for 2017/18</b> (Pages 37 - 52)  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 2018 including the options on the financial statements. (Copy attached).	15 mins
9.	<b>Internal Audit Charter</b> (Pages 53 - 60)  Consider a report by Chief Officer Audit & Risk on the updated internal Audit Charter for approval that defines the terms of reference for the Internal Audit function to carry out its role and to enable the Chief Officer Audit & Risk to prepare an annual internal audit opinion on the adequacy of the Council's overall control environment. (Copy attached)	10 mins
10.	<b>Internal Audit Strategy and Annual Plan 2018/19</b> (Pages 61 - 72)  Consider a report by Chief Officer Audit & Risk on proposed strategic direction to deliver Internal Audit assurance and support services to the Council, the Pension Fund, SB Cares, and the Health and Social Care Integration Joint Board, and on proposed Internal Audit programme of work 2018/19 to enable preparation of the annual options on the adequacy of each organisation's overall control environment. (Copies attached).	20 mins
11.	<b>Any Other Items Previously Circulated.</b>	
12.	<b>Any Other Items which the Chairman Decides are Urgent</b>	

## 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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**Membership of Committee:-** Councillors S. Bell (Chairman), H. Anderson, K. Chapman, J. A. Fullarton, S. Hamilton (Vice-Chairman), N. Richards, H. Scott, R. Tatler, E. Thornton-Nicol and Mr M Middlemiss.

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Please direct any enquiries to Judith Turnbull 01835 826556  
Email: [judith.turnbull@scot.borders.gov.uk](mailto:judith.turnbull@scot.borders.gov.uk)

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**SCOTTISH BORDERS COUNCIL  
AUDIT AND SCRUTINY COMMITTEE**

MINUTES of Meeting of the AUDIT AND SCRUTINY COMMITTEE held in Council Headquarters, Newtown St Boswells on Thursday, 15 February 2018 at 10.00 am

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Present:- Councillors S. Bell (Chairman), H. Anderson, J. A. Fullarton, S. Hamilton, N. Richards, H. Scott, R. Tatler and E. Thornton-Nicol.  
Apologies:- Councillor K. Chapman. Mr M Middlemiss.  
In Attendance:- Clerk to the Council, Democratic Services Officer (P Bolson).

1. **WELCOME AND INTRODUCTIONS**

The Chairman welcomed those present to the meeting.

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.**

**URGENT BUSINESS**

Under Section 50B(4)(b) of the Local Government (Scotland) Act 1973, the Chairman was of the opinion that the item dealt with in the following paragraph should be considered at the meeting as a matter of urgency, in view of the need to make an early decision.

3. **MINUTE**

There had been circulated copies of the Minute of 15 January 2018. The Chairman explained that as Members were aware, Minutes that included Audit items were currently considered at the earliest meeting when Audit business was next being discussed (when the External Auditors and external Members of the Committee would be present). Due to the need for Minutes to be approved within an appropriate timescale, Members were advised that all Minutes would now be presented to the earliest Audit and Scrutiny Committee. A mechanism would also be developed to ensure that, should the External Auditors and/or external Members of the Committee not be present at every meeting, they would be able contribute to discussions as appropriate to their role.

**DECISION**

**APPROVED the Minutes for signature by the Chairman.**

4. **ARTIFICIAL SPORTS PITCHES**

4.1 There had been circulated copies of a Briefing Note by the Service Director Assets and Infrastructure providing an update on the use of 2G and 3G artificial pitch provision in the Scottish Borders. This item had been scrutinised in February 2017 and was being brought forward to this Committee for review as part of the Scrutiny Work Programme. Mr Martin Joyce - Service Director Assets and Infrastructure, Mr Ewan Doyle - Project Management Team Leader, and Mr Ewan Jackson – Chief Executive of Live Borders, were in attendance. Mr Joyce and Mr Doyle provided some background information and explained that the Briefing Note before Members was wide-ranging to include updates on the delivery of Selkirk and Hawick facilities; and maintenance works undertaken during 2017/18. Construction of the 2G and 3G pitches was funded by Scottish Borders Council and Sportscotland with Live Borders assuming operating responsibility with commensurate management fee. The report advised that the Galashiels 3G pitch did not

receive management fee support from SBC. Currently, Live Borders operated four 2G and two 3G artificial pitches and the report detailed the differences both in the construction and usage of each. Whilst 2G pitches were predominantly sand-dressed or sand-filled and were certified by the Federation of International Hockey, 3G facilities comprised a longer pile with rubber infill and were certified by FIFA and World Rugby. Both types of pitch were certified for competitive play respectively. There were a number of benefits from using artificial pitches, such as the availability of good quality, affordable training facilities; and the opportunity to play all year round under floodlights on consistent quality playing surfaces. These benefits contributed to increased participation by a broad spectrum of clubs, schools, development programmes and individuals across age groups and localities. Artificial pitches also relieved pressure on existing grass pitches under the responsibility of Scottish Borders Council, allowing the ground to recover and therefore reduce the maintenance costs for SBC. The report detailed usage figures for 2015/16 and 2016/17 across pitches under Live Borders management. The statistics for the 3G pitch in Hawick took account that the facility had only been operational for part of 2016/17 and that during those first four months, over 9,000 visits had been recorded. The figures also reflected that the Peebles and Selkirk 2G pitches were located within the school estate and only operated by Live Borders outwith school hours. User feedback was positive by football, rugby and hockey clubs/users and each reported an increase in the number of users. Pitch safety was a major consideration and less than 1 reported accident per 10,000 visits had been recorded for the 2016/17 reporting period. There were further synthetic pitches within the school estate as detailed in the report and these had been subject to safety inspections and maintenance repairs during 2016/17, with a future maintenance and replacement fund being established in the Council's Capital and Revenue planning process. In conclusion, Mr Doyle suggested that the increased usage figures demonstrated that improved playing surfaces helped the sustainability of local clubs and enabled more individuals and communities to participate in sport and activity whilst keeping operational costs down.

- 4.2 Mr Jackson advised Members that there had previously been some health and safety concerns in relation to artificial pitches. However, following a full review of these pitches, no evidence had been found to support these concerns and it was noted that the number of users did not decrease during or after the review. The range of people using the pitches across gender, age, ability and organisations continued to expand and the very low number of accidents was encouraging for participants. Mr Jackson also noted that the figures in Table 1 in the Briefing Note showed a decrease in usage at Selkirk but this was a system error and the numbers had, in fact, increased. He went on to explain that synthetic pitches were designed to accommodate much more frequent usage and could support professional sport such as hockey, football and rugby at a high level.
- 4.3 Officers provided clarification in response to questions from Members. Further detail was given in respect of the composition of 2G pitches and Mr Jackson advised that sand-filled pitches were deeper and well-suited to training and hockey; 3G pitches were softer and more suited to soccer and rugby. 3G pitches could also comprise a shock mat below the surface to make them more suitable for contact sport such as rugby. Grass pitches were only operational for part of a year due to weather limitations and water-based pitches also incurred higher maintenance and required some form of irrigation to be installed. Mr Joyce advised Members that artificial pitches were designed to last for around 10 years subject to usage, and confirmed that the Capital Programme included the development of further artificial pitches across the Scottish Borders. There had been concern raised in relation to problems caused by loose rubber pellets from 3G pitches finding their way into drainage systems. Mr Joyce confirmed that drainage systems were inbuilt to pitches, with water passing through membranes to Scottish Water/SEPA standards, and he was not aware of any reported issues. He would investigate this matter and a further update would be provided by the Engineering Team to Committee members in due course. The Chairman thanked officers for their attendance.

## **DECISION**

**NOTED the update and that no further review of Artificial Sports Pitches was required at this time.**

*The meeting concluded at 10.35 am*

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## **INTERNAL AUDIT WORK TO FEBRUARY 2018**

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### **Report by Chief Officer Audit and Risk**

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## **AUDIT AND SCRUTINY COMMITTEE**

**19 March 2018**

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### **1 PURPOSE AND SUMMARY**

- 1.1 The purpose of this report is to provide members of the Audit and Scrutiny 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 23 December 2017 to 23 February 2018 is detailed in this report. During this period a total of 5 Final Internal Audit Reports have been issued. There were 4 recommendations made relating to 2 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) (2017) including the production of this report to communicate the results of the reviews.

### **2 RECOMMENDATIONS**

- 2.1 I recommend that the Audit and Scrutiny Committee:**
- a) Notes the final assurance reports issued in the period from 23 December 2017 to 23 February 2018 associated with the delivery of the approved Internal Audit Annual Plan 2017/18;**
  - 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 2017/18 was approved by the Audit and Risk Committee on 28 March 2017. As previously stated, it 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 this Committee for approval.
- 3.2 Internal Audit has carried out the following work in the period from 23 December 2017 to 23 February 2018, associated with the delivery of the approved Internal Audit Annual Plan 2017/18, to meet its objective of providing an opinion on the efficacy of the Council's risk management, internal control and governance.
- 3.3 The SBC Internal Audit function conforms to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017) including the production of this report to communicate the results of the reviews.

#### Internal Audit Reports

- 3.4 Internal Audit issued final assurance reports on the following subjects:
- Capital Investment
  - Performance Management (Corporate Priorities)
  - Petty Cash Review and Emergency Funding
  - Information Governance
  - ICT Contract Management
- 3.5 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.



