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AUDIT COMMITTEE MONDAY, 13 MARCH 2023

A MEETING of the AUDIT COMMITTEE will be held VIA MICROSOFT TEAMS on MONDAY, 13 MARCH 2023 at 10.00 am

All attendees, including members of the public, should note that the public business in this meeting will be livestreamed and video recorded and that recording will be available thereafter for public view for 180 days.

J. J. WILKINSON,
Clerk to the Council,

3 March 2023

BUSINESS		
1.	Apologies for Absence	
2.	Order of Business	
3.	Declarations of Interest	
4.	Minute	5 mins
	(a) Minute - 13 February 2023 Consider Minute of the Meeting held on 13 February 2023 for approval and signature by the Chair. (To follow.)	
	(b) Audit Committee Action Tracker Consider update on Audit Committee actions. (To follow.)	
5.	Director Risk Management Presentation Consider presentation on corporate risks by Director Infrastructure and Environment.	15 mins
6.	Best Value Audit Actions Update (Pages 3 - 8) Consider update by Director People Performance and Change. (Copy attached.)	15 mins
7.	Follow-up Review 2022-23 of Completed Audit Recommendations (Pages 9 - 12) Consider report by Chief Officer Audit and Risk. (Copy attached.)	15 mins

8.	SBC Local Code of Corporate Governance (Pages 13 - 34) Consider report by Chief Executive. (Copy attached.)	10 mins
9.	External Audit Annual Plan 2022-23 for Scottish Borders Council Consider audit plan from Audit Scotland for Scottish Borders Council. (To follow.)	15 mins
10.	External Audit Annual Plan 2022-23 for the SBC Pension Fund (Pages 35 - 52) Consider audit plan by Audit Scotland for SBC Pension Fund. (Copy attached.)	10 mins
11.	Internal Audit Charter (Pages 53 - 64) Consider report by Chief Officer Audit and Risk. (Copy attached.)	10 mins
12.	Internal Audit Strategy and Annual Plan 2023-24 (Pages 65 - 84) Consider report by Chief Officer Audit and Risk. (Copy attached.)	10 mins
13.	Any Other Items Previously Circulated	
14.	Any Other Items which the Chair 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 E. Thornton-Nicol (Chair), N. Richards (Vice-Chair), J. Anderson, P. Brown, J. Cox, M. Douglas, J. PatonDay, E. Robson, S. Scott, F. Sinclair, Mr S. Whalley and Mr P. Whitfield

Please direct any enquiries to William Mohieddeen
Tel: 01835 826504; Email: william.mohieddeen@scotborders.gov.uk



SCOTTISH BORDERS COUNCIL

Best Value Audit

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Audit & Scrutiny Committee

March 2023 Update

Jason McDonald & Maggie Cripps

Agenda Item 6



Background

- Audit Scotland carry out Best Value Audits approximately every 5 to 6 years
- Our last audit was in October 2019
- 7 improvement recommendations were made
- We developed a 40 point action plan
- Progress continued through Covid
- We are now ready to close off this work, and move forwards with ongoing oversight of performance



Key Audit Recommendations

- *Embed a culture of Continuous improvement by implementing a corporate approach to self evaluation and benchmarking*
- *Seek to improve partnership working with NHS Borders in order to support the strategic objectives of the Integration Joint Board*
- *Improve how the Community Planning Partnership involves communities and the third sector, through greater involvement in local decision making and by accelerating implementation of the Community empowerment act*

Examples of Action Taken

Self evaluation and benchmarking data is being embedded as a core part of the planning process

Creation of a Future Strategy Group to develop direction and oversee strategic developments

A full organisational review has been undertaken and a range of new engagement roles created working directly with communities



Key Audit Recommendations

- *Establish a structured programme of ongoing staff consultation and engagement*
- *Update its people plan for 2017 -21 and ensure longer term workforce plans are reflected in service and financial plans*
- *Support members Continuing Professional Development by tailoring training to meet their individual needs and use technology to make training more accessible*
- *Ensure performance reports to members and the public are more comprehensive balanced and that they cover service performance and the delivery of the Fit for 2024 programme*

Examples of Action Taken

Employee survey carried out

New digital people planning process introduced

Member-specific SB Learn training suite set up

New performance reporting format introduced



Progress on Identified Outstanding Actions

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NO.	ACTION	NOTES	LATEST UPDATE
26	Ensure each department has a 5 year people plan which aligns with the corporate plan and Fit for 2024 principles.	New format of People Plans and the introduction of a new Succession Planning agreed with SLT, pilot took place June to July in the E&I Service. Now being rolled out across all Services and completed before the end of the year.	All services have started or completed one cycle of the new digital format of people and succession planning. This is now embedded as a quarterly activity.
30	Undertake a review of induction training with members to establish any gaps.	Phases 1 and 2 of the Members induction programme now complete and Phase 3 (final stage) will commence early September. Questionnaire to be issued to Members to establish any gaps in knowledge.	The full range of induction has now been completed. See Action 32 re questionnaire.
31	Develop a members section of SBLearn where specific materials linked to Councillor responsibilities could be housed.	Still to have meeting with HR on how best to take this forward. Pressure of other work has meant this has not been taken forward	Online Council Training for Elected Members has been set up on SB Learn and contains specific materials linked to Councillor responsibilities.
32	Survey with the members to identify skills gaps.	All Members will be surveyed following election in May 2022; survey being developed as part of induction programme. Survey to be undertaken Autumn 2022.	A questionnaire is currently being planned to establish any gaps in knowledge. This will be taken forwards before Summer recess as part of the development of the members training programme for 23/24. Newly elected members will benefit from this timing as they now have had time to understand any areas they may benefit from further awareness on.
33	Review the potential for earlier visibility of meeting / Committee content, for members.	Work underway with Chief Executive and Monitoring Officer on how best to take this forward	Wherever possible members now receive papers 10 days in advance rather than 7 days



Next Steps

- Delivering commitments in Council Plan
- Continued Implementation of Performance Management Framework
 - Indicators
 - Benchmarking
 - Self Assessment
- Internal & External Audit recommendations
- Committee Report recommendations
- Transformation Programme
- Service Planning
- Improvement Plans
- Continual Improvement



FOLLOW-UP REVIEW 2022/23 OF COMPLETED INTERNAL AUDIT RECOMMENDATIONS

Report by Chief Officer Audit & Risk

AUDIT COMMITTEE

13 March 2023

1 PURPOSE AND SUMMARY

- 1.1 The purpose of the report is to provide an update to the Audit Committee on the results of the Follow-Up Review which included a sample check on the adequacy of new internal controls for Internal Audit Recommendations marked as completed by Management in the period January to December 2022.**
- 1.2 Internal Audit is an independent appraisal function established for the review of the internal control system as a service to Scottish Borders Council. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources and the management of risk.
- 1.3 The Internal Audit activity adds value to the organisation (and its stakeholders) when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management and control processes (by way of making audit recommendations); and objectively provides relevant assurance.
- 1.4 The Remit of the Audit Committee includes the Audit function to consider "all matters relating to the implementation of recommendations contained within internal audit reports", as part of its high level oversight of the framework of internal control, risk management and governance within the Council.

2 RECOMMENDATIONS

2.1 I recommend that the Audit Committee:

- a) Acknowledges the results of the spot check on Internal Audit recommendations that have been marked as completed by Management in the period January to December 2022 to improve internal controls and governance, and mitigate risks;**
- b) Considers whether it is satisfied with the outcomes or whether any further action is required; and**
- c) Notes that Internal Audit will continue to monitor the completion of recommendations and will provide update reports to this Committee.**

3 BACKGROUND

- 3.1 Internal Audit is an independent appraisal function established for the review of the internal control system as a service to Scottish Borders Council. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources and the management of risk.
- 3.2 The Internal Audit activity adds value to the organisation (and its stakeholders) when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management and control processes (by way of making audit recommendations); and objectively provides relevant assurance.
- 3.3 Management has the responsibility for ensuring that agreed audit actions are implemented to improve controls and governance and mitigate risks. At Internal Audit Final Report stage the Audit Recommendations are input to Pentana Risk, the Council's corporate performance management system. This is designed to assist with Management tracking of implementation, link with relevant risks, and evidence continuous improvement.
- 3.4 The Internal Audit Annual Plan 2022/23 includes two follow-up reviews. The first reports on progress Management have made in implementing the recommendations by the expected date (presented to 12 December 2022 Audit Committee). The second checks a sample of Internal Audit recommendations which have been marked as complete by Management and reviews the adequacy of the actions taken and improvements made (the subject of this report).
- 3.5 The Remit of the Audit Committee includes the Audit function to consider "all matters relating to the implementation of recommendations contained within internal audit reports", as part of its high-level oversight of the framework of internal control, risk management and governance within the Council.

4 PROGRESS UPDATE

- 4.1 The objective of this follow-up audit was to review a sample of 'completed' Internal Audit recommendations to assess the evidence that they had been implemented satisfactorily and to ensure that the new controls had the desired outcomes of improving internal control and governance, and reducing risk.
- 4.2 A sample of seven (7) Internal Audit recommendations were selected that had been marked as completed on the Pentana system by Management during the period January to December 2022. The sample related to the Internal Audit reports in the following table:

Audit Report	Number of recommendations included in this review	High Priority	Medium Priority	Low Priority
Waste & Recycling Services	1	0	0	1
Digital Strategy	1	0	1	0
Economic Development Industrial Property	1	0	1	0
Attendance Management	1	0	0	1
Self Directed Support	3	0	2	1

- 4.3 From the seven (7) recommendations tested, all were found to have been completed satisfactorily. The evidence that was provided by Management indicated that the Audit recommendations had been implemented satisfactorily and the action taken had the desired outcome of improving internal control and governance, and reducing risk. This provides assurance of evidence-based continuous improvement.
- 4.4 Internal Audit will continue to work with Directors and action owners to ensure the Audit Actions are fully completed with provision of evidence to support this, to demonstrate continuous improvement. Managers have been reminded that requests can be made to extend due dates if progress on implementation has not been as originally expected.
- 4.5 A further update on progress with the implementation of Internal Audit recommendations will be included within the Internal Audit Annual Assurance Report 2022/23 for Scottish Borders Council, which is scheduled for presentation to the Audit Committee in May 2023.

5 IMPLICATIONS

5.1 Financial

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

5.2 Risk and Mitigations

- a) Internal Audit provides assurance to Management and the Audit Committee on the adequacy and effectiveness of internal controls and governance within the Council, including risk management, highlights good practice and makes recommendations.
- b) It is anticipated that improved risk management or mitigation will arise as a direct result of Management implementing the Internal Audit recommendations, which will evidence improvements in internal controls and governance arrangements. If the Internal Audit recommendations are not implemented then risks may be more likely to occur or have a greater impact if they do.
- c) Internal Audit recommendations also highlight potential risks and are taken into account when risk registers are reviewed and new risks are identified. Internal Audit is the third line of defence in the governance of risk.

5.3 Integrated Impact Assessment

There is no relevance to Equality Duty or the Fairer Scotland Duty for this report. This is a routine good governance report for assurance purposes, required under the Local Authority Accounts (Scotland) Regulations 2014 and the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017).

5.4 Sustainable Development Goals

The recommendations in this report will not directly impact any of the 17 UN Sustainable Development Goals.

5.5 **Climate Change**

This report does not relate to any proposal, plan or project and as a result the checklist on Climate Change is not an applicable consideration.

5.6 **Rural Proofing**

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

5.7 **Data Protection Impact Statement**

There are no personal data implications arising from the content of this report.

5.8 **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 content in this report.

6 **CONSULTATION**

6.1 The Council Management Team considered this report on 1 March 2023 as part of their senior Management oversight of progress with and outcomes from implementing Internal Audit recommendations to improve governance arrangements, risk management and internal controls.

6.2 In addition, the Acting Chief Financial Officer, Interim Chief Officer Corporate Governance (and Monitoring Officer), Director – People Performance & Change, Clerk to the Council, and Communications team have been consulted on this report and appendix and any comments received have been taken into account.

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 and Pentana system

Previous Minute Reference: Audit Committee 12 December 2022

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LOCAL CODE OF CORPORATE GOVERNANCE

Report by Chief Executive

AUDIT COMMITTEE

13 March 2023

1 PURPOSE AND SUMMARY

- 1.1 This report proposes that the Audit Committee considers the revisions to the Council's Local Code of Corporate Governance and recommends it for approval by full Council.**
- 1.2 This report provides the Audit Committee with the opportunity to scrutinise the updated Local Code of Corporate Governance for Scottish Borders Council and recommend it for Council approval, to assist with the 2022/23 annual assurance process.
- 1.3 Scottish Borders Council (SBC) 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.
- 1.4 The SBC Local Code of Corporate Governance, which is consistent with the principles and recommendations of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' and the supporting guidance notes for Scottish authorities (2016), was previously revised and approved by Council on 28 June 2018.
- 1.5 The SBC Local Code of Corporate Governance has been updated by the officer Governance Self-Assessment Working Group, on behalf of the Council Management Team (CMT). The updated SBC Local Code of Corporate Governance (Appendix 1) will require approval by Council to ensure this key document continues to be relevant and complete to reflect the appropriate framework for effective governance of the Council's affairs and facilitate the exercise of its functions to deliver best value.

2 RECOMMENDATIONS

- 2.1 I recommend that the Committee:**
 - a) Notes the changes outlined in this report;**
 - b) Recommends to Council for approval of the updated Local Code of Corporate Governance (Appendix 1); and**
 - c) Notes that the updated Local Code will be used for the 2022/23 annual assurance process.**

3 BACKGROUND

- 3.1 Scottish Borders Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
- 3.2 The Council's Local Code of Corporate Governance, which is consistent with the principles and recommendations of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' and the supporting guidance notes for Scottish authorities (2016), was previously revised and approved by Council on 28 June 2018, on recommendation by the Audit Committee.
- 3.3 Fundamentally, Corporate Governance is about openness, integrity and accountability. It comprises the systems and processes, and cultures and values by which the authority is directed and controlled and through which it accounts to, engages with and, where appropriate, leads its communities.
- 3.4 The CIPFA/SOLACE Framework urges local authorities to review the effectiveness of their existing governance arrangements against their Local Code, and prepare a governance statement and report compliance on an annual basis.
- 3.5 Part of the Audit Committee's remit is to assess the effectiveness of internal controls, risk management, and governance arrangements in place.

