

# Public Document Pack



## AUDIT COMMITTEE MONDAY, 11 MARCH 2024

A MEETING of the AUDIT COMMITTEE will be held VIA MICROSOFT TEAMS on MONDAY, 11 MARCH 2024 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.

N. MCKINLAY,  
Director Corporate Governance,

4 March 2024

<b>BUSINESS</b>		
1.	<b>Apologies for Absence</b>	
2.	<b>Order of Business</b>	
3.	<b>Declarations of Interest</b>	
4.	<b>Minute</b>	5 mins
	(a) <b>Minute - 12 February 2024</b> (Pages 3 - 6) Consider Minute of the Meeting held on 12 February 2024 for approval and signature by the Chair. (Copy attached.)	
	(b) <b>Audit Committee Action Tracker</b> (Pages 7 - 8) Consider update on Audit Committee action. (Copy attached.)	
5.	<b>Director Risk Management Presentation</b> Consider presentation on corporate risks by Director Corporate Governance.	30 mins
6.	<b>Follow-Up Review 2023-24 of Completed Internal Audit Recommendations</b> (Pages 9 - 14) Consider report by Chief Officer Audit and Risk. (Copy attached.)	10 mins
7.	<b>External Audit Annual Plan 2023-24 for the Council</b> Consider report by Audit Scotland. (To follow.)	15 mins
8.	<b>External Audit Annual Plan 2023-24 for the Pension Fund</b> (Pages 15 - 30)	10 mins

	Consider report by Audit Scotland. (Copy attached.)	
9.	<b>Internal Audit Charter</b> (Pages 31 - 42) Consider report by Chief Officer Audit and Risk. (Copy attached.)	10 mins
10.	<b>Internal Audit Strategy and Annual Plan 2024-25</b> (Pages 43 - 62) Consider report by Chief Officer Audit and Risk. (Copy attached.)	20 mins
11.	<b>Any Other Items Previously Circulated</b>	
12.	<b>Any Other Items which the Chair Decides are Urgent</b>	

#### NOTES

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

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**Membership of Committee:-** Councillors E. Thornton-Nicol (Chair), N. Richards (Vice-Chair), J. Anderson, J. Cox, M. Douglas, J. PatonDay, E. Robson, S. Scott, F. Sinclair and Mr P. Whitfield

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**SCOTTISH BORDERS COUNCIL  
AUDIT COMMITTEE**

MINUTES of Meeting of the AUDIT  
COMMITTEE held in via Microsoft Teams on  
Monday, 12 February 2024 at 10.00 am

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- Present:- Councillors E. Thornton-Nicol (Chair), N. Richards (Vice-Chair), J. Anderson, J. Cox, M. Douglas, J. PatonDay, E. Robson, S. Scott and Mr P. Whitfield
- In Attendance:- Chief Executive, Director Finance and Procurement, Director Corporate Governance, Chief Officer Audit and Risk, Principal Internal Auditor (S. Pow), Chief Officer Finance and Procurement Services (L. Turner), Corporate Risk Officer (E. Elder), Internal Auditor (F. Thompson), Statutory Reporting and Treasury Business Partner (K. Robertson), Ms J. Law (Audit Scotland) and Democratic Services Officer (W. Mohieddeen).

**EXTERNAL MEMBER**

The Chair advised that notification had been received that Mr Steven Whalley had resigned from the Audit Committee and thanked Mr Whalley for his service. The recruitment process for a new external member of the Audit Committee was to get underway.

1. **MINUTE**

There had been circulated copies of the Minute of the Meeting held on 13 November 2023. Mr Whitfield requested that the comment from Mr Whalley that there had appeared to be an apparent governance failure should have a response from SBC Management. Mr Robertson advised that the matter Mr Whalley raised had been addressed at the Meeting held on 27 June 2023 with regard to the asset allocation set out for common good and trust funds investment policy whereby Mr Robertson advised that the parameters set out in the investment strategy were guidelines, the management of the common good and trust fund investments were delegated to investment managers and they were free to move beyond those guidelines if market conditions directed.

**DECISION**

**AGREED to approve the Minute for signature by the Chair.**

2. **AUDIT COMMITTEE ACTION TRACKER**

There had been circulated copies of the Audit Committee Action Tracker. It was noted that the actions related to the Minute of the Meeting held on 13 November 2023 were complete and that the remaining actions were ongoing.

**DECISION**

**NOTED the action tracker.**

3. **DIRECTOR RISK MANAGEMENT PRESENTATION**

- 3.1 The Chair introduced the Director Finance and Procurement to give a presentation on corporate risks for which she was the designated risk owner, risks in the Finance and Procurement service, and to summarise the various responsibilities of the directorate. The structure and responsibility of officers in the service were presented to the Committee. Corporate Risk 033 – Financial Sustainability was summarised and the Director Finance and Procurement advised was a topic that had been raised through financial monitoring discussions. The Council had experienced significant financial pressures during 2023-24 and was operating beyond the base recurring budget in place

which was a result of significant inflation increases along with significant service demand increases, particularly in out-of-area placements for young people which itself was a corporate risk that was reported to CMT. SBC had been reliant on one-off financial resources which can help to buy time for organisational change but can only be regarded a temporary arrangement. The key mitigation of the risk is that SBC are planning its transformation programme to deliver on the service change required to ensure that services are delivered within the permanent available budget.

3.2 Service risks summarised by the Director Finance and Procurement were:

- Capital programme data
- SPOFs (single points of failure)
- Taxation liabilities
- Treasury management
- Pension fund stability and sustainability
- Project risk management
- Challenge to procurement outcome

3.3 The project risk management was shown as having increased which was identified as being due to a change in risk scoring rather than material change in the nature of the risk. Otherwise the risks presented to the Committee were shown to have been stable over the reporting period. The Financial Strategy Risk Register contained 16 risks which was last reviewed in January-February 2024 prior to its inclusion in the suite of budget papers that were to be presented to Scottish Borders Council on 29 February 2024.

## **DECISION**

**NOTED the presentation.**

## **4. DRAFT TREASURY MANAGEMENT AND INVESTMENT STRATEGY 2024-25**

There had been circulated copies of a report by Director Finance and Procurement that was enable the Audit Committee to undertake their scrutiny role in relation to the Treasury Management activities of the Council. It presented the proposed Treasury Management Strategy for 2024-25 for consideration prior to Council approval. CIPFA (Chartered Institute of Public Finance and Accountancy) defined Treasury Management as 'the management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks'. The Treasury Management Strategy was the framework which ensured that the Council operated within prudent, affordable limits in compliance with the CIPFA Code. The Strategy for 2024-25 to be submitted to Council on 29 February 2024 was included in the report at Appendix 1 and reflected the impact of the Administration's draft Financial Plans for 2024-25 onwards on the prudential and treasury indicators for the Council. The Director Finance and Procurement summarised the report and answered Members' questions. In response to a question, the Director Finance and Procurement advised that work was ongoing with how indicators were reported using the International Financial Reporting Standards (IFRS) 16 and that information on leases was being gathered and that this work would likely continue through 2024-25 with a conclusion to come in 2025-26. The inclusion of leases may have an impact on the Authorised Limit in the Strategy; however, this would be monitored. The Chief Executive added that close liaison was ongoing with Link the Council's treasury advisers who were providing software and technical expertise to assess impact on prudential and treasury indicators. Discussions were ongoing with Link with regard to the impact of increased interest rates. It was recognised that interest rates were not at a favourable level to be locked-in to long-term borrowing; however over the next year short-term borrowing arrangements had been considered. The Chair thanked the Director Finance and Procurement and the Finance and Procurement team for the work on the report, the way the report was presented and for the training session on Treasury Management from Link on 6 November 2023. Following the discussion, Members agreed that a training session be organised on the differences between IFRS 16 and UK GAAP.

