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AUDIT AND SCRUTINY COMMITTEE MONDAY, 11 MARCH 2019

A MEETING of the AUDIT AND SCRUTINY COMMITTEE will be held in the COUNCIL CHAMBER, COUNCIL HEADQUARTERS, NEWTOWN ST BOSWELLS on MONDAY, 11 MARCH 2019 at 10.00 am

J. J. WILKINSON,
Clerk to the Council,

5 March 2019

BUSINESS		
1.	Apologies for Absence.	
2.	Order of Business.	
3.	Declarations of Interest.	
SCRUTINY BUSINESS		
4.	Nursery Place Discrimination in Peebles 2019 Petition	30 mins
	(a) Petition Procedure (Pages 5 - 8) (Copy attached).	
	(b) Petition (Pages 9 - 12) (Copy attached).	
	(c) Briefing by Chief Officer for Education (Pages 13 - 14) (Copy attached).	
5.	Any Other Scrutiny Items Previously Circulated.	
6.	Any Other Scrutiny Items which the Chairman Decides are Urgent.	
AUDIT & SCRUTINY BUSINESS		
7.	Minute. (Pages 15 - 20) Minute of Meeting of the Audit and Scrutiny Committee held on 14 February 2019 to be approved and signed by the Chairman. (Copy attached).	5 mins
8.	Action Tracker (Pages 21 - 22)	5 mins

	To note progress made on the Action Tracker. (Copy attached).	
	AUDIT BUSINESS	
9.	Minute (Pages 23 - 24) Minute of Meeting of the Special Audit and Scrutiny Committee held on 26 February 2019 to be approved and signed by the Chairman. (Copy attached).	5 mins
10.	Internal Audit Work to February 2019 (Pages 25 - 36) 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
11.	Scottish Borders Council External Audit Plan for 2018/19 (Pages 37 - 52) Consider overview report and plan by Audit Scotland on how they will deliver their external audit for Scottish Borders Council for the year ended 31 March 2019. (Copy attached).	20 mins
12.	Scottish Borders Pension Fund External Audit Plan for 2018/19 (Pages 53 - 66) 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 2019 including the opinions on the financial statements. (Copy attached).	15 mins
13.	Internal Audit Charter (Pages 67 - 74) 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
14.	Internal Audit Strategy and Internal Annual Plan 2019/20 (Pages 75 - 86) 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 2019/20 to enable preparation of the annual opinions on the adequacy of each organisation's overall control environment. (Copies attached).	20 mins
15.	Any Other Audit Items Previously Circulated.	
16.	Any Other Audit Items which the Chairman Decides are Urgent.	

NOTES

1. **Timings given above are only indicative and not intended to inhibit Members' discussions.**
2. **Members are reminded that, if they have a pecuniary or non-pecuniary interest in any item of business coming before the meeting, that interest should be declared prior to commencement of discussion on that item. Such declaration will be recorded in the Minute of the meeting.**

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

Please direct any enquiries to Eileen Graham 01835 826585
Email: eegraham@scotborders.gov.uk

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Scottish Borders Council Audit & Scrutiny Committee Petitions Procedure

Part of the remit of the Audit & Scrutiny Committee is to consider petitions submitted to the Council in accordance with the Council's approved petitions procedure, outlined below, and to determine the appropriate action to be taken within the terms of the procedure.

Petitions

1. Petitions should raise issues which relate to matters within the responsibility of Scottish Borders Council or the general well-being of the residents of the Scottish Borders. Petitioners should be able to demonstrate that there is a public interest in the issue that they are raising.
2. A petition should be on a standard form, titled and should include a clear statement (no more than 250 words) which covers the main subject. Any further information, for example, about measures already taken or approaches made to other bodies, should be included but limited to no more than 4 sides of A4 paper.
3. Petitions should be accompanied by at least 10 signatures in total, from persons aged 16 and over, resident in the Scottish Borders. The signatures must be from a minimum of 3 separate addresses. The principal petitioner should be on the Register of Electors for the Scottish Borders Council area.
4. Petitions from local businesses shall be accepted where there is support from at least 5 businesses on the Valuation Roll for Scottish Borders Council.
5. Elected Members may not be a signatory on a petition and no petition will be accepted from a political party.
6. Where there are already regulatory procedures in place or the matter relates to individuals, then it would not be appropriate to accept such petitions, therefore petitions shall not be accepted:
 - (i) about planning, licensing, or other matters where there are already regulatory procedures in place;
 - (ii) about personal or business issues;
 - (iii) about commercially sensitive or confidential material;

- (iv) about individual Councillors, members of Council staff, or other individuals who may easily be identified;
 - (v) about employees' terms and conditions of employment;
 - (vi) about information which is protected by an interdict or court order;
 - (vii) about an allegation that someone has broken the law;
 - (viii) which contain language which is defamatory, offensive, provocative or otherwise inappropriate;
 - (ix) which relate to a complaint or grievance (which should be handled through the Council's complaints procedure);
 - (x) which relate to a decision made by the Council or a committee during the preceding six months; and
 - (xi) which are identical or similar to other petitions made within the preceding twelve months.
7. The Clerk to the Council, or her representative, shall ensure petitions keep to procedures and are admissible. All valid petitions, with accompanying information if any, shall be passed to the next scheduled meeting of the Audit & Scrutiny Committee. Petitions which are the same, or substantially similar, shall be considered together.
 8. A summary report shall be prepared for the Committee by the Clerk to the Council about any petitions received during the period that are considered inadmissible for any of the reasons listed in paragraph 6 above. The Committee will make the final decision as to whether these are valid.

Meetings of the Audit & Scrutiny Committee

9. When hearing a petition the relevant Director(s), Executive Member(s) and Community Planning Partner representative(s) shall be invited to attend the meeting to provide further information, as appropriate.
10. The principal petitioner should indicate on the form whether or not he/she, or a named deputy, wish to have the opportunity to make a statement at the meeting of the Audit & Scrutiny Committee where their petition is being considered. It would be normal practice to allow the principal petitioner or a deputy to speak, but this is at the discretion of the Chairman of the Committee.
11. No deputation to the Meeting of the Audit & Scrutiny Committee shall exceed 10 in number and, at the discretion of the Chairman, only one speaker shall be heard by the Committee. The time allowed to present the petition shall not exceed 10 minutes, except at the discretion of the Chairman. The speaker should also be prepared to answer questions.

12. Notice of petitions scheduled to be considered by the Audit & Scrutiny Committee will be through the usual on-line public access facility to committee papers, with a link from the petitions "page" on the Council website. Those signing petitions should be made aware that the detail of the petition, with their name and address (but not signature), will be published on the Council website as part of the agenda pack for the meeting of the Audit & Scrutiny Committee.
13. For the moment, no "e-petitions" will be facilitated, or comments from the public accepted on petitions scheduled for consideration by the Audit & Scrutiny Committee.
14. The procedure at the meeting, for each petition considered, shall be as follows:
 - (i) the meeting shall be in public unless the subject matter of the petition would be deemed to be confidential under the terms of Section 7A of the Local Government (Scotland) Act 1973;
 - (ii) the principal petitioner, or named deputy, shall give a statement in explanation of the petition;
 - (iii) there will be an opportunity for Members of the Committee to ask questions of the petitioner or their named deputy;
 - (iv) there will be an opportunity for any Director(s), Executive Member(s) and Community Planning Partner representative(s) present to ask questions of the petitioner or their named deputy;
 - (v) a response to the petition may be heard from a Director, Executive Member and/or Community Planning Partner representative present at the meeting;
 - (vi) there will be an opportunity for Members of the Committee to ask questions of any Director, Executive Member(s) and Community Planning Partner representative(s) present at the meeting;
 - (vii) there will be an opportunity for the petitioner or their named deputy to ask questions of any Elected Member, Director or Community Planning Partner representative present at the meeting;
 - (viii) Members of the Committee shall then discuss the information available and consider their findings. The Committee may defer a decision should further information be required.

Note: any contribution on behalf of the petition from a second or other speaker(s) shall be at the discretion of the Chairman. The public will not be allowed to speak at the meeting unless invited to do so by the Chairman.
15. The Audit & Scrutiny Committee shall agree to one of the following:-

- (i) refer the petition to another Committee or Director, with or without a recommendation or comment. That Committee or Director shall then make the final decision which could include taking no further action;
 - (ii) refer the petition to the relevant Community Planning Partner, with or without a recommendation or comment, if appropriate;
 - (iii) that the issue(s) raised do not merit or do not require further action.
16. The decision of the Audit & Scrutiny Committee, and any reason for that decision, shall be recorded in the Minute of the Meeting and a copy of the Minute shall be sent to the principal petitioner by Democratic Services staff. Where the petition is referred to a Director or another body, the responsibility for communicating the final outcome of the petition is also referred. Updates on these outcomes will be provided to the Audit & Scrutiny Committee.
17. There will be no right of appeal in response to a final decision made in response to a petition.
18. The usage and effectiveness of the petitions procedure shall be reviewed on an annual basis.

Reference (official use)



Petitions – submission form

If you wish to submit a petition for consideration by the Audit & Scrutiny Committee, please complete the form below. You are advised to refer to the Guidance Questions and Answer sheet provided.

Details of Principal Petitioner	
Please enter the name and contact details of the person raising the petition. The Principal Petitioner must be on the Register of Electors for the Scottish Borders Council area.	
Name:	CHRISTINE L.K. IRVINE
Address:	31 GLEN ROAD
	PEEBLES
	TWEEDDALE
Postcode:	EH45 9AZ
Telephone no:	
Email:	

Title of Petition and Petition Statement
Please enter the title of the Petition and a statement to cover the main subject of the Petition or the action you would like the Council to take.

Title: NURSERY PLACE DISCRIMINATION IN PEEBLES 2019

Statement (no more than 250 words):
 THE DECISION TO ROLL OUT INCREASED PROVISION OF NURSERY HOURS BY CATCHMENT AREA IS DISCRIMINATORY. YES, THE FEW STREETS OF MORE 'DEPRIVED' FAMILIES ARE INCLUDED BUT SO TOO ARE SOME OF THE MOST AFFLUENT STREETS IN OUR SMALL TOWN, RENDERING THE 'TARGET DEPRIVED AREAS FIRST' DIRECTIVE AS MEANINGLESS. THIS WAS PLEDGED IN 2014 AND DUE IN AUGUST 2020 WHICH MEANS THERE HAS BEEN AMPLE TIME TO PREPARE. IN A SMALL COMMUNITY SUCH AS PEEBLES, THE ROLL OUT WOULD HAVE BEEN FAIRER TO OFFER ALL NURSERY CHILDREN A PARTIAL INCREASE IN 2019 RATHER THAN A FULL INCREASE TO 1140 HOURS BASED ON CATCHMENT. THE CURRENT INCREASE MEANS THAT SOME CHILDREN ARE LOSING OUT ON 1 EXTRA YEAR OF EDUCATION (AT CURRENT LEVELS). AND GIVEN THE PROVEN BENEFITS TO CHILDREN IT IS UNACCEPTABLE TO DENY THE REST OF PEEBLES' CHILDREN THIS OPPORTUNITY AND HEADSTART TO THEIR EDUCATION.

Further information.

Please enter below any measures already taken, or persons/organisations approached to attempt to resolve the issues. Attach additional sheets to this form if required but please note that this information must be limited to no more than 4 sides of A4 paper.