## Current Internal Audit Assurance Work in Progress

- 3.6 Internal Audit assurance work in progress to complete the delivery of the Internal Audit Annual Plan 2017/18 consists of the following:

Audit Area	Audit Stage
Grants incl. Following the Public Pound	Testing Underway
Financial Governance (incorporating Payroll, Procure to Pay, Sales to Cash, and Record to Report)	Testing Nearly Completed (1 <sup>st</sup> phase Key Controls completed; 2 <sup>nd</sup> phase underway)
Community Safety	Testing Underway
Asset Registers	Deferred to 2018/19 to align to Business World development
Selkirk CARS	Deferred to 1 <sup>st</sup> Quarter 2018/19 to align with Funder's Return

## Internal Audit Consultancy and Other Work

- 3.7 Internal Audit staff have been involved in the following for the Council to meet its aims and objectives, and its roles and responsibilities in accordance with the approved Internal Audit Charter:
- 3.7.1 Involvement in the independent validation of data migrated to the new Business World ERP system in this period, including Capital Budget, and Common Good and Trust Fund opening balances and budgets.
- 3.7.2 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.
- 3.7.3 Reviewing outstanding and overdue audit recommendations to ensure their implementation by Management. Liaising with the Corporate Risk Officer on an on-going basis to ensure that risk is considered in every audit and risk reviews take account of improvements arising from audit work.
- 3.7.4 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.

## Recommendations

- 3.8 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:

<b>Priority 1:</b> 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.
<b>Priority 2:</b> 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.
<b>Priority 3:</b> 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.
Outwith the report, Internal Audit informs operational managers about other matters as part of continuous improvement.

3.9 The table below summarises the number of Internal Audit recommendations made during 2017/18:

	2017/18 Number of Recs
Priority 1	0
Priority 2	2
Priority 3	2
<b>Sub-total reported this period</b>	<b>4</b>
Previously reported	20
<b>Total</b>	<b>24</b>
Recommendations agreed with action plan	24
Not agreed; risk accepted	0
<b>Total</b>	<b>24</b>

## 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." Specifically as "a contribution to the Council's corporate management of risk, including 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 2017/18, 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, and effective management of risks.

### 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.

### 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 Executive/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 Service Director 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 Scrutiny Committee 15 January 2018

**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](mailto:intaudit@scotborders.gov.uk)

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Asset Management</p> <p>Subject: Capital Investment</p> <p>No: 007/017</p> <p>Date issued: 9 March 2018</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to assess progress with implementation of identified improvement actions to ensure compliance with established good practice by Accounts Commission.</p> <p>The Accounts Commission 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 'Good Practice Guide'</p> <p>In performing our Internal Audit 'critical friend' role in confidence and providing some independent challenge, we have undertaken a follow-up of our 2016/17 work to assess 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 the accompanying 'Good Practice Guide', covering the following:</p> <ul style="list-style-type: none"> <li>• Strategic Asset Management Plans (SAMPs)</li> <li>• Governance of Capital Investment</li> <li>• Capital Planning (Development of the Capital Programme)</li> <li>• Review, Scrutiny and Challenge</li> <li>• Capital Financial Budget Monitoring</li> <li>• Delivery of Capital Programme and Capital Plan Projects</li> </ul> <p>It is still the case that Strategic Asset Management Plans (SAMPs) are not currently in place for all classes of asset; however proposals are progressing to allow for implementation of a new operational Estates Strategy, a new operational Asset Management Strategy, and the new operational Corporate Landlord Model for Estates and Facilities. The latter is one of the 5 programmes under the revised approach to Corporate Transformation Programme approved by Council.</p>	0	0	0	Management have accepted the report findings.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Subject: Capital Investment (cont'd)	<p>Since our previous audit some progress has been made in relation to: whole of project costs being added to the Capital Financial Budget Monitoring Reports in 2017 that are presented to the Corporate Management Team and the Executive Committee quarterly; and the Capital Tracker development to enhance information on quality, risk and delivery of benefits for individual projects, which is planned to complement the Capital Financial Monitoring Reports to Elected Members in 2018.</p> <p>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 practices are sound. There is however scope for improvement to fully achieve good practice including:</p> <ul style="list-style-type: none"> <li>• the continued development of the Corporate Landlord Model, Assets and Estates Strategies, and Strategic Asset Management Plans (SAMPs) for all remaining asset classes;</li> <li>• a continuing programme of training and enhanced scoring information for elected members on Capital issues;</li> <li>• enhancement of information on capital projects including on benefits realisation; and</li> <li>• monitoring via a formal and complete governance framework, including a Capital Programme Board to facilitate the adoption of standardised reporting and oversight of a Capital Programme Risk Register, workflow protocols and gateway reviews.</li> </ul> <p>The Internal Audit report provides a summary of progress made and developments underway to move SBC towards compliance with the recommendations of 'Good Practice Guide'.</p> <p>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.</p>				

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Corporate Governance</p> <p>Subject: Performance Management – Corporate PIs</p> <p>No: 016/011b</p> <p>Date issued: 9 March 2018</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to 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 Corporate Priorities PIs.</p> <p>The Local Government (Scotland) Act 2003 places a statutory duty on Councils to secure best value through continuous improvement in performance and in doing so apply the principle of value for money by securing the right balance between Economy, Efficiency and Effectiveness. It also places a statutory duty on Councils to make arrangements to report to the public on the outcome of the performance function. The Accounts Commission has published direction and guidance requiring Councils to: Establish systems and procedures to ensure that the information is gathered; checks to ensure that the information gathered is complete and accurate; retains working papers and audit trails for examination by appointed auditors; and reports the information publically.</p> <p>We tested a sample of 5 PIs from the Quarterly Corporate Performance Report (Q2 2017/18) that was presented to the Executive Committee on 21 November 2017. Internal Audit was able to fully validate the 5 PIs (though 1 PI's audit trail was not immediately available), though 2 of the 5 PIs had no checks completed by Service Managers for completeness and accuracy.</p> <p>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 for Service Managers to check and confirm that the information gathered is complete and accurate. This will be included in the revised Performance Management Framework to be presented to Council in August 2018 for approval.</p>	0	0	0	Management have accepted the report findings, and have confirmed that plans are in place to implement area of improvement.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Financial Governance</p> <p>Subject: Petty Cash Review and Emergency Funding</p> <p>No: 076/005</p> <p>Date issued: 12 March 2018</p> <p>Level of Assurance: Substantial (Petty Cash); Substantial (Emergency Funding)</p>	<p>The purpose of this assurance audit was initially to assess the processes and efficiency of the petty cash administration system (this follows on from our similar review in 2013) and provision of financial support to vulnerable people in emergency situations. However, following the Grenfell Tower incident in 2017 and a request from the Chief Financial Officer, our efforts have concentrated more on the availability and access to emergency funds after an event has materialised.</p> <p><u>Petty Cash</u></p> <p>SBC Petty Cash Imprests account for a budget of £52k with Schools accounting for £24k of the total. It is likely that these figures will reduce as more items are purchased via Business World and Purchase Cards, once introduced, when there is less reliance on Petty Cash. A full review of imprest holders and the usage is underway.</p> <p>We found that there was an up to date Petty Cash Imprest Policy and Procedure (August 2017) that has been updated since the implementation of the Business World ERP system.</p> <p>Internal Audit considers that the level of assurance we are able to give in relation to Petty Cash is substantial. Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement to be achieved through the update of the Financial Regulations to reflect the implementation of the Business World ERP system and completion of the full review of imprest holders and usage.</p>	0	1	1	Management have accepted the report findings and agreed to implement the recommendations within reasonable timescales.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Subject: Petty Cash Review and Emergency Funding (Cont'd)	<p><u>Emergency Funding</u></p> <p>The Care for People Team Emergency Plan (February 2015) is the main multi-partner emergency plan relating to people. It contains high level roles and responsibilities and obligations of the various parties during an emergency response, though it is out of date and does not include the supporting processes and procedures that would facilitate practical application of the Plan.</p> <p>In terms of accessible emergency funds: Treasury Management team have access to and hold unallocated funds and an overdraft facility; Service Directors hold Corporate Credit Cards which they can use; Frontline service areas can use Petty Cash; Social Work Service is enabled by legislation to make emergency payments in emergency circumstances subject to certain criteria being met.</p> <p>The Finance Business Continuity Plan (March 2014) is not up-to-date but it does have an Action Plan for accessing cash that explains the process and officers responsible for implementation.</p> <p>Internal Audit considers that the level of assurance we are able to give in relation to Emergency Funding is substantial. Largely satisfactory risk, control, and governance systems are in place. There is, however, scope for improvement as relevant emergency and business continuity plans are out-of-date and some detailed documented processes and procedures are not in place. Clear documentation on current practices is particularly important at a time of significant change in processes and personnel at the Council.</p> <p>We made the following recommendations:</p> <ul style="list-style-type: none"> <li>• The Finance Business Continuity Plan should be updated to fully reflect emergency financial support in the event of a major external incident. (P3)</li> <li>• Supporting processes and procedures should be developed that would facilitate the practical application of the Care for People Team Emergency Plan, the latter which should also be updated. (P2)</li> </ul>				



Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Corporate Governance</p> <p>Subject: Information Governance &amp; GDPR Interim Review</p> <p>No: 236/011</p> <p>Date issued: 9 March 2018</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to: examine the Information Governance Framework including roles and responsibilities; review policy development and implementation; assess progress with implementation of improvement actions; and assess preparedness for the General Data Protection Regulations (GDPR) to come into force May 2018.</p> <p>The Information Governance Group meets regularly and follows an agreed themed programme of work: Records Management; Information Access; Information Security; and Information Governance. Progress during the year includes:</p> <ul style="list-style-type: none"> <li>• The Records Management Plan was submitted on time at end of April 2017, and was formally agreed by the Keeper of Scotland's Records on 25 October 2017;</li> <li>• The current Information Management priorities and actions to be progressed either through business as usual or through transformation change projects has been relaunched as the Information Management Improvement Tracker, approved as the new monitoring and reporting tool by the IGG.</li> <li>• A GDPR Project was set up and the work is being informed through collaboration, facilitated by the Digital Office of the Scottish Government, to ensure best practice is developed and is consistently applied across the 32 Scottish Local Authorities, and to avoid duplication of effort and reinvention of the wheel.</li> </ul> <p>We consider that we are able to provide 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 particularly in relation to the population of the Information Asset Registers by Service Managers as information asset owners, on which progress of the GDPR project and Contract Management activities depend as well as the success of the Office 365 Project.</p>	0	0	0	Management have accepted the report findings and observations, and have confirmed that improvement actions are progressing.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: ICT Governance</p> <p>Subject: ICT Contract Management</p> <p>No: 238/003</p> <p>Date issued: 12 March 2018</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to review the client relationship and contract management of the CGI contract to assess compliance with Service Delivery and terms and conditions; specifically we reviewed progress made on the recommendations from our previous report and in the development of the SBC ICT contract management function.</p> <p>Progress has been made by Management on implementation of the three recommendations made in our previous report dated March 2017, with one having been completed.</p> <p>There are now enhanced governance arrangements in place and further are under development; these reflect appropriate governance, monitoring and reporting arrangements for the CGI contract via either the established or proposed Boards and Forums and through the transformation change deliverables (through the monthly Digital Transformation Highlight Report), and for service delivery performance and CGI Contract Management (via the monthly ICT Client Report).</p> <p>The ICT governance and contract management that is currently being developed could be used to help inform the work of the group that will design the Corporate Contract Management Framework and, in a complementary fashion, the best practice adopted by the Corporate Contract Management Framework could then be adopted by the ICT Client function.</p> <p>The ICT team consists of the Head of IT (who is a contractor) and 4 FTE. A significant key person dependency risk still exists with the contract knowledge and skills of the individuals who make up this team, reported at the previous audit and reflected on the Finance ICT risk register, partially mitigated by wider knowledge out with the ICT function (e.g. Legal and Finance services) and this should be further mitigated by the establishment of the Corporate Support Service Forum i.e. one of the previous audit recommendations.</p>	0	1	1	Management have accepted the report findings and agreed 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)	<p>We consider that we are able to provide substantial assurance. Largely satisfactory risk, control, and governance systems are in place. There is, however, scope for improvement as current arrangements could undermine the achievement of objectives. Further governance arrangements are being developed, and we have made some further recommendations which are designed to enhance reporting to elected members and reflect accountability:</p> <ul style="list-style-type: none"> <li>• Management should consider stating the ICT Contract with CGI explicitly within the Scheme of Administration under the remit of the Major Contracts Governance Group to ensure transparency of ICT Client reporting and ICT Contract Management to elected members. (P2)</li> <li>• The Scheme of Delegation should be updated to reflect the current responsibility and accountability for ICT. (P3)</li> </ul> <p>The Scrutiny Work Programme 2017-2018 (approved by Council on 21 December 2017) includes Delivery of the IT Strategy and Plan within SBC as one of its Review Subjects; to confirm whether the deliverables set out in the ICT Programme are in place to deliver the transformation programme and other corporate plan outcomes.</p>				

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# Scottish Borders Council

Annual Audit Plan 2017/18

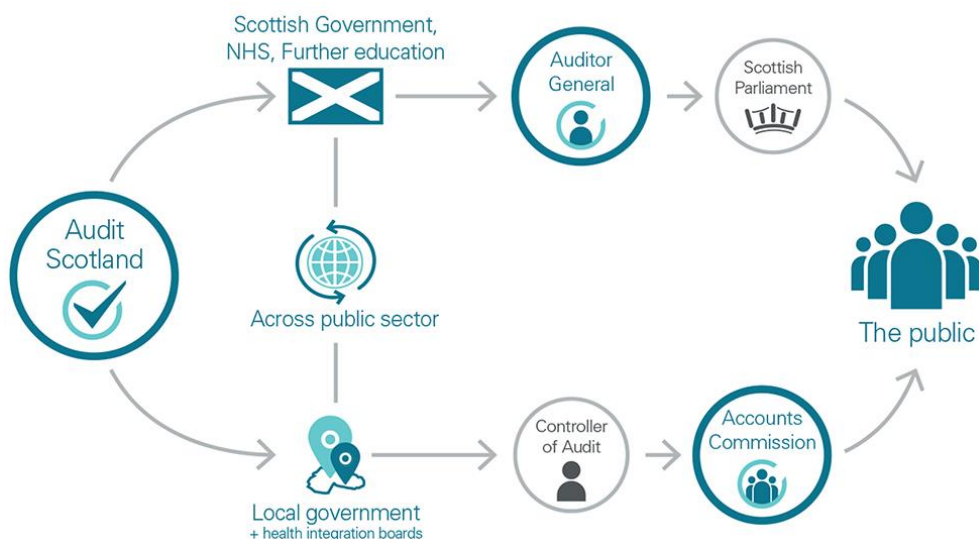


Prepared for Scottish Borders Council  
March 2018

## 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.
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- 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:

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- identifying risks, making clear and relevant recommendations.

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# Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit 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.
2. 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

3. 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 Scottish Borders Council (“the council”). We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1

### 2017/18 Key audit risks

Audit Risk	Source of assurance	Planned audit work
<b>Financial statements issues and risks</b>		
<p><b>1 Risk of management override of controls</b></p> <p>Although we have not identified any specific risks of management override relating to the council, 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.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>
<p><b>2 Risk of fraud over income</b></p> <p>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</p>	<p>Regular budget monitoring and reporting.</p> <p>Internal controls in financial systems to mitigate risks of error or manipulation.</p> <p>Internal audit coverage of</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</p>



Audit Risk	Source of assurance	Planned audit work
<p>an inherent risk of fraud.</p>	<p>internal financial controls. Participation in the National Fraud Initiative.</p>	
<p><b>3 Risk of fraud over expenditure</b></p> <p>Practice Note 10 (Audit of financial statements of public sector bodies in the UK) and the Code of Audit Practice expands the ISA assumption on fraud over income to aspects of expenditure. The council incurs significant expenditure in areas such as welfare benefits, social care payments and grants.</p>	<p>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.</p>	<p>Review of management's progress on analysing National Fraud Initiative matches. Review of internal audit work on systems of internal control. Assessing the overarching controls in grant schemes. Detailed testing of expenditure including housing benefit transactions.</p>
<p><b>4 Estimation and judgements</b></p> <p>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.</p>	<p>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.</p>	<p>Completion of 'review of the work of an expert' for the professional valuer. Focused substantive testing of key areas.</p>
<p><b>5 New financial system</b></p> <p>The council introduced a new financial system, Business World ERP, in April 2017. Some issues have been experienced with the operation of the system since its implementation, including difficulties with the production of financial monitoring information from the system and manual intervention required to process some transactions.</p> <p>There is a risk that financial information may not be robust, which could impinge on members' scrutiny role. There may also be an adverse impact on the council's system of internal controls and the preparation and audit of the financial statements.</p>	<p>Internal audit work on the implementation of the new system and testing of controls. Work being done during the year to address issues with the system.</p>	<p>Review of internal audit work on the systems of internal control. Testing of the operation and effectiveness of the controls in place over the system.</p>

Audit Risk	Source of assurance	Planned audit work
<b>Wider dimension risks</b>		
<p><b>6 ICT transformation</b></p> <p>The council outsourced its ICT services to an external partner, CGI, from October 2016 as part of a 13 year contract. As part of this arrangement CGI had appointed another supplier, Agilisys, to implement parts of its digital transformation programme including the Digital Customer Access Project. However Agilisys' proposed solution for the project did not meet the council's requirements and during 2017 the council requested that CGI terminate the contract with Agilisys.</p> <p>There is a risk that the digital transformation programme is not delivered effectively and that planned efficiencies from improved services are not realised.</p>	<p>Effective governance arrangements in place to monitor arrangements.</p> <p>Regular reporting to council's Executive committee and CMT regarding progress with the ICT change programme.</p>	<p>Review the effectiveness of governance and risk management arrangements relating to the ICT contract.</p> <p>Comment in Annual Audit Report.</p>
<p><b>7 Risk registers</b></p> <p>The council maintains a corporate risk register, and members of the audit &amp; scrutiny committee receive regular presentations regarding risk management arrangements within services. However members do not receive regular updates on the risks that are included on the corporate risk register during the year.</p> <p>There is a risk that members are not aware of the significant risks identified at the council, or the actions being taken to mitigate these risks.</p>	<p>Risk management strategy and policy are being updated. Work is being done by the Corporate Risk Officer to identify level of reporting at other councils and will report findings to the Audit &amp; Scrutiny Committee during 2018.</p>	<p>Monitor risk reporting to committee during the year.</p> <p>Comment on risk management arrangements in Annual Audit Report.</p>
<p><b>8 Financial sustainability</b></p> <p>The council has a financial strategy covering the 5 year period 2018/19 – 2022/23. This strategy includes the requirement to identify £32m of savings over the period of the plan.</p> <p>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.</p>	<p>Medium term financial strategy regularly updated and reported to members.</p> <p>Budget monitoring reports presented to members on a regular basis.</p> <p>Transformation programme monitoring and reporting.</p>	<p>Review budget setting process and monitor updates provided to members.</p> <p>Comment in Annual Audit Report.</p>

4. The Charities Accounts (Scotland) Regulations 2006 specify the accounting and auditing requirements for Scottish registered charities. The council administers six trusts with charitable status. The council also prepares group accounts which incorporate six subsidiaries, one associate and one joint venture. We will perform the audit of the council's charitable trusts and group accounts 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

5. Audit reporting is the visible output for the annual audit. Outputs for the year are detailed in [Exhibit 2](#) below. All annual audit plans and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

6. 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.