4 REVISIONS TO THE LOCAL CODE OF CORPORATE GOVERNANCE

- 4.1 The officer Governance Self-Assessment Working Group during the 2021/22 Review of Framework concluded that revisions are required to the Local Code of Corporate Governance to ensure it reflects the changing context of Scottish Borders Council and continues to be a value-added tool for members and officers of the Council in the conduct of the Council's affairs.
- 4.2 The annual review 2021/22 conclusion was stated within the draft Annual Governance Statement 2021/22 that was presented to the Audit Committee on 27 June 2022.
- 4.3 The 7 core principles of good governance set out in the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' (2016) are:
 - A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
 - B. Ensuring openness and comprehensive stakeholder engagement
 - C. Defining outcomes in terms of sustainable economic, social, and environmental benefits
 - D. Determining the interventions necessary to optimise the achievement of the intended outcomes
 - E. Developing the entity's capacity, including the capability of its leadership and the individuals within it
 - F. Managing risks and performance through robust internal control and strong public financial management
 - G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability

- 4.4 The officer Governance Self-Assessment Working Group, on behalf of the Council Management Team (CMT), engaged in the review and update of the SBC Local Code of Corporate Governance during the latter half of 2022, and considered one Local Code principle at a time.
- 4.5 The main changes to the Local Code cover:
- Comprehensive evidence against each of the seven principles of good governance and sub-principles;
 - Reflecting the post-local elections new arrangements e.g. Administration and its priorities, committee structures and functions;
 - Updates to strategies, plans and processes which reflect the current operating environment;
 - Further developments in community and citizen consultation and engagement activities;
 - Enhancements to developing the capacity and capability; and
 - Enhancements arising from audit and inspection findings, and other planned changes.
- 4.6 The updated Local Code of Corporate Governance for Scottish Borders Council (Appendix 1) is presented to the Audit Committee for scrutiny prior to presentation to Council for approval.
- 4.7 The updated Local Code will be used for the 2022/23 annual assurance process. This process includes the annual self-assessment, the identification of improvement actions that are designed to enhance the internal control environment, and risk management and corporate governance arrangements, and the preparation and publication of an Annual Governance Statement reporting on the review and outcomes. This process not only creates an opportunity for the Council to set out its standards for good governance but also to ensure that its governance arrangements are seen to be sound. This is important as the governance arrangements in public services are closely scrutinised. This is one example of how the Council demonstrates the core principle of good governance "G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability" included within the CIPFA/SOLACE Framework.

5 IMPLICATIONS

5.1 Financial

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

The overall aim of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' (2016), on which Scottish Borders Council's Local Code of Corporate Governance is framed, is to ensure that:

- resources are directed in accordance with agreed policy and according to priorities;
- there is sound and inclusive decision making; and
- there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

Core principle of good governance "E. Developing the entity's capacity, including the capability of its leadership and the individuals within it" is

included within the CIPFA/SOLACE Framework. Workforce and elected member development are a key part of the good governance framework within the Council's Local Code of Corporate Governance.

This will enable the Council to fulfil its obligations to provide best value service delivery to its citizens.

5.2 **Risk and Mitigations**

The review and update of the Local Code of Corporate Governance will ensure that internal controls, risk management and other governance arrangements reflect the arrangements in place on an evidence-basis. This helps to ensure proper arrangements continue to be in place to meet the responsibilities set out in the CIPFA/SOLACE Framework.

Core principle of good governance "F. Managing risks and performance through robust internal control and strong public financial management" is included within the CIPFA/SOLACE Framework. Scottish Borders Council's evidence of systems, processes and documentation to demonstrate local compliance with this core principle of good governance is set out in its updated Local Code of Corporate Governance.

5.3 **Integrated Impact Assessment**

This is a routine good governance report for assurance purposes, required under the Local Authority Accounts (Scotland) Regulations 2014. This report does not relate to new or amended policy or strategy and as a result an integrated impact assessment is not an applicable consideration.

The application of practices to ensure obligations under the Equalities Act and compliance with the Fairer Scotland Duty is set out in Scottish Borders Council's Local Code of Corporate Governance to demonstrate compliance of core principle of good governance "A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law" which is included within the CIPFA/SOLACE Framework.

5.4 **Sustainable Development Goals**

The recommendations in this report will not directly impact any of the 17 UN Sustainable Development Goals.

Core principle of good governance "C. Defining outcomes in terms of sustainable economic, social, and environmental benefits" is included within the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' (2016). The evidence of Scottish Borders Council's systems, processes and documentation to demonstrate local compliance with this core principle of good governance is set out in its Local Code of Corporate Governance.

5.5 **Climate Change**

This report does not relate to any proposal, plan or project and as a result the checklist on Climate Change is not an applicable consideration.

Core principle of good governance "D. Determining the interventions necessary to optimise the achievement of the intended outcomes" is included within the CIPFA/SOLACE Framework. Prevention arrangements

are a key part of the good governance framework within the Council’s Local Code of Corporate Governance.

5.6 Rural Proofing

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

Core principle of good governance “B. Ensuring openness and comprehensive stakeholder engagement” is included within the CIPFA/SOLACE Framework. Scottish Borders Council’s evidence of systems, processes and documentation on how to work effectively with communities, involve local people at the outset, and consult appropriately to demonstrate local compliance with this core principle of good governance is set out in its Local Code of Corporate Governance.

5.7 Data Protection Impact Statement

There are no personal data implications arising from content of this report.

5.8 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 content in this report.

6 CONSULTATION

6.1 The Council Management Team considered this report and appendix on 1 March 2023 to sign-off the updated Local Code of Corporate Governance to ensure their knowledge of its content to support their role in the annual assurance process 2022/23.

6.2 The Acting Chief Financial Officer, Interim Chief Officer Corporate Governance (and Monitoring Officer), Director People, Performance & Change, Clerk to the Council, and Communications team have been consulted on this report and any comments received have been incorporated.

Chief Executive **Approved by**
Signature

Author(s)

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

Background Papers: CIPFA/SOLACE framework ‘Delivering Good Governance in Local Government’; Scottish Borders Council Local Code of Corporate Governance

Previous Minute Reference: Audit and Scrutiny Committee 27 June 2022

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Scottish Borders Council Local Code of Corporate Governance (revised February 2023)

Scottish Borders Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

The Council operates through a governance framework for the conduct of its affairs which brings together an underlying set of legislative requirements, governance principles and management processes. The Council's revised Local Code of Corporate Governance, which is consistent with the principles and requirements of the CIPFA/SOLACE Framework 2016 "Delivering Good Governance in Local Government", will help to ensure proper arrangements continue to be in place to meet the Council's responsibilities.

The concept underpinning the Framework is that it assists local government in taking responsibility for developing and shaping an informed approach to governance, aimed at achieving the highest standards in a measured and proportionate way. The Framework helps authorities individually in reviewing and accounting for their own unique approach. The overall aim is to ensure that:

- resources are directed in accordance with agreed policy and according to priorities
- there is sound and inclusive decision making
- there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

The environment in which it works local government is increasing in complexity. The Public Bodies (Joint Working) (Scotland) Act 2014 and other legislation have brought about new roles, opportunities and greater flexibility, as well as challenges for authorities.

The development of new structures, such as health and social care partnerships, necessitates the design of governance structures from the bottom up, ensuring that the core principles of good governance covering openness and stakeholder engagement, defining outcomes, monitoring performance and demonstrating effective accountability are integrated and embedded within the new structures and that mechanisms for effective scrutiny are established.

Whether working with other authorities, public sector bodies, the third sector or private sector providers, local authorities must ensure that robust governance arrangements are established at the outset. The 'Framework' defines the seven core principles of good governance, which the Council fully supports, namely:

- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
- B. Ensuring openness and comprehensive stakeholder engagement
- C. Defining outcomes in terms of sustainable economic, social, and environmental benefits
- D. Determining the interventions necessary to optimise the achievement of the intended outcomes
- E. Developing the entity's capacity, including the capability of its leadership and the individuals within it
- F. Managing risks and performance through robust internal control and strong public financial management
- G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability

Scottish Borders Council aims to meet the highest standards of corporate governance to help ensure that it meets its objectives. It will test its structure against these principles by:

- Reviewing its existing governance arrangements against the 'Framework'
- Developing and maintaining an up-to-date Local Code of Governance including arrangements for ensuring its ongoing application and effectiveness
- Preparing a governance statement (Annual Governance Statement) in order to report publicly on the extent to which it complies with its own code on an annual basis, including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes for the coming period.

The preparation and publication of an Annual Governance Statement in accordance with the Framework fulfils the statutory requirement for a local authority to conduct a review at least once in each financial year of the effectiveness of its system of internal control and to include a statement reporting on the review with its Statement of Accounts. This process not only creates an opportunity for the Council to set out its standards for good governance but also to ensure that its governance arrangements are seen to be sound. This is important as the governance arrangements in public services are closely scrutinised.

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

Local government organisations are accountable not only for how much they spend, but also for how they use the resources under their stewardship. This includes accountability for outputs, both positive and negative, and for the outcomes they have achieved. In addition, they have an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies. It is essential that, as a whole, they can demonstrate the appropriateness of all their actions and have mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law.

A1 Behaving with integrity

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Ensuring members and officers behave with integrity and lead a culture where acting in the public interest is visibly and consistently demonstrated thereby protecting the reputation of the organisation	Standards and obligations are set out in the Councillors' Code of Conduct, covered during Induction process and included in Welcome Pack for continual reference supplemented by ongoing support from Officers. Protocol on Relationships between Political Groups, Elected Members and Officers. Employees' Code of Conduct reflects the values of the Council, incorporates "The Seven Principles of Public Life" identified by the Nolan Committee on Standards in Public Life, and includes Whistleblowing Policy. The Appraisal and Competency Framework in place for employees is based upon the Council's Values and Standards and includes Demonstrating Positive Behaviours, as part of People Plan linked to Council Plan.
2	Ensuring members take the lead in establishing specific standard operating principles or values for the organisation and its staff and that they are communicated and understood. These should build on the Seven Principles of Public Life (the Nolan Principles)	The Council Plan (approved by Council and published on website) sets out the Council's vision, values and standards to guide the way it works and to inform strategies and policies based on priorities.
3	Leading by example and using these standard operating principles or values as a framework for decision making and other actions	Declarations of Interest are set out in the Council's Procedural Standing Orders, which govern the conduct of each Committee meeting. Members Registers of Interest is published on the Council's website.
4	Demonstrating, communicating and embedding the standard operating principles or values through appropriate policies and processes which are reviewed on a regular basis to ensure that they are operating effectively	Counter Fraud Policy and Strategy approved by Council. Councillors' and Employees' Codes of Conduct outline the arrangements for identifying, mitigating and recording conflicts of interest, hospitality and gifts. Declarations of Interest are set out in the Council's Procedural Standing Orders, which govern the conduct of each Committee meeting. Members' Registers of Interest is published on the Council's website. Employees' Code of Conduct includes Whistleblowing Policy. Annual Complaints Reports to relevant committee.

A2 Demonstrating strong commitment to ethical values

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Seeking to establish, monitor and maintain the organisation's ethical standards and performance	Annual Governance Statement is the outcome of self-evaluation of compliance. The Audit Committee has high-level oversight role to ensure the highest standards of probity and public accountability are demonstrated.
2	Underpinning personal behaviour with ethical values and ensuring they permeate all aspects of the organisation's culture and operation	Standards of conduct and behaviour including communication are set out in the Councillor and Employees' Codes of Conduct (embodies Nolan principles). Induction programmes include the above to ensure competency.
3	Developing and maintaining robust policies and procedures	Employees' Code of Conduct reflects the Council's values and "The Seven Principles of Public Life". The Council's values are included within the competency framework for appraisal of all employees.
4	Ensuring that external providers of services on behalf of the organisation are required to act with integrity and in compliance with high ethical standards expected by the organisation	The 'Procurement and Contract Standing Orders' apply to all contracts made by or on behalf of the Council for the procurement of the execution of works, the supply of goods and materials to the Council, and/or for the provision of services. Objectives and values from the Council Plan included within the Sustainable Procurement Charter.

A3 Respecting the rule of law

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Ensuring members and staff demonstrate a strong commitment to the rule of the law as well as adhering to relevant laws and regulations	Advice and overseeing compliance on legal matters is provided by the Chief Legal Officer (the Monitoring Officer) and the Clerk to the Council as set out in Scheme of Delegation, job descriptions, and protocols.
2	Creating the conditions to ensure that the statutory officers, other key post holders and members are able to fulfil their responsibilities in accordance with legislative and regulatory requirements	The roles and responsibilities of statutory officers (Head of Paid Service, Chief Social Work Officer, s95 Financial Officer, and Monitoring Officer) are set out in their respective job descriptions and associated legislation. Membership of Professional Bodies is required. The Scheme of Delegation sets out powers delegated to specific officers to fulfil their functions.
3	Striving to optimise the use of the full powers available for the benefit of citizens, communities and other stakeholders	The Local Code of Corporate Governance includes Scheme of Administration, Procedural Standing Orders, Scheme of Delegation and Financial Regulations, which reflect the legal requirements placed upon the authority.
4	Dealing with breaches of legal and regulatory provisions effectively.	Advice and overseeing compliance on legal matters is provided by the Chief Legal Officer (the Monitoring Officer) and the advice on procedural matters is provided by the Clerk to the Council as set out in Scheme of Delegation, job descriptions, and protocols. HR policies and procedures ensure compliance with legislation and standards of conduct.
5	Ensuring corruption and misuse of power are dealt with effectively	Counter Fraud Policy and Strategy approved by Council. Integrity Group of Officers with role to improve the Council's resilience to fraud, corruption, theft and crime. Counter Fraud Annual Report presented to Audit Committee, including assurance self-assessment.