LETTERS WRITTEN TO SHONA HASLAM, DAVID MUNDELL, JOHN SWINNEY.

PETITION STARTED ON CHANGE.ORG

FACEBOOK GROUP 'NURSERY PLACE DISCRIMINATION IN FEEBLES 2019'

Presentation of petition to the Committee.

Please indicate below if you would like the opportunity to make a statement at the meeting of the Audit & Scrutiny Committee when your petition is considered. Whether or not you will be invited to do so will be at the discretion of the Chairman.

*I do/~~do not~~ wish the opportunity to make a brief statement about the petition.

*I would like my deputy named below to make a statement on my behalf.

Name of deputy

Contact details

Signature of deputy.....

* please delete as appropriate

Signature of Principal Petitioner.

If you are satisfied your petition meets all the requirements as stated in the Guidance Questions and Answers please add your signature and date below.

Signature of Principal Petitioner.

Date 21.01.19.....

Accompanying signatures.

Your petition must be accompanied by at least 10 signatures in total, from persons aged 16 and over, resident in the Scottish Borders. The signatures must be from a minimum of 3 separate addresses.

Please be aware that if the petition is on the agenda for a meeting of the Audit & Scrutiny Committee the names and addresses, but not signatures, of all signatories will be published on the Council website.

	Name	Address	Signature
1	MICHELLE DODD	18 INVERKEITH PEEBLES	
2	A. STEEL	9 KITTLEGAIRY RD	
3	JAMES HENDERSON	4 GLEN ROAD PEEBLES EH45 9AY	
4	NICOLA MCLELLAN	16 KITTLEGAIRY PARK PEEBLES EH45 9NP	
5	N. PAULIN	2 THE MOUNT PEEBLES EH45 9BY	
6	K Small	2 Victoria Park drive	
7	Robynne McDonald	2 Dovecot Lodge Peebles	

* PLEASE SEE https://www.change.org/p/scottish-borders-council-the-discrimination-in-funded-nursery-placements-in-peeble-201-recruiter=71348219&utm_source=share-petition&utm_medium=share-petition&utm_campaign=share-petition&utm_term=share-petition

8	SUANIC DODDS	7 MARMION ROAD PEEBLES	
9	Kim Veitch	1 Waverley Way PEEBLES	
10	STEVEN IRVING	31 GLEN RD, PEEBLES	

Attach additional sheets of signatures if you wish. *online on change.org.*

Please submit this form and any additional sheets to:-

Clerk to the Council, Scottish Borders Council, Council Headquarters, Newtown
St Boswells, Melrose, TD6 0SA,

or email to:

committeepapers@scotborders.gov.uk



RESPONSE TO PETITION TITLED: NURSERY PLACE DISCRIMINATION IN PEEBLES 2019

BRIEFING NOTE BY CHIEF OFFICER FOR EDUCATION

AUDIT AND SCRUTINY COMMITTEE

11 MARCH 2019

1. PURPOSE AND SUMMARY

1.1 The purpose of this briefing paper is to respond to the petition titled “Nursery place discrimination in Peebles 2019”

1.2 Petition statement (dated 21.01.19):

The decision to roll out increased provision of nursery hours by catchment area is discriminatory. Yes, the few streets of more ‘deprived’ families are included but so too are some of the most affluent streets in our small town, rendering the ‘target deprived areas first’ directive as meaningless.

This was pledged in 2014 and due in August 2020, which means there has been ample time to prepare.

In a small community such as Peebles, the roll out would have been fairer to offer all nursery children a partial increase in 2019 rather than a full increase to 1140 hours based on catchment.

The current increase means that some children are losing out on 1 extra year of education (at current levels), and given the proven benefits to children it is unacceptable to deny the rest of Peebles’ children this opportunity and head start to their education.

1.3 Response from Education representatives in Early Years & Childcare (ELC):

Currently all 3 and 4 year old children (and eligible 2 year olds) are entitled to 600 hours Early Learning and Childcare (ELC) a year, depending on their birth date. This entitlement does not change until August 2020. In 2020, the entitlement changes to 1140 hours which will equate to an additional full day during term time. From now until then the Council are phasing in the expanded hours as they have been tasked to do by the Scottish Government.

As set out by Scottish Government in ‘A Blueprint for 2020: The Expansion of Early Learning and Childcare in Scotland’, Local Authorities are to determine the most appropriate way to phase the expanded hours, reflecting the Scottish Index of Multiple Deprivation:

“Phasing of the entitlement to 1140 hours

The expansion will require substantial levels of investment in workforce and infrastructure which will be phased in from 2017-18 onwards to ensure that the required capacity is in place by 2020 to enable full roll-out of the expanded entitlement. Given the transformative nature of the expansion, and the potential structural changes that could result in the sector, it is challenging to assume that the system would be able to move smoothly from providing 600 hours to 1140 hours overnight.

Local authorities will have flexibility to determine the most appropriate way to phase entitlement in their local area as they build the necessary capacity to deliver 1140 hours. We have made clear in the expansion planning guidance issued to local authorities that plans for phasing should reflect the Scottish Index of Multiple Deprivation to ensure that the families and communities who stand to benefit most from the expansion also benefit first.”

1.4 Scottish Borders Update/ Actions

In Scottish Borders a priority list was created, based on the Child Poverty Index, using thorough and robust data, which sets out the order of phasing for all catchment communities. It would not have been feasible or appropriate to take this analysis to a more detailed level where individual families could have been identified and the priority list was created using strong local data. This approach was approved by the Executive Committee on the 7 November 2017.

Consideration had been given to a partial increase for all children to 900 hours and then on to 1140 but this was strongly discouraged by the National Improvement Service as it would not allow Local Authorities to benefit from, or learn from the experiences of the full expansion, nor did it satisfy the Scottish Government requirement to reflect the SIMD index in phasing in the expansion.

The programme of expansion was agreed by full Council on 31 May 2018. This sets out the number of catchment communities phasing each year. The number of catchment communities phasing each year is linked to the phasing of funding from the Scottish Government. It provides the opportunity for Local Authorities and providers to embed new ways of working, to establish the needs of families and to ensure that the ELC services in the Scottish Borders provide all children with the best possible experiences regardless of the number of hours they are accessing.

2. CONCLUSION

Therefore, as agreed by Council, only children who live in the phasing catchments are able to access the expanded hours until the increased hours are fully rolled out. This means that in each setting there may be children who access expanded hours and children who continue to access their current entitlement of 600 hours.

Author(s)

Name	Designation and Contact Number
Michelle Strong	Chief Officer for Schools
Grace Frew	Quality Improvement Officer, Early Years and Childcare (ELC)
Margot Black	Early Years Strategy Officer

Approved by: Stuart Easingwood, Interim Director of Children and Young People’s Services

Background Papers: A blueprint for 2020: The expansion of Early Learning and Childcare in Scotland 2017 -18 Action Plan: Section 2 Scottish Government

Contact us at the Senior Management Support, Children & Young People’s Services, People Department, Scottish Borders Council, Newtown St Boswells, TD6 0SA. Tel 01835 825080

**SCOTTISH BORDERS COUNCIL
AUDIT AND SCRUTINY COMMITTEE**

MINUTE of Meeting of the AUDIT AND SCRUTINY COMMITTEE held in Council Chamber, Council Headquarters, Newtown St Boswells on Monday, 14 February 2019 at 10.00 am

- Present:- Councillors S Bell, (Chairman), H Anderson, J Fullarton, S Hamilton, N Richards, H Scott, S Scott and E Thornton-Nicol.
- Apologies:- Councillor N Chapman, Mr M Middlemiss and Ms H Barnett.
- In Attendance:- Chief Financial Officer (paras 5 – 7), Chief Officer Audit and Risk (paras 1 - 7, Clerk to the Council (from para 8), Service Director Regulatory Services (para 7), Service Director Human Resources and Communications (para 9), Employee Relations Manager (para 9), Project Manager (para 10), Senior Manager Business Strategy and Resources (para 10), Democratic Services Officer (J Turnbull).

1. **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.

2. **MINUTES**

There had been circulated copies of the Minutes of 21 November 2018 and 27 November 2018.

DECISION

APPROVED for signature by the Chairman.

AUDIT BUSINESS

3. **ACTION TRACKER**

With reference to paragraph 2(b) of the Minute of 27 November 2018, there had been circulated copies of the Action Tracker for the Audit and Scrutiny Committee. It was noted that the Property Assurance report, in connection with issues raised within National Performance Reports by Audit Scotland, had been deferred until the next meeting. The Committee asked that the Chief Officer Audit and Risk, on behalf of the Committee, write to the Service Director Assets & Infrastructure requesting that he, or his nominated member of staff present the report to the March meeting. With regard to the Cove Car Park Petition, the Committee requested a briefing, at the next meeting, by the Service Director Assets & Infrastructure on actions taken. With regard to the Delivery of the IT Strategy, Members were reminded to check the private report of March 2016 and relay any questions to the Chief Financial Officer and Service Director in advance of the April meeting. Ms Stacey advised that following today's meeting, any items marked as completed, would be removed from the Action Tracker.

DECISION

NOTED:-

- (a) **the Action Tracker; and**

(b) reports be presented to the Audit and Scrutiny Committee on 11 March 2019 on :-

(i) Issues raised within Audit Scotland's National Performance Reports in monitoring the safety of buildings, structures and bridges in the Scottish Borders; and

(ii) actions taken with regard to the Cove Car Park Petition.

4. INTERNAL AUDIT WORK TO DECEMBER 2018

4.1 With reference to paragraph 5 of the Minute of 14 May 2018, there had been circulated copies of a report by the Chief Officer Audit and Risk which provided details of the recent work carried out by Internal Audit and the recommended audit actions agreed by management to improve internal controls and governance arrangements. The work Internal Audit had carried out during the period 27 October to 14 December 2018 was detailed in the report. During the period a total of eight Final Internal Audit reports had been issued with no recommendations. During these reviews Internal Audit had informed operational Managers about minor matters which Management had committed to progress as part of continuous improvement. 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, was shown in Appendix 1 to the report. The SBC Internal Audit function conformed 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.

4.2 Reference was made to the Internal Audit Final Assurance Reports detailed in the Appendix to the report. Ms Stacey highlighted that there had been no recommendations in respect of the six schools, providing positive assurance around arrangements for financial controls and business administration procedures in schools. The report detailed new procedures to reduce cash risk within schools with the implementation of initiatives such as Parent Pay. In terms of Workforce Planning, Internal Audit had considered that the structure of the People Plan templates allowed for good practice to be applied consistently across services and that satisfactory risk, control and governance systems were in place. The audit on the review of the New Licensing Policy Statement, had found no evidence to suggest any fraudulent activity was taking place in order to obtain a licence or abuse licensing laws. In response to a question regarding recruitment, Ms Stacey advised that as part of the Workforce Planning process, consideration was given to succession planning and interim resourcing within departments. However, Internal Audit could request Service Directors to provide clarity on the risks associated with resourcing arrangements, which would then be reported to the Chief Executive. With regard to the methodology used for the choice of schools, Ms Stacey advised that all secondary schools' administrative and financial procedures were audited over a three year period.

DECISION:

(a) NOTED:

(i) the final assurance reports issued in the period from 27 October to 14 December 2018 associated with the delivery of the approved Internal Audit Annual Plan 2018/19; and

(ii) the Internal Audit consultancy and other work undertaken in this period.