7. We will provide an independent auditor's report to Scottish Borders Council, and Accounts Commission setting out our opinions on 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

### 2017/18 Audit outputs

Audit Output	Target date	Audit and Scrutiny Committee Date
National Fraud Initiative (NFI) return	28 February 2018	N/A
Annual Audit Plan	9 March 2018	19 March 2018
Local Scrutiny Plan	31 March 2018	14 May 2018
Interim Management Report	15 June 2018	26 June 2018
Bus Operators grant certification	30 June 2018	N/A
Education Maintenance Allowance grant certification	31 July 2018	N/A
Annual Audit Report	14 September 2018	24 September 2018 (TBC)
Independent Auditor's Report	28 September 2018	N/A
Criminal Justice Authority return certification	28 September 2018	N/A
Whole of Government Accounts return certification	28 September 2018	N/A
Non Domestic Rate return certification	5 October 2018	N/A
Housing Benefits return certification	30 November 2018	N/A

## Audit fee

**8.** The audit fee for the 2017/18 audit of Scottish Borders Council is £270,230 (£270,170 in 2016/17). This fee includes £6,000 for the audit of the charitable entities (£7,000 in 2016/17). In determining the audit fee we have taken account of the risk exposure of Scottish Borders Council, the planned 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 on 25 June.

**9.** 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 Scrutiny Committee and Management

**10.** 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, propriety and regularity that enable them to successfully deliver their objectives.

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

### Appointed auditor

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

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

# Audit scope and timing

## Financial statements

**14.** 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.

**15.** 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.

## Materiality

**16.** We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinion in the auditor's report.

**17.** 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
<b>Planning materiality</b> – 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 2017 based on the audited accounts for 2016/17.	£3.54 million
<b>Performance materiality</b> – 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.	£1.77 million
<b>Reporting threshold (i.e. clearly trivial)</b> – 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 2% of planning materiality.	£70 thousand



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

#### Timetable

19. 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 Scrutiny Committee dates:

## Exhibit 4

### Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	26 June 2018
Latest submission date of unaudited annual accounts with complete working papers package	26 June 2018
Latest date for final clearance meeting with Chief Financial Officer	7 September 2018
Agreement of audited unsigned annual accounts	27 September 2018
Issue of Annual Audit Report including ISA 260 report to those charged with governance	24 September 2018 (TBC)
Independent auditor's report signed	28 September 2018

**Key stage****Date**

Latest date for signing of WGA return

28 September  
2018

**Internal audit**

**20.** 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**

**21.** 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 Internal Audit reliance**

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

- Business World
- Revenues (Council tax)
- Grants incorporating following the public pound

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

- ICT contract management
- ICT security
- PSN compliance
- Performance management
- Corporate transformation programme
- Community engagement

**24.** In relation to the General Data Protection Regulation (GDPR), the new legislation takes effect for all public sector bodies in May 2018. The council should ensure they have plans in place to comply with GDPR. Failure to comply with new data handling arrangements could potentially result in fines. Internal audit are carrying out work on Information Governance, including assessing preparedness for the GDPR requirements. We plan to rely on this as part of our wider dimension audit responsibilities.

## Audit dimensions

**25.** 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



Source: Code of Audit Practice

**26.** In the local government sector, the appointed auditor's annual conclusions on these four dimensions will help 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 short term (less than two years), 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.

#### Financial management

**28.** 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 the effectiveness of 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**

**29.** 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 services delivered by, or in partnership with, others such as 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.

### **Value for money**

**30.** 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, output and outcomes delivered
- the council can demonstrate that outcomes are improving
- there is sufficient focus on improvement and the pace of it.

### **Best Value**

**31.** 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. Auditors will use the framework for their audit work from October 2016.

**32.** 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.
- 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.

**33.** The six councils on which a BVAR will be published during the second year of the new approach are listed in [Exhibit 6](#). Reports will be considered by the Accounts Commission in the period between April 2018 and November 2018.

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## Exhibit 6

### 2017/18 Best Value Assurance Reports

East Ayrshire Council	Glasgow City Council
Dumfries and Galloway Council	West Dunbartonshire Council
East Lothian Council	Fife Council

Source: Audit Scotland

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**34.** The work planned in Scottish Borders Council this year will focus on the Council's arrangements for demonstrating Best Value in Performance, Outcomes and Improvement. The work will be integrated with that described above in these areas. 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 the Annual Audit Report.

### Independence and objectivity

**35.** Auditors appointed by the Accounts Commission must comply with the Code of Audit Practice and relevant supporting guidance. 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 Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

**36.** 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

**37.** 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.

**38.** 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 (and relevant supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and revised arrangements for external quality reviews have recently been agreed.

**39.** 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.

### **Adding Value**

**40.** Through our audit work we aim to add value to the council. We will do this by ensuring our Annual Audit Report provides a summary of the audit work done in the year together with clear judgements and conclusions on how well the council has discharged its responsibilities and how well it has demonstrated the effectiveness of its arrangements. Where it is appropriate we will recommend actions that support continuous improvement and summarise areas of good practice identified from our audit work.

# Scottish Borders Council

## Annual Audit Plan 2017/18

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN  
T: 0131 625 1500 E: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)  
[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

# Scottish Borders Council Pension Fund

Annual Audit Plan 2017/18



Prepared for Scottish Borders Council as administering authority for Scottish Borders Council Pension Fund

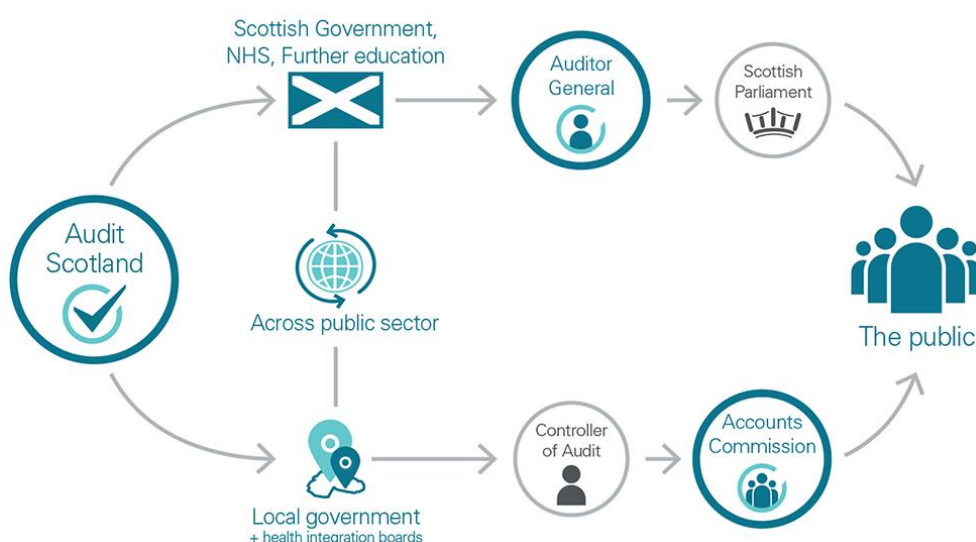
March 2018



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2. 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

3. 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 Scottish Borders Council Pension Fund (“the Fund”). We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1

### 2017/18 Key audit risks

Audit Risk	Source of assurance	Planned audit work
<b>Financial statements issues and risks</b>		
<p><b>1 Risk of management override of controls</b></p> <p>Although we have not identified any specific risks of management override relating to the Fund, 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.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>
<p><b>2 Risk of fraud over expenditure</b></p> <p>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</p>	<p>Regular budget monitoring and reporting</p> <p>Review and authorisation controls in place over expenditure to mitigate risk of error or manipulation.</p>	<p>Analytical procedures on payment streams.</p> <p>Focussed substantive testing of expenditure from areas of greatest risk.</p>