## **DECISION**

- (a) AGREED to RECOMMEND to COUNCIL the draft Treasury Management Strategy for 2024-25 for approval; and,**
- (b) AGREED that a training session be organised for Members on the difference between IFRS 16 and UK GAAP.**

### **5. INTERNAL AUDIT WORK TO DECEMBER 2023**

There had been circulated copies of a report by Chief Officer Audit and Risk that provided members of the Audit Committee with details of the recent work carried out by Internal Audit and the recommended audit actions agreed by Management to improve internal controls and governance arrangements. The work Internal Audit had carried out in the period from 28 October to 31 December 2023 associated with the delivery of the approved Internal Audit Annual Plan 2023-24 was detailed in the report. A total of 6 final Internal Audit reports had been issued. There were 8 recommendations made associated with 4 of the reports (0 High-rated; 1 Medium-rated; 7 Low-rated). An Executive Summary of the final Internal Audit assurance reports issued, including audit objective, findings, good practice, recommendations (where appropriate) and the Chief Officer Audit and Risk's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, was shown in Appendix 1 of the report. The SBC Internal Audit function conformed to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017) including the production of the report to communicate the results of the reviews. The Chief Officer Audit and Risk advised that the financial governance assurance audit on 'VAT' was proposed to be rescheduled to the Internal Audit plan for 2024-25. The Chief Officer Audit and Risk summarised the report and answered Members' questions and advised that discussions with SBC Management was taking place on cybersecurity as part of audit planning for 2024-25. A number of different works were taking place in SBC on cybersecurity and there was recognition of its importance. On VAT, the Chief Executive advised Members that there was an experienced team working on VAT returns which was also subject to HMRC audit. SBC minimised risk by using accountancy firms with specialised tax advice including for VAT. With regard to school attendances, while schools were able to put in place their own processes, there were inconsistencies in compliance with corporate policy. Some issues remained around clarity of roles and responsibilities between schools and business support staff. A Quality and Recruitment Manager was revising the attendance policy as there was an opportunity to provide greater clarity and guidance, and this report was due to be submitted for approval in due course. Members agreed that this part of the report should be drawn to the attention of the Education Sub-Committee.

## **DECISION**

- (a) AGREED**
  - (i) to approve the minor amendments to the Internal Audit Annual Plan 2023/24, as set out in paragraph 4.8;**
  - (ii) to draw to the attention of the Education Sub-Committee the report on revised attendance policy;**
- (b) NOTED:**
  - (i) the Executive Summaries of the final Internal Audit assurance reports relating to with work Internal Audit has carried out in the period from 28 October to 31 December 2023 (Appendix 1 of the report) associated with the delivery of the approved Internal Audit Annual Plan 2023-24;**

- (ii) **the Internal Audit Consultancy and Other Work carried out in accordance with the approved Internal Audit Charter; and,**
- (iii) **the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work.**

6. **PROGRESS ON IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS Q3 2023-24**

There had been circulated copies of a report by Chief Officer Audit and Risk that provided Members of the Committee with a further requested update on the status of the implementation by Management of audit recommendations made and agreed in Internal Audit reports. Internal Audit was an independent appraisal function established for the review of the internal control system as a service to Scottish Borders Council. It objectively examined, evaluated and reported on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources and the management of risk. The Internal Audit activity added value to the organisation (and its stakeholders) when it considered strategies, objectives, and risks; strived to offer ways to enhance governance, risk management and control processes (by way of making audit recommendations); and objectively provided relevant assurance. The Remit of the Audit Committee included the 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. The Chief Officer Audit and Risk summarised the report.

**DECISION**

- (a) **AGREED that progress was satisfactory;**
- (b) **NOTED:**
  - (i) **the progress made by Management in implementing Internal Audit recommendations to improve internal controls and governance, and mitigate risks; and,**
  - (ii) **that Internal Audit will continue to monitor the completion of outstanding recommendations and will provide update reports to this Committee.**

7. **ACCOUNT COMMISSION LOCAL GOVERNMENT IN SCOTLAND FINANCIAL BULLETIN 2022-23**

There had been circulated copies of the Accounts Commission Local Government in Scotland Financial Bulletin 2022-23. The Chief Officer Audit and Risk noted that the bulletin was presented to CMT and formed the basis of conversations with Finance and Procurement officers to ensure the recommendations therein were considered and acted upon. There were relevant recommendations including achievement of recurring savings and transparency of the ever-increasing challenging financial environment for Scottish Borders Council, linked with the Corporate Risk 033 – Financial Sustainability.

**DECISION**

**NOTED the report.**

*The meeting concluded at 11.19 am.*

**ACTION TRACKER**

**SCOTTISH BORDERS COUNCIL AUDIT COMMITTEE 2023/24**

Notes:-

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

TITLE	DECISION REQUIRING ACTION	DIRECTORATE/ SECTION	RESPONSIBLE OFFICER	STATUS
<b>13 March 2023</b>				
Director Risk Management Presentation	<b>AGREED that the Director Infrastructure and Environment would bring back an update on service risks following the establishment of the Project Programme Management Office (PMO).</b>	Infrastructure and Environment	John Curry	Internal Audit follow-up re Capital Investment is ongoing: PMO Role Specification and Terms of Reference of Strategic Asset Management Group. Cycle of Directors' risk presentations agreed to March 2024 – propose Director I&E update April 2024.
<b>10 May 2023</b>				
Progress Update on LDS Financial Management Recommendation	<b>AGREED:</b> <b>(i) To pursue a joint IJB/SBC audit committee review of the LDS progress on the financial management recommendations by May 2024; and,</b> <b>(ii) To recommend to the Integration Joint Board Audit Committee to look at Best Value of the service to ensure it is operating accordingly</b>	Health & Social Care IJB	Chris Myers / Simon Burt	Oversight and scrutiny by the IJB Audit Committee in accordance with its monitoring of IJB Directions, which includes learning disability services as a delegated service. Next meeting of IJB AC is scheduled in March 2024.
Counter Fraud Annual Report 2022-23	<b>AGREED that the Chief Officer Audit and Risk would present to the Committee, after the counter fraud maturity assessment, a report on counter fraud effectiveness.</b>	Audit & Risk	Jill Stacey	Integrity Group will conduct the counter fraud maturity assessment during 2023/24 and report outcomes within Counter Fraud Annual Report 2023/24 to Audit Committee in April 2024.
<b>25 September 2023</b>				
External Audit Annual Audit Reports 2022/23	<b>AGREED to request updates from the Director – Finance and Procurement on progress against the agreed actions in the Action Plans from within the SBC 2022/23 Annual Audit Report and the Best Value thematic report.</b>	Finance	Suzy Douglas	Propose update report to Audit Committee in April 2024, noting that many of the agreed actions in the Action Plans have an agreed completion date of 31 March 2024.