- (b) **AGREED to acknowledge the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work.**

5. **TREASURY MANAGEMENT STRATEGY 2019/20**

With reference to paragraph 9 of the Minute of 15 January 2018, there had been circulated copies of a report by the Chief Financial Officer presenting the proposed Treasury Management Strategy for 2019/20, enabling the Committee to undertake their scrutiny role in relation to the Treasury Management activities of the Council, prior to Council approval. The Treasury Management Strategy was the framework which ensured that the Council operated within prudent, affordable limits in compliance with the CIPFA Code. The Strategy for 2019/20 to be submitted to Council on 20 February 2018 was included at Appendix 1 to the report. The Strategy reflected the impact of the Administration's draft Financial Plans for 2019/20 onwards on the prudential and treasury indicators for the Council. During discussion, Members requested clarification on a number of points contained in the Appendix and these were answered by officers. The Committee requested that the chart at paragraph 4.2(f) of the report, detailing the Capital Financing Requirements External Debt, be amended. It was also requested that Treasury Portfolio figures at 4.1 (a) and the chart at 4.2(b) be updated to reflect that operational borrowing on capital expenditure could not exceed the authorised limit. It was agreed that once amended, a revised version of the report be circulated to Members, and any further comments emailed to Mr Robertson. Members also requested a further treasury management training session prior to the September meeting, Ms Stacey and Mr Robertson would liaise regarding outwith the meeting.

DECISION

AGREED that the final report be updated to reflect amendments at 4.1(a) and charts at 4.2(b) and 4.2(f) discussed and circulated to Audit and Scrutiny Members prior to presentation to Council for approval.

6. **LOCAL GOVERNMENT IN SCOTLAND – FINANCIAL OVERVIEW 2017/18**

- 6.1 There had been circulated copies of a report by the Accounts Commission providing an outline of the overall financial health of local government and the significant challenges for local government finance that lay ahead. The report included a local government financial overview together with a review of the Local Government Pension Scheme in Scotland. In response to a question regarding the allocation of core funding to councils, it was noted that the majority of core funding was based on population with a smaller proportion linked to deprivation factors.

DECISION

NOTED the report by the Accounts Commission on the Financial Overview of Local government in Scotland 2017/18, and the Financial Overview of the Scottish Local Government Pension Scheme 2017/18.

7. **RISK MANAGEMENT IN SERVICES.**

- 7.1 The Service Director Regulatory Services, Mr Brian Frater, was in attendance to brief the Committee on the strategic risks facing the various sections within Regulatory Services and to explain the internal controls and governance in place to manage and mitigate those risks. Mr Frater explained the areas of service he managed, namely: Assessors and Electoral Registration; Audit and Risk; Legal and Licensing; Passenger Transport, and Planning, Housing & Related Services. Mr Frater was also the Council's Senior Monitoring Officer, RIPSAs and Data Protection Officer. Risk Registers for each of the services were developed through Financial, People and Business Planning processes and were owned and by Service Managers within that service. Risks were regularly reviewed by the Regulatory Services Management Team and when necessary, were escalated to Corporate Management Team (CMT).

- 7.2 Mr Frater referred to the key overarching issues facing Regulatory Services namely ongoing financial pressures, recruitment and retention, new legislation, customer demand and expectations, IT reliance and changes to service delivery models. Mr Frater then went on to give a brief overview of the risks within each service. With regard to Assessors & Electoral Registration, a red risk had been identified with the new election software, relating to the lower voting age in Scotland for Scottish Elections. Other risks included the implementation of the Barclay review and recruitment challenges within the service. With regard to Audit & Risk, there was potential risk around losing specialist skills and lack of succession opportunities. Within Legal & Licensing, there were risks associated with new and changing legislation. With regard to Protective Services/Health & Safety there was difficulties retaining and recruiting staff to deliver services effectively, proactively monitor and apply health and safety requirements. Recent budget savings had impacted the Passenger Transport service, particularly with regard to service delivery decisions taken without their involvement. Risks associated with Planning, Housing & Related Services related to uncertainty around the new Planning Act, potential capacity issues in processing applications quickly and reduction in SHIP funding. Mr Frater went on to discuss his roles as the Council's Senior Information Risk Officer and Data Protection Officer, explaining that mismanagement or loss of data could have a potential fine of 4% of total Council turnover. In his Monitoring Officer role he also gave guidance to Members to ensure they did not breach the Code of Conduct which could result in reputational damage. As the RIPSAs Responsible Officer he authorised covert surveillance activities. The Council had not, as yet, used these powers but if necessary, he had to ensure they were used appropriately. In terms of managing risks, Mr Frater explained that this was achieved by having regular risk workshops, supported by the Audit and Risk Team; regularly monitoring of both corporate and operational risks within Services; recruiting to posts through 'grow our own', which involved supporting staff to achieve the necessary qualifications; and embracing new opportunities to deal with customer demands. Mr Frater responded to Members questions advising that GDPR had introduced a more structured approach to holding and processing information. Data should be encrypted and any information no longer required deleted. Members requested a further briefing on managing information and he would arrange with the Information Team. Regarding surveillance operations, these were audited every three years by an independent auditor. The last two audits had achieved positive criticism. With regard to changes in legislation, Mr Frater highlighted the importance of legal advice. Ms Stacey added that in terms of community empowerment and engagement, an assurance review by Audit Scotland would consider community engagement. The Chairman thanked Mr Frater for his presentation.

DECISION

NOTED

- (a) **The presentation on risk management in Regulatory Services directorate.**
- (b) **To request a further briefing session on managing information.**

SCRUTINY BUSINESS

8. SCRUTINY WORK PROGRAMME

With reference to paragraph 3 of the Minute of 24 September 2018, there had been circulated copies of the Scrutiny Work Programme for 2019. Ms Wilkinson referred to the need for Members to consider developing a programme for 2019/20 and asked that she be advised of any items the Committee wished to be considered for review.

DECISION

- (a) **AGREED The Scrutiny Work Programme 2019 as detailed in the report.**

- (b) **NOTED that additional items for 2019/20 would be advised and included in the Scrutiny Work Programme as appropriate.**

9. **COUNCILLORS' ROLE IN STAFFING MATTERS**

- 9.1 With reference to paragraph 3 of the Minute of 24 September 2018, the Chairman welcomed Ms Clair Hepburn, Service Director Human Resources and Communications, and Mr Iain Davidson, Employee Relations Manager, to the meeting to provide Members with a greater understanding of Disciplinary, Appeals and Employment Tribunals. Mr Davidson began by explaining that Members could potentially be involved in hearing Appeals as a member of a Staffing Appeals Committee. These Committees, membership of which was selected from an Appeals Panel, heard all appeals against dismissal, or against the decision of a Director. Currently there were only 14 Members on the Appeals Panel (13 males and one female) who had undertaken the necessary employment law training, and had received relevant policies and guidelines on conducting investigations. Guidance to Members was given by either Ms Hepburn or Mr Davidson who attended the Committee. There was also a pre-meeting where Members could discuss any areas of concern and any employment law issues. Mr Davidson highlighted that the role of the Committee was to review the previous decision to ensure that proper processes had been adhered to and that Managers had applied Council policies in a legally compliant manner. It was not the role of a Staffing Appeals Committee to re-hear the original hearing. Mr Davidson then referred to the role of Council officers as either Investigating Officer or Commissioning Manager, both of whom had undertaken (face to face) Disciplinary & Grievance training, with guidance in relevant policies and support at Hearings provided by HR. Following an investigation, a report was prepared for the Commissioning Manager, the findings of which were reported to any subsequent Disciplinary Hearing.
- 9.2 Mr Davidson then referred to Employment Tribunals explaining that a dismissed employee could bring a claim for unfair dismissal to the Employment Tribunal. There were no fees payable and no requirement for legal representation. The Tribunal was chaired by an Employment Judge whose role was to decide if the Council had reached a reasonable decision and had followed a fair procedure. A Tribunal was an onerous process for any witnesses, and HR offered support and guidance, explaining the process, set up, relevant documentation and gave an opportunity to clarify any questions in advance. During the period 2012 – 2018 there had been 21 Employment Tribunals, 14 of which had been dismissed (Council was successful), five withdrawn, one settled, and one upheld (Council was unsuccessful). In response to questions, Ms Hepburn advised that following a Tribunal there was a debrief and every judgement was scrutinised and discussed within HR, the Corporate Management Team and the relevant Department, which could potentially lead to a change in policy or guidance. As this process was an operational matter, there was no requirement to feedback to Council. However, as a result of a recent unsuccessful Tribunal, an HR Advisor was now present during any investigation. Ms Hepburn agreed to feedback any other changes made to process which had been implemented. With regard to the lack of female Councillors on the Appeals Panel, the Chairman of the Panel, Councillor Mountford had undertaken to promote the role and Councillor Thornton-Nicol also offered to speak with her fellow Councillors on this matter. The Chairman thanked Ms Hepburn and Mr Davidson for their presentation, congratulated them on their successes and for providing reassurance that lessons had been learnt from the unsuccessful Tribunal.

DECISION

NOTED the presentation.

MEMBER

Councillor Anderson left the meeting during the above presentation.

10. **EUROPCAR**

- 10.1 With reference to a paragraph 3 of the Minute of 24 September 2018, the Chairman welcomed Mr Jon Laws, Project Manager and Mr Jason McDonald, Senior Manager

Business Strategy and Resources, who were in attendance to give a presentation on Scottish Borders Council Pool Car Contract. Mr Laws began by advising that business miles for 2017/18 had been 1,884,219 at a cost of £840,122. With the introduction of the Co-Wheels pilot and changes to working practices, e.g. tele conferencing, there had been a 24% reduction in business mileage compared to the previous year. Following the success of the pilot, the Council changed provider to Europcar and an expanded 55 car fleet had been rolled out to 10 sites across the Borders. The anticipated savings based on the expanded fleet was a further £250k per annum. Mr Laws went on to explain that it was hoped the fleet could be made available for community use from the spring 2019, initially at Hawick and Galashiels, which could generate further income for the Council. In response to a question regarding the amount of savings due to car sharing, Mr Laws advised that while historic data to provide an accurate assessment was not available, car sharing was encouraged. Regarding the choice of vehicles, Mr McDonald advised that they had not been prescriptive about the model, the Contract was for a two year period and there would be a continual review to ensure the fleet was the most economical. The Chairman thanked Mr Laws and Mr McDonald for their interesting and informative presentation and for the success of the project.

DECISION

NOTED the presentation.

MEMBER

Councillor H. Scott left the meeting during consideration of the above Presentation.