B. Ensuring openness and comprehensive stakeholder engagement

Local government is run for the public good; organisations therefore should ensure openness in their activities. Clear, trusted channels of communication and consultation should be used to engage effectively with all groups of stakeholders, such as individual citizens and service users, as well as institutional stakeholders

B1 Openness

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Ensuring an open culture through demonstrating, documenting and communicating the organisation's commitment to openness	The Council Plan (approved by Council and published on website) sets out the Council's vision, values and standards (including "Be fair, equal and open") to guide the way it works and to inform strategies and policies based on priorities.
2	Making decisions that are open about actions, plans, resource use, forecasts, outputs and outcomes. The presumption is for openness. If that is not the case, a justification for the reasoning for keeping a decision confidential should be provided	Calendar of main Council and Committee meetings. Minutes and committee reports published on the Council's website. Council meetings held in public unless there are good reasons for not doing so on the grounds of confidentiality. Committee meetings livestreamed and recordings stored for 180 days.
3	Providing clear reasoning and evidence for decisions in both public records and explanations to stakeholders and being explicit about the criteria, rationale and considerations used. In due course, ensuring that the impact and consequences of those decisions are clear	Committee report templates include Implications section covering Financial, Risk and Mitigations, Integrated Impact Assessment, Sustainable Development Goals, Climate Change, Rural Proofing, Data Protection Impact Statement, and Changes to Schemes of Administration or Delegation. Committee reports published on Council's website 10 calendar days in advance of meetings.
4	Using formal and informal consultation and engagement to determine the most appropriate and effective interventions/ courses of action	The CPP Community Engagement Framework sets out principles for engagement and the Toolkit shares best practice methods and enables engagement activities to be delivered in a consistent, cost effective and transparent manner.

B2 Engaging comprehensively with institutional stakeholders

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Effectively engaging with institutional stakeholders to ensure that the purpose, objectives and intended outcomes for each stakeholder relationship are clear so that outcomes are achieved successfully and sustainably	The Scheme of Administration sets out arrangements for and appointments to Community and Partnership bodies, including Community Planning Partnership (CPP), and Other Committees / Boards, including Integration Joint Board.
2	Developing formal and informal partnerships to allow for resources to be used more efficiently and outcomes achieved more effectively	In addition to B2.1, Elected Members appointed as Representatives on Other Bodies.
3	Ensuring that partnerships are based on: <ul style="list-style-type: none"> • trust; • a shared commitment to change; • a culture that promotes and accepts challenge among partners; and • that the added value of partnership working is explicit 	The Strategic Assessment underpins the strategic vision for the Council and its partners and the commitment to change. The CPP Governance Structure provides forum for challenge, and themes and priorities include sub-groups to support delivery.

B3 Engaging stakeholders effectively, including individual citizens and service users

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Establishing a clear policy on the type of issues that the organisation will meaningfully consult with or involve individual citizens, service users and other stakeholders to ensure that service (or other) provision is contributing towards the achievement of intended outcomes	The CPP Community Engagement Framework sets out principles for engagement and the Toolkit shares best practice methods and enables engagement activities to be delivered in a consistent, cost effective and transparent manner.
2	Ensuring that communication methods are effective and that members and officers are clear about their roles with regard to community engagement	As B3.1
3	Encouraging, collecting and evaluating the views and experiences of communities, citizens, service users and organisations of different backgrounds including reference to future needs	The Council seeks community views on a wide range of issues and undertakes regular consultation and engagement with citizens and service users, for example via Citizen Space. The Council has put arrangements in place to comply with key elements of the Community Empowerment Act. The Council fully supports community empowerment and recognises the importance of building community capacity and volunteering as a key factor in building stronger, safer, and supportive communities.
4	Balancing feedback from more active stakeholder groups with other stakeholder groups to ensure inclusivity.	The Council seeks feedback from the public through its complaints and comments policy and procedures, responds to the outcomes, as appropriate, and reports the results annually.
5	Taking account of the interests of future generations of tax payers and service users	The Strategic Assessment is the body of evidence which underpins the strategic vision for the Council and its partners. Local Housing Strategy led by Council in collaboration with 4 main Registered Social Landlords sets out framework towards delivering future housing needs. School-Employer partnerships as part of developing the Young Workforce objectives and priorities (The Wood Report).

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

The long-term nature and impact of many of local government’s responsibilities mean that it should define and plan outcomes and that these should be sustainable. Decisions should further the authority’s purpose, contribute to intended benefits and outcomes, and remain within the limits of authority and resources. Input from all groups of stakeholders, including citizens, service users, and institutional stakeholders, is vital to the success of this process and in balancing competing demands when determining priorities for the finite resources available

C1 Defining outcomes

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Having a clear vision which is an agreed formal statement of the organisation’s purpose and intended outcomes containing appropriate performance indicators, which provides the basis for the organisation’s overall strategy, planning and other decisions	<p>The Community Planning Partnership (CPP), of which the Council is a partner, has an approved Community Plan as the Local Outcomes Improvement Plan (LOIP), underpinned by 5 Locality Plans.</p> <p>The Community Plan, produced in conjunction with local partners in public services, the private sector, voluntary sector and communities, focuses on themes, includes targets and challenges, and sets out measures for reducing inequality and improving outcomes, thereby setting the context for future service planning for the partners.</p> <p>The Council’s vision, strategic objectives and priorities underpinned by the Strategic Assessment are reflected in the approved Council Plan.</p>
2	Specifying the intended impact on, or changes for, stakeholders including citizens and service users. It could be immediately or over the course of a year or longer	Decision-making reports to Committees outlining any proposals to change policies, strategies and plans include a section on Implications covering Financial, Risk and Mitigations, Integrated Impact Assessment, Sustainable Development Goals, Climate Change, Rural Proofing, Data Protection Impact Statement, and Changes to the Scheme of Administration or Scheme of Delegation.
3	Delivering defined outcomes on a sustainable basis within the resources that will be available	<p>There is an annual Council Plan, approved by full Council, and Performance Indicators (PIs) which are aligned to Council Priorities are monitored through the Executive Committee on a quarterly cycle.</p> <p>The budget development process ensures that the financial plans of the Council, approved by full Council, are aligned with its business and people planning objectives and the level of resources available. The Executive Committee on a quarterly cycle monitors the delivery of the revenue and capital financial plans, including scrutiny of in-year and future-year savings.</p>
4	Identifying and managing risks to the achievement of outcomes	<p>Risk Management Policy and Strategy approved by the Council.</p> <p>Risk management practices embedded in business planning and performance management processes, underpinned by a corporate training programme.</p>
5	Managing service users’ expectations effectively with regard to determining priorities and making the best use of the resources available	<p>Budget Communications Strategy sets out the steps taken to engage with stakeholders as part of a consultation exercise on the budget.</p> <p>The Council’s Performance Management Framework establishes the mechanism for all services across the Council to ensure the Council meets its legal duty to provide best value to its citizens.</p>

C2 Sustainable economic, social and environmental benefits

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Considering and balancing the combined economic, social and environmental impact of policies, plans and decisions when taking decisions about service provision	<p>The Council committed to implementing the UN Sustainable Development Goals as they relate to local government, recognising the increasing urgency to use resources in ways which does not compromise the quality of life of future generations. Decision-making reports to Committees outlining any proposals to change policies, strategies and plans include an Implications section on Sustainable Development Goals.</p> <p>Asset management planning and capital investment is structured to consider and balance the combined economic, social and environmental impact of policies and plans when taking decisions about service provision. Project Business Cases for Capital Programme include assessment of need and strategic fit. As part of this asset life, as well as social and economic impact, is implicitly considered.</p> <p>Planning processes are in place for revenue and capital expenditure. Social and environmental impact is implicitly considered.</p>
2	Taking a longer-term view with regard to decision making, taking account of risk and acting transparently where there are potential conflicts between the organisation's intended outcomes and short-term factors such as the political cycle or financial constraints	<p>Various strategies and transformative programmes, including the Digital Strategy and the Corporate Transformation Programme, are in place to respond to the social, economic and demographic challenges facing the Council and still deliver high quality and improved services.</p> <p>The Long Term Financial Strategy, including the 10-year revenue and capital financial plans, provides the framework to refocus the scale and pace of delivery of change and transformation resulting from significant changes to the financial landscape.</p>
3	Determining the wider public interest associated with balancing conflicting interests between achieving the various economic, social and environmental benefits, through consultation where possible, in order to ensure appropriate trade-offs	Decision-making reports to Committees outlining any proposals to change policies, strategies and plans include an Implications section covering Financial, Risk and Mitigations, Integrated Impact Assessment, Sustainable Development Goals, Climate Change, Rural Proofing, Data Protection Impact Statement, and Changes to Schemes of Administration or Delegation.
4	Ensuring fair access to services	<p>Conducting an Integrated Impact Assessment is a requirement relating to any new or revised proposals such as policy, service or budget change, which affects people (the public or staff).</p> <p>The Integrated Impact Assessment process is a two stage procedure which enables the development or review of projects, policies, strategies, functions and services that meet the demands of Equality legislation and do not discriminate. The process incorporates the requirements to meet the Fairer Scotland Duty. The Equalities Forum to ensure that equalities are properly mainstreamed leads on publication of an annual Equality Mainstreaming Report.</p> <p>Service-specific governance arrangements include Fair access to social care policy and resource panels for children and adults services to ensure consistency.</p> <p>Rural Proofing Policy and Committee reports include section on Rural implications.</p>

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

Local government achieves its intended outcomes by providing a mixture of legal, regulatory, and practical interventions. Determining the right mix of these courses of action is a critically important strategic choice that local government has to make to ensure intended outcomes are achieved. They need robust decision-making mechanisms to ensure that their defined outcomes can be achieved in a way that provides the best trade-off between the various types of resource inputs while still enabling effective and efficient operations. Decisions made need to be reviewed continually to ensure that achievement of outcomes is optimised.

D1 Determining interventions

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Ensuring decision makers receive objective and rigorous analysis of a variety of options indicating how intended outcomes would be achieved and including the risks associated with those options. Therefore ensuring best value is achieved however services are provided	Decision makers receive detailed information indicating how intended outcomes would be achieved together with the risks, financial and other implications associated with the proposals, by way of the compulsory sections of the Committee report template. Guidance on preparing reports for Committees. Committee reports are published on Council's website 10 days in advance of meeting dates. Officers attend Committee meetings to advise as appropriate.
2	Considering feedback from citizens and service users when making decisions about service improvements or where services are no longer required in order to prioritise competing demands within limited resources available including people, skills, land and assets and bearing in mind future impacts	In determining how services and other courses of action should be planned and delivered the Council is increasingly engaging with internal and external stakeholders. The Council fosters effective relationships, collaborative working and contractual arrangements with other public, private, and voluntary organisations in delivering services that meet the needs of the local community.

D2 Planning interventions

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Establishing and implementing robust planning and control cycles that cover strategic and operational plans, priorities and targets	Calendar of main Council and Committee meetings. Regular refreshes of key strategic and operational plans, priorities and targets.
2	Engaging with internal and external stakeholders in determining how services and other courses of action should be planned and delivered	As D1.2
3	Considering and monitoring risks facing each partner when working collaboratively including shared risks	Risk Management Policy and Strategy.
4	Ensuring arrangements are flexible and agile so that the mechanisms for delivering outputs can be adapted to changing circumstances	Business, Financial and People Planning processes aligned to Council Plan priorities and outcomes. The Corporate Transformation Programme sets out a far-reaching programme of change to enable the Council to respond to unprecedented social, demographic and economic challenges.

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
5	Establishing appropriate key performance indicators (KPIs) as part of the planning process in order to identify how the performance of services and projects is to be measured	Performance Management Framework approved by Council. Quarterly performance reporting to the Executive Committee of Performance Indicators aligned to the priorities and outcomes in the Council Plan. These reports, published on website, show the progress towards achieving the outcomes in the Council Plan.
6	Ensuring capacity exists to generate the information required to review service quality regularly	Business Intelligence Programme is being developed with a view to delivering improvements to the quality of that data and the quality of management information and management reporting and assurance practices.
7	Preparing budgets in accordance with organisational objectives, strategies and the medium-term financial plan	The budget development process ensures that the financial plans of the Council, approved by full Council, are aligned with its business and people planning objectives and the level of resources available. Project Business Cases for Capital Programme include assessment of need and strategic fit. As part of this asset life, as well as social and economic impact, is implicitly considered.
8	Informing medium and long term resource planning by drawing up realistic estimates of revenue and capital expenditure aimed at developing a sustainable funding strategy	Long Term Financial Strategy and 10-year revenue and capital plans for approval by Council in February each year, aligned to the priorities and outcomes in the Council Plan.

D3 Optimising achievement of intended outcomes

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Ensuring the medium term financial strategy integrates and balances service priorities, affordability and other resource constraints	Long Term Financial Strategy and 10-year revenue and capital plans for approval by Council in February each year, aligned to the priorities and outcomes in the Council Plan.
2	Ensuring the budgeting process is all-inclusive, taking into account the full cost of operations over the medium and longer term	The budget development process ensures that the financial plans of the Council, approved by full Council, are aligned with its business and people planning objectives and the level of resources available.
3	Ensuring the medium-term financial strategy sets the context for ongoing decisions on significant delivery issues or responses to changes in the external environment that may arise during the budgetary period in order for outcomes to be achieved while optimising resource usage	Long Term Financial Strategy and 10-year revenue and capital plans for approval by Council in February each year, aligned to the priorities and outcomes in the Council Plan. The Corporate Transformation Programme supports the delivery of the Council's Corporate Priorities and the delivery of the significant savings set out in the Financial Strategy and Plans.
4	Ensuring the achievement of 'social value' through service planning and commissioning <i>(Social Value is technically referred to as Community Benefit in Scotland)</i>	The Council policy 'Adding Value to the Community through Procurement' embedded into the procurement strategy to ensure every procurement is considered for additional opportunities, such as community benefits, that create added value and will be social, economic or environmental benefits. This is achieved through the inclusion of specific clauses within contracts known as 'community benefit clauses'. The Community Benefits are tracked and summarised within the Procurement Annual Report.