TITLE	DECISION REQUIRING ACTION	DIRECTORATE/ SECTION	RESPONSIBLE OFFICER	STATUS
<b>12 February 2024</b>				
Committee Membership	<b>The Chair indicated that the recruitment process for a new external member of the Audit Committee was to get underway, following the resignation of one of the external members.</b>	Audit & Risk	Jill Stacey	
Draft Treasury Management and Investment Strategy 2024-25	<b>AGREED to RECOMMEND to COUNCIL the draft Treasury Management Strategy for 2024-25 for approval.</b>	Finance	Suzy Douglas	Presented to Council 29 February 2024 as part of suite of budget papers. <i>Complete</i>
Draft Treasury Management and Investment Strategy 2024-25	<b>AGREED that a training session be organised for Members on the difference between IFRS 16 and UK GAAP.</b>	Finance	Suzy Douglas	
Internal Audit Work to December 2023	<b>AGREED to draw to the attention of the Education Sub-Committee the report on revised attendance policy.</b>	Audit & Risk	Jill Stacey / Chair of Audit Committee	



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## **FOLLOW-UP REVIEW 2023/24 OF COMPLETED INTERNAL AUDIT RECOMMENDATIONS**

**Report by Chief Officer Audit & Risk**

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### **AUDIT COMMITTEE**

**11 March 2024**

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#### **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 2023.**
- 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 2023 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 Internal Audit actions are implemented to improve controls and governance and mitigate risks. At the Internal Audit Final Report stage, the Internal Audit Recommendations are input to Ideagen (formerly Pentana), the Council's corporate performance and risk 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 2023/24 includes two follow-up reviews. The first follow-up review reports on progress Management have made in implementing the Internal Audit recommendations by the expected date (the Q2 2023/24 progress update was presented to the Audit Committee at its meeting of 13 November 2023, and the requested Q3 2023/24 progress update was presented to the Audit Committee at its meeting on 12 February 2024). The second follow-up review 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). This practice is to provide additional assurance on the evidence of improvement in internal controls, risk management and governance as part of its continuous improvement processes.
- 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 FOLLOW-UP REVIEW OF COMPLETED RECOMMENDATIONS**

- 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 During the course of the year, the Internal Audit quarterly follow-up on progress with the implementation of Internal Audit recommendations by Management has provided insight and evidence on a broad range of areas. Therefore, rather than a sample, the total of the 'completed' Internal Audit recommendations are the subject of this report for assurance purposes.

4.3 A total of twenty-seven (27) Internal Audit recommendations had been marked as completed on the Ideagen system by Management during the period January to December 2023. These are summarised in the following table, indicating the year the recommendations were made, to which Internal Audit reports they related, and their priority rating:

<b>(Year) Internal Audit Report</b>	<b>Number of completed recommendations</b>	<b>High Priority</b>	<b>Medium Priority</b>	<b>Low Priority</b>
(2019) Performance Management LGBF	1	0	1	0
(2019) Developer Contributions / Development Management Fees	1	0	1	0
(2020) LDS Financial Management	1	0	1	0
(2021) Business Continuity	2	0	2	0
(2021) Grants incorporating FtPP	1	0	0	1
(2021) Capital Investment	2	0	2	0
(2021) Business World ERP system	2	0	1	1
(2022) Winter Service	2	0	0	2
(2022) Attendance Management	1	0	1	0
(2022) Members Allowances	2	0	0	2
(2022) Schools Financial and Business Administration Processes	2	0	1	1
(2022) Housing Strategy	1	0	0	1
(2022) Passenger Transport	1	0	0	1
(2022) Fleet Management	1	0	1	0
(2022) Mental Health Services	2	0	2	0
(2023) Resilience Planning	1	0	0	1
(2023) Health & Safety	2	0	2	0
(2023) Complaints	1	0	0	1
(2023) Pupil Equity Fund	1	0	1	0
<b>Total</b>	<b>27</b>	<b>0</b>	<b>16</b>	<b>11</b>

4.4 All were found to have been completed satisfactorily. The evidence that was provided by Management for each of the 27 'completed' Internal Audit recommendations indicated that sufficient action had been taken to address the matters raised in the original Internal Audit report, thus improving the effectiveness of internal controls and governance arrangements, and reducing risk relating to these service areas, processes and systems. The above provides assurance of evidence-based continuous improvement. It is important for Management to ensure that these improved internal controls are sustained in the medium-term.

4.5 Internal Audit will continue to work with Directors and Action Owners to ensure the in-progress Internal Audit Recommendations are fully implemented with provision of evidence to support this, thus demonstrating 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, subject to the consideration of the risk implications.

4.6 A further update on progress with the implementation of Internal Audit recommendations will be included within the Internal Audit Annual Assurance Report 2023/24 for Scottish Borders Council, which is scheduled for presentation to the Audit Committee in April 2024.

## 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

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.

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.

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 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).

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 controls and governance.

The Internal Audit Strategy for 2023/24 has been amended to include integrated impact assessment compliance into all assurance audits as a cross-cutting risk to provide assurance that the underlying controls and processes in all Services are operating as intended to demonstrate the Council is fulfilling its Equality Duty and Fairer Scotland Duty.

### 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 during the preparation of the Internal Audit Charter, and the Internal Audit Strategy and 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.

The Internal Audit Strategy for 2023/24 has been amended to include integrating climate change into all assurance audits as a cross-cutting risk to provide assurance that the underlying controls and processes in all Services that support climate change commitments, plans and programmes are operating as intended. Recommendations may arise from this work.

During the year 2023/24 the Internal Audit function has adopted a continuous audit approach, including observation of the Sustainability Board, to assess the Council's governance arrangements and progress with action plans to meet its climate change obligations and sustainable environmental programmes. Recommendations may arise from this work.

## 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 28 February 2024 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 Director – Finance & Procurement, Director - Corporate Governance (and Monitoring Officer), Director – People Performance & Change, and Communications team have been consulted on this report in line with required practice.