The meeting concluded at 12.55 am

SCOTTISH BORDERS COUNCIL

ACTION SHEET MASTER COPY

AUDIT and SCRUTINY COMMITTEE 2018/19

Notes:-

1. Paragraphs Marked with a * require full Council approval before action can be taken
2. Items for which no actions are required are not included

TITLE	DECISION REQUIRING ACTION	DIRECTORATE/ SECTION	RESPONSIBLE OFFICER	STATUS
25 June 2018				
National Performance Reports by Audit Scotland	(b) AGREED the proposed schedule for presentation of the National Performance Reports by Audit Scotland.	Assets & Infrastructure	Service Director Assets and Infrastructure	Minute 14 February 2019: reports be presented to the Audit and Scrutiny Committee on 11 March 2019 on :- (i) Issues raised within Audit Scotland's National Performance Reports in monitoring the safety of buildings, structures and bridges in the Scottish Borders.
23 August 2018				
Delivery of the IT Strategy and Plan within Scottish Borders	(b) AGREED that Members would check the private report on the ICT Review which had been considered by Council in March 2016 and send any questions to the Chief Financial Officer and Service Director Customer and Communities in advance of another meeting of Audit and Scrutiny to consider the delivery of the Council's IT Strategy and Plan.	n/a	Members	Added to Scrutiny Work Programme for presentation to 18 April 2019
1 November 2018				
Cove Car Park Petition	AGREED to refer the issues raised by the Cove Car Park petition to the Service Director Assets & Infrastructure to carry out the following work: (a) Introduce the new TRO proposing a restriction on vehicle size to under 3.5 tonnes and a time limit for parking of 48 hours; (b) include the Cove road in the proposed review of speed limits due to start in Summer 2019, with the aim of reducing the speed limit on the road to 30mph; (c) ensure the signage "Unsuitable for HGV/buses" and "No Through Road" be erected as soon as possible;	Asset and Infrastructure	Service Director Asset & Infrastructure	Minute 14 February 2019: Reports be presented to the Audit and Scrutiny Committee on 11 March 2019 on (ii) actions taken with regard to the Cove Car Park Petition.

	<p>(d) review the current layout of the car parking spaces to ascertain if further spaces could be made, including a turning area for large vehicles e.g. the refuse lorry;</p> <p>(e) consider erecting a “Slow pedestrians” sign;</p> <p>(f) seek clarification on the ownership of the car park; and</p> <p>(g) consider options for permitted parking for residents, liaising with Mr Payne and Cove residents on the way forward.</p>			
TITLE	DECISION REQUIRING ACTION	DIRECTORATE/ SECTION	RESPONSIBLE OFFICER	STATUS
14 February 2019				
Treasury Management Strategy 2019/20	AGREED that the final report be updated to reflect amendments at 4.1(a) and charts at 4.2(b) and 4.2(f) discussed and circulated to Audit and Scrutiny Members prior to presentation to Council for approval.	Finance	Chief Financial Officer	Complete – additional meeting of Audit and Scrutiny Committee held on 26 February 2019
Treasury Management Strategy 2019/20	Members also requested a further treasury management training session prior to the September meeting, Ms Stacey and Mr Robertson would liaise regarding outwith the meeting.	Finance	Chief Financial Officer	The Pensions and Investments Manager is liaising with the Council’s Treasury Management Adviser to arrange a date; provisionally 25 November 2019 at Informal Session prior to considering the Mid-Term Treasury Management Performance Report 2019/20 in formal business.
Risk Management in Services – Regulatory Services directorate	To request a further briefing session on managing information.	Regulatory Services	Service Director Regulatory Services	To be added to programme of Members briefings.

**SCOTTISH BORDERS COUNCIL
AUDIT AND SCRUTINY COMMITTEE**

MINUTES of the Special Meeting of the
AUDIT AND SCRUTINY COMMITTEE held
in Council Chambers. Council Headquarters,
Newtown St Boswells on Tuesday, 26
February 2019 at 2.00 pm

- Present:- Councillors S. Bell (Chairman), H. Anderson, K. Chapman, N. Richards,
H. Scott, E. Thornton-Nicol and S. Scott.
- Apologies:- Councillors J. A. Fullarton, S. Hamilton; M. Middlemiss and H. Barnett.
- In Attendance:- Chief Executive, Chief Financial Officer, Pensions & Investments Manager,
Senior Internal Auditor, Clerk to the Council.

1. TREASURY MANAGEMENT STRATEGY 2019/20

With reference to paragraph 5 of the Minute of Meeting of 14 February 2019, there had been circulated copies of a Report and Appendix on the Treasury Management Strategy 2019/20, along with a briefing note by the Chief Financial Officer, explaining the changes to the report. The Chief Financial Officer, Mr Robertson, explained that the report which had been circulated at the previous meeting had not been the final version and the correct version had been issued via email to members of the Committee after the meeting. Subsequent to the circulation of the revised Treasury Management report, a later amendment to the Administration's draft budget for 2019/20 - 2023/24 was also published. This amendment would raise Council Tax by 1% which would be applied in future years to provide a matched contribution to the capital costs of replacing Hawick High School. A corresponding amendment was therefore required to the Administration's draft capital budget and corresponding amendments were therefore also required to the Treasury Management Strategy, including amendment of the prudential indicators, to reflect the material change proposed. Mr Robertson highlighted the main changes to both the covering report and the actual Strategy. In response to Members' wider questions, Mr Robertson advised that while the Council had purchased the Lowwood Estate and that was reflected in the capital expenditure figures within the Treasury Management Strategy figures and included in the Council's future capital financing requirement, no borrowing had as yet taken place for this, the site purchase being financed temporarily from cash flow. Assumptions had been made in the Strategy that parts of the site would be developed and sold off over the coming years. The Pensions & Investments Manager, Kirsty Robb, further advised that any borrowing by the Council was made on a total needs basis and not per project, with cash flow monitored daily and short term loan opportunities taken up to minimise Council debt on an ongoing basis. With regard to the changes in capital financing requirement and the operational boundary for external debt, Mr Robertson explained that while the level of external debt was projected to increase closer to the operational boundary, this was an inevitable consequence of the accelerated build programme proposed for the new High Schools. Consideration also needed to be given to the impact of greater borrowing for capital projects on the revenue budget which would result in an increased percentage of the revenue budget being used for repayment of loan charges. With regard to any impact from current political uncertainties, although Brexit was a major consideration, with regular updates received from the Council's Treasury advisers, it was anticipated that while there was the potential for a short term rise in interest rates, this was not likely to impact on the medium to long term. The Council was closely monitoring the potential impact of Brexit and the associated risks, including a short term impact on inflation. Any borrowing to provide an additional cash cushion over the

Brexit period would be undertaken only on a short term basis. Members enquired about emergency arrangements and the Chief Financial Officer confirmed there were a range of measures in place should the Council be faced with an emergency event e.g. flooding or other disaster. These included insurance, the Bellwin Scheme, reserves, etc. The final protection for Council was an emergency budget raising the Council tax. Mr Robertson also confirmed that he had contacted Link Asset Services, the Council's Treasury Advisor, regarding the provision of a further training session on treasury management to members of the Committee and details would be sent to members in due course.

DECISION

AGREED:

- (a) to approve the Treasury Management Strategy 2019/20 as set out in Appendix 1 to the report for consideration by Council;**
- (b) to note that this Treasury Management Strategy replaced the one considered at the Audit and Scrutiny Committee on 14 February and the corrected version distributed via email on 15 February 2019;**
- (c) that the Council should review its capital expenditure plans going forward to ensure that they remained realistic, affordable and sustainable; and**
- (d) that the Council should ensure that the revenue consequences of all capital projects be fully reviewed in all investment decisions.**

The meeting concluded at 2.30 pm

INTERNAL AUDIT WORK TO FEBRUARY 2019

Report by Chief Officer Audit and Risk

AUDIT AND SCRUTINY COMMITTEE
11 March 2019

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 15 December 2018 to 22 February 2019 to deliver the Internal Audit Annual Plan 2018/19 is detailed in this report. During this period a total of 6 Final Internal Audit Reports have been issued. There was 1 recommendation made relating to 1 of the reports which has 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 15 December 2018 to 22 February 2019 associated with the delivery of the approved Internal Audit Annual Plan 2018/19;**
 - 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 2018/19 was approved by the Audit and Scrutiny Committee on 19 March 2018. 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 15 December 2018 to 22 February 2019, associated with the delivery of the approved Internal Audit Annual Plan 2018/19, 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
 - Financial Planning
 - Private Sector Landlord Registration
 - Adult Social Care Self-Directed Support
 - Protective Services
 - Information Governance
- 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 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 2018/19 consists of the following:

Audit Area	Audit Stage
Corporate Transformation	Drafting the report
Revenues (Council Tax & NDR)	Drafting the report
Asset Registers	Audit Assignment issued
Business World ERP System Key Internal Controls (incorporating Procure to Pay, Sales to Cash, Payroll, and Record to Report)	Testing Underway
Winter Service	Roll over to 2019/20 and carry out as part of Consultancy work
ICT Contract Management	Covered in Consultancy work for CMT; included in 2019/20 Plan

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:

- a) Engagement in the design, development and delivery of a Contract Management Framework (first stage is the toolkit due for delivery April 2019) by the Contract Management Working Group, which will be the key mechanism that facilitates the monitoring and assurance of third party service providers.
- b) On request by CMT examined and evaluated at a high level the objectives, benefits and expected outputs from the original business case for each outsourcing agreement, determine whether or not these have been achieved, and provide some evidence associated with that assessment, for the following outsource contracts (Live Borders; SB Cares; CGI).
- c) Engagement in the Digital Customer Steering Group as a critical friend to provide internal challenge and quality assurance on the Digital Customer Access programme involving major change and system implementation.
- d) Attendance at an Internal Audit Data Analytics Forum to discuss how data analytics is developing and being used within Internal Audit.
- e) Visit to Edinburgh City Council to discuss and review the use of payment cards for Direct Payments (Self Directed Support).
- f) Attendance at Schools Business Managers Meeting and visits to Eyemouth and Berwickshire Primary Schools Clusters to provide information and assistance regarding Petty Cash policy and procedures and an overview of associated Council Financial policies.
- g) Review of our conformance with the Public Sector Internal Audit Standards (PSIAS) as an annual self-assessment requirement and in preparation for next External Quality Assessment (EQA) peer review.

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:

High: 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.

Medium: 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.

Low: 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 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 2018/19:

	2018/19 Number of Recs
High	0
Medium	1
Low	0
Sub-total reported this period	1
Previously reported	3
Total	4
Recommendations agreed with action plan	4
Not agreed; risk accepted	0
Total	4

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".
- (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 2018/19, to capture potential areas of risk and uncertainty more fully, key stakeholders were consulted and risk registers 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, governance and risk management.

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.

5.7 **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 as appropriate.