Audit Risk	Source of assurance	Planned audit work
<p>pension payments and investments.</p>		
<hr/>		
<b>3 Estimation and judgements</b>		
<p>There is a significant degree of subjectivity in the measurement and valuation of investments.</p> <p>This includes level 3 investments such as unquoted equities where valuers use techniques that require significant judgement in determining appropriate assumptions for valuation.</p> <p>In addition, the actuarial valuation depends on several assumptions about the future, including investment returns, contribution rates, pensioner mortality and discount rates.</p> <p>This subjectivity represents an increased risk of misstatement in the financial statements.</p>	<p>Most investments are listed and traded on public stock exchanges which provide frequent valuations.</p> <p>Unquoted investments are valued by third parties including investment managers and independent valuers who follow detailed professional, accounting and industry codes and guidelines.</p> <p>Use of an experienced and respected Actuary to provide actuarial valuations.</p>	<p>Completion of 'review of work by service auditors' in accordance with ISA 402, for significant unquoted investments.</p> <p>Test valuations to valuation reports and/or other supporting documentation.</p> <p>Completion of 'review of the work of an expert' in accordance with ISA500 for the work of the actuary.</p> <p>Consideration of the report by PwC in their capacity as consulting actuary to Audit Scotland on actuarial assumptions in use in 2017/18.</p> <p>Consideration of Government Actuary's Department (GAD) reports under Section 13 of the Local Government Pension Scheme (Scotland) of LGPS Scotland funding valuations and employer contribution rates.</p>
<hr/>		
<b>4 Reporting Disclosures</b>		
<p>The Code of Practice on Local Authority Accounting now requires Funds to disclose transaction costs broken down by major asset classes to increase transparency.</p> <p>A change to accounting disclosures raises a risk that the required disclosures are not made appropriately.</p>	<p>More detailed transaction cost information across asset classes has been requested from fund managers by officers.</p>	<p>Review the transaction cost disclosures against the Code, and available data to determine the completeness of disclosures and costs.</p>
<hr/>		
<b>5 New Financial System</b>		
<p>Scottish Borders Council introduced a new financial system, Business World ERP, in April 2017. Some issues have been experienced with the operation of the system since its implementation, including manual intervention required to process some transactions.</p> <p>There is a risk that financial</p>	<p>Internal audit work on the implementation of the new system and testing of controls.</p> <p>Work being done during the year to address issues with the system.</p> <p>Effective governance and scrutiny arrangements in place to monitor system</p>	<p>Review of internal work on the systems of internal control.</p> <p>Testing of the operation and effectiveness of the controls in place over the system.</p> <p>Review the governance arrangement over the implementation of Business World.</p>

Audit Risk	Source of assurance	Planned audit work
information may not be robust, which could impinge on members' scrutiny role. There may also be an adverse impact on the council's system of internal controls and the preparation and audit of the financial statements.	implementation.	

### Wider dimension risks

#### 6 Financial sustainability

In 2016/17, benefits paid out exceeded contributions paid into the Fund. The recently established cash flow models for 2017/18 shows a continuing deficit position, which will be funded using investment income.

Furthermore, the triennial valuation of the Fund can have a significant impact on the financial position of the Fund and of its member bodies and there is a risk that the 2017 valuation will cause member bodies to re-assess the financial sustainability of membership.

Officers are modelling the cash flows of the Fund, which helps inform the investment decisions to address the negative cash flow.

Funding pensions from investment income is a 'business as usual' activity for many funds.

The Fund's investment strategy has been adapted to recognise the maturing liability profile and changing cash flow.

Monitor the financial position of the Fund and the quality of the financial reporting.

Review of cash flow forecasting.

### 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 outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://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 as administering authority of the Scottish Borders Council Pension Fund and the Accounts Commission setting out our opinions on the annual accounts. We will provide Scottish Borders Council and the Controller of Audit with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

### Exhibit 2

#### 2017/18 Audit outputs

Audit Output	Target Date	Audit & Scrutiny Committee Date
Annual Audit Plan	9 March 2018	19 March 2018
Annual Audit Report	14 September 2018	24 September 2018 (TBC)

Audit Output	Target Date	Audit & Scrutiny Committee Date
Independent Auditor's Report	28 September 2018	N/A

## Audit fee

7. The audit fee for the 2017/18 audit of Scottish Borders Council Pension Fund is £19,990 (2016/17 - £19,710). In determining the audit fee we have taken account of the risk exposure of Scottish Borders Council Pension Fund, the planned 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 annual report and financial statements, with a complete working papers package on 2 July 2018.

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 out with our planned audit activity.

## Responsibilities

### Audit and Scrutiny 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, propriety and regularity that enable them to successfully deliver their objectives.

10. The audit of the financial statements does not relieve management or the Audit and Scrutiny 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 (including supplementary guidance) and guided by the auditing profession's ethical guidance.

12. Auditors in the public sector give an independent opinion on the financial statements and other specified information accompanying the financial statements. We also review and report on the arrangements within the audited body to manage its performance, regularity 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 the 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 the 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.

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 2017/18 Code of the financial transactions of the fund during the year ended 31 March 2018, 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

**15.** We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinion in the auditor's report.

**16.** 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](#).

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### Exhibit 3

#### Materiality values

Materiality level	Amount
<b>Planning materiality</b> – 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 2017 (latest audited accounts).	£2.2 million
<b>Performance materiality</b> – 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 70% of planning materiality.	£1.54 million
<b>Reporting threshold</b> – 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 5% of planning materiality, but capped at £100k.	£100 thousand

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**17.** 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 the Fund this applies to member contributions, pension payments, investment costs and investment income and therefore we will use a lower materiality level when assessing these income and expenditure streams where necessary.



**18.** 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 in our annual audit report.

## Timetable

19. 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 Committee dates.

## Exhibit 4

### Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	26 June 2018
Latest submission date of unaudited annual report and financial statements with complete working papers package	2 July 2018
Latest date for final clearance meeting with Chief Financial Officer	7 September 2018
Agreement of audited unsigned annual report and financial statements	24 September 2018
Issue of Annual Audit Report including ISA 260 requirements	24 September 2018
Independent auditor's report signed	28 September 2018

## Internal audit

20. 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

21. 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 Internal Audit reliance

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

- Business World implementation

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

- Review of Fund governance arrangements

## Audit dimensions

**25.** 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



Source: Code of Audit Practice

### Financial sustainability

**26.** 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 Fund's financial sustainability in the longer term. We define this as; short term (less than two years), medium term (two to five years) and longer term (more 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 Fund can demonstrate the effectiveness of funding and investment decisions it has made.

### Financial management

**27.** 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 Fund has arrangements in place to ensure systems of internal control are operating effectively
- whether the Fund can demonstrate an effective budgetary control system in communicating accurate and timely financial performance
- how the Fund has assured itself that its financial capacity and skills are appropriate



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

### Governance and transparency

**28.** 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 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.

### Value for money

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

- the Fund can provide evidence that it is demonstrating value for money in the use of its resources
- the Fund can demonstrate that outcomes are improving
- the Fund can demonstrate that investment costs are minimised whilst receiving good quality investment advice.

### Independence and objectivity

**30.** Auditors appointed by the Accounts Commission must comply with the Code of Audit Practice and relevant supporting guidance. 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 Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

**31.** The engagement lead for the 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

**32.** 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.

**33.** 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 (and relevant supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and has recently secured new arrangements for external quality reviews.

**34.** 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.

### **Adding Value**

**35.** Through our audit work we aim to add value to Scottish Borders Council Pension Fund. We will do this by ensuring our Annual Audit Report provides a summary of the audit work done in the year together with clear judgements and conclusions on how well the Scottish Borders Council Pension Fund has discharged its responsibilities and how well it has demonstrated the effectiveness of its arrangements. Where it is appropriate we will recommend actions that support continuous improvement and summarise areas of good practice identified from our audit work.

# Scottish Borders Council Pension Fund

## Annual Audit Plan 2017/18

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN  
T: 0131 625 1500 E: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)  
[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

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## **INTERNAL AUDIT CHARTER**

### **Report by Chief Officer Audit & Risk**

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## **AUDIT AND SCRUTINY COMMITTEE**

**19 March 2018**

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### **1 PURPOSE AND SUMMARY**

- 1.1 **This report provides the Audit and Scrutiny Committee with the updated Internal Audit Charter for approval that defines the terms of reference for the Internal Audit function to carry out its role to enable the Chief Officer Audit & Risk to prepare an annual internal audit opinion on the adequacy of the Council's overall control environment.**
- 1.2 The definition of Internal Auditing within the Public Sector Internal Audit Standards (PSIAS) is "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."
- 1.3 In accordance with the PSIAS, the purpose, authority and responsibility of the Internal Audit activity must be formally defined in an Internal Audit Charter, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards. The Chief Officer Audit & Risk, as the Chief Audit Executive at Scottish Borders Council, must periodically review the Internal Audit Charter and present it to senior management (Corporate Management Team) and the board (Audit and Scrutiny Committee) for approval.
- 1.4 The Internal Audit Charter as shown in Appendix 1 to this report has been updated by the Chief Audit Executive (SBC's Chief Officer Audit & Risk) in conformance with the PSIAS for approval by the Audit and Scrutiny Committee to ensure that Internal Audit is tasked to carry out its role in accordance with best Corporate Governance practice.

