

INTERNAL AUDIT STRATEGY**1. AIM OF STRATEGY**

- 1.1. The aim of this strategy is to guide Internal Audit in delivering a high quality internal audit service, which is capable of:
- providing an audit opinion, to Management and the Audit and Risk Committee, on the adequacy of Scottish Borders Council's risk management, internal control and governance arrangements;
 - carrying out all other objectives contained in Internal Audit's Charter; and
 - adding value to the organisation by influencing and offering ways to enhance the governance and internal control environment in alignment to the strategic priorities of the Council and providing the required assurance.

2. STRATEGY OBJECTIVES

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

3. ASSURANCE FRAMEWORK

- 3.1. It is Management's responsibility to design and maintain proper risk management, governance and internal control processes and systems to ensure probity in systems and operations, including the prevention, detection and resolution of fraud and irregularities. Management is also responsible for checking that the arrangements and controls are operating effectively. These are known as the first and second lines of defence. Internal Audit, as the third line of defence, is the review function which will challenge current practices and recommend best practice and improvements to lead to a strengthening of the control environment and therefore assisting the Council in achieving its objectives.
- 3.2. The organisation's assurance framework is the means by which the Corporate Management Team ('senior management') and the Audit and Risk Committee (the 'board' for the purposes of Internal Audit activity) ensures that they are properly informed on the risks of not meeting its objectives or delivering appropriate outcomes and that it has adequate assurances on the design and operation of the systems in place to mitigate those risks.
- 3.3. The assurance framework comprises assurances from within the organisation (from Management and independent and objective assurance from Internal Audit) and from external providers of assurance. Examples of the latter include the Accounts Commission, External Audit (Audit Scotland - 5 year appointment 2016/17 to 2020/21 inclusive), and Education Scotland, Care Inspectorate, Scottish Housing Regulator and other regulators.
- 3.4. The assurances are considered during the annual review of the effectiveness of the Council's overall governance framework carried out by the Governance Self-evaluation Officer Working Group led by Internal Audit. The output is the Annual Governance Statement which is scrutinised by the Audit and Risk Committee in advance of its inclusion within the Council's Annual Report and Accounts.

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

4. KEY THEMES INTEGRAL TO INTERNAL AUDIT ASSURANCE

- 4.1. The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Fundamentally corporate governance is about the systems and processes, and cultures and values that are used by the Council to discharge those responsibilities in a timely, inclusive, open, honest and accountable manner. This includes: setting the strategic direction, vision, culture and values of the Council; effective operation of corporate systems; processes and internal controls; engaging with and, where appropriate, lead communities; monitoring whether strategic objectives have been achieved and services delivered cost effectively; and ensuring that appropriate arrangements are in place for the management of risk. Within the themed *corporate governance* and *internal control* assurance work the Council's Local Code of Corporate Governance will be used by Internal Audit as an integrated toolkit to test the extent of compliance.
- 4.2. The Council's statutory Section 95 Officer (Chief Financial Officer) is responsible for the proper administration of the Council's financial affairs. Under his direction, the Council's system of internal financial control is based on a framework of Financial Regulations (rules and regulations for financial management or administration arrangements linked to other key financial documents that set out the policy framework, associated strategy, and the more detailed procedures and guidelines), regular Management Information, administrative procedures (including segregation of duties), Management Supervision, and a system of Delegation and Accountability. Within the themed *Financial Governance* and *Asset Management* assurance work, end to end reviews of financial management and administration processes will be undertaken by Internal Audit to test the extent of compliance (as integral part of protecting public finances, safeguarding assets, and delivering services effectively and sustainably), and substantive testing of transactions and balances will be carried out to ensure completeness and accuracy of data in core financial systems. The Plans (Financial and Asset Management) to deliver the Council's strategies, plans and priorities will be reviewed against best practice standards.
- 4.3. Scottish Borders Council has outsourced ICT Service Delivery to CGI and continues to invest in computer systems to support service delivery and corporate transformation through electronic service delivery. Delivery of the Council's ICT Strategy is subject to regular monitoring and review, as part of corporate transformation, to ensure it continues to be linked to Corporate Priorities. The ICT Security Policy is the overarching policy that provides the framework to protect the Council from attack in relation to data integrity and availability. The objective of *ICT Governance* assurance audit work is to provide assurance that computer systems are secure, reliable and conform to nationally agreed standards, and that arrangements support delivery of the ICT Strategy linked to Corporate Priorities.