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
Sue Holmes	Principal Internal Auditor Tel 01835 825556

Background Papers: Appropriate Internal Audit files

Previous Minute Reference: Audit and Scrutiny Committee 14 February 2019

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

APPENDIX 1

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Asset Management</p> <p>Subject: Capital Investment</p> <p>No: 007/018</p> <p>Date issued: 1 March 2019</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 in the development of: 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.</p> <p>The scope of the audit included:</p> <p>(a) development of Strategic Asset Management Plans;</p> <p>(b) implementation of an operational Estates Strategy; and</p> <p>(c) adoption of the Corporate Landlord model of operation for estate and property management in the Council (<i>a strand within the Council's Corporate Transformation Programme</i>).</p> <p>Testing of the programme for the Corporate Transformation Model found the processes in place to be satisfactory relating to financial management, risk management, benefits realisation, and deployment of technology to enable change.</p> <p>Our previous audit report issued on 9 March 2018 noted that the Corporate Landlord Programme Board had not yet been established, despite it being a commitment contained in the paper to CMT in April 2017. At the time of writing of the current report, Management have yet to establish this Programme Board.</p> <p>We consider that we are able to provide substantial assurance. Largely satisfactory risk, control, and governance systems are in place. Progress is being made with the implementation of the Corporate Landlord model and therefore with establishing good practice in strategic asset management. There is some scope for improvement as current arrangements could undermine the achievement of objectives; for example, the establishment and operation of the Programme Board which is a key part of governance monitoring and reporting arrangements.</p>	0	0	0	<p>Management have confirmed the factual accuracy of the report and accepted the report findings, and advised that the first meeting of the Corporate Landlord / Capital Programme Board is 4 March 2019.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Financial Governance</p> <p>Subject: Financial Planning</p> <p>No: 035/007</p> <p>Date issued: 1 March 2019</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit, incorporating Financial Planning Process and Financial Policy Framework, was to ensure that 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.</p> <p>A 'lessons learned' review following the 2018/19 budget planning process was used to determine what worked well and identify improvements to inform the 2019/20 planning process.</p> <p>Internal Audit observations during a sample of the budget setting process meetings confirmed: collaborative working between HR, Finance, Business Planning staff to support Service Directors / Managers to align financial and workforce planning processes; and the opportunity for effective scrutiny and engagement with Elected Members to arrive at the draft financial plan for 2019/20.</p> <p>The Council's Financial Regulations were updated and subsequently approved at Council on 29 November 2018. Following this update, the associated financial policies and procedures that underpin the Financial Regulations are currently being reviewed to ensure they reflect current practice.</p> <p>We consider that we are able to provide substantial assurance. Largely satisfactory risk, control, and governance systems are in place. There is some scope for improvement, such as updating financial policies and procedures, lessons learned from the 2019/20 financial planning process, and reviewing non-savings actions that also help achieve Council objectives and priorities which are either underway or planned.</p> <p>We made no recommendations.</p>	0	0	0	Management have confirmed the factual accuracy of the report and accepted the report findings.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Asset Management</p> <p>Subject: Private Sector Landlord Registration</p> <p>No: 172/009</p> <p>Date issued: 1 March 2019</p> <p>Level of Assurance: Comprehensive</p>	<p>The purpose of this assurance audit was to assess the end-to-end procedures and practices for Private Sector Landlord Registration to ensure that statutory obligations are met and risks appropriately managed.</p> <p>New rules for Letting Agents came into force from 31 January 2018. All private landlords must display a current landlord registration number on any adverts to rent a property. A registration number shows that a landlord is approved by the local authority to let property. Where an application for registration has been submitted but not yet approved landlords must include the words "landlord registration pending".</p> <p>Currently Scottish Borders Council has 6,997 Landlords registered on the Landlord Registration System database, with some Landlords having multiple properties. There are 12 Private Sector Landlord properties which the Council's Homelessness Service manages. In the financial year 2017/18 the fees received for registering as a Landlord generated an income for the Council of £78k.</p> <p>We consider that we are able to provide 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 are required to reflect recent upgrades of the Scottish Government Landlord Registration System database and the Council's Business World ERP system in the process document.</p> <p>We made no recommendations.</p>	0	0	0	Management have confirmed the factual accuracy of the report and accepted the report findings.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Adult Social Care Self-Directed Support</p> <p>No: 181/002</p> <p>Date issued: 11 February 2019</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to assess that the internal financial controls and governance arrangements regarding Self-Directed Support ensure that national policy objectives are being met and public funds are safeguarded.</p> <p>Self-Directed Support (SDS) is provided to enable people to live as independently as possible, giving as much choice & control as they wish over the way in which their care and support needs are met in order to achieve outcomes that are important to them.</p> <p>We reviewed the framework, policies, procedures and processes for the administration and management of Self-Directed Support, including forward planning and the transition from children to adults. We found no areas of concern with the process for the administration and management of SDS. The transition of children to adults within the Learning Disability Service is working well; however, further development work is currently underway within Children's Services.</p> <p>We reviewed a sample of cases with the Care Resource Team, including overpayments, underpayments, change of circumstances and the transition from children to adult payments and our testing showed no issues or concerns. We reviewed a sample of cases with Encompass to ensure that information was received from clients as agreed and found no areas of concern.</p> <p>The SDS process is reviewed on a regular basis through a variety of meetings and reviews. National information, reports and tools are reviewed and used to improve how SDS is administered and managed and also for future development and implementation.</p> <p>We consider that we are able to provide substantial assurance in this area. Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement as current arrangements could undermine the achievement of objectives. We made no recommendations.</p>	0	0	0	<p>Management have confirmed the factual accuracy of the report and accepted the report findings, and stated that Older Persons Services will continue to review the SDS service to ensure optimal functioning. This will include taking action where this audit has identified where improvements can be made.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Protective Services</p> <p>No: 207/004</p> <p>Date issued: 4 March 2019</p> <p>Level of Assurance: Limited</p>	<p>The purpose of this assurance audit was to review the change in business practices and ways of working within Environmental Health and Trading Standards to ensure that regulatory obligations are met and risks are appropriately managed.</p> <p>The main risks that exist for Protective Services is failure to fulfil their varied and numerous respective statutory duties which are reflected in the appropriate risk registers and reviewed in accordance with the Corporate Risk Management Process.</p> <p>As a result of reducing budgets, shortage of qualified skilled and experienced staff, increasing regulation and statutory functions, workload has been prioritised to address high risk areas.</p> <p>We consider that we are able to provide limited assurance. Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives in fulfilling the Council's statutory regulatory services obligations. Our opinion is not a reflection of Management in this area as the challenges faced are mirrored nationally.</p> <p>In addition to the actions being progressed by Management (thorough people planning process; engagement with their counterpart Councils, regulatory bodies and the Scottish Government to address the national shortage of qualified, skilled and experienced staff; and progress the Business Case for the Enterprise Module and mobile handhelds that would increase the efficiencies for the team), we have made the following recommendation:</p> <ul style="list-style-type: none"> • Performance indicators on achievement of statutory duties of Trading Standards, Environmental Health, and Health & Safety functions should be included within the Quarterly Performance Reports to Corporate Management Team and Executive Committee to monitor and action as required. (Medium). 	0	1	0	<p>Management have confirmed the factual accuracy of the report, accepted the report findings and recommendation, and stated that the Service will commence quarterly performance reporting from 1 April 2019, with the aim of the first quarter to be reported after the end of June 2019.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Corporate Governance</p> <p>Subject: Information Governance</p> <p>No: 236/012</p> <p>Date issued: 22 February 2019</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 and assess compliance with the General Data Protection Regulations (GDPR) which came into force in May 2018; and to provide annual assurance to the Senior Information Risk Owner (SIRO) and Data Protection Officer (DPO).</p> <p>The Information Governance Group meets regularly and follows an agreed themed programme of work: Information Governance; Records Management; Information Security and Information Sharing; Data Protection and Information Access. Progress during the year includes:</p> <ul style="list-style-type: none"> • The Information Governance policies and procedures were updated to reflect the new legislation, GPDR; • The Information Asset Register whose update piggybacked on the GDPR Project is now complete; • The updated Records Management Plan was submitted to the Keeper of Scotland's Records (the Keeper) in January 2019; • PSN Certification has been achieved; awarded for one year to 21 December 2019; • The GDPR Project achieved its objectives to put in place the mechanisms to enable compliance with the new legislation; • Other outputs of the GDPR project include: Training and Awareness; Data Protection by Design & Default Framework; Data Protection Impact Assessments; and Privacy Notices. <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 specifically to ensure that the GDPR business as usual activity is progressed, the mandatory training completion rate is enhanced, and lessons are learned from PSN Certification.</p>	0	0	0	Management have confirmed the factual accuracy of the report and accepted the report findings.

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Scottish Borders Council

Annual Audit Plan 2018/19



 AUDIT SCOTLAND

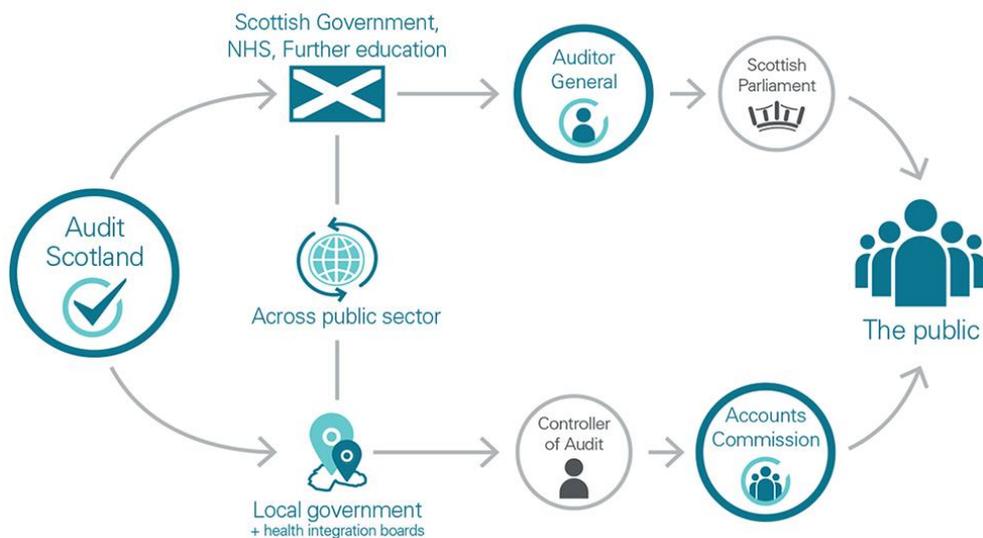
Prepared for Scottish Borders Council

March 2019

Who we are

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

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

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

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

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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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. The plan sets out the work necessary to allow us to provide an independent auditor's report on the financial statements and meet the wider scope requirements of public sector audit, including the audit of Best Value.
2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.

Adding value

3. We aim to add value to the Scottish Borders Council ("the council") through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help the Scottish Borders Council promote improved standards of governance, better management and decision making and more effective use of resources.

Audit risks

4. 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. We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1 2018/19 Key audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statements issues and risks		
<p>1 Risk of management override of controls</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>	<ul style="list-style-type: none"> • Detailed testing of journal entries. • Review of accounting estimates. • Focused testing of accruals and prepayments. • Evaluation of significant transactions that are outside the normal course of business.

 Audit Risk	Source of assurance	Planned audit work
<p>2 Risk of fraud over income</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 an inherent risk of fraud.</p>	<p>Regular budget monitoring and reporting.</p> <p>Effective internal controls in financial systems to mitigate risks of error or manipulation.</p> <p>Internal audit coverage of internal financial controls.</p> <p>Participation in the National Fraud Initiative.</p>	<ul style="list-style-type: none"> Analytical procedures on income streams. Detailed testing of revenue transactions focusing on the areas of greatest risk.
<p>3 Risk of fraud over expenditure</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>Regular budget monitoring and reporting.</p> <p>Effective internal controls in financial systems to mitigate risks of error or manipulation.</p> <p>Internal audit coverage of internal financial controls.</p> <p>Participation in the National Fraud Initiative.</p>	<ul style="list-style-type: none"> 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>4 Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of the material account areas of non-current assets 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.</p> <p>Confirmation from legal services of all potential litigation cases together with an assessment of potential liability and likelihood of settlement.</p>	<ul style="list-style-type: none"> Completion of 'review of the work of an expert' for the professional valuer. Focused substantive testing of key areas.
<p>5 Pension Scheme Valuation</p> <p>The council accounts for its share of Scottish Borders Council Pension Fund in accordance with International Accounting Standard 19 Employee Benefits (IAS19). This relies on valuations of pension fund assets and liabilities by the actuary. The timing of actuarial reports means that actuaries produce their IAS 19 reports using estimated data for the final part of the year. Asset returns estimated by the actuary for the final part of the year can be significantly higher or lower than actual returns. Additionally, a new actuary, Hymans Robertson, has been appointed during 2018/19. The council should ensure that asset values reported are as</p>	<p>Use of an experienced and respected Actuary to provide actuarial valuation for pension figures for the financial statements. Officer review of actuary information to ensure data and assumptions used are reasonable.</p>	<ul style="list-style-type: none"> Review of actuarial report which supports pension assets and liabilities, as accounted for at year end in the balance sheet and the movements in the comprehensive income and expenditure statement, and all associated disclosures.