### 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
Scott Pow	Principal Internal Auditor

**Background Papers:** Appropriate Internal Audit files and Pentana system

**Previous Minute Reference:** Audit Committee 13 March 2023

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

Contact us at Internal Audit [intaudit@scotborders.gov.uk](mailto:intaudit@scotborders.gov.uk)

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# Scottish Borders Council Pension Fund Annual Audit Plan 2023/24 – DRAFT



Prepared for Scottish Borders Council Pension Fund  
March 2024

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# Contents

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Introduction	3
Annual accounts	5
Wider Scope and Best Value	9
Reporting arrangements, timetable, and audit fee	10
Other matters	13



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# Introduction

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## Summary of planned audit work

1. John Boyd has been appointed by the Accounts Commission as external auditor of Scottish Borders Council Pension Fund (the Pension Fund) for the period from 2022/23 until 2026/27. The 2023/24 financial year is therefore the second of the five-year audit appointment.
2. This document summarises the work plan for the 2023/24 audit. The main elements of the audit include:
  - an audit of the financial statements and an opinion on whether they give a true and fair view and are free from material misstatement
  - an audit opinion on other statutory information published with the financial statements in the annual accounts, including the Performance Report, 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
  - provision of an Independent Auditor's Report expressing my opinions on the different elements of the annual accounts and an Annual Audit Report setting out conclusions on the wide scope areas.

## Respective responsibilities of the auditor and the Pension Fund

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

### Auditor responsibilities

4. My responsibilities as appointed auditor 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.
5. 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 in place at the Pension Fund. In doing this, we aim to support improvement and accountability.

### The Pension Fund's responsibilities

6. The Pension Fund is responsible for maintaining adequate accounting records and internal controls, and preparing financial statements for audit that give a true

and fair view. They are also required to produce other reports in the annual accounts in accordance with statutory requirements.

**7.** The Pension 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.

### **Adding Value**

**8.** We aim to add value by: tailoring audit work to the circumstances of the Pension Fund and the audit risks identified; being constructive and forward looking; providing independent conclusions; attending meetings of the Pension Fund Committee & Pension Board; and by recommending and encouraging good practice. In so doing, we will help the Pension Fund promote improved standards of governance, better management and decision-making, and more effective use of resources.

# Annual accounts

## Introduction

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

**10.** The appointed auditor is required to perform an audit of the financial statements, consider other information within the annual report and accounts, and express a number of audit opinions in an Independent Auditor's Report in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 from the Public Audit Forum which interprets the ISAs for the public sector, and guidance from Audit Scotland.

**11.** The team will focus our work on the areas of highest risk. As part of our planning process, we perform a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

## Materiality

**12.** 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 plan our audit to obtain reasonable assurance about 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 2023/24 audit

**13.** We assess materiality at different levels. The materiality values for the Pension Fund are set out in [Exhibit 1](#).

## Exhibit 1

### 2023/24 Materiality levels for the Pension Fund

Materiality	Amount
<b>Planning materiality</b> – 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 Pension Fund's operations. For the year ended 31 March 2024, we have set our materiality at 1.5% of gross expenditure investment assets based on the audited financial statements for 2022/23.	£13 million
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance	£9.1 million

materiality, this could indicate that further audit procedures are required. Using our professional judgement, we have assessed performance materiality at 70% of planning materiality.

<b>Reporting threshold</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the ‘reporting threshold’ amount.	£650 thousand
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Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

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

**15.** 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.

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

### Exhibit 2

#### 2023/24 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Management’s sources of assurance	Planned audit response
<p><b>1. Risk of material misstatement due to fraud caused by management override of controls</b></p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management’s ability to</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"> <li>Assess the design and implementation of controls over journal entry processing.</li> <li>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.</li> <li>Test journals at the year-end and post-closing entries and focus on significant risk areas.</li> </ul>

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>override controls that otherwise appear to be operating effectively.</p>		<ul style="list-style-type: none"> <li>• Consider the need to test journal entries and other adjustments throughout the year.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> <li>• Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements.</li> <li>• We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</li> </ul>
<p><b>2. Estimation applied to level 3 investments</b></p> <p>The Pension Fund has a significant portfolio of level 3 investments (£344.4 million as at 31 March 2023) 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.</p>	<p>Unquoted investments are valued by third parties including investment managers and independent valuers who follow detailed professional, accounting and industry codes and guidelines.</p>	<ul style="list-style-type: none"> <li>• Critically assess the Pension Fund's arrangements for arriving at the valuation of level 3 investments, including the use of experts in undertaking the valuation.</li> <li>• Confirmation of year end valuations to valuation reports and/or other supporting documentation, including third party confirmation.</li> <li>• Review the relevant investment managers' controls reports for qualifications or exceptions that may affect the audit risk.</li> <li>• Review the arrangements in place at the Pension Fund to assess investment managers' governance arrangements.</li> <li>• 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.</li> </ul>

Source: Audit Scotland

**17.** As set out in ISA (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.

**18.** We have rebutted this risk for the Pension Fund because:

- The split of responsibilities amongst the Pension Fund, its fund managers, its custodian, and the bank provide a clear separation of duties reducing the risks relating to investment income.
- We have considered opportunity and incentive for fraud in income recognition, including understanding of entity level controls, and consider the risk of fraud to be low.
- 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.

**19.** 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.

**20.** We have rebutted this risk for the Pension Fund because:

- Management fees are reported transparently.
- We have considered opportunity and incentive for fraud in expenditure recognition, including understanding of entity level controls, and consider the risk of fraud to be low.
- There is no incentive for the Pension Fund to manipulate the amount of pension benefits paid (which is the Pension Fund's main expenditure stream) and we have concluded there is not a significant risk in this area.

**21.** 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

**22.** 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 risks, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses.

**23.** The area of specific audit focus is the disclosure of the actuarial valuation of the Pension Fund liabilities. This involves a complex actuarial 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 presentational risk of material misstatement.

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# Wider Scope and Best Value

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## Introduction

**24.** Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The Code of Audit Practice sets out the four areas that frame the wider scope of public sector audit, and requires auditors to consider and conclude on the effectiveness and appropriateness of the arrangements in place for each wider scope area in audited bodies.

**25.** In summary, the four wider scope areas are:

- **Financial management** – This means having sound budgetary processes. We will consider the arrangements to secure sound financial management, including the strength of the financial management culture, accountability, and arrangements to prevent and detect fraud, error, and other irregularities.
- **Financial sustainability** – We will look ahead to consider whether the body is planning effectively to continue to deliver services. We will also comment on financial sustainability in the medium (two to five years) to longer term (longer than five years).
- **Vision, leadership, and governance** – We conclude on the clarity of plans in place to deliver the vision, strategy, and priorities adopted by the Pension Fund. We also consider the effectiveness of the governance arrangements to support delivery.
- **Use of resources to improve outcomes** – We will consider how the Pension Fund demonstrates economy, efficiency, and effectiveness through the use of financial and other resources.