5. APPROACH TO PERIODIC PLANNING

- 5.1. The Internal Audit Strategy and the Internal Audit Annual Plan 2017/18 have been prepared in accordance with the Public Sector Internal Audit Standards (PSIAS) to fulfil the requirement to produce an Internal Audit annual opinion.
- 5.2. As part of the Internal Audit planning process it was necessary to consider the Council's priorities, plans, strategies, objectives, risks and mitigating controls, and the internal and external assurances provided to determine the priorities of the Internal Audit activity consistent with the Council's goals, as follows:

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

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

6. ALLOCATION OF INTERNAL AUDIT RESOURCES

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

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

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

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

7. APPROACH TO DELIVERY OF PROGRAMME OF WORK

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

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

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

- 7.3. The *Legislative and Other Compliance* work will include testing in accordance with the terms of the funders' service level agreements or legislative requirements, as part of the wider assurance framework.
- 7.4. Within *Consultancy* activities Internal Audit will continue to add value to the Council as it transforms its service delivery models, re-designs its business processes, and utilises technology to automate processes by influencing and offering ways to enhance the governance and internal control environment. Internal Audit in its 'critical friend' role will provide internal challenge as part of strategic and service reviews, advise on effective controls for new systems and activities, highlight opportunities to reduce costs through greater economy and efficiency, provide quality assurance on a sample of projects involving major change and systems development, and provide an independent and objective assessment of the evidence to support self-evaluation and improvement.
- 7.5. *Other* work will include: performing potentially high risk *Contingency* audits, investigations and review of issues highlighted during the year that may be the result of a weakness in internal controls or that may be requested by Management or the Audit and Risk Committee; carrying out *Follow-Up* to monitor progress with implementation of Audit recommendations and ensure that management actions have been timeously and effectively implemented, to check that these have had the desired effect to manage identified risks, and to demonstrate continuous improvement in internal control and governance. To facilitate the Internal Audit follow-up activity, Audit recommendations will continue to be input to Covalent, the Council's corporate performance management system, to assist Management in tracking and recording their implementation in a consistent way; and responding on behalf of the Council to *Counter Fraud* data sharing requests from Police Scotland, Audit Scotland (as part of the National Fraud Initiative), and Other partners as part of the wider assurance framework on counter fraud and crime controls.

8. MONITORING THE WORK OF INTERNAL AUDIT

- 8.1. Internal Audit work completed and work in progress will be reported periodically during the year to the Corporate Management Team and the Audit and Risk Committee. These reports will include an Executive Summary of the audit objective, good practice, findings, recommendations, and audit opinion of assurance for each Final Internal Audit Report issued to relevant Service Management in the period.
- 8.2. Internal Audit's compliance with its Strategy, delivery of its risk-based Annual Plan, and outcomes of assessment(s) against Public Sector Internal Audit Standards (PSIAS) will be considered by the Chief Officer Audit & Risk on a regular basis and reported every six months to the Corporate Management Team and the Audit and Risk Committee, through a Mid-Term Performance Report and an Annual Report. The Internal Audit Annual Report will provide the required opinion statement on the levels of assurance based on audit findings over the year.
- 8.3. The PSIAS requires an annual Internal Self-Assessment and an External Quality Assessment (EQA) each five years by appropriately qualified and independent reviewers. Reporting on outcomes includes a statement on conformance with PSIAS and the quality assurance and improvement plan (QAIP). The Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) have implemented a "peer review" framework as a cost effective means of complying with the EQA requirement. Scottish Borders Council was peer reviewed by Renfrewshire Council in 2015 and will peer review Fife Council in 2017.