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

Local government needs appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mind-set, to operate efficiently and effectively and achieve their intended outcomes within the specified periods. A local government organisation must ensure that it has both the capacity to fulfil its own mandate and to make certain that there are policies in place to guarantee that its management has the operational capacity for the organisation as a whole. Because both individuals and the environment in which an authority operates will change over time, there will be a continuous need to develop its capacity as well as the skills and experience of the leadership of individual staff members. Leadership in local government entities is strengthened by the participation of people with many different types of backgrounds, reflecting the structure and diversity of communities.

E1 Developing the entity's capacity

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Reviewing operations, performance and use of assets on a regular basis to ensure their continuing effectiveness	Business, Financial and People Planning processes aligned to Council Plan priorities and outcomes. Regular refreshes of key strategic and operational plans, priorities and targets.
2	Improving resource use through appropriate application of techniques such as benchmarking and other options to determine how the authority's resources are allocated so that outcomes are achieved effectively and efficiently	Performance Management Framework approved by Council. Participation in the Local Government Benchmarking Framework; data submission in August each year.
3	Recognising the benefits of partnerships and collaborative working where added value can be achieved	Options considered where relevant in any decision-making or service review. Strong ties between the Council and the Community Planning Partnership. Effective joint working and collaboration as a legacy of the emergency response.
4	Developing and maintaining an effective workforce plan to enhance the strategic allocation of resources	People Planning process applied across the Council on an ongoing basis.

E2 Developing the capability of the entity's leadership and other individuals

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Developing protocols to ensure that elected and appointed leaders negotiate with each other regarding their respective roles early on in the relationship and that a shared understanding of roles and objectives is maintained	Induction Programme for elected members to understand roles, protocols and standards, and included in Welcome Pack for continual reference supplemented by ongoing support from Officers. Protocol on Relationships between Political Groups, Elected Members and Officers.
2	Publishing a statement that specifies the types of decisions that are delegated and those reserved for the collective decision making of the governing body	The Scheme of Administration, Procedural Standing Orders, Scheme of Delegation and Financial Regulations reflect the powers delegated to specific committees and officers to enable effective and efficient fulfilment of their roles. Reviewed and updated on a regular basis.
3	Ensuring the leader and the chief executive have clearly defined and distinctive leadership roles within a structure, whereby the chief executive leads the authority in implementing strategy and managing the delivery of services and other outputs set by members and each provides a check and a balance for each other's authority	Regular meetings are held between Chief Executive and Leader. The Chief Executive is a Statutory post with job description. Responsibilities delegated to Chief Executive are detailed within the Scheme of Delegation.

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
4	Developing the capabilities of members and senior management to achieve effective shared leadership and to enable the organisation to respond successfully to changing legal and policy demands as well as economic, political and environmental changes and risks by:-	
-	- ensuring members and staff have access to appropriate induction tailored to their role and that ongoing training and development matching individual and organisational requirements is available and encouraged	'Introduction to becoming a Councillor' programme in advance of local elections (best practice) and a comprehensive Induction programme post-local elections. Ongoing training programme (including e-learning, seminars and courses) for all employees and elected members, and briefings for elected members and for employees on key priorities.
-	- ensuring members and officers have the appropriate skills, knowledge, resources and support to fulfil their roles and responsibilities and ensuring that they are able to update their knowledge on a continuing basis	Identification of training needs for elected members. The Appraisal and Competency Framework in place for all employees, as part of People Plan linked to Council Plan, to set individual goals and development plans, and assess performance. Training provided to elected members and employees in areas of identified need e.g. licensing, planning, employment, pension fund, audit, and data protection.
-	- ensuring personal, organisational and system wide development through shared learning, including lessons learnt from both internal and external governance weaknesses	Reports by external scrutiny and inspection bodies outlining findings and recommendations presented to the relevant Committee, including associated Action Plans for improvement.
5	Ensuring that there are structures in place to encourage public participation	The CPP Community Engagement Framework sets out principles for engagement and the Toolkit shares best practice methods and enables engagement activities to be delivered in a consistent, cost effective and transparent manner. The Community Plan is highly co-produced, and based on extensive public participation. The Council has put arrangements in place to comply with key elements of the Community Empowerment Act. The Council fully supports community empowerment and recognises the importance of building community capacity and volunteering as a key factor in building stronger, safer, and supportive communities.
6	Taking steps to consider the leadership's own effectiveness and ensuring leaders are open to constructive feedback from peer review and inspections	The Appraisal and Competency Framework in place for all employees, as part of People Plan linked to Council Plan, to set individual goals and development plans, and assess performance. This includes leadership characteristics to fulfil roles.
7	Holding staff to account through regular performance reviews which take account of training or development needs	The Appraisal and Competency Framework in place for all employees, as part of People Plan linked to Council Plan, to set individual goals and development plans, and assess performance.
8	Ensuring arrangements are in place to maintain the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental wellbeing	Provision of a mix of formal and informal offerings to support the wellness of the Council's employees, ranging from occupational health, HR policies, themed events, training, helplines and other support.

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

Local government needs to ensure that the organisations and governance structures that it oversees have implemented, and can sustain, an effective performance management system that facilitates effective and efficient delivery of planned services. Risk management and internal control are important and integral parts of a performance management system and crucial to the achievement of outcomes. Risk should be considered and addressed as part of all decision making activities.

A strong system of financial management is essential for the implementation of policies and the achievement of intended outcomes, as it will enforce financial discipline, strategic allocation of resources, efficient service delivery, and accountability.

It is also essential that a culture and structure for scrutiny is in place as a key part of accountable decision making, policy making and review. A positive working culture that accepts, promotes and encourages constructive challenge is critical to successful scrutiny and successful delivery. Importantly, this culture does not happen automatically, it requires repeated public commitment from those in authority.

F1 Managing risk

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Recognising that risk management is an integral part of all activities and must be considered in all aspects of decision making	Risk management practice embedded in business planning and performance management processes. Committee Report templates include a section on Implications covering Risk and Mitigations.
2	Implementing robust and integrated risk management arrangements and ensuring that they are working effectively	Risk Management Policy and Strategy scrutinised by Audit Committee and then approved by the Council. Risk Management Annual Report to enable Audit Committee to evaluate effectiveness of arrangements for managing risk. Regular review of Corporate and Service (strategic and operational) risk registers, programme and project risk registers, and partnership risk registers by relevant risk owners using new Risk Appetite, Capacity and Tolerance Toolkit for Managers.
3	Ensuring that responsibilities for managing individual risks are clearly allocated	Risk Management Policy sets out Roles and Responsibilities to manage risks effectively. Reliance on partners' risk arrangements relating to joint working and collaboration activities.

F2 Managing performance

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Monitoring service delivery effectively including planning, specification, execution and independent post-implementation review	Monitoring and progress reports on the Corporate Transformation Programme, Financial Plans and Performance are presented quarterly to Executive Committee for monitoring and review purposes. Public Performance Reporting published on Council's website.
2	Making decisions based on relevant, clear objective analysis and advice pointing out the implications and risks inherent in the organisation's financial, social and environmental position and outlook	Reports to Committees include a section on implications covering financial, risks and mitigations, equalities, environmental, rural, and governance. Committee reports published 10 calendar days in advance of meeting dates. Guidance on preparing Committee reports.

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
3	<p>Ensuring an effective scrutiny or oversight function is in place which encourages constructive challenge and debate on policies and objectives before, during and after decisions are made thereby enhancing the organisation's performance and that of any organisation for which it is responsible (OR, for a committee system)</p> <p>Encouraging effective and constructive challenge and debate on policies and objectives to support balanced and effective decision making</p> <p>Providing members and senior management with regular reports on service delivery plans and on progress towards outcome achievement</p>	<p>The Council's scrutiny arrangements are established through the Scheme of Administration through committee structures and specified remits.</p> <p>The Scrutiny and Petitions Committee's main scrutiny function is for monitoring and reviewing policy decisions, and to also act as a focus for value for money and service quality exercises.</p> <p>The Audit Committee has high-level oversight role to ensure the highest standards of probity and public accountability are demonstrated.</p>
4	<p>Providing members and senior management with regular reports on service delivery plans and on progress towards outcome achievement</p>	<p>Calendar of meetings approved by Council in advance. Timetables for preparation of and consultation on reports to meet publication dates.</p>
5	<p>Ensuring there is consistency between specification stages (such as budgets) and post-implementation reporting (e.g. financial statements)</p>	<p>The Scheme of Administration, Procedural Standing Orders, Scheme of Delegation and Financial Regulations reflect the powers delegated to specific committees and officers to enable effective and efficient fulfilment of their roles. Reviewed and updated on a regular basis.</p>

F3 Robust internal control

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	<p>Aligning the risk management strategy and policies on internal control with achieving objectives</p>	<p>Risk Management Policy and Strategy scrutinised by Audit Committee and approved by the Council.</p> <p>Internal Audit Strategy and risk-based annual Plans approved by Audit Committee.</p>
2	<p>Evaluating and monitoring risk management and internal control on a regular basis</p>	<p>Risk Management Annual Report to enable Audit Committee to evaluate effectiveness of managing risk. Regular Internal Audit reports on work, findings and recommendations to Audit Committee.</p>
3	<p>Ensuring effective counter fraud and anti-corruption arrangements are in place</p>	<p>Counter Fraud Policy and Strategy scrutinised by Audit Committee and approved by Council.</p> <p>Integrity Group with role to improve the Council's resilience to fraud, corruption, theft and crime.</p> <p>Counter Fraud Annual Report to Audit Committee, including assurance self-assessment, to enable monitoring of the counter fraud actions and resources to mitigate fraud risks.</p>
4	<p>Ensuring additional assurance on the overall adequacy and effectiveness of the framework of governance, risk management and control is provided by the internal auditor</p>	<p>Internal Audit Annual Assurance Report used to inform the Annual Governance Statement.</p> <p>Reports to Audit Committee on provision of Internal Audit statutory service and conformance with Public Sector Internal Audit Standards (PSIAS).</p>
5	<p>Ensuring an Audit Committee or equivalent group or function which is independent of the executive and accountable to the governing body:</p> <ul style="list-style-type: none"> - provides a further source of effective assurance regarding arrangements for managing risk and maintaining an effective control environment - that its recommendations are listened to and acted upon 	<p>The role of the Audit Committee is to have high-level oversight of internal control, governance and risk management.</p> <p>Independence maintained through separate committee and appointment of external members.</p> <p>Audit Committee Action Tracker to monitor recommendations.</p> <p>Annual self-evaluation of effectiveness of Audit Committee and Annual Report to Council (best practice).</p>

F4 Managing data

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Ensuring effective arrangements are in place for the safe collection, storage, use and sharing of data, including processes to safeguard personal data	Information Management policies and procedures include: Data Protection; Data Sharing; Freedom of Information; Information Management and Records Management (Retention and Disposal). Information Technology Policies and Procedures include: Email & Internet Use Policy; Information Security Policy; Protective Marking Policy. Information Asset Registers overseen by the Information Governance Group. The Records Management Plan agreed by Keeper of Records Scotland. Independent assurance from PSN and Cyber Essentials Plus certifications.
2	Ensuring effective arrangements are in place and operating effectively when sharing data with other bodies	Procedures, guidance and protocol on sharing of information. Conducting a Data Protection Impact Assessment is a requirement relating to any new or revised proposals such as policy, service or budget change. Register of Data Sharing agreements is in place (for PSN & Cyber Essentials Plus Compliance). Periodic Internal Audit reviews covering Information Governance and GDPR.
3	Reviewing and auditing regularly the quality and accuracy of data used in decision making and performance monitoring	Quality and Validation of data used in decision-making and performance reporting is the responsibility of the service area, ultimately the Director. Internal Audit annual reviews on Performance Management framework and indicators.

F5 Strong public financial management

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Ensuring financial management supports both long-term achievement of outcomes and short-term financial and operational performance	Long Term Financial Strategy and 10-year revenue and capital plans for approval by Council in February each year, aligned to the priorities and outcomes in the Council Plan. Financial Strategy provides the overall framework for the financial management of the Council and covers the revenue budget, capital investment plan, treasury management arrangements and the recommended policy on reserves. The Corporate Transformation Programme supports the delivery of the Council's Corporate Priorities and the delivery of the significant savings set out in the Financial Strategy and Plans.
2	Ensuring well-developed financial management is integrated at all levels of planning and control, including management of financial risks and controls	The budget development process ensures that the financial plans of the Council are aligned with the Council's business and people planning objectives and the level of resources available. The Executive Committee on a quarterly cycle monitors the delivery of the revenue and capital financial plans, including scrutiny of in-year and future-year savings. Financial Strategy Risk Register presented at approval stage to Council in February each year.

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

Accountability is about ensuring that those making decisions and delivering services are answerable for them. Effective accountability is concerned not only with reporting on actions completed, but also ensuring that stakeholders are able to understand and respond as the organisation plans and carries out its activities in a transparent manner. Both external and internal audit contribute to effective accountability.

G1 Implementing good practice in transparency

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Writing and communicating reports for the public and other stakeholders in an understandable style appropriate to the intended audience and ensuring that they are easy to access and interrogate	Public Performance Reporting published on Council’s website Committee reports published on the modern.gov site for transparency to reflect the decision-making structure within the Council’s Scheme of Administration.
2	Striking a balance between providing the right amount of information to satisfy transparency demands and enhance public scrutiny while not being too onerous to provide and for users to understand	A Committee report template used to ensure published information is written clearly and concisely, having regard to the complexity of the subject matter, with information on the implications of the proposals contained therein.