 Audit Risk	Source of assurance	Planned audit work
<p>accurate as possible and that any potential differences due to timing of information are adequately considered.</p>		
<p>6 Financial systems</p> <p>The council implemented a new financial system, Business World, from April 2017. Although mostly delivered as planned, there were issues with the implementation of the system, as reported by Internal Audit and in our 2017/18 Management Report and 2017/18 Annual Audit Report. An update to the system has taken place during 2018/19.</p> <p>There is a risk that issues reported in 2017/18 have not been addressed and impact on the controls in place over preparation of the 2018/19 annual accounts.</p>	<p>Internal audit work on the implementation of the new system and testing of controls.</p> <p>Work carried out to address previous issues identified with the system.</p>	<ul style="list-style-type: none"> • 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.
Wider dimension issues and risks		
<p>7 Financial sustainability</p> <p>The council has a financial strategy covering the 5 year period 2019/20 – 2023/24. This strategy includes the requirement to identify £30.4m 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>	<ul style="list-style-type: none"> • Review budget setting process and monitor updates provided to members. • Comment in Annual Audit Report.
<p>8 Financial management</p> <p>The latest financial report for quarter 3 of 2018/19, reported in February 2019, indicated that there could be an adverse variance at the year end of £1 million, mostly due to pressures in Health & Social Care and Assets & Infrastructure budgets. The report also noted that £16.4 million of savings have been delivered for 2018/19, with £4.7 million of these delivered on a temporary basis.</p> <p>There is a risk that the council will not achieve a balanced year end position and also of future budget overspends if a sustainable budget is not developed timeously.</p>	<p>Recovery plans in place to achieve breakeven position at year end.</p> <p>On-going monitoring and review by Corporate Management Team.</p>	<ul style="list-style-type: none"> • Review of financial monitoring reports and the council's financial position. • Comment in Annual Audit Report.

Source: Audit Scotland

5. 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

6. 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.
7. 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.
8. We will provide an independent auditor's report to Scottish Borders Council and the Accounts Commission setting out our opinions on the annual accounts. We will also provide the council and the Controller of Audit with an annual audit report containing observations and recommendations on significant matters which have arisen during the audit.

Exhibit 2 2018/19 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	1 March 2019	11 March 2019
Interim Management Report	17 June 2019	25 June 2019
National Fraud Initiative (NFI) return	30 June 2019	N/A
Bus Operators grant certification	30 June 2019	N/A
Education Maintenance Allowance grant certification	31 July 2019	N/A
Annual Audit Report	16 September 2019	23 September 2019 (TBC)
Signed Independent Auditor's Report	27 September 2019 (TBC)	N/A
Whole of Government Accounts return certification	30 September 2019	N/A
Non Domestic Rate return certification	6 October 2019	N/A
Housing Benefits return certification	29 November 2019	N/A

Source: Audit Scotland

Audit fee

9. The audit fee for the 2018/19 audit of Scottish Borders Council is £275,170 (£270,230 in 2017/18). This fee includes £6,000 for the audit of the charitable entities (£6,000 in 2017/18). 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 annual accounts, with a complete working papers package on 28 June.
10. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts or being unable to use 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

11. Audited bodies have 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.
12. The audit of the annual accounts does not relieve management or the Audit and Scrutiny Committee, as those charged with governance, of their responsibilities.

Appointed auditor

13. Our responsibilities as independent auditors are established by the 1973 Act for local government, and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.
14. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. 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

Annual accounts

- 15.** The annual accounts, which include the financial statements, will be the foundation and source for most 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.
- 16.** We will give an opinion on whether the financial statements:
- give a true and fair view of the of the state of affairs of the council and its group as at 31 March 2019 and of the income and expenditure of the council and its group for the year then ended;
 - have been properly prepared in accordance with the financial reporting framework.



characteristics



responsibilities



principal activities



risks



governance arrangements

Other information in the annual accounts

- 17.** We also review and report on other information published within the annual accounts including the management commentary, annual governance statement and the remuneration report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.
- 18.** We also read and consider any information in the annual accounts other than the financial statements and audited part of the remuneration report and report any uncorrected material misstatements.

Materiality

- 19.** 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 opinions in the independent auditor's report.
- 20.** 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	Amount
Planning materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2019 based on the latest audited accounts for 2018.	£3.78 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 50% of planning materiality.	£1.89 million
Reporting threshold (i.e., clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 2% of planning materiality.	£75 thousand

Source: Audit Scotland

Timetable

21. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#).

Exhibit 4

Annual accounts timetable

 Key stage	 Date
Consideration of unaudited annual accounts by the Audit & Scrutiny Committee	25 June 2019
Latest submission date of unaudited annual accounts with complete working papers package	28 June 2019
Confirmation of audited figures for components included in the group accounts	by 30 August 2019
Latest date for final clearance meeting with Chief Finance Officer	6 September 2019
Issue of Letter of Representation and proposed independent auditor's report	16 September 2019
Issue of Annual Audit Report to the Audit and Scrutiny Committee	23 September 2019 (TBC)
Agreement of audited unsigned annual accounts by the Council	26 September 2019 (TBC)
Independent auditor's report signed	27 September 2019 (TBC)
Latest date for signing of WGA return	30 September 2019

Internal audit

22. Internal audit is provided by a team of Scottish Borders Council staff overseen by the Chief Officer Audit & Risk. As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with Public Sector Internal Audit Standards (PSIAS). Our review of internal audit concluded that the internal audit function operates in accordance with the PSIAS and has sound documentation standards and reporting procedures in place.

Using the work of internal audit

23. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to use the work of internal audit wherever possible to avoid duplication. We plan to consider the findings of the work of internal audit as part of our planning process to ensure the total resource is used efficiently and effectively.

24. From our initial review of internal audit plans we plan to use the work of internal audit work for the audit of the financial statements in the following areas:

- Business World (Key internal controls over financial systems)
- Revenues (Council Tax and Non Domestic Rates)
- Asset registers

25. 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
- Corporate transformation
- Workforce planning

Audit dimensions

26. 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

27. 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

28. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the body's financial sustainability in the longer term. We define this as short term (up to one year), 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 long 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

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

- whether the council has arrangements in place to ensure systems of internal control are operating effectively
- whether the council can demonstrate the effectiveness of its budgetary control system in communicating accurate and timely financial performance
- how the council has assured itself that its financial capacity and skills are appropriate
- whether the council has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

Governance and transparency

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

- whether the council can demonstrate that the governance arrangements in place are appropriate and operating effectively (including 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

31. 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

32. The Accounts Commission agreed the overall framework for a new approach to auditing Best Value in June 2016. The introduction of the new approach coincided with the new five-year audit appointments. Auditors started using the framework for their audit work from October 2016.

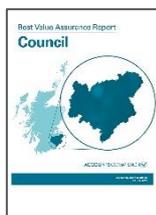
33. A key feature of the new approach is that it integrates Best Value into the wider scope annual audit, which will influence audit planning and reporting. Best Value will be assessed comprehensively over the five-year audit appointment, both through the ongoing annual audit work, and through discrete 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.

34. The seven councils on which a BVAR will be published during the third year of the new approach are listed in [Exhibit 6](#). Scottish Borders Council is one of those to be covered this year. Reports will be considered by the Accounts Commission in the period between March and November 2019.

Exhibit 6

2018/19 Best Value Assurance Reports



North Lanarkshire Council

Stirling Council

South Lanarkshire Council

Midlothian Council

Highland Council

Scottish Borders Council

Perth and Kinross Council

Source: Audit Scotland

35. The work planned in Scottish Borders Council this year will focus on the Council's arrangements for demonstrating Best Value in the following areas:

- vision and leadership
- partnership and collaborative working
- progress with its transformation programme
- performance and outcomes
- self evaluation and improvement
- procurement

36. The results of this work will be reported in the Best Value Assurance Report to the Accounts Commission in October 2019.

Other planned audit work

37. The following areas may present significant risks to Scottish Borders Council:

- **EU Withdrawal** - There are considerable uncertainties surrounding the implications of EU withdrawal and public bodies should assess the potential impact on their operations and identify specific issues and planned responses. We will assess how the council has prepared for EU withdrawal, specifically looking at implications for workforce, finance and regulation. We will also consider how the council responds to any emerging issues after March 2019.
- **Dependency on key suppliers** - Dependency on a key supplier could potentially expose the council to service delivery issues should the supplier fail. Where a significant supplier dependency exists there should be monitoring and business continuity arrangements to ensure the council is able to respond to significant issues. We will undertake work to establish the extent, value and nature of key supplier dependencies and, where issues are identified, consider the robustness of the business continuity arrangements in place.

Independence and objectivity

38. Auditors appointed by the Accounts Commission or the Auditor General 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 the audit. Audit Scotland has

robust arrangements in place 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.

39. The engagement lead (i.e. appointed auditor) for Scottish Borders Council is Gillian Woolman, Audit 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

40. 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.
41. 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 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 and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.
42. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

Scottish Borders Council

Annual Audit Plan 2018/19

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

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Scottish Borders Council Pension Fund

Annual Audit Plan 2018/19



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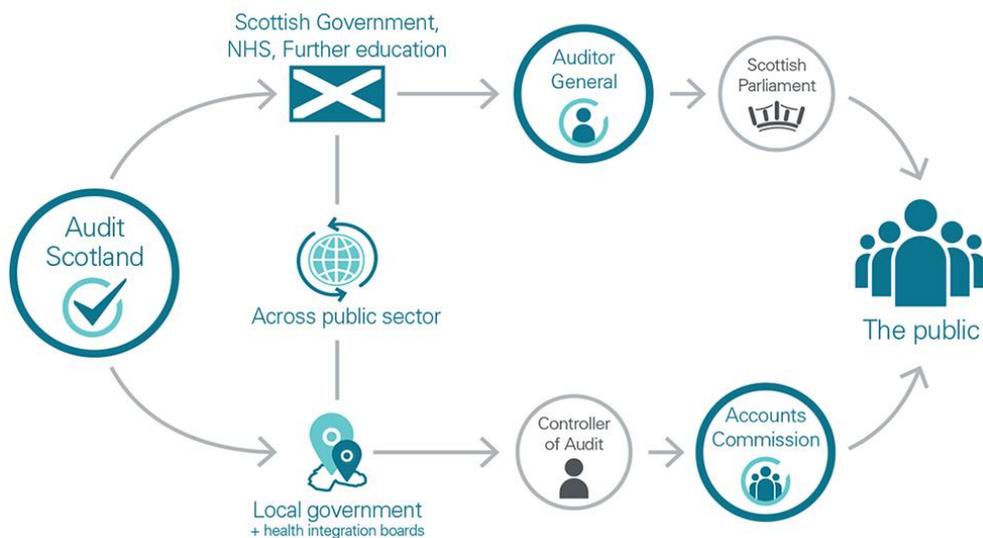
Prepared for Scottish Borders Council Pension Fund Committee and Pensions Board

February 2019

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- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Risks and planned work

1. Our audit of the Scottish Borders Council Pension Fund (the Fund) is carried out in accordance with the Code of Audit Practice, International Standards on Auditing (ISAs), and other relevant guidance. This plan contains an overview of the scope and timing of our audit. It sets out the work necessary to allow us to provide an independent auditor's report on the financial statements and to meet the wider scope requirements of public sector audit.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency, and value for money.