## Wider scope risks

**26.** We have not identified any significant risks in the wider scope areas.

**27.** Our planned work on the wider scope areas is risk based and proportionate, and in addition to local risks, we may be asked by the Accounts Commission to consider specific risk areas which are impacting the public sector as a whole. We have not been asked to consider specific risks for 2023/24 audits, but we will remain cognisant of any challenges identified in prior years.

# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

**28.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be shared with the relevant officers to confirm factual accuracy.

**29.** We will provide:

- an Independent Auditor's Report to the Pension Fund and the Accounts Commission setting out our opinions on the annual accounts
- the Pension Fund and the Accounts Commission with an Annual Audit Report containing observations and recommendations on significant matters which have arisen during the audit and conclusions on wider scope areas.

**30.** [Exhibit 3](#) outlines the target dates for our audit outputs set by the Accounts Commission. In determining the target reporting date, due regard is paid to the dates for approving the annual accounts set out in regulations of 30 September 2024.

**31.** We plan to issue our Independent Auditor's Report and Annual Audit Report by the target date.

### Exhibit 3 2023/24 Audit outputs

Audit Output	Target date	Pension Fund Committee & Pension Fund Board Date
Annual Audit Plan	31 March 2024	4 March 2024
Independent Auditor's Report	30 September 2024	19 September 2024
Annual Audit Report	30 September 2024	19 September 2024

Source: Audit Scotland





**32.** All Annual Audit Plans and the outputs detailed in [Exhibit 3](#), and any other outputs on matters of public interest, will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

## Timetable

**33.** 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 4](#) that has been discussed with management.

**34.** 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 4 2023/24 Proposed annual accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited annual accounts with complete working papers package.	30 June 2024
Latest date for final clearance meeting with the Section 95 Officer	9 September 2024
Issue of draft Letter of Representation and proposed Independent Auditor's Report	12 September 2024
Agreement of audited and unsigned annual accounts	12 September 2024
Issue of Annual Audit Report to those charged with governance.	12 September 2024
Signed Independent Auditor's Report	19 September 2024

Source: Audit Scotland

## Audit fee

**35.** In determining the audit fee, we have taken account of the risk exposure of the Pension Fund and the planned management assurances in place. Fee levels are also impacted by inflation which increases the cost of audit delivery. The proposed audit fee for 2023/24 is £26,370 as set out in [Exhibit 5](#).

**Exhibit 5****2023/24 Audit fees (including VAT)**

<b>Fee component</b>	<b>Fees (£)</b>
External Auditor Remuneration	45,630
Pooled costs	1,660
Sectoral Cap Adjustment	-20,920
<b>Total 2023/24 fee</b>	<b>26,370</b>

Source: Audit Scotland

**36.** In setting the fee for 2023/24, we have assumed that the Pension Fund has effective governance arrangements and will prepare a comprehensive and accurate annual report and set of accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

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# Other matters

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## Internal audit

**37.** It is the responsibility of the Pension Fund to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

**38.** While we are not planning to place formal reliance on the work of internal audit in 2023/24, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

## Independence and objectivity

**39.** As the appointed auditor of the Pension Fund, I am independent of the Pension Fund in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors.

**40.** Audit Scotland has robust arrangements in place to ensure compliance with Ethical Standard 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.

**41.** The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. I am not aware of any such relationships pertaining to the audit of the Pension Fund.

## Audit Quality

**42.** Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the [Audit Scotland website](#).

**43.** The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are:

- ISQM (UK) 1 which deals with an audit organisation's responsibilities to design, implement and operate a system of quality management (SoQM) for audits. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to high-quality audit through our engagement performance and resourcing arrangements, and ensuring we have robust quality monitoring arrangements in place. Audit Scotland carries out an annual

evaluation of our SoQM and has concluded that we comply with this standard.

- ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in the audit to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions of high-risk audit engagements.

**44.** To monitor quality at an individual audit level, Audit Scotland also carries out internal quality reviews of a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews.

**45.** Actions to address deficiencies identified by internal and external quality reviews are included in a rolling Quality Improvement Action Plan which is used to support continuous improvement. Progress with implementing planned actions is regularly monitored by Audit Scotland's Quality and Ethics Committee.

**46.** Audit Scotland may periodically seek your views on the quality of our service provision. The team would also welcome feedback more informally at any time.

# Scottish Borders Council Pension Fund

## Annual Audit Plan 2023/24 - DRAFT

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## **INTERNAL AUDIT CHARTER**

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

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## **AUDIT COMMITTEE**

**11 March 2024**

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### **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) 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 Committee on 13 March 2023, has been updated by the Chief Audit Executive (Chief Officer Audit & Risk). The summary of the changes reflect the following:
- Insertion of paragraph numbers to provide point of reference; identified as an improvement arising from PSIAS self-assessment.
  - The changes within the Council Management Team i.e. the permanent appointments to the Director of Finance & Procurement and Director of Corporate Governance posts, and re the latter the associated change in the CAE's line management arrangements, and the interim arrangements for chief social work officer role arising from vacant post of the Director of Social Work & Practice;
  - Relevant updates by standard setters to the role of the Audit Committee in respect of Internal Audit i.e. CIPFA Audit Committees practical guidance (2022).
  - Explicit reference within the 'Audit Resources and Work Prioritisation' section to outline the arrangements for in-year review of, amendment to, and approval of plans; and
  - Inclusion of specific examples within the 'Non-Audit Activities' section to demonstrate how in practice Internal Audit avoids conflict of interest and preserves its independence and objectivity; identified as an improvement arising from PSIAS self-assessment.
- 4.4 The Internal Audit Charter should be considered alongside the Internal Audit Strategy and Annual Plan 2024/25. 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 2024/25.

### **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 its policies, procedures and practices.
- 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 the Ideagen (previously Pentana) performance and risk 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 2024/25; a full IIA is not required.

The revised Internal Audit Charter, Strategy and Annual Plan 2024/25 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 2024/25).

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 2024/25. Internal Audit provision as part of 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. Internal Audit provision as part of good governance is important to enable Scottish Borders Council to achieve its objectives, including those supporting its climate change obligations.

#### 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

The Internal Audit work is carried out in accordance with the appropriate legislation and professional standards. 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.

#### 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 28 February 2024 to outline the key role of Internal Audit in providing independent and objective assurance as part of good governance.

6.2 The Director of Finance & Procurement, Director of Corporate Governance (and Monitoring Officer), Director of People Performance and Change, and Communications team have been consulted on this report and appendix by email in line with required practice.

#### 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

**Background Papers:** Local Code of Corporate Governance; Financial Regulations

**Previous Minute Reference:** Audit Committee 13 March 2023

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

Contact us at Internal Audit [intaudit@scotborders.gov.uk](mailto:intaudit@scotborders.gov.uk)

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## INTERNAL AUDIT CHARTER

### 1. INTRODUCTION

1.1 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.

1.2 The Internal Audit function of Scottish Borders Council (SBC) has adopted from the PSIAS<sup>1</sup>: 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 processes<sup>2</sup>.*

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.