G2 Implementing good practices in reporting

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Reporting at least annually on performance, value for money and the stewardship of its resources	The Statement of Accounts, incorporating a Management Commentary, provides financial and other performance information regarding the operation of the Council, its wider achievements and areas for development. The Statement of Accounts produced in accordance with statutory guidance and deadlines. External Audit Annual Report provides assurance and key recommended improvements.
2	Ensuring members and senior management own the results	Guidance on preparing Committee reports includes mandatory consultation in advance, and templates incorporate appropriate approvals.
3	Ensuring robust arrangements for assessing the extent to which the principles contained in the Framework have been applied and publishing the results on this assessment including an action plan for improvement and evidence to demonstrate good governance (annual governance statement)	A self-evaluation of compliance with the Governance Framework is undertaken annually. The Annual Governance Statement is the outcome of that process which includes the Governance Framework, the Review of Framework, and Improvement Areas of Governance.
4	Ensuring that the Framework is applied to jointly managed or shared service organisations as appropriate	The annual assurance process and the Annual Governance Statement reflect the assurances received from Directors and other senior management, which covers the Council’s service delivery arrangements reflected in the Group Accounts.
5	Ensuring the performance information that accompanies the financial statements is prepared on a consistent and timely basis and the statements allow for comparison with other similar organisations	The Management Commentary in the Statement of Accounts provides financial and other performance information regarding the operation of the Council, its wider achievements, and areas for development.

G3 Assurance and effective accountability

	Behaviours and actions that demonstrate good governance	Demonstration of good governance in practice
1	Ensuring that recommendations for corrective action made by external audit are acted upon	External Audit reports outlining findings and recommendations (including follow-up progress) presented to the Audit Committee.
2	Ensuring an effective internal audit service with direct access to members is in place which provides assurance with regard to governance arrangements and recommendations are acted upon	Regular reports on Internal Audit performance against plan and compliance with Public Sector Internal Audit Standards presented to the Audit Committee. Chief Audit Executive meets regularly with Chair of the Audit Committee. Compliance with CIPFA's Statement on the Role of the Head of Internal Audit. Regular reports presented to the Audit Committee on Management's progress with implementation of recommendations made by Internal Audit to ensure these are acted upon.
3	Welcoming peer challenge, reviews and inspections from regulatory bodies and implementing recommendations	Reports by external scrutiny and inspection bodies outlining findings and recommendations presented to relevant Committee including associated Action Plans for improvement.
4	Gaining assurance on risks associated with delivering services through third parties and that this is evidenced in the annual governance statement	Risk Management Policy sets out Roles and Responsibilities to manage risks effectively. Reliance on partners' risk arrangements relating to joint working and collaboration activities. The existing governance framework including alternative service delivery arrangements, and assurances on risks, are reflected in the annual assurance process and reported within the Annual Governance Statement.
5	Ensuring that when working in partnership, arrangements for accountability are clear and that the need for wider public accountability has been recognised and met	The Community Planning Partnership and the Health and Social Care Integration Joint Board, which are the most significant joint working and partnership arrangements of which the Council is a partner, have their own Governance Frameworks in place to ensure clarity of roles and responsibilities and to align with the Council's Governance Framework on public accountability.

Scottish Borders Council Pension Fund

Annual Audit Plan 2022/23 – DRAFT



Prepared for Scottish Borders Council Pension Fund

March 2023

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of Scottish Borders Council Pension Fund (the Fund). The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the annual accounts and the provision of an Independent Auditor's Report
- an opinion on statutory information published in the annual accounts, comprising the Management Commentary, the Annual Governance Statement and the Governance Compliance Statement.
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes

Audit Appointment

2. We are pleased to be appointed as the external auditor of the Fund for the period 2022/23 to 2026/27 inclusive. An introduction to the members of your audit team is at [Appendix 1](#).

3. In the first year of the audit appointment, we invest significant time gaining an understanding of your business and identifying and assessing the risks of material misstatement to the financial statements. While we use our initial assessment of risk to inform our planned audit approach, we keep our assessment of risks under review as the audit progresses. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.

4. The audit team will actively engage with you over the course of the audit to ensure our audit work continues to be focused on risk.

Adding value

5. We aim to add value to the Fund through our external audit work by being constructive and forward looking, by attending the meetings of the Pension Fund Committee and Pension Board and by recommending and encouraging good practice. In so doing, we will help the Fund promote improved standards of governance, better management and decision making and more effective use of resources.

Respective responsibilities of the auditor and the Fund

6. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and the Fund. Key responsibilities are summarised below.

Auditor responsibilities

7. 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.

8. 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 wider scope arrangements within the Fund. In doing this, we aim to support improvement and accountability.

The Fund's responsibilities

9. The Fund is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

10. The Fund has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to deliver their objectives.

Financial statements audit planning

Introduction

11. The annual accounts are an essential part of demonstrating the Fund's stewardship of resources and its performance in the use of those resources.

12. We focus our work on the areas of the highest risk. As part of our planning process, we prepare a risk assessment highlighting the audit risks relating to each of the key systems on which the financial statements will be based.

Materiality

13. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2022/23 audit

14. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for the Fund are set out in [Exhibit 1](#).

Exhibit 1

2022/23 Quantitative materiality levels for the Fund

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of the Funds operations. For the year ended 31 March 2023 we have set our materiality at 1.5% of gross investment assets based on the Q2 2022/23 investment performance reporting.	£12.5 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 assessed performance materiality at 60% of planning materiality.	£7.5 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 is set at 2%.

£0.25 million

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

15. Our risk assessment draws on our cumulative knowledge of the Fund, its major transaction streams, key systems of internal control and risk management processes. Also, it is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

16. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance

17. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2022/23 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by the management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance</p>	<ul style="list-style-type: none"> Assess the design and implementation of controls over journal entry processing. Test journals at the year-end and post-closing entries and focus on significant risk areas. Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.

Significant risk of material misstatement	Sources of assurance	Planned audit response
management's ability to override controls that otherwise appear to be operating effectively.		<ul style="list-style-type: none"> • Evaluate significant transactions outside the normal course of business. • We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.
<p>2. Estimation applied to Level 3 Investments</p> <p>The fund has a significant portfolio of level 3 investments (£324 million at 31 March 2022) for example in unquoted equities where valuations involve the application of a variety of estimates in determining appropriate valuations. This subjectivity gives rise to a significant risk of material misstatement in the financial statements, relating to accuracy.</p>	Unquoted investments are valued by third parties including investment managers and independent valuers who follow detailed professional, accounting and industry codes and guidelines.	<ul style="list-style-type: none"> • Confirmation of year end valuations to valuation reports and/or other supporting documentation, including third party confirmation. • Review user entity controls in relation to the use of the custodian. • Review the relevant investment manager controls' reports for qualifications or exceptions that may affect the audit risk. • Review the arrangements in place at the Fund to assess investment managers' governance arrangements. • Review the disclosures included in the accounts to ensure these are adequate in directing the user of the accounts to areas with significant judgement and estimation uncertainty.

Source: Audit Scotland

18. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements.

19. We have rebutted this risk for the Fund because:

- the split of responsibilities amongst the Fund, its fund managers, its custodian and the bank provide a clear separation of duties reducing the risks relating to investment income
- having considered the value and the nature of contribution income, which is paid over from employers, we have concluded there is not a significant risk in this area.

20. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition.

21. We have rebutted this risk for the Fund because:

- management fees are reported transparently
- pension benefits are the Fund's main expenditure stream. There is no incentive for the Fund to manipulate the amount of benefits paid and we have concluded there is not a significant risk in this area.

22. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Other areas of audit focus

23. As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses.

24. The areas of specific audit focus are:

- **Estimations applied to the International Accounting Standard (IAS) 26 actuarial valuation** - The disclosure of the actuarial valuation of the pension fund liabilities involves a complex accounting estimate. The Pension Fund engage an independent actuary to support the estimation. The valuation is based on a range of financial and demographic estimations about the future, based on a well-established methodology. The subjectivity around these estimates gives rise to a risk of material misstatement in the financial statements.

Wider Scope

Introduction

25. The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the wider scope areas in audited bodies.

26. In summary, the four wider scope areas cover the following:

- **Financial management** – we consider the financial capacity of the Fund and whether there are sound budgetary processes and internal controls in place.
- **Financial sustainability** – 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 financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years).
- **Vision, leadership and governance** – we conclude on the arrangements in place to deliver the vision, strategy and priorities adopted by the leader of the Fund. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – we will consider how the Fund demonstrates economy, efficiency and effectiveness through the use of financial and other resources.

Wider scope risks

27. We have identified a wider scope audit risk in the areas, set out in [Exhibit 3](#). This exhibit sets out the risk, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risk.

Exhibit 3

2022/23 Wider scope risk

Description of risk	Sources of assurance	Planned audit response
<p>1. Financial sustainability</p> <p>The Fund's investments have reduced from £911 million at 31 March 2022, to £835 million at 30 September 2022. This fall in value of investments relates to the economic climate during 2022.</p> <p>If this fall in value of investments continues throughout the financial year, it may place pressure on contribution rates. Given the current economic environment, there could be challenges around affordability for increased contributions (if required).</p>	<p>Management will continue to work with investment consultants, ISIO, to identify investments which help support income generating assets in line with the Statement of Investment Principles 2022.</p> <p>Management will work with the actuary, Hymans Robertson, regarding appropriate contribution rates.</p>	<ul style="list-style-type: none"> • Review the performance of the Fund through the year through ISIO quarterly performance reports. • Review investment performance against the benchmark returns set for the year in the Statement of Investment Principles 2022. • Evaluating the arrangements in place at the Fund for monitoring performance against its financial plans, including funding strategy. We will consider how the Fund monitors its investment portfolio to ensure investment risk is managed while delivering financial returns.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

28. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 4](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

29. 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 officers to confirm factual accuracy.

30. We will provide an independent auditor's report to the Fund and the Accounts Commission setting out our opinions on the annual accounts. We will provide the Fund and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

31. [Exhibit 4](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by the statutory deadline of 30 September 2023.

Exhibit 4 2022/23 Audit outputs

Audit Output	Target date	Pension Fund Committee and Pension Board - Date
Annual Audit Plan	27/02/2023	09/03/2023
Independent Auditor's Report	September 2023	September 2023
Annual Audit Report	September 2023	September 2023

Source: Audit Scotland



Timetable

32. To support an efficient audit, it is critical that the timetable for producing the annual accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 5](#) that has been discussed with management.

33. Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. We are identifying ways to work more efficiently to expedite the 2022/23 audits whilst at the same time maintaining high standards of quality.

34. We intend to take a hybrid approach to the 2022/23 audit with a blend of onsite and remote working, where this works with the body's own arrangements. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 5 Proposed annual accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual accounts by those charged with governance	22 June 2023
Latest submission date for the receipt of the unaudited annual accounts with complete working papers package.	30 June 2023
Latest date for final clearance meeting with the Interim S95 Officer	September 2023
Issue of draft Letter of Representation and proposed Independent Auditor's Report	September 2023
Agreement of audited and unsigned annual accounts	September 2023
Issue of Annual Audit Report to those charged with governance.	End September 2023
Signed Independent Auditor's Report	End September 2023

Source: Audit Scotland

Audit fee

35. In determining the audit fee, we have taken account of the risk exposure of the Fund and the planned management assurances in place. The proposed audit fee for 2022/23 is £24,880 as set out in [Exhibit 6](#).

36. Our fees have increased in 2022/23 and this is a reflection of the current audit market and the rising costs in delivering high quality audit work. There are increased regulatory expectations and risks placed on audit and its quality, as well as a widening in the scope of work audit must cover.

Exhibit 6 Audit fees (including VAT)

Fee component	Fees (£)
External Auditor Remuneration	43,050
Pooled costs	0
Contribution to Audit Scotland costs	1,630
Contribution to Performance and Best Value	0
Sectoral Cap Adjustment	-19,800
Total 2022/23 fee	24,880

Source: Audit Scotland

37. Details of the components of the Audit Fee have been separately communicated to Management. In setting the fee for 2022/23 auditors have the opportunity for agreeing local increases from the baseline fee depending on the risks and anticipated audit work identified during audit planning. The above proposed fee has been retained at the baseline fee. We have assumed that the Fund has sound governance arrangements in place and operating effectively and will prepare comprehensive and accurate draft financial statements and meets the agreed timetable for the audit. It also assumes there is no major change in respect of the scope of the work in year. Where our audit cannot proceed as planned a supplementary fee may be levied.

Other matters

Internal audit

38. It is the responsibility of the Fund to establish adequate internal audit arrangements. Scottish Borders Council's Internal Audit Service provide internal audit services on behalf of the Fund. We will review the internal audit plan and the results of internal audit's work.

39. We will consider the findings from internal audit reports where they raise issues that could have an impact on the financial statements or our wider scope responsibilities, however, we will not place formal reliance on the work of internal audit in 2022/23.

Independence and objectivity

40. Auditors appointed by the Auditor General for Scotland or Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors.

41. 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 Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

42. The appointed auditor for the Fund is John Boyd, 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

43. Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value and can support public bodies to achieve their objectives.

44. Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC (UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits.

45. ISQC(UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality Management (ISQM (UK) 1), applicable from 15 December 2022, and (ISQM(UK) 2) effective for the 2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.

46. Audit Scotland is committed to delivering high quality audits. 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 supplementary 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 England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

47. 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.

Appendix 1. Your audit team

48. The senior team involved in the external audit of the Fund have significant experience in public sector audit

John Boyd
Audit Director
jboyd@audit-scotland.gov.uk

John is the Audit Director, with overall responsibility for the Audit Engagement. John has considerable audit experience across public sector audits including local government, pension funds, health and central government sectors. John is the Audit Scotland Audit Services Group Lead for local authority and pension fund audits and is a member of the Local Authority (Scotland) Accounting Advisory Committee (LASAAC).

Stephanie Harold
Senior Audit Manager
sharold@audit-scotland.gov.uk

Stephanie has over 11 years of public sector audit experience and has delivered external audit services to a range of bodies including local authorities, health boards and central government bodies.

Emma Carrigan
Senior Auditor
ecarrigan@audit-scotland.gov.uk

Emma has considerable experience in planning and delivering audits across the public sector. Emma will manage the team and work alongside the Senior Audit Manager and Audit Director to deliver the audit.