Adding value

3. We aim to add value to the Fund through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help the Fund promote improved standards of governance, better management, and decision making, and more effective use of resources.

Audit risks

4. Building on our knowledge from previous years, discussions with staff, attendance at committee meetings and a review of supporting information we have identified a number of key financial and wider dimension audit risks. These risks are detailed in [Exhibit 1](#).

Exhibit 1 2018/19 Key audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statement issues and risks		
<p>1 Risk of management override of controls</p> <p>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 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>	<ul style="list-style-type: none"> • Detailed testing of journal entries. • Review of accounting estimates. • Focused testing of accruals and prepayments. • Evaluation of significant transactions that are outside the normal course of business.
<p>2 Risk of fraud over expenditure</p> <p>ISA 240 presumes a risk of fraud over income. This has been rebutted because of the low risk</p>	<p>Effective budget monitoring and reporting by management.</p>	<ul style="list-style-type: none"> • Evaluation of the effectiveness of

	Audit Risk	Source of assurance	Planned audit work
	<p>of fraud over contributions and investment income receivable to the Fund as a result of effective controls and the straight forward nature of contributions processing.</p> <p>This risk is expanded to include the risk of fraud over expenditure in the public sector by the Code of Audit Practice and the Financial Reporting Council's Practice Note 10 (revised).</p> <p>The Fund makes a high volume of payments, including high value payments, which can constitute a risk of misstatement of expenditure.</p>	<p>Review and authorisation controls in place over expenditure to mitigate risk of error or manipulation.</p>	<p>systems for expenditure recognition and recording.</p> <ul style="list-style-type: none"> Review of custodian arrangements and completion of 'review of work by service auditors' in accordance with ISA 402 for the custodian. Analytical procedures on expenditure streams. Substantive testing of expenditure. Evaluation of progress in relation to the 2018/19 National Fraud Initiative.

3	Estimation, judgements and Classification	<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>	<ul style="list-style-type: none"> Completion of 'review of the work of an expert' in accordance with ISA 500, for significant unquoted investments. Confirmation of valuations to valuation reports and/ or other supporting documentation. Completion of 'review of the work of an expert' in accordance with ISA 500, for the work of the actuary. Consideration of the report by the consulting actuary to Audit Scotland on actuarial assumptions in use in 2018/19.
	<p>There is a significant degree of subjectivity in the measurement and classification of certain investments and the actuarial valuation. Investments include pooled funds, where valuations involve the application of judgement in determining appropriate amounts.</p> <p>The actuarial valuation depends on a number of assumptions about the future. These include investment returns, contribution rates, commutation assumptions, pensioner mortality, discount rates and earning assumptions. This subjectivity entails a risk of misstatement in the financial statements. Additionally, a new actuary, Hymans Robertson, has been appointed during 2018/19, increasing the risk that assumptions are not appropriate for the Fund's circumstances.</p>		

Wider Dimension Risks

4	Governance and transparency	<p>The annual report and annual statement is fully reviewed on an annual basis to ensure compliant with the recommended guidance and reflective of the governance of the Fund</p>	<ul style="list-style-type: none"> Review the governance disclosures in the annual report and accounts Assess whether the Fund can demonstrate that the governance arrangements in place
	<p>Narrative in the disclosures of the accounts need to keep up with Scheme requirements to ensure transparency of arrangements. Examples include: reporting the Career Average Revalued Earnings (CARE) scheme as the extant scheme, and reporting</p>		

	Audit Risk	Source of assurance	Planned audit work
	which members are included as a result of Transfer of Undertakings Protection of Employment (TUPE) transfers.		<p>are appropriate and operating effectively</p> <ul style="list-style-type: none"> • Determine whether there is effective scrutiny, challenge and transparency on the decision making and on the financial and performance reporting • Review the consistency of the annual governance statement and the governance compliance statement with the disclosures made in the financial statements.

Source: Audit Scotland

Reporting arrangements

5. 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.

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 management to confirm factual accuracy.

7. At the end of our audit we will provide the Scottish Borders Council, as administering authority of the Scottish Borders Council Pension Fund, and the Controller of Audit with an annual audit report containing observations and recommendations on significant matters which have arisen during the audit. We will also issue an independent auditor's report containing our opinion on the financial statements.

Exhibit 2 2018/19 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	1 March 2019	11 March 2019
Annual Audit Report	16 September 2019	23 September 2019 (TBC)
Independent Auditor's Report	30 September 2019	N/A

Source: Audit Scotland

Audit fee

8. The audit fee for the 2018/19 audit of the Fund is £20,580 (2017/18: £19,990). In determining the audit fee, we have taken account of the risk exposure of the 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 accounts, with a complete working papers package on 21 June 2019.

9. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts or inadequate working papers, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Responsibilities

Pension Fund Sub-Committee

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 that enable them to successfully deliver their objectives.

11. The audit of the annual accounts does not relieve management or the Pension Fund Committee as those charged with governance, of their responsibilities.

Appointed auditor

12. Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

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

Audit scope and timing

Annual report and accounts

14. The audit of the Annual report and accounts, including the financial statements, will be the foundation and source for most of the 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 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 from material misstatement.

15. We will give an opinion on whether the financial statements:

- give a true and fair view of the financial transactions of the fund during the year ended 31 March 2019 and the amount and disposition as at that date of its assets and liabilities
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union, as interpreted and adopted by the Code of Practice on Local Authority Accounting in the UK and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.



Other information in the annual accounts

16. We review and report on other information published within the Annual report and accounts including the management commentary, annual governance statement and the governance compliance statement. We give an opinion on whether these statements have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

17. We also review the content of the pension fund annual report for consistency with the financial statements and with our knowledge. We consider whether the information is otherwise materially misstated. We are not required to consider the wider compliance of the annual report with regulatory requirements.

Materiality

18. 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 opinions in the independent auditor's report.

19. We calculate materiality at different levels as described below. The calculated planning materiality values for the Fund are set out in [Exhibit 3](#).

Exhibit 3 Materiality values

Materiality	
Planning materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross assets based on the September 2018 investment performance information.	£7.30 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 60% of planning materiality.	£4.38 million
Reporting threshold (clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 3% of planning materiality and is rounded.	£220,000

Source: Audit Scotland

Lower specific materiality

20. In addition to planning materiality we set lower, specific materiality levels for certain classes of transaction, account balances or disclosures where lesser amounts could influence the decisions of the users of the accounts.

21. We recognise that transactions with contributions receivable are of importance to the users of the accounts and we set specific materiality levels as shown in [Exhibit 4](#).

Exhibit 4 Lower specific materiality values

Materiality	
Specific materiality – It has been set at 10% of benefits payable based on the latest audited accounts for 2017/18.	£2.28 million
Specific performance materiality – Using our professional judgement we have calculated performance materiality at 60% of the specific materiality.	£1.4 million
Specific reporting threshold - Using our professional judgement we have calculated the reporting threshold at 3% of specific materiality.	£68,000

Source: Audit Scotland

Timetable

22. To support the efficient use of resources it is critical that an annual report and accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 5](#).

Exhibit 5 Financial statements timetable

 Key stage	 Date
Consideration of unaudited annual accounts by the Audit & Scrutiny Committee	25 June 2019
Latest submission date of unaudited annual accounts with complete working papers package	28 June 2019
Latest date for final clearance meeting with management	6 September 2019
Issue of proposed independent auditor's report	16 September 2019
Agreement of audited unsigned financial statements; Issue of Annual Audit Report including ISA 260 report to those charged with governance	26 September 2019
Independent auditor's report signed	27 September 2019

Source: Audit Scotland

Internal audit

23. Internal audit is provided by Scottish Borders Council Internal Audit section overseen by the Chief Officer Audit & Risk. As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with Public Sector Internal Audit Standards (PSIAS).

24. Our assessment of internal audit concluded that it has sound documentation standards and reporting procedures in place and complies with the main requirements of the Public Sector Internal Audit Standards (PSIAS).

Using the work of internal audit

25. We do not plan to use the work of internal audit for our 2018/19 financial statements audit. The scope of the internal audit work will not reduce the level of our audit testing in support of our audit opinion on the financial statements. We will however take account of internal audit's findings to inform our wider Code responsibilities.

Audit dimensions

26. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 6](#).

Exhibit 6 Audit dimensions



Source: Code of Audit Practice

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 Fund's financial sustainability. We define financial sustainability as short term (up to one year), medium term (two to five years) and longer term (greater 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 long term
- the appropriateness and effectiveness of funding arrangements and the investment strategy in place to address any identified funding gaps
- whether the Fund can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

Financial management

28. Financial management in the context of a pension fund is complex and includes not just investment and funding strategy, but also arrangements for contract management, performance review, budget setting, forecasting and the financial control environment. We will review, conclude and report on:

- the Fund's financial performance and funding level for the year, including performance against its investment strategy
- whether the Fund has arrangements in place to ensure systems of internal control are operating effectively

- whether the Fund has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.
- whether the Fund can demonstrate the effectiveness of the budgetary control system.

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. The knowledge and skills of pension fund committee and pension board members is key to this process. We will review, conclude and report on:

- the governance disclosures in the annual report and accounts
- 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 on the financial and performance reporting
- the quality and timeliness of financial and performance reporting on the Fund's administration and investments
- consistency of the annual governance statement and the governance compliance statement with the disclosures made in the financial statements.

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 Fund can provide evidence that it is demonstrating value for money in the use of resources, has a focus on improvement and that there is a clear link to the outcomes delivered.

Independence and objectivity

31. Auditors appointed by the Accounts Commission or Auditor General 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 robust arrangements in place to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. These arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

32. The engagement lead (i.e. appointed auditor) for the Fund is Gillian Woolman, Audit 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 the Fund.

Quality control

33. 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.

34. The foundation of our quality framework is our **Page 64** Code, 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 and internal quality reviews. The Institute of Chartered Accountants of Scotland (ICAS) have also been commissioned to carry out external quality reviews of our work.

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

Scottish Borders Council Pension Fund

Annual Audit Plan 2018/19

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INTERNAL AUDIT CHARTER

Report by Chief Officer Audit & Risk

AUDIT AND SCRUTINY COMMITTEE

11 March 2019

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 Scrutiny Committee on 19 March 2018, has been updated to:
- Explicitly emphasise the application of the code of ethics by the Internal Audit function to fulfil a quality improvement action arising from the internal self-assessment 2018/19 to ensure conformance with the requirements of the PSIAS; and
 - Amend reference to Corporate Risk Officer to reflect current business support team arrangements for risk management activity.
- 3.7 The Internal Audit Charter should be considered alongside the Internal Audit Strategy and Plan 2019/20 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 are set out in the Internal Audit Strategy and Plan 2019/20.