### 2. OBJECTIVES OF INTERNAL AUDIT

2.1 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).

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

2.3 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, 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.

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<sup>1</sup> Public Sector Internal Audit Standards (PSIAS) (2017) Page 37

<sup>2</sup> Internal Audit Standards Advisory Board (IASAB) Public Sector Internal Audit Standards (PSIAS) (2017)

- 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.
- 2.4 In addition to providing assurance services to Scottish Borders Council (SBC), the SBC Internal Audit function provides assurance services to the Scottish Borders Council Pension Fund (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.

### **3. POSITION OF INTERNAL AUDIT WITHIN THE ORGANISATION**

- 3.1 In terms of the PSIAS, the status of Internal Audit should enable it to function effectively, with recognition of the independence of Internal Audit fundamental to its effectiveness. The Chief Audit Executive (CAE) should have *“sufficient status to facilitate the effective discussion of audit strategies, plans, results and improvement plans with senior management of the organisation”<sup>3</sup>*
- 3.2 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 (Director Finance & Procurement), monitoring officer ( Director Corporate Governance) and chief social work officer (interim arrangements in place due to vacant post 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.
- 3.3 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 reporting<sup>4</sup> means the Audit Committee will:
- Review or approve the following:
    - the Internal Audit Charter.
    - the risk-based Internal Audit Annual Plan.
    - the Internal Audit budget and resource plan (*to ensure that Internal Audit is adequately resourced to meet assurance and other key responsibilities*).
  - Receive confirmation of the organisational independence of the Internal Audit activity.
  - Consider the appointment or removal of the CAE, or the award of a contract for Internal Audit services.
  - Make enquiries of both Management and the CAE to determine if there are any inappropriate scope or resource limitations on Internal Audit.

<sup>3</sup> Internal Audit Standards Advisory Board (IASAB) Public Sector Internal Audit Standards (PSIAS) (2017)

<sup>4</sup> Chartered Institute of Internal Auditors (CIIA) – International Standards for Professional Practice of Internal Auditing and CIPFA Audit Committees practical guidance (2022)

- Approve, and periodically review, any safeguards put in place to limit impairments to independence and objectivity where the CAE has been asked to undertake any additional roles/responsibilities outside of internal auditing.
- Receive the CAE's annual report, which includes:
  - the annual opinion on the overall adequacy and effectiveness of governance, risk management and control;
  - a summary of the work on which Internal Audit has based the opinion;
  - a statement on conformance with the PSIAS and the Local Government Application Note (LGAN); and
  - the results of the quality assurance and improvement programme (QAIP), including specific detail as required in the PSIAS.
- Discuss with the CAE the form of the external assessment of internal audit and the qualifications and independence of the assessor.
- Receive the report on the external assessment of internal audit (at least once every five years), including its overall conclusion and any recommendations, and monitor the implementation of the improvement plan).

3.4 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.

3.5 The CAE is line managed by the Director 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 function have an adequate and timely flow of information concerning the activities, plans and initiatives of the Council, Pension Fund, and IJB.

#### **4. RIGHTS OF ACCESS**

4.1 The CAE and any member of the Internal Audit function, 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.

- 4.2 The Internal Audit function safeguards all data and 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. Data and information is retained and disposed of in line with the SBC records management policy.

## **5. SCOPE OF INTERNAL AUDIT ACTIVITY**

- 5.1 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.

- 5.2 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.



## **6. AUDIT RESOURCES AND WORK PRIORITISATION**

6.1 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 Council 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.

6.2 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 to meet statutory requirements and professional standards.

6.3 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 IJB being approved and monitored by their respective 'senior management' and 'board'.

6.4 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 plans will be periodically reviewed, amended as required, to reflect any new arrangement or changing risks and priorities, and brought to each organisation's 'senior management' and 'board' for approval.

- 6.5 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.
- 6.6 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.
- 6.7 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, Director Corporate Governance and Director Finance & Procurement (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.

## **7. NON-AUDIT ACTIVITIES**

- 7.1 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.
- 7.2 Specifically, when Internal Audit staff have transferred from roles in services within the Council or other associated organisations, for at least one year they will not be assigned assurance audits relating to their previous area of responsibility. In addition, audit consulting engagements or other work will be restricted to providing advice, guidance, observations and opinions, and Internal Audit staff will have no involvement in making operational decisions.
- 7.3 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, the Principal Internal Auditor will lead any planned audit engagements solely on Risk Management and Counter Fraud frameworks with the Chief Officer Audit & Risk 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 Director Corporate Governance during the period.

## **8. APPROVAL**

- 8.1 The Internal Audit Charter was reported to and approved by the SBC Audit Committee at its meeting on **11 March 2024** and will be subject to regular review by the CAE and the SBC Audit Committee.

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## **INTERNAL AUDIT STRATEGY AND INTERNAL AUDIT ANNUAL PLAN 2024/25**

**Report by Chief Officer Audit and Risk**

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### **AUDIT COMMITTEE**

**11 March 2024**

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#### **1 PURPOSE AND SUMMARY**

- 1.1 The purpose of this report is to gain approval to the proposed Internal Audit Strategy and Internal Audit Annual Plan 2024/25 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 (PF), and Scottish Borders Health and Social Care Integration Joint Board (IJB).
- 1.4 The Internal Audit Annual Plan 2024/25 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, PF, and IJB. Separate Internal Audit Annual Plans 2024/25 for the PF and IJB 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 2024/25 (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 function to the Scottish Borders Council Pension Fund (PF) 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 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 (PF) and Scottish Borders Health and Social Care Integration Joint Board (IJB).

4.3 The Internal Audit Strategy, since its previous approval by the Audit Committee on 13 March 2023, reflects the following:

- The related changes within the Council Management Team i.e. the permanent appointments to the Director of Finance & Procurement and Director of Corporate Governance posts;
- Further specific references associated with 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;
- Further developments 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 (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."*;
- Further enhancements to consider the cross-cutting risks and controls relating to people and succession planning, and integrated impact assessments, to provide assurance on the level of compliance with the Council's policies and processes within Services; and
- Setting out a vision for the proposed developments in data analytics (paragraph 7.5 (d) of Appendix 1) associated with the delivery of the Internal Audit programme of work and enhancing the skills and competencies of the Internal Audit team.

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 2024/25

- 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”; and
  - 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 (2022) 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 Chief Officer Audit & Risk and the Principal Internal Auditor have developed the proposed Internal Audit Annual Plan 2024/25 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 area.
- 5.4 As part of the Internal Audit planning process it was necessary to consider each organisation’s priorities, plans, strategies, objectives, risks and mitigating controls, and the internal and external assurances provided to determine the priorities of the Internal Audit activity consistent with the organisation’s goals, as follows:
- Analysis was undertaken of Internal Audit work during the past 5 years against the Audit Universe to ensure appropriate coverage of the strategic and operational management arrangements;
  - Corporate and Service Risk Registers were checked and discussions were held with the Corporate Risk Officer to confirm coverage on key corporate risks and strategic service 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 to propose assurance work and discuss opportunities for ‘critical friend’ consultancy engagement; and
  - Account was taken of known external audit and inspection activities to avoid duplication of assurance work.
- 5.5 It is envisaged that 2024/25 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.