49. The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

Scottish Borders Council Pension Fund

Annual Audit Plan 2022/23 - DRAFT

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www.audit-scotland.gov.uk/accessibility

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 Email: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk

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INTERNAL AUDIT CHARTER

Report by Chief Officer Audit and Risk

AUDIT COMMITTEE

13 March 2023

1 PURPOSE AND SUMMARY

- 1.1 **This report provides the Audit 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 Audit Executive to prepare the annual Internal Audit opinions on the adequacy of each organisation'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 Audit Executive must periodically review the Internal Audit Charter and present it to senior management (Council Management Team) and the board (Audit Committee) for approval.
- 1.4 The Internal Audit Charter has been updated by the Chief Audit Executive (SBC's Chief Officer Audit & Risk) and the Principal Internal Auditor in conformance with the PSIAS. The Internal Audit Charter is shown in Appendix 1 to this report for approval by the Audit 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 Committee:**
 - a) **Notes the changes to the Internal Audit Charter outlined in section 4 of this report in conformance with PSIAS;**
 - b) **Approves the updated Internal Audit Charter, as shown in Appendix 1 to this report; and**
 - c) **Notes that the Internal Audit Charter will be reviewed annually.**

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 Scottish Borders Council Internal Audit function follows the professional standards as set out in the Public Sector Internal Audit Standards (PSIAS) which came into effect on 1 April 2013 (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 must periodically review the Internal Audit Charter and present it to 'senior management' (Council Management Team) and the 'board' (Audit Committee) for approval.
- 3.4 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.
- 3.5 Internal Audit assurance resources and services are also provided by Scottish Borders Council's Internal Audit team to the Scottish Borders Council Pension Fund and to the Scottish Borders Health and Social Care Integration Joint Board (IJB), including the appointed Chief Internal Auditor to these organisations. The Internal Audit Charter and Internal Audit Strategy are applicable to these organisations.

4 INTERNAL AUDIT CHARTER

- 4.1 The authority for Internal Audit to operate in Scottish Borders Council is contained in the Council's Local Code of Corporate Governance, and Financial Regulations. This Internal Audit Charter expands upon that framework.
- 4.2 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.

- 4.3 The Internal Audit Charter, which was previously approved by the Audit and Scrutiny Committee on 14 March 2022, has been updated by the Chief Audit Executive (Chief Officer Audit & Risk) and the Principal Internal Auditor. The summary of the changes reflect the following:
- Amendments to the Scheme of Administration approved by Council in August 2022 to establish a separate Audit Committee with audit and risk functions;
 - The renaming of the Council Management Team, the interim changes in Chief Officers in place of the Director Finance and Corporate Governance, and the associated change in the CAE's line management arrangements;
 - Specific references to the provision of Internal Audit services to the Pension Fund and the Health and Social Care Integration Joint Board, in addition to Scottish Borders Council;
 - Specific details on the composition of the Internal Audit staff resources within the 'Audit Resources and Work Prioritisation' section to ensure clarity and transparency within the Internal Audit Charter; and
 - Explicit reference within the 'Non-Audit Activities' section relating to Management's responsibilities in systematically identifying and managing risks and in tackling fraud (supported by the Chief Officer Audit & Risk), to ensure consistency with that stated in the Council's Risk Management Policy and Counter Fraud Policy respectively.
- 4.4 The Internal Audit Charter should be considered alongside the Internal Audit Strategy and Annual Plan 2023/24. The Internal Audit Strategy sets out the Council's assurance framework within which Internal Audit operates, and the Chief Audit Executive's strategy for discharging its role and providing the necessary annual assurance opinions to the Council, the Pension Fund and the Integration Joint Board. The Internal Audit Charter and Internal Audit Strategy are applicable to each of these organisations, to reflect their systems of governance, risk and internal control. There are separate Internal Audit Annual Plans for each organisation, which set out the range and breadth of audit activity to provide the necessary annual assurance opinions.

5 IMPLICATIONS

5.1 Financial

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.

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 alongside other available sources of assurance to enable the Chief Audit Executive (Chief Officer Audit & Risk) to prepare annual Internal Audit opinions on the adequacy of each organisation's overall control environment (Council, Pension Fund, and IJB). Internal Audit resources are set out in the Internal Audit Strategy and Plan 2023/24.

5.2 Risk and Mitigations

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.

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.

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.

At all times, Management's responsibilities (led by the Council 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, and obtaining assurances from internal compliance, risk, inspection, quality, and control functions.

(The above are known as the first and second lines.)

- Engaging with Internal Audit (the third line) 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.

Applying the framework of the PSIAS will give the Audit Committee assurance that the Internal Audit function is compliant with legislative requirements and current best practice.

5.3 **Integrated Impact Assessment**

There is no relevance to Equality Duty or the Fairer Scotland Duty for this report, based on the completion of the Integrated Impact Assessment (IIA) alongside the Internal Audit Strategy and Annual Plan 2023/24; a full IIA is not required.

The revised Internal Audit Charter, Strategy and Annual Plan 2023/24 are designed to ensure that Internal Audit is tasked to carry out its role in accordance with best Corporate Governance practice (Charter), to set out the Council's assurance framework within which Internal Audit operates, and the Chief Audit Executive's (CAE) strategy for discharging its role and providing the necessary annual assurance opinions (Strategy), and to set out the range and breadth of audit activity and sufficient work within the audit programme of work to enable the CAE to prepare an Internal Audit annual opinion (Annual Plan 2023/24).

This is a routine good governance report for assurance purposes, required under the Local Authority Accounts (Scotland) Regulations 2014 and the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017).

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.

5.4 Sustainable Development Goals

The recommendations in this report will not directly impact any of the 17 UN Sustainable Development Goals, based on completion of the checklist alongside the Internal Audit Strategy and Annual Plan 2023/24. Good governance is important to enable Scottish Borders Council to achieve its objectives, including those supporting sustainable development.

5.5 Climate Change

This report does not relate to any proposal, plan or project and as a result the checklist on Climate Change is not an applicable consideration. Good governance is important to enable Scottish Borders Council to achieve its objectives, including those supporting its climate change obligations.

5.6 Rural Proofing

The revised Internal Audit Charter is unlikely to have a different impact in rural areas, due to the nature of providing Internal Audit services.

5.7 Data Protection Impact Statement

There are no personal data implications arising from content of this report.

5.8 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 content in this report.

6 CONSULTATION

6.1 The report and appendix have been presented to the Council Management Team on 1 March 2023 to outline the key role of Internal Audit in providing independent and objective assurance as part of good governance.

6.2 In addition, the Acting Chief Financial Officer, Interim Chief Officer Corporate Governance (and Monitoring Officer), Director – People Performance & Change, Clerk to the Council, and Communications team have been consulted on this report and appendix 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 and Risk Tel 01835 825036
Sue Holmes	Principal Internal Auditor Tel 01835 825556

Background Papers: Local Code of Corporate Governance; Financial Regulations

Previous Minute Reference: Audit Committee 14 March 2022

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INTERNAL AUDIT CHARTER

INTRODUCTION

The Public Sector Internal Audit Standards (PSIAS) requires that 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 *International Standards for the Professional Practice of Internal Auditing* (Standards) detailed in the PSIAS.

The Council has adopted from the PSIAS¹: the definition of Internal Auditing,

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 processes².

the Mission Statement of Internal Audit *"To enhance and protect organisational value by providing risk-based and objective assurance, advice and insight"* and the Core Principles.

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 Council Management Team ('senior management') and the Audit 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 internal control and objectively providing 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 management of risks, including assisting Management to improve the risk identification and management process in particular where there is exposure to significant financial, strategic,

¹ Public Sector Internal Audit Standards (PSIAS) (2017)

² Internal Audit Standards Advisory Board (IASAB) Public Sector Internal Audit Standards (PSIAS) (2017)

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.

In addition to providing assurance services to Scottish Borders Council, the Council's Internal Audit section provides assurance services to the Scottish Borders Council Pension Fund and the Scottish Borders Health and Social Care Integration Joint Board (IJB). It will apply the same standards as defined in this Charter to any work undertaken for the Pension Fund and the IJB.

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 organisation³"

The CAE within the Council (the Chief Officer Audit & Risk) has full access to those charged with governance for each organisation, specifically the elected members or board members and the 'senior management' team. The latter includes the Council's statutory officers: head of paid service (Chief Executive), s95 finance officer (Acting Chief Financial Officer), monitoring officer (Interim Chief Officer Corporate Governance) and chief social work officer (Director Social Work and Practice). The CAE has free and unfettered access to the Chair of each organisation's 'board' (audit committee or equivalent) 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 Scottish Borders Council's Audit Committee. In this context functional reporting⁴ means the Audit 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.

³ Internal Audit Standards Advisory Board (IASAB) Public Sector Internal Audit Standards (PSIAS) (2017)

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

- 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.

In terms of providing assurance services to the Pension Fund and the IJB, separate Internal Audit plans and reports will be presented by the CAE to their respective 'senior management' and 'board' (audit committee or equivalent) for approval and assurance, to reflect their systems of governance, risk and internal control.

The CAE is line managed by the Interim Chief Officer Corporate Governance but retains responsibility for all operational audit activity and reports in their own name and retains final rights of edit over all Internal Audit reports.

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

RIGHTS OF ACCESS

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

- Have access at any reasonable times to all computer systems and records (both paper and electronic).
- Require and receive explanations concerning any matter under examination from personnel relevant to their roles, including elected members and board members.
- Enter at all reasonable times and without notice any properties, provided that where such properties are leased to a third party that the terms of the lease are observed.
- Require personnel to produce cash, stores, or other assets under their control.

Internal Audit safeguards all information obtained in the carrying out of its duties, only uses it for defined purposes and makes no disclosure of any information held, unless this is authorised or there is a legal/professional requirement to do so.

SCOPE OF INTERNAL AUDIT ACTIVITY

For each organisation, Internal Audit will systematically review, appraise, make appropriate recommendations for improvement, and report upon:

- The efficiency and effectiveness of governance arrangements put in place to achieve the organisation's objectives and priorities.
- The effectiveness of all internal controls and other arrangements put in place to manage risk, in particular where there is exposure to significant financial, strategic, reputational and operational risk to the achievement of the organisation's objectives (this involves liaising with the Corporate Risk Officer on an on-going basis to ensure that risk is considered in every audit and risk reviews take account of recommended 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 laws, regulations, policies, plans, and procedures, whether established by the organisation or externally.
- The effectiveness of arrangements for maximising income and safeguarding the organisation's assets and interests, including fraud prevention controls and detection processes (this involves engaging in counter fraud forums at local and national levels on an on-going basis to ensure current and emerging fraud risks are considered in every audit).
- 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 ensures that Internal Audit resources are sufficient, appropriate and effectively deployed to achieve the approved plans for each organisation.

- Sufficient refers to the quantity of resources needed to accomplish the plans. The Internal Audit staff resources totalling 5.5 FTE comprise Chief Officer Audit & Risk (0.5 FTE as CAE for Internal Audit activity), Principal Internal Auditor, two Senior Internal Auditors (one is an interim contractor), and two Internal

Auditors, for the provision of Internal Audit assurance services to Scottish Borders Council, Scottish Borders Pension Fund, and Scottish Borders Health and Social Care Integration Joint Board.

- 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 and with the Nolan principles established in the Seven Principles of Public Life. This is of particular importance and relevance for the profession of Internal Audit, founded as it is on trust placed in its objective assurance about risk management, internal control and governance. The CAE holds a professional qualification (BA (Hons), ACMA, CGMA) and is suitably experienced. The Principal Internal Auditor and the two Senior Internal Auditors have a professional internal audit or accountancy qualification, and all staff, including the two Internal Auditors, have suitable experience, knowledge, skills and competencies to fulfil their respective roles.
- Effectively deployed refers to when they are used in a way that optimises the achievement of the approved Internal Audit plans for each organisation.

The Internal Audit Strategy, as approved by the Audit Committee, outlines the strategic direction for how Internal Audit will achieve its objectives in conformance with PSIAS. It guides the Internal Audit function in delivering high quality internal audit services to the Council, the Pension Fund and the IJB.

The SBC Internal Audit Annual Plan as approved by the Audit Committee is 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 the Pension Fund and the Health and Social Care Integration Joint Board being approved and monitored by their respective 'senior management' and 'board'.

The audit planning process, to determine the priorities of the Internal Audit activity consistent with each organisation's goals, includes consideration of the organisation's priorities, plans, strategies, objectives, risks and mitigating controls, and the internal and external assurances provided. The CAE, in collaboration with the Principal Internal Auditor, determines the actual deployment of available resources covering the range and breadth of audit activity which is integral to the assurance process across the activities of the Council, Pension Fund, and IJB in order to provide the statutory annual internal audit opinion to each organisation's 'senior management' and 'board'. The plans also require to be sufficiently flexible to reflect the changing risks and priorities of each organisation.

The SBC Internal Audit Annual Plan has within it provision of resources as contingency to respond to specific control issues, and new or emerging risks highlighted during the year and covering other unforeseen variations in the level of resources available to Internal Audit, such as staff vacancies.

The SBC Internal Audit Annual Plan has within it provision of resources for Internal Audit 'critical friend' consultancy that are valued by Management to support them in delivering innovation, change and transformation. Requests are considered and

approved by the CAE subject to any consultancy activity being deliverable within the boundaries of the role of Internal Audit and the resources available.

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, Interim Chief Officer Corporate Governance and Acting Chief Financial Officer (s95 officer) followed by the Audit Committee as required. It will be for the Audit 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 Internal Audit service preserves its independence and objectivity by ensuring that:

- staff are free from any conflicts of interest when undertaking assurance audits by following the requirements of relevant professional bodies and HR policies; and
- providing clarity on duties undertaken during audit consultancy engagements or other work to ensure these do not impact on assurance audits and do not impair its independence and objectivity.