### **2 RECOMMENDATIONS**

- 2.1 **I recommend that the Audit and Scrutiny Committee approves the updated Internal Audit Charter, as shown in Appendix 1 to this report.**

### **3 BACKGROUND**

- 3.1 The definition of Internal Auditing within the Public Sector Internal Audit Standards (PSIAS) is "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes."
- 3.2 The SBC Internal Audit function follows the professional standards as set out in the PSIAS which came into effect on 1 April 2013 (amended 2017), along with the CIPFA Local Government Application Note for the United Kingdom. The PSIAS have been developed by the standard setters (CIPFA for local government) through the Internal Audit Standards Advisory Board (IASAB) and have been based on the Institute of Internal Auditors International Standards of Professional Practice.
- 3.3 In accordance with the PSIAS, the purpose, authority and responsibility of the Internal Audit activity must be formally defined in an Internal Audit Charter, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards. The Chief Audit Executive at Scottish Borders Council (the Chief Officer Audit & Risk) must periodically review the Internal Audit Charter and present it to 'senior management' (Corporate Management Team) and the 'board' (Audit and Scrutiny Committee) for approval.
- 3.4 The Internal Audit Charter as shown in Appendix 1 to this report: establishes the Internal Audit activity's position within the organisation, including the nature of the Chief Audit Executive's functional reporting relationship with the board; authorises access to records, personnel and physical properties relevant to the performance of engagements; and defines the scope of Internal Audit activities.
- 3.5 Within the PSIAS a Public Sector requirement states the Internal Audit Charter must also:
- define the terms 'board' and 'senior management' for the purposes of Internal Audit activity;
  - cover the arrangements for appropriate resourcing;
  - define the role of Internal Audit in any fraud-related work; and
  - include arrangements for avoiding conflicts of interest if Internal Audit undertakes non-audit activities.
- 3.6 The Internal Audit Charter, since its previous approval by the Audit and Risk Committee on 29 March 2016, has been updated to:
- Emphasise the added value to the organisation through the work of Internal Audit taking account of its role and resources available, to fulfil an External Quality Assessment improvement action; and
  - Include specific details to ensure conformance with the requirements of the PSIAS, as outlined above.
- 3.7 The Internal Audit Charter should be considered alongside the Internal Audit Strategy and Plan 2018/19 that sets out the Chief Audit Executive's strategy for discharging its role and providing the necessary annual assurance opinions. It also sets out the Council's assurance framework within which Internal Audit operates.

### **4 IMPLICATIONS**

#### 4.1 **Financial**

Internal Audit must have sufficient staff and other resources to enable it to carry out the objectives of the Charter and to deliver a programme of independent and objective audit assurance work to enable the Chief Officer Audit & Risk to prepare an annual internal audit opinion on the adequacy of the Council's overall control environment. Internal Audit resources were set out in the Internal Audit Strategy and Plan 2017/18 that was approved by the Audit and Risk Committee on 28 March 2017.

#### 4.2 **Risk and Mitigations**

- (a) The authority for Internal Audit to operate in Scottish Borders Council is contained in the Local Code of Corporate Governance and in the Financial Regulations. This Internal Audit Charter expands upon that framework.
- (b) Approval of the Internal Audit Charter (Appendix 1), as recommended in this report, will ensure that Internal Audit is tasked to carry out its role in accordance with PSIAS and best Corporate Governance practice.
- (c) The PSIAS require Internal Audit to evaluate the effectiveness of the Council's Risk Management arrangements and contribute to improvements in the process. The work of Internal Audit (including its opinion on the control environment) shall contribute to the Council's review of its corporate governance arrangements the outcome of which is published in the Annual Governance Statement.
- (d) At all times, Management's responsibilities (led by the Corporate Management Team) include:
  - Designing and maintaining proper risk management, governance and internal control processes and systems for which they have responsibility to ensure probity in systems and operations, including the prevention, detection and resolution of fraud and irregularities. These are not fixed but evolve as the Council changes.
  - Checking that these governance arrangements and internal controls are operating effectively.  
(The above are known as the first and second lines of defence.)
  - Engaging with Internal Audit (the third line of defence) in a positive way to achieve shared goals for robust internal control and governance, best value and improvement, and ensuring that Internal Audit can properly fulfil its role.
  - Considering and acting upon Internal Audit findings and recommendations, including implementation of audit recommendations within agreed timescales and updating Pentana performance system, or accepting responsibility for any resultant risk from not doing so.
  - Seeking advice and consultancy support from Internal Audit on existing controls and on changes to and transformation of governance, processes and procedures.

#### 4.3 Equalities

It is anticipated there will be no adverse impact due to race, disability, gender, age, sexual orientation or religious/belief arising from the work contained in this report, as internal audit work is carried out in accordance with the appropriate legislation and professional standards. The latter includes compliance with the Code of Ethics set out in the PSIAS which is appropriate for the profession of Internal Audit founded as it is on trust placed in its objective assurance about risk management, internal control and governance.

#### 4.4 Acting Sustainably

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

#### 4.5 Carbon Management

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

#### 4.6 Rural Proofing

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

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

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

### 5 CONSULTATION

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

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

#### Approved by

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

#### Author(s)

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

**Background Papers:** Local Code of Corporate Governance; Financial Regulations  
**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](mailto:intaudit@scotborders.gov.uk)



## INTERNAL AUDIT CHARTER

### INTRODUCTION

In accordance with the Public Sector Internal Audit Standards (PSIAS), the purpose, authority and responsibility of the Internal Audit activity must be formally defined in an Internal Audit Charter, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards.

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

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

### OBJECTIVES OF INTERNAL AUDIT

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

Internal Audit adds value to the organisation (and its stakeholders) by enhancing governance, risk management and control processes and objectively providing relevant assurance.

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:

- In support of the Council's vision, values and priorities.
- As a contribution to the Council's corporate management of risk, including 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.
- As an aid to ensuring that the Council and its elected members, employees and contracted third parties are operating within the law and relevant regulations, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
- 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 performance information are accurate and reliable.

### POSITION OF INTERNAL AUDIT WITHIN THE ORGANISATION

<sup>1</sup> Internal Audit Standards Advisory Board (IASAB) Public Sector Internal Audit Standards (PSIAS) (2017)  
Audit and Scrutiny Committee – 19 March 2018

In terms of the PSIAS, the status of Internal Audit should enable it to function effectively, with recognition of the independence of Internal Audit fundamental to its effectiveness. The Chief Audit Executive (CAE) should have "sufficient status to facilitate the effective discussion of audit strategies, plans, results and improvement plans with senior management of the organisation"<sup>2</sup>

Within Scottish Borders Council, the Chief Officer Audit & Risk (CAE) has full access to those charged with governance, specifically the Elected Members and the Corporate Management Team. The CAE has free and unfettered access to the Chair of the Audit and Scrutiny Committee to discuss any matters the committee or auditors believe should be raised privately.

In terms of accountability and independence to ensure conformance with PSIAS, the CAE reports functionally to the Audit and Scrutiny Committee. In this context functional reporting<sup>3</sup> means the Audit and Scrutiny Committee will:

- Approve the Internal Audit Charter.
- Approve the risk-based Internal Audit Annual Plan.
- Ratify the Internal Audit budget and resource plan to ensure that Internal Audit is adequately resourced to meet assurance and other key responsibilities.
- Receive communications from the CAE on the Internal Audit activity's performance relative to its plan and other matters.
- Ratify all decisions regarding the appointment or removal of the CAE.
- Provide feedback to contribute to the performance appraisal of the CAE.
- Make appropriate enquiries of Management and the CAE to determine whether there are inappropriate scope or resource limitations.

The CAE is line managed by the Service Director Regulatory Services but retains responsibility for all operational audit activity and reports in their own name and retains final right of edit over all Internal Audit reports.

The reporting line will be managed in a manner which: ensures the CAE is accorded open and direct communication with Management; ensures the CAE and the Internal Audit function have an adequate and timely flow of information concerning the activities, plans and initiatives of the Council, Pension Fund, SB Cares and IJB.

## **RIGHTS OF ACCESS**

The CAE and any member of the Internal Audit service, authorised by them relevant to the performance of audit engagements, has authority to:

- Have access to all records (both paper and electronic) of the Council, Pension Fund, SB Cares and IJB.
- Require and receive explanations concerning any matter under examination from any employee including Chief Officers.
- Enter at all reasonable times and without notice any properties of the Council, provided that where such properties are leased to a third party that the terms of the lease are observed.

## **SCOPE OF INTERNAL AUDIT ACTIVITY**

Internal Audit services are provided to the Council and Other Organisations to reflect the changes to governance arrangements, with separate Internal Audit plans and

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<sup>2</sup> Internal Audit Standards Advisory Board (IASAB) Public Sector Internal Audit Standards (PSIAS) (2013)

<sup>3</sup> Chartered Institute of Internal Auditors (CIIA) – International Standards for Professional Practice of Internal Auditing  
*Audit and Scrutiny Committee – 19 March 2018*

reports (as appropriate) presented to their respective 'senior management' and 'board' for approval, monitoring and oversight purposes. These Other Organisations include:

- The Scottish Borders Pension Fund;
- The Council's arm's length external organisation for adult social care services, SB Cares; and
- The Scottish Borders Health and Social Care Integration Joint Board.

For each organisation Internal Audit shall systematically review, appraise and report upon:

- The effectiveness of all internal controls and other arrangements put in place to manage risk, in particular where there is exposure to significant financial, strategic, reputational and operational risk to the achievement of the organisation's objectives (this involves liaising with the Corporate Risk Officer on an on-going basis to ensure that risk is considered in every audit and risk reviews take account of improvements arising from audit work).
- The completeness, reliability and integrity of information, both financial and operational performance, including working alongside Services in a 'critical friend' role to authenticate any self-assessment evidence of Service performance and improvement.
- The systems established to ensure compliance with policies, plans, procedures, laws and regulations whether established by the organisation or externally.
- The effectiveness of arrangements for safeguarding the organisation's assets and interests, including fraud prevention controls and detection processes (this involves liaising with the Corporate Fraud & Compliance Officer on an on-going basis to ensure fraud risk is considered in every audit; and this might involve assisting or liaising in fraud investigations where appropriate).
- The economy, efficiency and effectiveness with which resources are deployed.
- The extent to which Services' operational practices are being carried out as planned and objectives and goals are met.