- 5.6 The Non-SBC days reflect the Council's partnering commitment to provide Internal Audit assurance resources and services to the Scottish Borders Council Pension Fund (PF) and to the Scottish Borders Health and Social Care Integration Joint Board (IJB). Separate Internal Audit Annual Plans 2024/25 will be presented to their respective Committee/Board for approval to fulfil those provisions of services.

## **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 Director of 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, learning and development, and management and supervision, this equates to a total of 790 days available for Internal Audit activity (2023/24 - 767).

### **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, Directors and Service Managers have been consulted, risks and mitigations on Corporate and Service Risk Registers have been taken into account, and discussions have been held with the Corporate Risk Officer. These discussions will continue during the year to ensure individual Internal Audit engagements are risk-based.

### 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 2024/25 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 2024/25).

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 associated with the revised Internal Audit Strategy and Annual Plan 2024/25 will not directly impact any of the 17 UN Sustainable Development Goals, based on completion of the checklist alongside the Internal Audit Charter. Internal Audit provision as part of 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. The provision of Internal Audit assurance and consultancy services as part of 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 further developments with 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.

The Internal Audit Strategy includes integrating climate change into all relevant assurance audits as a cross-cutting risk to provide assurance that the underlying controls and processes in all Services that support climate change commitments, plans and programmes are operating as intended. This continues to develop since its introduction in 2023/24.

The Internal Audit function has adopted a continuous audit approach, including observation of the Sustainability Board, to assess the Council's governance arrangements and progress with the Climate Change Route Map Priority Actions to meet the Council's obligations.



## 6.6 Rural Proofing

The revised Internal Audit Strategy and Annual Plan 2024/25 (and the related Internal Audit Charter) are unlikely to have a different impact in rural areas, based on completion of the checklist, due to the nature of providing Internal Audit services as a corporate function as part of good governance.

## 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 extensive consultation with key stakeholders to capture potential areas of risk and uncertainty more fully. This has included discussions with the Chief Executive, with Directors and Service Managers at each of their Senior Management Team meetings, and with the Corporate Risk Officer to gain insights and information within the Corporate and Service Risk Registers and on the risk management processes. Account was taken of known external audit and inspection activities to avoid duplication of assurance work.

7.2 The report and appendices have been presented to the Council Management Team on 28 February 2024 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 The Director of Finance & Procurement, Director of Corporate Governance (and Monitoring Officer), Director of People Performance and Change, and Communications team have been consulted on this report and appendices by email in line with required practice.

### 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
Scott Pow	Principal Internal Auditor

**Background Papers:** Local Code of Corporate Governance; Financial Regulations

**Previous Minute Reference:** Audit Committee 13 March 2023

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

Contact us at Internal Audit [intaudit@scotborders.gov.uk](mailto:intaudit@scotborders.gov.uk)

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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 aims, objectives and 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.
- 3.2. 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.
- 3.3. 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.
- 3.4. 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.
- 3.5. 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 or equivalent which is included within their respective Annual Report and Accounts.
- 3.6. 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. For the Pension Fund, this is reflected within its Governance Policy and Compliance Statement. For Scottish Borders Council and the IJB, this includes the following 7 core principles of good governance that are set out in their respective Local Code of Corporate Governance documents:
- 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. Director of Finance & Procurement (roles relevant to the Council and Pension Fund) and Chief Financial 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 2024/25 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 aims and 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 for each organisation, which have been updated and realigned to reflect the current strategic and operational management arrangements, to ensure appropriate coverage over the medium term;
  - SBC Corporate and Service Risk Registers, the Pension Fund Risk Register, and the IJB Strategic Risk Register were checked and discussions were held with the Corporate Risk Officer to gather information and insights on their respective risk management arrangements, as reliance is placed on the risk assessments carried out by the Risk Owners, their risk ratings and planned risk mitigation actions, in order to confirm coverage on key corporate risks and other service strategic risks i.e. risk-based Internal Audit assurance; and
  - Account was taken of known external audit and inspection activities to avoid duplication of assurance work. For example: Discussions between Internal Audit and External Audit related to fulfilling their respective roles (Audit Scotland for SBC, Pension Fund, and IJB); 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 Directors and Service Managers (Senior Management), statutory officers, compliance/corporate service support functions such as health and safety, IT client, information management, finance and procurement, HR, business continuity, legal services, 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 legislative obligations 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 64% of the SBC Internal Audit function'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 16% of the SBC Internal Audit function'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 12% of the SBC Internal Audit function'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 8% of the SBC Internal Audit function'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 2023/24 , as well as planned work with the greatest risk, will be prioritised 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 Governance Policy & Compliance Statement (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), 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 on boards/working groups involving major change or systems development, advise on effective controls for new systems and activities, highlight opportunities to reduce costs through greater economy and efficiency, and provide an independent assessment of the evidence to support self-evaluation and improvement.
- 7.5. *Other* work will include:
- a) 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;
  - b) carrying out *Follow-Up* to monitor progress with implementation of Internal 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 (Internal Audit recommendations will be input to the Ideagen (formerly Pentana) performance management and risk system at Final Report stage to assist relevant Management in tracking and recording their implementation in a consistent way);
  - c) engaging in *Counter Fraud* forums at local and national levels as part of the wider assurance framework on counter fraud and crime controls, and being the key contact for the National Fraud Initiative (NFI) including oversight of the NFI data submissions by Services, their investigation of NFI data matches, and recording outcomes; and
  - d) embedding the use of *Data Analytics* within processes and outputs to enhance performance and inform and improve the quality of findings and support to client organisations. Obtaining and analysing data from across key systems on both a continuous basis and as part of individual reviews and activities, to identify any strategic emerging issues and business intelligence to optimise use of resources.