The Chief Officer Audit & Risk (COA&R) 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 to fulfil their responsibilities in systematically identifying and managing risks and in tackling fraud respectively. 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 will be carried out by Internal Audit with the COA&R as the client and therefore with no involvement in the delivery and reporting of the Internal Audit reviews. The Principal Internal Auditor will be accountable for those audit engagements directly to the Interim Chief Officer Corporate Governance during the period.

APPROVAL

The Internal Audit Charter was reported to and approved by the Audit Committee at its meeting on *13 March 2023* and will be subject to regular review by the CAE and the Audit Committee.

INTERNAL AUDIT STRATEGY AND INTERNAL AUDIT ANNUAL PLAN 2023/24

Report by Chief Officer Audit and Risk

AUDIT COMMITTEE

13 March 2023

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 2023/24 to enable the Chief Audit Executive to prepare annual opinions on the adequacy of the overall control environment for Scottish Borders Council, Scottish Borders Pension Fund, and Scottish Borders Health and Social Care Integration Joint Board.**
- 1.2 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 operations. In addition, the Chief Audit Executive (CAE) is also required to prepare an Internal Audit annual opinion on the adequacy of the organisation's overall control environment.
- 1.3 The Internal Audit Strategy at Appendix 1 outlines the strategic direction for how Internal Audit will achieve its objectives, which are set out in the Internal Audit Charter, in conformance with PSIAS. It guides the Internal Audit function in delivering high quality Internal Audit services to Scottish Borders Council (SBC), Scottish Borders Council Pension Fund (SBCPF), and Scottish Borders Health and Social Care Integration Joint Board (SBIJB).
- 1.4 The Internal Audit Annual Plan 2023/24 at Appendix 2 has been developed by the Chief Officer Audit & Risk (CAE) and the Principal Internal Auditor. It sets out the range and breadth of audit activity and sufficient work within the audit programme of work to enable the CAE to prepare an Internal Audit annual opinions for SBC, SBCPF, and SBIJB. Separate Internal Audit Annual Plans 2023/24 for the SBCPF and SBIJB will be presented to their respective board/audit committee for approval. Key components of the audit planning process include a clear understanding of each organisation's functions, associated risks, and assurance framework.

2 RECOMMENDATIONS

- 2.1 **I recommend that the Audit Committee:**
 - a) Endorses the Internal Audit staff resources needed to deliver the Internal Audit Strategy and Annual Plans;**
 - b) Approves the Internal Audit Strategy (Appendix 1); and**
 - c) Approves the Internal Audit Annual Plan 2023/24 (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.
- 3.2 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 require the Chief Audit Executive (CAE) 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.
- 3.3 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 operations. In addition, the CAE is also required to prepare an Internal Audit annual opinion on the adequacy of the organisation's overall control environment, and its risk management arrangements.
- 3.4 Internal Audit assurance resources and services are also provided by Scottish Borders Council's Internal Audit team to the Scottish Borders Council Pension Fund (SBCPF) and to the Scottish Borders Health and Social Care Integration Joint Board (SBIJB), including the appointed Chief Internal Auditor to these organisations. The Internal Audit Charter and Strategy are applicable to these organisations.

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 Chief Officer Audit & Risk (CAE) and the Principal Internal Auditor have developed the Internal Audit Strategy at Appendix 1. It outlines the strategic direction for how Internal Audit will achieve its objectives, which are set out in the Internal Audit Charter, in conformance with PSIAS. It guides the Internal Audit function in delivering high quality Internal Audit services to Scottish Borders Council (SBC), Scottish Borders Council Pension Fund (SBCPF) and Scottish Borders Health and Social Care Integration Joint Board (SBIJB).

4.3 The Internal Audit Strategy, since its previous approval by the Audit and Scrutiny Committee on 14 March 2022, reflects the following:

- Amendments to the Scheme of Administration approved by Council in August 2022 to establish a separate Audit Committee with audit and risk functions;
- The renaming of the Council Management Team, and the interim changes in Chief Officers in place of the Director Finance and Corporate Governance;
- Specific references to the provision of Internal Audit services to the Pension Fund and the Health and Social Care Integration Joint Board, in addition to Scottish Borders Council;
- The planned change in the approach to the delivery of the Internal Audit programme of work to consider the cross-cutting risks and controls relating to sustainable development goals and climate change in all assurance work (paragraph 7.2 (d) of Appendix 1). This is to meet the recommendations of the Accounts Commission report 'Scotland's councils' approach to addressing climate change' published September 2022, para 73 *"Integrating climate change into internal audits can provide assurance that the underlying controls and processes that support climate change commitments, plans and programmes are operating as intended. It is essential that decision-makers are provided with timely data and updates so that opportunities, barriers and challenges can be fully understood and considered when decisions are being made."*; and
- Further to the above, to consider the cross-cutting risks and controls relating to people and succession planning, and integrated impact assessments in all assurance work to provide assurance on the level of compliance with the Council's controls and processes within Services.

4.4 The Internal Audit Strategy:

- Outlines the assurance framework, providing clarity of the respective responsibilities of Management for designing and monitoring governance and control systems and of the role of Internal Audit in providing independent assurance thereon;
- States how the key themes which are integral to the assurance gathering process across the organisation's activities will be covered to inform the annual Internal Audit opinion statement;
- Describes the approach to the development of the risk based Internal Audit annual plan;
- Sets out the relative allocation of Internal Audit resources;
- Outlines how the Internal Audit programme of work will be delivered to add value; and

Describes 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.

5 INTERNAL AUDIT ANNUAL PLAN 2023/24

- 5.1 The key standards within the PSIAS which relate to the preparation of the internal audit plan are summarised below:
- No. 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”
 - No. 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 Audit Committees guidance states that “The audit committee should seek to make best use of the internal audit resource within the assurance framework. In particular, the audit committee should seek confirmation from internal audit that the audit plan takes into account the requirement to provide an annual internal audit opinion that can be used to inform the Annual Governance Statement. Specific activities will include:
- Approving (but not directing) the risk-based plan, considering the use made of other sources of assurance.”
- 5.3 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.” (HIA = Head of Internal Audit)
- 5.4 The Chief Officer Audit & Risk and the Principal Internal Auditor have developed the proposed Internal Audit Annual Plan 2023/24 for Scottish Borders Council at Appendix 2. It sets out the range and breadth of audit activity and sufficient work within the audit programme of work to enable the CAE to prepare an Internal Audit annual opinion. The proposed reviews, grouped into key themes as set out in the Internal Audit Strategy at Appendix 1. There is a brief commentary for each review.
- 5.5 As part of the Internal Audit planning process it was necessary to consider each organisation’s priorities, plans, strategies, objectives, risks and mitigating controls, and the internal and external assurances provided to determine the priorities of the Internal Audit activity consistent with the organisation’s goals, as follows:
- Analysis was undertaken of Internal Audit work during the past 5 years against the Audit Universe, which has been significantly revised and realigned by the Principal Internal Auditor to reflect the current strategic and operational management arrangements and approach to service delivery, to ensure appropriate coverage;
 - Corporate and Service Risk Registers were checked and discussions were held with the Corporate Risk Officer to confirm coverage on key corporate risks and other service strategic risks, as reliance is placed on the risk assessments carried out by the Risk Owners taking account of the risk ratings and mitigations;
 - Consultation discussions with senior management (Directors and Service Managers) at each of the Service Management Team meetings; and
 - Account was taken of known external audit and inspection activities to avoid duplication of assurance work.

- 5.6 It is envisaged that 2023/24 will continue to be a year of change for the Council and other partner organisations. Therefore 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 Council Management Team and the Audit Committee for approval.
- 5.7 The Non SBC days reflect the Council's partnership working commitment to provide Internal Audit assurance resources and services to the Scottish Borders Council Pension Fund (SBCPF) and to the Scottish Borders Health and Social Care Integration Joint Board (SBIJB). Separate Internal Audit Annual Plans 2023/24 will be presented to their respective Board/Audit Committees for approval to fulfil that service provision.

6 IMPLICATIONS

6.1 Financial

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.

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 alongside other available sources of assurance to enable the CAE to prepare annual opinions on the adequacy of the overall control environment for Scottish Borders Council, Scottish Borders Pension Fund, and Scottish Borders Health and Social Care Integration Joint Board.

The Internal Audit function within Audit & Risk reports directly to the Interim Chief Officer Corporate Governance (operationally) and the Audit Committee (functionally). The Internal Audit staff resources totalling 5.5 FTE comprises Chief Officer Audit & Risk (50% for Internal Audit activity), one Principal Internal Auditor, two Senior Internal Auditors (one is an interim contractor), and two Internal Auditors. All except the two Internal Auditors are required to have a professional internal audit or accountancy qualification, and all have suitable experience, knowledge, skills and competencies (such as Code of Ethics set out in the PSIAS and the Seven Principles of Public Life) needed to deliver the Plan. After deduction for estimated annual leave, public holidays, absence including staff turnover, learning and development, and management and supervision, this equates to a total of 767 days available for Internal Audit activity (2022/23 - 785).

6.2 Risk and Mitigations

The Internal Audit objectives in its Charter include "As a contribution to the Council's management of risks, 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".

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. To capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted and risks and mitigations on corporate / service risk registers have been considered. The Internal Audit staff resources engage in a collaborative way with the Corporate Risk Officer during the course of carrying out audit work.

6.3 **Integrated Impact Assessment**

There is no relevance to Equality Duty or the Fairer Scotland Duty for this report, based on the completion of the Integrated Impact Assessment (IIA); a full IIA is not required. The revised Internal Audit Charter, Strategy and Annual Plan 2023/24 are designed to ensure that Internal Audit is tasked to carry out its role in accordance with best Corporate Governance practice (Charter), to set out the Council's assurance framework within which Internal Audit operates, and the Chief Audit Executive's (CAE) strategy for discharging its role and providing the necessary annual assurance opinions (Strategy), and to set out the range and breadth of audit activity and sufficient work within the audit programme of work to enable the CAE to prepare an Internal Audit annual opinion (Annual Plan 2023/24).

This is a routine good governance report for assurance purposes, required under the Local Authority Accounts (Scotland) Regulations 2014 and the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017).

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.

6.4 **Sustainable Development Goals**

The recommendations in this report will not directly impact any of the 17 UN Sustainable Development Goals, based on completion of the checklist alongside the Internal Audit Charter. Good governance is important to enable Scottish Borders Council to achieve its objectives, including those supporting sustainable development.

6.5 **Climate Change**

This report does not relate to any proposal, plan or project and as a result the checklist on Climate Change is not an applicable consideration. Good governance is important to enable Scottish Borders Council to achieve its objectives, including those supporting its climate change obligations.

The Internal Audit Strategy (paragraph 7.2 (d) in the Appendix 1) includes the planned change in the approach to the delivery of the Internal Audit programme of work to consider the cross-cutting risks and controls on sustainable development goals and climate change in all assurance work to meet the recommendations of the Accounts Commission report 'Scotland's councils' approach to addressing climate change' published September 2022.

6.6 **Rural Proofing**

The revised Internal Audit Strategy and Annual Plan 2023/24 are unlikely to have a different impact in rural areas, based on completion of the checklist alongside the Internal Audit Charter, due to the nature of providing Internal Audit services.

6.7 **Data Protection Impact Statement**

There are no personal data implications arising from content of this report.

6.8 **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 content in this report.

7 CONSULTATION

- 7.1 The Internal Audit planning process has involved consultation with key stakeholders including discussions with Directors and Service Managers at each of their Senior Management Team meetings and with the Chief Executive to capture potential areas of risk and uncertainty more fully. Account was taken of known external audit and inspection activities to avoid duplication of assurance work.
- 7.2 The report and appendix have been presented to the Council Management Team on 1 March 2023 to outline the risk-based audit approach and the resultant planned audit coverage to ensure it will provide assurance on controls and governance relating to the key risks facing the Council and to assist them in discharging their roles and responsibilities.
- 7.3 In addition, the Acting Chief Financial Officer, Interim Chief Officer Corporate Governance (and Monitoring Officer), Director – People Performance & Change, Clerk to the Council, and Communications team have been consulted on this report and appendix 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 and Risk Tel 01835 825036
Sue Holmes	Principal Internal Auditor Tel 01835 825556

Background Papers: Local Code of Corporate Governance; Financial Regulations
Previous Minute Reference: Audit Committee 14 March 2022

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INTERNAL AUDIT STRATEGY

1. AIM OF STRATEGY

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

- providing the statutory annual assurance and 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 the Internal Audit Charter; and
- adding value to each organisation by influencing and offering ways to enhance the governance and internal control environment in alignment to their strategic priorities.

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 will be prioritised to ensure that those areas of greatest risk are covered during the audit year; 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, and mitigation of risks, including the prevention, detection and resolution of fraud and irregularities. Management is also responsible for checking that the arrangements and controls are operating effectively and obtaining assurances from internal compliance, risk, inspection, quality, and control functions. These are known as the first and second lines. Internal Audit, as the third line, is the review function which will provide independent assurance on the effectiveness of the first and second lines, challenge current practices, recommend best practice and improvements to lead to a strengthening of the control environment and management of risks.
- 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 from compliance/service support functions such as health and safety, IT client, information management, finance and procurement, HR, business continuity, and independent assurance from Internal Audit) and from external providers of assurance. For example, Accounts Commission, External Audit (Audit Scotland - for SBC, Pension Fund, and IJB), Education Scotland, Care Inspectorate, Scottish Housing Regulator, and other regulators.
- 3.4. The assurances are considered during the annual review of the effectiveness of each organisation's overall governance framework carried out by officers of each organisation and supported by Internal Audit. The output is the Annual Governance Statement which is included within their respective Annual Report and Accounts.
- 3.5. Where audit assurance is required on Services that are delivered 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 each organisation to discharge those responsibilities in a timely, inclusive, open, honest and accountable manner. This includes the following 7 core principles of good

governance that are set out in the Council's Local Code of Corporate Governance:

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

4.2. Each organisation's statutory financial officer, Section 95 Officer or equivalent, i.e. Acting Chief Financial Officer (roles relevant to the Council and Pension Fund) and Chief Finance Officer of the IJB, is responsible for the proper administration of each organisation's financial affairs. Under their direction, each 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 technology to support service delivery, and digital change and transformation to improve operations 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 Digital 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 2023/24 have been prepared in conformance with the Public Sector Internal Audit Standards (PSIAS) to fulfil the requirement to produce the statutory annual assurance and audit opinion for each organisation.