Internal Audit's work covers:

- All activities, systems, processes, policies and protocols that are currently existing or under development.
- All records, personnel and properties.
- All services and other activities for which the organisation is responsible or accountable, whether delivered directly or by third parties through contracts, partnerships or other arrangements.

## **AUDIT RESOURCES AND WORK PRIORITISATION**

The CAE will ensure that Internal Audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan. Appropriate refers to the mix of knowledge, skills and other competencies needed to perform the plan. Sufficient refers to the quantity of resources needed to accomplish the plan. Effectively deployed refers to when they are used in a way that optimises the achievement of the approved plan.

The SBC Internal Audit Annual Plan as approved by the Audit and Scrutiny Committee shall be the main determinant of the relative priority to be placed on each part of the work of Internal Audit, with Internal Audit Annual Plans specific to each of the Other Organisations i.e. Pension Fund, SB Cares and IJB being approved and monitored by their respective 'senior management' and 'board'. The CAE shall determine the actual deployment of available resources covering the range and breadth of audit areas which are integral to the assurance gathering process across the activities of the Council, Pension Fund, SB Cares and IJB in order to provide an annual internal audit opinion to each organisation's 'senior management' and 'board'.

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

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

## **NON AUDIT ACTIVITIES**

The Chief Officer Audit & Risk has managerial responsibility for the corporate functions and resources which develop, support and advise on the frameworks in place at the Council on Risk Management and on Counter Fraud, to support Management discharge their responsibilities to design and maintain proper risk management, governance and internal control processes and systems.

Audit engagements involving either of the Corporate Risk Officer or the Corporate Fraud & Compliance Officer, who are line-managed by the Chief Officer Audit & Risk, could present a perceived impairment of objectivity. In order to ensure that Internal Audit independence and objectivity is maintained and demonstrated, any planned audit reviews for Risk Management and Counter Fraud would be carried out by Internal Audit with the Chief Officer Audit & Risk as the client and therefore with no involvement in the delivery and reporting of the Internal Audit reviews. In addition the reports would be submitted in the name of the Principal Internal Auditor (PIA) who would report directly to the Service Director Regulatory Services during the period in which the PIA would be fulfilling the CAE role.

## **APPROVAL**

The Internal Audit Charter was reported to and approved by the Audit and Scrutiny Committee at its meeting on *19 March 2018* and shall be subject to regular review by the CAE and the Audit and Scrutiny Committee.

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## **INTERNAL AUDIT STRATEGY AND INTERNAL AUDIT ANNUAL PLAN 2018/19**

**Report by Chief Officer Audit & Risk**

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### **AUDIT AND SCRUTINY COMMITTEE**

**19 March 2018**

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#### **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 2018/19 to enable the Chief Officer Audit & Risk to prepare annual opinions on the adequacy of the overall control environment for Scottish Borders Council, SB Cares, Scottish Borders Pension Fund, and Scottish Borders Health and Social Care Integration Joint Board.**
- 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 (updated 2017) 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. The plans also require to be sufficiently flexible to reflect the changing risks and priorities pertaining to each 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 organisation's operation. In addition, the Chief Officer Audit & Risk is also required to prepare an Internal Audit annual opinion on the adequacy of the organisation'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 to meet the Internal Audit Charter.
- 1.5 The proposed Internal Audit Annual Plan 2018/19 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 organisation'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 2018/19 and to meet its objectives.

#### **2 RECOMMENDATION**

- 2.1 I recommend that the Audit and Scrutiny Committee approves the Internal Audit Strategy (Appendix 1) and Internal Audit Annual Plan 2018/19 (Appendix 2).**

### **3 BACKGROUND**

- 3.1 The Local Authority Accounts (Scotland) Regulations 2014 that came into force on 10 October 2014 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 organisation.

### **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 to the relevant organisation’s senior management and board/audit committee.

### **5 INTERNAL AUDIT ANNUAL PLAN 2018/19**

- 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.”

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 2018/19 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. There is a brief commentary for each review area.
- 5.4 The following table summarises how the initial allocation of available Audit Days will be for the Internal Audit Annual Plan 2018/19:

<b>Areas</b>	<b>Audit Days 2018/19</b>
Corporate Governance	165
Financial Governance	175
ICT Governance	65
Internal Controls	105
Asset Management	75
Legislative & Other Compliance	40
Consultancy	70
Other	75
<b>SBC</b>	<b>770</b>
<b>Non SBC</b>	<b>85</b>
<b>Total Audit Days</b>	<b>855</b>

- 5.5 The past twelve months has resulted in significant changes for the Council including the implementation of the Business World ERP system and local elections resulting in a change to the Administration. In recognition that it is envisaged that 2018/19 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. Any amendments relating to the Council will be brought to the Audit and Scrutiny Committee for approval.

## **6 IMPLICATIONS**

### **6.1 Financial**

The Internal Audit staff resources comprise Chief Officer Audit & Risk (shared with Midlothian Council which is recharged), one Principal Internal Auditor, two Senior Internal Auditors, and two Internal Auditors, to deliver the Internal Audit Annual Plan 2018/19 in a collaborative way with the Corporate Risk Officer and the Corporate Fraud and Compliance Officer. The Revenue Financial Plans which were approved by the Council on 20 February 2018 reflect this arrangement and resources.

### **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 have been consulted on the risk-based audit approach and the resultant planned audit coverage to ensure it will provide assurance to Management on controls and governance relating to the key risks facing the Council and to assist them in discharging their roles and responsibilities within the Council. Senior Managers have been engaged in discussions on the key risks and the planned audit coverage.
- 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:**

**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](mailto:intaudit@scotborders.gov.uk)



**1. AIM OF STRATEGY**

1.1. The aim of this strategy is to guide SBC Internal Audit function in delivering a high quality internal audit service to Scottish Borders Council, SB Cares, Scottish Borders Pension Fund, and Scottish Borders Health and Social Care Integration Joint Board, which is capable of:

- providing an audit opinion on the adequacy of each organisation's risk management, internal control and governance arrangements to the relevant organisation's senior management and board/audit committee;
- carrying out all other objectives contained in Internal Audit's Charter; and
- adding value to each organisation by influencing and offering ways to enhance the governance and internal control environment in alignment to the strategic priorities of each organisation and providing the required assurance.

**2. STRATEGY OBJECTIVES**

2.1. The objectives of this strategy are to:

- Outline the 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 organisation's activities will be covered to inform the annual audit opinion statement;
- Describe the approach to the development of the risk based Internal Audit Annual Plan;
- Set out the relative allocation of Internal Audit resources;
- Outline how the Internal Audit programme of work will be delivered to add value; and
- Describe the monitoring and reporting of the Internal Audit findings from its work and progress with its plans to the relevant organisation's Audit Committee/Board.

**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 management of risks, therefore assisting the organisation in achieving its objectives.

3.2. The organisation's assurance framework is the means by which the relevant organisation's Senior Management and Audit Committee/Board ensures that they are properly informed on the risks of not meeting objectives or delivering appropriate outcomes and that it has adequate assurances on the design and operation of 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 - for SBC, Pension Fund and IJB; KPMG for SB Cares), Education Scotland, Care Inspectorate, Scottish Housing Regulator, and other regulators.

3.4. The assurances are considered during the annual review of the effectiveness of each organisation's overall governance framework carried out by officers of each organisation and supported by Internal Audit. The output is the Annual Governance Statement which is included within their respective Annual Report and Accounts.

3.5. Where audit assurance is required on services that are delivered jointly by public sector joint working arrangements which include the organisation as a partner, these assurances will be sought as appropriate from partners' Internal Audit service providers and Management.

#### **4. KEY THEMES INTEGRAL TO INTERNAL AUDIT ASSURANCE**

- 4.1. Each organisation 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 organisation 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 organisation; 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.
- 4.2. The organisation's statutory financial officer, Section 95 Officer or equivalent, i.e. Chief Financial Officer (Council/Pension Fund/IJB) and Finance and Commercial Director (SB Cares) is responsible for the proper administration of the organisation's financial affairs. Under his/her direction, the organisation'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.
- 4.3. The continued use of and investment in computer systems to support service delivery, change and transformation through electronic service delivery is a key part of the vision for each organisation, underpinned by the Council's ICT service delivery outsource contract with CGI. The overarching framework of the ICT security policy is designed to ensure that computer systems are secure, reliable and conform to nationally agreed standards, and the ICT Strategy linked to Corporate Priorities is designed to support effective and modern service delivery and to meet service objectives.

#### **5. APPROACH TO PERIODIC PLANNING**

- 5.1. The Internal Audit Strategy and the Internal Audit Annual Plan 2018/19 have been prepared in conformance 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 each organisation'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 organisation's goals, as follows:
  - 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 of each organisation to capture potential areas of risk and uncertainty more fully.

#### **6. ALLOCATION OF INTERNAL AUDIT RESOURCES**

- 6.1. The Internal Audit staff resources comprise Chief Officer Audit & Risk (shared with Midlothian Council), one Principal Internal Auditor, two Senior Internal Auditors, and two Internal Auditors which came into effect during 2017/18. The Available Audit Days has been amended to reflect

the Internal Audit resources after consideration of annual leave, public holidays, sickness absence, staff turnover (budgeted), learning and development, management and supervision.