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 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 conclusions, 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 equalities issues associated with this report. The Internal Audit work is carried out in accordance with the appropriate legislation and professional standards. The latter includes compliance by those in the Internal Audit function 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 Scrutiny Committee 19 March 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

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 processes¹.

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.

¹ Internal Audit Standards Advisory Board (IASAB) Public Sector Internal Audit Standards (PSIAS) (2017)
Audit and Scrutiny Committee – 11 March 2019

POSITION OF INTERNAL AUDIT WITHIN THE ORGANISATION

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"²

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 reporting³ 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.

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

³ Chartered Institute of Internal Auditors (CIIA) – International Standards for Professional Practice of Internal Auditing
Audit and Scrutiny Committee – 11 March 2019

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 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 Risk Management support team 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 qualifications, knowledge, skills and other competencies needed to perform the plan such as 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. 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.

In order to prevent a perceived impairment of objectivity and to ensure that Internal Audit independence and objectivity is maintained and demonstrated, any planned audit engagements solely on Risk Management and Counter Fraud frameworks 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 *11 March 2019* and shall be subject to regular review by the CAE and the Audit and Scrutiny Committee.

INTERNAL AUDIT STRATEGY AND INTERNAL AUDIT ANNUAL PLAN 2019/20

Report by Chief Officer Audit & Risk

AUDIT AND SCRUTINY COMMITTEE

11 March 2019

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 2019/20 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 2019/20 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 2019/20 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 2019/20 (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 2019/20

- 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 2019/20 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 2019/20:

Areas	Audit Days 2019/20
Corporate Governance	150
Financial Governance	85
ICT Governance	70
Internal Controls	165
Asset Management	45
Legislative & Other Compliance	30
Consultancy	70
Other	75
SBC	690
Non SBC	85
Total Audit Days	775

- 5.5 In recognition that it is envisaged that 2019/20 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 Corporate Management Team and 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 2019/20 in a collaborative way with the Corporate Fraud and Compliance Officer, and risk management business support staff. The Revenue Financial Plans which were approved by the Council on 28 February 2019 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 and risks and mitigations on corporate, strategic directorate, and operational service risk registers have been considered.

6.3 Equalities

There are no direct equalities issues associated with this report.

6.4 Acting Sustainably

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

6.5 Carbon Management

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

6.6 Rural Proofing

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

6.7 Changes to Scheme of Administration or Scheme of Delegation

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

7 CONSULTATION

- 7.1 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Chief Officer HR and the Clerk to the Council have been consulted on this report and any comments received have been taken into account.
- 7.2 The Corporate Management Team has been consulted on the risk-based audit approach and the resultant planned audit coverage to ensure it will provide assurance to Management on controls and governance relating to the key risks facing the Council and to assist them in discharging their roles and responsibilities within the Council. 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
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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

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. For example, 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, etc.
- 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: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law; Ensuring openness and comprehensive stakeholder engagement; Defining outcomes in terms of sustainable economic, social, and environmental benefits; Determining the interventions necessary to optimise the achievement of the intended outcomes; Developing the entity's capacity, including the capability of its leadership and the individuals within it; Managing risks and performance through robust internal control and strong public financial management; Implementing good practices in transparency, reporting, and audit to deliver effective accountability.
- 4.2. The organisation's statutory financial officer, Section 95 Officer or equivalent, i.e. Chief Financial Officer (role relevant to the Council, Pension Fund, and IJB), Finance & Information Manager (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 is designed to support effective and modern service delivery to meet corporate objectives.

5. APPROACH TO PERIODIC PLANNING

- 5.1. The Internal Audit Strategy and the Internal Audit Annual Plan 2019/20 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 objectives, priorities, strategies, plans, 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, Directorate 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 the External Auditors of each organisation to capture potential areas of risk and uncertainty more fully. This is of particular importance during a period of change and transformation as each organisation responds to new legislation or service delivery arrangements that might affect plans, priorities and resources.

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 with a mix of qualifications, knowledge, skills and competencies (such as the Code of Ethics set out in PSIAS) needed to perform the plan. The Available Audit Days reflects the Internal Audit resources after consideration of annual leave, public holidays, sickness absence (estimated), staff turnover (budgeted), learning and development, management and supervision.
- 6.2. It is estimated that around 80% 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 9% of Internal Audit's available days will be utilised on consultancy activities which support Management in delivering innovation, change and transformation. Management seek this added value activity during this 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 11% 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 to partner organisations.

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. For each *assurance* audit within the key themes of *Corporate Governance, Financial Governance, ICT Governance, Internal Controls and Asset Management*, 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 *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 *Financial Governance* and *Asset Management* assurance work, undertake end-to-end reviews of financial management and administration processes to test the extent of compliance (an 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 systems, and review Plans to deliver the organisation's objectives 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 each organisation's objectives 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 AND REPORTING THE WORK OF INTERNAL AUDIT

- 8.1. The Public Sector Internal Audit Standards (PSIAS) requires periodic reporting on the Internal Audit activity to the relevant organisation's Senior Management and Audit Committee/Board.
- 8.2. Internal Audit work completed and work in progress for the Council within regular reports to its 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.
- 8.3. Regular reports to the Council's Audit and Scrutiny Committee, the SB Cares Board, and the IJB Audit Committee will provide progress updates on implementation by Management of relevant Audit recommendations for each organisation.
- 8.4. The Internal Audit Annual Assurance Report for each organisation (Scottish Borders Council, SB Cares, Scottish Borders Pension Fund, and Scottish Borders Health and Social Care Integration Joint Board) will provide the required annual audit opinion on the levels of assurance based on Internal Audit findings and conclusions over the year to inform each organisation's annual governance statement.
- 8.5. The PSIAS also requires an annual Internal Self-Assessment and an External Quality Assessment (EQA) each five years by appropriately qualified and independent reviewers. The Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) implemented a "peer review" framework, in which SBC participates, as a cost effective means of complying with the EQA requirement. Reporting on outcomes includes a statement on conformance with PSIAS and the quality assurance and improvement plan (QAIP) to enable an evaluation of conformance with the Standards and application of the Code of Ethics, and to identify opportunities for improvement.
- 8.6. Internal Audit's compliance with its Strategy, delivery of its risk-based Annual Plan, and outcomes of assessment(s) against 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, within a Mid-Term Performance Report and the Annual Assurance Report.

Appendix 2 Internal Audit Annual Plan 2019/20

AUDIT	2019/20 (Days)	COMMENTARY
Corporate Governance		
Corporate Governance	30	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	Continuous 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). Provide annual assurance to the Senior Information Risk Owner (SIRO).
Performance Management	25	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 either Local Government Benchmarking Framework or Corporate Priorities PIs and Assessors performance monitoring and reporting.
Corporate Transformation	30	Continuous 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.
Contracting & Procurement	15	Review of the Council's Contract Management Framework to ensure that there are adequate and effective controls in place over Contract Monitoring arrangements throughout the Council, including arms-lengths external organisations, sports trusts and strategic arrangements with third parties.
Health and Safety	15	The Council is complying with relevant Health and Safety legislation, has a structured approach to Health and Safety awareness, including review of the new Health and Safety Management system (LEXI) to ensure there are adequate and effective controls in place for health and safety.
Attendance Management	10	There are adequate controls in place to manage short and long term absences to minimise the impact on service delivery.
	150	

AUDIT	2019/20 (Days)	COMMENTARY
Financial Governance		
Payroll	25	Compliance testing of controls at Service level, including Business World assurance work on Payroll processes.
Sales to Cash	10	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 including review of VAT treatment. Business World assurance work on Sales to Cash processes.
Procurement to Payment	25	Review of purchase to payment processes at Service level including authorisation to test compliance and review of VAT treatment. Business World assurance work on Procure to Pay processes.
Record to Report	15	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.
Members Allowances	10	Adequate controls are in place to ensure Members allowances and expenses are accurate, and are paid correctly and timely.
	85	

Appendix 2 Internal Audit Annual Plan 2019/20

AUDIT	2019/20 (Days)	COMMENTARY
ICT Governance		
ICT Security	40	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.
ICT Business Systems / Operational Computer Systems	30	Governance and processes are in place to review and redesign computer based systems/business applications outwith the CGI Contract to ensure they are fit for purpose to support service delivery.
	70	

AUDIT	2019/20 (Days)	COMMENTARY
Internal Controls		
Schools	30	Review of internal financial controls and business administrative procedures in place to ensure the efficient and effective use of resources in the school establishments (sample of 3 High Schools and 3 Primary Schools), to complement the assurance received from Education Scotland arising from their inspection programme of schools, including evaluation of the systems in place to set and monitor budgets devolved to head teachers to ensure adherence to DSM standards and practices.
Looked After Children at Home	15	Adequate controls are in place to ensure sound budgetary control and the demand on service delivery for Looked After Children at Home.
Developer Contributions/Development Management Fees	25	Adequate controls are in place over income and expenditure and use of resources regarding Developer Contributions and Development Management Fees. Commitment from other departments to ensure policies and procedures are operating effectively, including conditions within legal agreements and payback of contributions.
Building Standards Emergency Works	20	The Council has adequate controls in place for emergency works income and expenditure including credit control responsibilities and transparency of reporting to Elected Members.
Assessors	15	There are adequate controls to ensure that responsibilities are discharged appropriately to provide and maintain the valuation roll and to ensure timely and correct value assessment of properties to meet required standards and practices.
Adult Social Care Services - Learning Disability Service	15	Review of the governance and accountability arrangements in place for Adults with Learning Disabilities to ensure obligations are met to deliver learning disability services and closer integration via partnership working.
SB Contracts	30	Adequate financial and operational controls are in place over externally sourced income and operations to ensure sustainability. 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.
Homelessness	15	Review of controls in place to ensure the achievement of statutory obligations for the Homelessness service, including a focus on prevention and support.
	165	

AUDIT	2019/20 (Days)	COMMENTARY
Asset Management		
Property Asset Management	15	The Council has a structured Property Management Framework and an associated property maintenance programme for its buildings, other property and facilities to ensure they are fit for purpose, and has accurate records to demonstrate efficient and effective use.
Paths Asset Management	10	Risks are identified and effectively mitigated relating to Asset Management issues on managed paths.
Roads Asset Management	20	The Council has a structured framework for Roads Asset Management (roads, bridges, footways, lighting), including an inspection programme, to demonstrate efficient and effective use of resources.
	45	

Appendix 2 Internal Audit Annual Plan 2019/20

AUDIT	2019/20 (Days)	COMMENTARY
Legislative & Other Compliance		
Jedburgh Conservation Area Regeneration Scheme (CARS)	10	Review as part of programme compliance and evaluation requirements of the external funders including audit requirements.
EU Funded Programmes (LEADER and European Maritime Fisheries Fund)	20	Annual audits of EU grant-funded programmes under the terms of Service Level Agreements (SLAs) to assess compliance with the requirements of the SLAs and the relevant EC Regulations.
	30	
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 and Other Forums	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 programmes and projects involving major change and systems implementation (eg, Digital Customer Programme, Contract Management, Corporate Landlord); provide independent challenge of the evidence to support improvement (eg, Early Years National Policy, Joint Older People Services, Public Protection and Criminal Justice); and perform an independent and objective assessment of the evidence to support self-evaluation and improvement in support of Best Value.
	70	
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	
	690	
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	
Total Audit Days	775	

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