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 each organisation's goals, as follows:

- Analysis was undertaken of Internal Audit work during the past 5 years against the Audit Universe, which has been updated and realigned to reflect the current strategic and operational management arrangements, to ensure appropriate coverage;
- Corporate and Service Risk Registers were checked and discussions were held with the Corporate Risk Officer to confirm coverage on key corporate risks and other service strategic risks, as reliance is placed on the risk assessments carried out by the Risk Owners; and
- Account was taken of known external audit and inspection activities to avoid duplication of assurance work. For example: Discussions to agree which Internal Audit assurance work will be relied upon by External Audit; the schools Internal Audit work is designed to complement Education Scotland inspections; and any matters raised by other inspection and regulatory bodies, including Care Inspectorate and Scottish Housing Regulator, are considered.

5.3. The audit planning process involves consultation with key stakeholders including discussions with Senior Management, statutory officers, compliance/service support functions such as health and safety, IT client, information management, finance and procurement, HR, business continuity, and 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.

6. ALLOCATION OF INTERNAL AUDIT RESOURCES

6.1. The Internal Audit staff resources totalling 5.5 FTE comprise Chief Officer Audit & Risk (0.5 FTE as CAE for Internal Audit activity), Principal Internal Auditor, two Senior Internal Auditors (one is an interim contractor), and two Internal Auditors, for the provision of Internal Audit assurance services to Scottish Borders Council, Scottish Borders Council Pension Fund, and Scottish Borders Health and Social Care Integration Joint Board. All except the two Internal Auditors have a professional internal audit or accountancy qualification, and all staff have suitable experience, knowledge, skills and competencies (such as the Code of Ethics set out in PSIAS and the Seven Principles of Public Life) needed to deliver the plan. The Available Audit Days reflects the Internal Audit staff resources after consideration of estimated annual leave, public holidays, absence including staff turnover, learning and development, and management and supervision.

6.2. It is estimated that 63% of Internal Audit's available days will be spent on *assurance*, and *legislative and other compliance* 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 statutory annual audit opinion on the adequacy of the organisation's overall control environment.

- 6.3. An estimated 14% of Internal Audit's available days will be utilised on *Other* activities in support of the Internal Audit function meeting its other objectives in the Internal Audit Charter.
- 6.4. An estimate of 14% of Internal Audit's available days will be utilised on *Consultancy* activities which support Management in delivering innovation, change and transformation through Internal Audit 'critical friend' challenge and quality assurance of change programmes and projects. Management seek this added-value activity 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.
- 6.5. It is estimated that 9% of Internal Audit's available days will be spent on the provision of Internal Audit services to non-SBC organisations i.e. 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 staff resources. Subject to the latter, the audit activity deferred from 2022/23 will be scheduled in the first half of the year, as well as planned work with the greatest risk to ensure these are covered during the audit year.
- 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 Director and Service Manager prior to commencement of the Internal Audit fieldwork. Internal Audit will:
 - a) 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) as an integrated toolkit to test the extent of compliance;
 - b) 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 involving data analytics 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;

- c) Within the themed *ICT Governance* assurance work, test the ICT arrangements in place to protect each organisation's computer systems from attack in relation to data security, integrity and availability and to conform to nationally agreed standards, and review Digital Strategy and Plans to confirm they are designed to support modern service delivery and each organisation's objectives and priorities;
- d) During the course of all *assurance* work consider fraud risks and prevention and detection controls, and other appropriate cross-cutting risks and controls (such as risk management, performance management, people and succession planning, integrated impact assessments, business continuity, health and safety, community engagement, sustainable development goals, and climate change), and highlight examples of effective internal controls and share good practice across Service areas; and
- e) 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 on best practice to evidence improvements.

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.

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 assessment of the evidence to support self-evaluation and improvement.

7.5. *Other* work will include:

- performing potentially high risk *Contingency* audits 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 these have been timeously and effectively implemented, to check that these have had the desired effect to manage identified risks, and to demonstrate continuous improvement (Audit recommendations will be input to the Pentana performance management system at Final Report stage to assist relevant Management in tracking and recording their implementation in a consistent way); and
- responding to *Counter Fraud* data sharing requests from Police Scotland, being the key contact for the National Fraud Initiative (NFI) including co-ordination of the NFI data submissions and liaison with Services on their investigation of NFI data matches and progressing outcomes, and engaging in counter fraud forums at local and national levels with 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) require periodic reporting on the Internal Audit activity to the relevant organisation's Senior Management and Audit Committee/Board.
- 8.2. Internal Audit assurance work completed and work in progress, and consultancy and other work for the Council associated with the delivery of the Internal Audit Annual Plan will be outlined within regular reports to its Audit Committee. This report 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 their respective Senior Management and Audit Committee/Board will provide progress updates on implementation by Management of relevant Audit recommendations for each organisation (Scottish Borders Council, Scottish Borders Council Pension Fund, and Scottish Borders Health and Social Care Integration Joint Board).
- 8.4. The PSIAS also require an annual Internal Self-Assessment and an External Quality Assessment (EQA) each five years by appropriately qualified and independent reviewers to assess conformance with the Definition of Internal Auditing and Standards and the application of the Code of Ethics. The Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) has 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 the Internal Audit quality management framework, and to identify opportunities for improvement.

- 8.5. 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 CAE on a regular basis and formally reported every six months to the Council Management Team and the Audit Committee, within a Mid-Term Performance Report and the Annual Assurance Report.
- 8.6. The Internal Audit Annual Assurance Report for each organisation (Scottish Borders Council, Scottish Borders Council Pension Fund, and Scottish Borders Health and Social Care Integration Joint Board) to their respective Senior Management and Audit Committee/Board will provide the statutory annual audit opinion on the levels of assurance based on Internal Audit findings and conclusions arising from relevant Internal Audit work undertaken over the year for each organisation. The Internal Audit Annual Assurance Report for each organisation will be used by relevant senior Management to inform each organisation's Annual Governance Statement or equivalent.

Appendix 2 - Internal Audit Annual Plan 2023-24

AUDIT	2023 /24 (Days)	COMMENTARY
Corporate Governance		
Corporate Governance	35	Continuous audit approach on progress with areas of improvement. Annual evaluation of compliance with Local Code of Corporate Governance covering the corporate whole and Directorates/Services. Prepare an Annual Assurance Report for Management and the Audit Committee summarising the work undertaken by Internal Audit during the year and forming an opinion on adequacy of the Council's arrangements for risk management, governance and internal control.
Information Governance	20	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), review policy development and implementation, assess compliance with the legislation, and provide annual assurance to the Senior Information Risk Owner (SIRO).
Performance Management	45	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. Critically evaluate the revised Performance Management Framework and test a sample of performance indicators in Service Plans to validate their relevance, completeness and accuracy.
Corporate Transformation Programme	20	Review 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.
Recruitment and Retention	20	Review of approach to workforce retention and recruitment processes in alignment with business and financial planning processes to provide skills, knowledge and competency requirements for service delivery to meet the Council's objectives.
Complaints (b/f from 2022/23)	10	Review and assess the new arrangements in place for complaints to ensure the implementation of the revised policy and procedures.
Partnering Arrangements	15	Assess the governance and strategic arrangements in place to ensure they are robust; roles and responsibilities of partners are clearly defined; and controls are in place to ensure resources are used effectively.
Resilience Planning	15	Review the approach to emergency and business continuity planning, including resilient communities, risk assessments, early warning systems, post incident reviews and lessons learned.
Health & Safety	10	The Council is complying with relevant Health and Safety (H&S) legislation, has a structured approach to H&S awareness, including use of the H&S Management system to ensure there are adequate and effective controls in place to manage health and safety risks.
	190	

Appendix 2 - Internal Audit Annual Plan 2023-24

AUDIT	2023/24 (Days)	COMMENTARY
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Financial Governance

Revenues (Council Tax and NDR)	10	Assess the application and implementation of changes in legislation affecting Council Tax and Non Domestic Rates (NDR).
Record to Report (R2R)	10	Assurance work on Record to Report processes, including controls within the core General Ledger and Management monitoring and reporting.
Sales to Cash (S2C)	15	Review the income management controls in place throughout the Council to set fees and charges for services, raise invoices promptly, and collect debts efficiently resulting in debtors' balances that are complete, accurate and recoverable.
VAT	15	Review of the VAT treatment of supplies and services made by the Council to customers.
	50	

AUDIT	2023/24 (Days)	COMMENTARY
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ICT Governance

IT Environmental & General Controls	15	Review progress with the implementation of the Cyber Security Maturity Assessment improvement actions to ensure the Council is protected from cyber attacks.
	15	

AUDIT	2023/24 (Days)	COMMENTARY
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Internal Controls

Schools Financial and Business Administration Processes	45	Review of internal financial controls and business administrative procedures in place to ensure the efficient and effective use of resources in the school establishments including evaluation of the systems in place to set and monitor DSM budgets.
Benefits Assessments	15	Assess the adequacy of policies and operational processes in place to provide a range of financial support and advice to local residents linked to the cost of living crisis.
Licensing	10	There is an adequate control environment for licensing, including that of the Licensing board.
Looked After Children	10	Adequate controls are in place to ensure sound budgetary control and the demand on service delivery for Looked After Children.
Homelessness	20	Review of controls in place to ensure efficient and effective use of Home Office Refugee Money and Asylum Distribution Money.
Parks and Environment	10	Progress on the implementation of the Scottish Borders Local Bio Diversity Action Plan 2018-2028 to ensure compliance with the Council's Bio Diversity duty under the Nature Conservation (Scotland) Act 2004.
	110	

Appendix 2 - Internal Audit Annual Plan 2023-24

AUDIT	2023/24 (Days)	COMMENTARY
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Asset Management

Asset Management (Property) (b/f from 2022/23)	25	The Council has a structured asset management framework for buildings, other property and facilities to ensure they are fit for purpose, and accurate records to demonstrate efficient and effective use. Specific review of the controls over the consumption of utilities (energy and water consumption) ensuring usage is adequately controlled and represents value for money.
Management of Capital Programme and Projects	25	There is adequate governance arrangements in place, including programme and project management, risk management, and financial management, to develop, oversee and deliver the capital programme and projects, and reporting arrangements are sound to provide elected members' awareness of the Council's capital expenditure, priorities and risks. Sample of significant capital investment projects over the lifespan of each project.
Flood Protection	15	There is a structured framework, including community partner engagement, for investment in flood protection schemes and there are adequate operational and financial controls in place for the effective response to flooding to meet agreed standards and to demonstrate efficient and effective use of resources.
65		

AUDIT	2023/24 (Days)	COMMENTARY
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Legislative & Other Compliance

Hawick Conservation Area Regeneration Scheme (CARS)	5	Annual review as part of programme compliance and evaluation requirements of the external funders including audit requirements.
Economic Development Funding / Funded Programmes	25	Annual audits of grant-funded programmes under the terms of Agreements to assess compliance with the requirements and relevant regulations.
Sustainable Environment	25	Review progress with the Climate Change Route Map Priority Actions to meet the Council's obligations regarding sustainable environmental programmes. Continuous audit approach performing 'critical friend' role through the review of policy development and implementation, including training and awareness, and assess compliance with legislation.
55		

AUDIT	2023/24 (Days)	COMMENTARY
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Consultancy

Advice	5	Provision of ad-hoc Internal Audit advice and assistance on internal controls, risk management and governance in response to requests.
Critical Friend Consultancy	105	In its 'critical friend' role provide: internal challenge and quality assurance on a sample of programmes and projects involving major change and systems implementation; provide independent challenge of the evidence to support improvement; and perform an independent and objective assessment of the evidence to support self-evaluation and improvement in support of Best Value.
110		

Appendix 2 - Internal Audit Annual Plan 2023-24

AUDIT	2023/24 (Days)	COMMENTARY
Other		
Contingency	10	Carry out reactive work to ensure high risk issues and concerns identified by Management or Audit Committee during the year are appropriately addressed.
Follow-Up	15	Monitor progress with implementation of Internal Audit recommendations to 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 arrangements	40	Provide intelligence via data sharing requests from Police Scotland, and oversee investigation by Services of data matches arising from the Cabinet Office / Audit Scotland-led National Fraud Initiative (NFI) exercise.
PSIAS Self-Assessment	10	Undertake annual self-assessment of the Internal Audit function against the Public Sector Internal Audit Standards (PSIAS) and report findings to CMT and the Audit Committee.
Audit Committee Self-Assessment	5	Provide assistance to Chair of the Audit Committee in undertaking a self-assessment of the committee against the CIPFA best practice guidance.
Integrity Group	5	Attend and provide support to the Integrity Group and other related groups.
Attendance at Boards / Committees	10	Prepare for and attend Audit Committee meetings and other Boards / Committees as relevant.
Administration of Audit Scotland Reports	2	Monitor publication of Audit Scotland reports and co-ordinate submission by Management of Audit Scotland Reports to the relevant Committees.
Audit Planning for 2023/24	10	Develop and consult on proposed coverage within the Internal Audit Annual Plan 2024/25.
	107	

702

AUDIT	2023/24 (Days)	COMMENTARY
Non Scottish Borders Council		
Scottish Borders Council Pension Fund	20	To be determined in consultation with Management and agreed by the Joint Pension Fund Committee and Board for the review of the adequacy of governance, risk management and internal controls of the pension fund.
Scottish Borders Health and Social Care Integration Joint Board	45	To be determined in consultation with Management and agreed by the Scottish Borders Health and Social Care Integration Joint Board (IJB) Audit Committee for the review of the adequacy of the IJB's arrangements for risk management, governance and control of the delegated resources.
	65	

Total Audit Days

767