- 6.2. It is estimated that around 82% 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 organisation's overall control environment.
- 6.3. An estimate of around 8% of Internal Audit's available days will be utilised on consultancy activities which support Management in delivering innovation, change and transformation. 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 10% of Internal Audit's available days will be spent on the provision of Internal Audit services to non-SBC organisations i.e. SB Cares, Scottish Borders Pension Fund, and Scottish Borders Health and Social Care Integration Joint Board. 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 will be 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 organisation'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. Internal Audit will:
  - Within the themed *Corporate Governance* and *Internal Control* assurance work use the organisation's Local Code of Corporate Governance (Council/IJB) or Business Plan (Pension Fund/SB Cares) as an integrated toolkit to test the extent of compliance;
  - Within the themed *Financial Governance* and *Asset Management* assurance work, undertake end to end reviews of financial management and administration processes to test the extent of compliance (as integral part of protecting public finances, safeguarding assets, and delivering services effectively and sustainably), carry out substantive testing of transactions and balances to ensure completeness and accuracy of data in core financial systems, and review the Plans (Financial and Asset Management) to deliver the organisation's strategies, plans and priorities against best practice standards;
  - Within the themed *ICT Governance* assurance work test the ICT arrangements in place to protect each organisation from attack in relation to data security, integrity and availability and review ICT Strategy and Plans to confirm they support delivery of the organisation's strategies and priorities;
  - During the course of all *assurance* work 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 highlight examples of effective internal controls and share good practice across service areas; and
  - Consider and apply National Reports that give rise to introducing best practice arrangements or lessons learned from other local authorities or other public sector bodies, engage proactively with, assist, and advise Management as to best practice to evidence improvements in the organisation's practices on a continuous basis.

- 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 each organisation 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 relevant organisation's Audit Committee/Board; 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 Pentana, the corporate performance management system, to assist relevant 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 relevant organisation's Management and Audit Committee/Board. The regular Council reports to Audit and Scrutiny Committee 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. Regular reports to the Council's Audit and Scrutiny Committee and to the SB Cares Board will provide progress updates on implementation by Management of relevant Audit recommendations.
- 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 formally reported every six months to the Council's Corporate Management Team and the Audit and Scrutiny Committee, through a Mid-Term Performance Report and within the Annual Report.
- 8.3. The Internal Audit Annual Report for each organisation will provide the required opinion statement on the levels of assurance based on audit findings over the year.
- 8.4. 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, in which SBC participates, as a cost effective means of complying with the EQA requirement.

AUDIT	2018/19 (Days)	COMMENTARY
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### Corporate Governance

Corporate Governance	40	Continuous audit approach on compliance with the Local Code of Corporate Governance, progress on improvement action plans and support to Audit and Scrutiny Committee. Annual evaluation against Local Code of Corporate Governance covering the corporate whole and individual Service Directorates. Engagement in the review of the associated code of governance documents e.g. Scheme of Delegation, Scheme of Administration, Procedural Standing Orders, Financial Regulations, and Codes of Conduct for Councillors and for Employees.
Information Governance	25	Continual Audit approach performing 'critical friend' role through the review of the Information Governance framework including roles and responsibilities for the different data controllers (including Assessor ERO), policy development and implementation, and assess compliance with the General Data Protection Regulations (GDPR) which come into force May 2018. Provide annual assurance to the Senior Information Risk Owner (SIRO).
Performance Management	35	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, Corporate Priorities PIs and Assessors performance monitoring and reporting.
Corporate Transformation	40	Continual Audit approach performing 'critical friend' role through input to the Corporate Transformation 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. A series of Gateway Reviews will be carried out to provide assurance that the Transformation Programme remains on a sound footing.
Workforce Planning	15	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 the Council's objectives.
Resilience Planning	10	Review the approach to emergency and business continuity planning, including risk assessments, early warning systems, resilient communities initiative, post incident reviews and lessons learned.
	165	

AUDIT	2018/19 (Days)	COMMENTARY
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### Financial Governance

Financial Policy Framework	20	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, including Following the Public Pound code of practice in support of securing best value, and evaluate whether there is a comprehensive programme in place to review, update and develop relevant policies, procedures and guidelines.
Financial Planning	25	The systems and procedures for preparing, monitoring and controlling the budget including efficiency savings are robust to provide the foundation for sound internal financial control, to deliver the financial strategy, and to ensure plans and priorities match available resources including the roles and responsibilities of budget holders.
Payroll	25	Business World assurance work on Payroll processes; compliance testing of controls at Service level.
Sales to Cash	25	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.

<b>Procurement to Payment</b>	<b>25</b>	Business World assurance work on Procure to Pay. Review of purchase to payment processes at Service level including authorisation to test compliance.
<b>Record to Report</b>	<b>25</b>	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.
<b>Revenues (Council Tax and NDR)</b>	<b>30</b>	Assess the application and key controls regarding Council Tax and NDR exemptions and discounts, including review periods; policies; discretionary relief and disabled persons relief. Evaluate fraud prevention controls and detection processes in liaison with the Corporate Fraud & Compliance Officer on an on-going basis to ensure fraud risk is considered.
	<b>175</b>	

<b>AUDIT</b>	<b>2018/19 (Days)</b>	<b>COMMENTARY</b>
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<b>ICT Governance</b>
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<b>ICT Contract Management</b>	<b>25</b>	Review of client relationship and contract management with CGI contract to assess compliance with Service Delivery and terms and conditions to ensure that the ICT Strategy and business requirements are met.
<b>ICT Security</b>	<b>40</b>	Assess the adequacy of the ICT security arrangements including: physical and environmental controls; disaster recovery; third party access; operational controls (change / incident / problem management) and business applications, to ensure they are designed appropriately and that all parties are adhering and complying with them. Review of Public Services Network (PSN) compliance and Cyber Essentials requirements.
	<b>65</b>	

<b>AUDIT</b>	<b>2018/19 (Days)</b>	<b>COMMENTARY</b>
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<b>Internal Controls</b>
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<b>Schools</b>	<b>30</b>	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.
<b>Winter Service</b>	<b>30</b>	Review and appraise the economy, efficiency and effectiveness with which resources are deployed to deliver the Winter Service to ensure that operational practices are being carried out as planned and objectives and goals are met.
<b>Licensing</b>	<b>10</b>	Review of New Licensing Policy Statement (requirement of law reviewed every 5 years), due to be in place by November 2018 to check that the Council is following best practice through its policies and procedures.
<b>Adult Social Care Services</b>	<b>15</b>	Review of internal financial controls and governance arrangements regarding Self Directed Support to ensure national policy objectives are being met and public funds are safeguarded.
<b>Protective Services</b>	<b>20</b>	Review the change in business practices and ways of working following the restructure within Environmental Health and Trading Standards to ensure that regulatory obligations are met and risks are appropriately managed.
	<b>105</b>	

AUDIT	2018/19 (Days)	COMMENTARY
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<b>Asset Management</b>
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<b>Asset Registers</b>	20	Review of systems, processes and controls that are in place 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, including the data migration and transition to utilising Business World Asset Register. Review of stock management controls relating to inventory turnover, and prevention and detection of fraud.
<b>Capital Investment</b>	15	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, including transformation achieved through the Corporate Landlord Model.
<b>Private Sector Landlord Registration</b>	20	Assess the end to end procedures and practices for PSL to ensure that statutory obligations are met and risks are appropriately managed.
<b>Passenger Transport</b>	20	Analyse and assess current processes for Passenger Transport to identify the approach which represents best value. Review procurement practices for compliance and consider options for improvement.
	75	

AUDIT	2018/19 (Days)	COMMENTARY
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<b>Legislative &amp; Other Compliance</b>
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<b>Selkirk Conservation Area Regeneration Scheme (CARS)</b>	10	Review as part of programme compliance and evaluation requirements of the external funders including audit requirements.
<b>LEADER</b>	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.
<b>European Maritime Fisheries Fund (EMFF)</b>	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.
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AUDIT	2018/19 (Days)	COMMENTARY
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**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): - Business World ERP Project Board - Digital Customer Steering Group - Digital Transformation Programme (benefits realisation) Other Forums (for example): - Serious Organised Crime - Welfare Reform - Public Protection	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 and quality assurance on a sample of projects involving major change and systems implementation; contribute to the development of a contract management framework for the Council; provide independent challenge of the evidence to support improvement arising from the Children & Young People and Joint Older People Service inspections; and perform an independent and objective assessment of the evidence to support self-evaluation and improvement in support of Best Value.
	70	

AUDIT	2018/19 (Days)	COMMENTARY
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**Other**

Contingency	15	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	20	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	40	Provide intelligence via data sharing requests from Police Scotland, and submission of data sets and case management of data matches arising from the Audit Scotland-led National Fraud Initiative (NFI) exercise in liaison with the Corporate Fraud & Compliance Officer as part of the wider assurance framework on counter fraud and crime controls.
	75	
	770	

AUDIT	2018/19 (Days)	COMMENTARY
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**Non Scottish Borders Council**

SB Cares	35	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 pension fund and provision of annual governance statement.
Scottish Borders Health and Social Care Integration Joint Board	45	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.
	85	
	855	