## **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.
- 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. Any changes arising from the new 'Global Internal Audit Standards' will be considered and applied, as appropriate.
- 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 their respective Senior Management and Audit Committee/Board, within a Mid-Term Performance Report and the Annual Assurance Report for each organisation.
- 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 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 2024-25

AUDIT	2024/25 (Days)	COMMENTARY
<b>Corporate Governance</b>		
<b>Corporate Governance</b>	<b>35</b>	Continuous auditing on progress with areas of improvement. Annual evaluation of compliance with Local Code of Corporate Governance covering the corporate whole and Directorates/Services. Prepare the 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.
<b>Information Governance</b>	<b>20</b>	Continuous auditing, performing 'critical friend' role, to review the Information Governance framework including roles and responsibilities for the different data controllers (including Assessor ERO), review policy development and implementation, assess compliance with legislation, and provide annual assurance to the Senior Information Risk Owner (SIRO).
<b>Performance Management (Framework)</b>	<b>25</b>	Review the Performance Management Framework and test a sample of performance indicators in Service Plans to validate relevance and accuracy.
<b>Risk Management</b>	<b>10</b>	Review the framework for identifying and managing risk linked to the corporate vision and priorities and compliance with relevant laws and regulations.
<b>Counter Fraud</b>	<b>10</b>	Review counter fraud framework to minimise the risk and impacts of fraud from internal and external threats.
<b>Corporate Transformation &amp; Change</b>	<b>20</b>	Review the transformation and change framework and plans for the new operating model.
<b>Contract Management - Strategic Contracts</b>	<b>15</b>	Review the arrangements for managing the lifecycle of strategic contracts.
<b>Digital Strategy</b>	<b>20</b>	Review the strategic plan for new digital initiatives and technologies to achieve more efficient business processes.
<b>Capital Programme</b>	<b>30</b>	Continuous auditing of the capital programme. Review a sample of capital projects to test key controls and verify consistency of process supported by the PMO and overseen by the Strategic Estate Management Group as capital projects approach and advance through gateways.
	<b>185</b>	

## Appendix 2 - Internal Audit Annual Plan 2024-25

AUDIT	2024/25 (Days)	COMMENTARY
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### Financial Governance

<b>Value Added Tax (VAT)</b> <i>(b/f from 2023/24)</i>	<b>10</b>	Review the arrangements for complying with HMRC VAT rules and preventing the council incurring costs from penalties and interest.
<b>Financial Sustainability</b>	<b>30</b>	Review the financial planning framework for the development of service business plans and budgets in line with the corporate vision and priorities.
<b>Procurement to Payment</b>	<b>20</b>	Review the management of contracts supplying goods and services to the Council.
<b>Payroll</b>	<b>10</b>	Testing key controls for the payroll process.
	<b>70</b>	

AUDIT	2024/25 (Days)	COMMENTARY
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### ICT Governance

<b>CGI Contract</b>	<b>15</b>	Review the arrangements for managing the lifecycle of the ICT services contract.
<b>ICT Security</b>	<b>10</b>	Review ICT security arrangements for managing risk from insider and external threats. Review progress with the implementation of the Cyber Security Maturity Assessment improvement actions to ensure the Council is protected from cyber attacks.
<b>IT Systems &amp; Maintenance</b>	<b>15</b>	Review the arrangements for supporting and maintaining business applications.
	<b>40</b>	

AUDIT	2024/25 (Days)	COMMENTARY
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### Internal Controls

<b>Schools Financial and Business Administration Processes</b>	<b>35</b>	Review business administrative procedures for the efficient and effective use of resources in school establishments, including evaluation of the systems in place to set and monitor DSM budgets.
<b>Waste &amp; Recycling Services</b>	<b>25</b>	Review the delivery of waste and recycling services to residents and commercial customers.
<b>Fostering &amp; Kinship Care</b>	<b>15</b>	Review the framework for fostering and kinship care financial support.
<b>Building Standards - Emergency Works</b>	<b>20</b>	Review emergency works income and expenditure, including credit control.
	<b>95</b>	

## Appendix 2 - Internal Audit Annual Plan 2024-25

AUDIT	2024/25 (Days)	COMMENTARY
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### Asset Management

<b>Property Asset Management</b>	<b>20</b>	Review the arrangements for monitoring compliance with relevant laws and regulations.
<b>Fleet Management</b>	<b>30</b>	Review the arrangements for monitoring fleet compliance.
<b>Paths Asset Management</b>	<b>10</b>	Review the arrangements for monitoring managed paths.
	<b>60</b>	

AUDIT	2024/25 (Days)	COMMENTARY
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### Legislative & Other Compliance

<b>Hawick Conservation Area Regeneration Scheme (CARS)</b>	<b>15</b>	Annual review as part of programme compliance and evaluation requirements of the external funders including audit requirements.
<b>UK Government Shared Prosperity Fund</b>	<b>15</b>	Annual audits of grant-funded programmes under the terms of Agreements to assess compliance with the requirements and relevant regulations.
<b>Sustainable Environment - Climate Change</b>	<b>25</b>	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.
	<b>55</b>	

AUDIT	2024/25 (Days)	COMMENTARY
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### Consultancy

<b>Advice</b>	<b>5</b>	Provision of ad-hoc Internal Audit advice and assistance on internal controls, risk management and governance in response to requests.
<b>Critical Friend Consultancy</b>	<b>90</b>	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.
	<b>95</b>	

## Appendix 2 - Internal Audit Annual Plan 2024-25

AUDIT	2024/25 (Days)	COMMENTARY
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<b>Other</b>
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<b>Contingency</b>	<b>10</b>	Carry out reactive work to ensure high risk issues and concerns identified by Management or Audit Committee during the year are appropriately addressed.
<b>Data Analytics</b>	<b>50</b>	Provision to develop the data analytics strategy which will inform the internal audit methodology, annual planning process and staff training and development. Allocation of time in relevant audits for data analysis to be developed and utilised.
<b>Follow-Up</b>	<b>15</b>	Monitor progress with implementation of Internal Audit recommendations on a quarterly basis 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.
<b>NFI Exercise 2024-2025 - Key Contact role</b>	<b>10</b>	Oversee the planning for the Council's participation in the Cabinet Office / Audit Scotland-led National Fraud Initiative (NFI) exercise, including data submission by Services, and initial investigation by Services of data matches arising.
<b>PSIAS Self-Assessment</b>	<b>10</b>	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.
<b>Audit Committee Self-Assessment</b>	<b>8</b>	Provide assistance to Chair of the Audit Committee in undertaking a self-assessment of the committee against the CIPFA best practice guidance, with input from members. Plan and facilitate associated Development Sessions during the year.
<b>Attendance at Boards / Committees</b>	<b>10</b>	Prepare for and attend Audit Committee meetings and other Boards / Committees as relevant.
<b>Administration of Audit Scotland Reports</b>	<b>2</b>	Monitor publication of Audit Scotland reports and co-ordinate submission by Management of Audit Scotland Reports to the relevant Committees.
<b>Audit Planning for 2025/26</b>	<b>10</b>	Develop and consult on proposed coverage within the Internal Audit Annual Plan 2025/26.
	<b>125</b>	

<b>725</b>
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AUDIT	2024/25 (Days)	COMMENTARY
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<b>Non Scottish Borders Council</b>
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<b>Scottish Borders Council Pension Fund</b>	<b>20</b>	To be determined in consultation with Management and agreed by the Pension Fund Committee (at joint meeting with Pension Board) for the review of the adequacy of governance, risk management and internal controls of the Pension Fund.
<b>Scottish Borders Health and Social Care Integration Joint Board</b>	<b>45</b>	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.
	<b>65</b>	

**Total Audit Days**

<b>790</b>
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