Scottish Borders COUNCIL

ITEM

INTERNAL AUDIT MID-TERM PERFORMANCE REPORT 2018/19

Report by Chief Officer Audit & Risk

AUDIT AND SCRUTINY COMMITTEE

27 November 2018

1 PURPOSE AND SUMMARY

1.1 The purpose of this report is to inform the Audit and Scrutiny Committee of the progress Internal Audit has made, in the first 6 months of the year to 30 September 2018, towards completing the Internal Audit Annual Plan 2018/19. It also summarises the statutory obligations for Internal Audit and requirements of the Public Sector Internal Audit Standards.

1.2 The Objectives of Internal Audit are set out in its Charter: "As part of Scottish Borders Council's system of corporate governance, Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives." Internal Audit provides assurance to Management and the Audit and Scrutiny Committee on the effectiveness of internal controls and governance within the Council.

1.3 The Internal Audit Annual Plan 2018/19 that was approved by the Audit and Scrutiny Committee on 19 March 2018 sets out the audit coverage for the year utilising available Internal Audit staff resources to enable the Chief Officer, as the Council's Chief Audit Executive (CAE), to provide the annual Internal Audit opinion regarding the adequacy and effectiveness of internal control within the Council. Internal Audit assurance services and annual opinions are also provided to the Board of SB Cares, the Scottish Borders Pension Fund Board and Committee, and the Scottish Borders Health and Social Care Integration Joint Board to meet their obligations.

1.4 The Appendix 1 to this report provides details of the half-yearly progress by Internal Audit with the delivery of its programme of work. Internal Audit has made good progress in the first half of the year, despite extraordinary staff sickness absence during that period, and is currently on target to complete its Annual Plan 2018/19 subject to full staff attendance in the second half of the year.

1.5 The report also summarises the statutory obligations for Internal Audit and the requirements of the Public Sector Internal Audit Standards (PSIAS) with which the SBC Internal Audit function conforms.

2 RECOMMENDATION

2.1 I recommend that the Audit and Scrutiny Committee approves the progress Internal Audit has made towards completing the Internal Audit Annual Plan 2018/19, and confirms that it is satisfied with the Performance of the Internal Audit service.

3 BACKGROUND

3.1 The Objectives of Internal Audit are set out in its Charter: "As part of Scottish Borders Council's system of corporate governance, Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives and to do so:

- As a contribution to the Council's corporate management of risk.
- As an aid to ensuring that the Council and its Members, managers and officers are operating within the law and relevant regulations.
- In support of the Council's vision, values and priorities.
- 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 information are accurate and reliable."

3.2 Internal Audit provides assurance to Management and the Audit and Scrutiny Committee on the effectiveness of internal controls and governance within the Council.

3.3 The Internal Audit Annual Plan 2018/19 that was approved by the Audit and Scrutiny Committee on 19 March 2018 sets out the audit coverage for the year utilising available Internal Audit staff resources to enable the Chief Officer, as the Council's Chief Audit Executive (CAE), to provide the annual internal audit opinion regarding the adequacy and effectiveness of internal control within the Council.

3.4 Internal Audit assurance services are also provided during the year to the Council's adult social care ALEO (SB Cares), the Scottish Borders Pension Fund, and the Scottish Borders Health and Social Care Integration Joint Board, and annual opinions are provided to their respective Management and Board/Committee to meet their obligations.

4 HALF YEAR RESULTS AGAINST INTERNAL AUDIT PLAN 2018/19

4.1 The Internal Audit programme of work takes account of the availability of auditor resources and consultation with Management to reflect the timing of some of Council's strategic development programmes. The following table summarises the Internal Audit activity for the 6 months to 30 September 2018:

	Plan days Apr-Sep 2018/19	Actual days Apr-Sep 2018/19	Plan Report Nos. Apr-Sep 2018/19	Actual Report Nos. Apr-Sep 2018/19
Corporate Governance	95	97	2	2
Financial Governance	60	39	0	0
IT Governance	40	31	1	0
Internal Controls	25	26	2	0
Asset Management	27	28	1	0
Legislative and other Compliance	40	30	3	1
Consultancy and Advice	48	42		
Other	35	34		
Non Council	62	63		
Total	**432**	**390**	**9**	**3**

4.2 The Actual Days and Report Numbers reflect the reduced output arising from extraordinary staff sickness absence during the first half of the year. The work Internal Audit has carried out in the first half of the year equates to Productive Days Achieved as a percentage of Productive Days as per the Audit Plan of 90% (CIPFA Directors of Finance PI for Internal Audit services) and 34% completion of planned audit reports.

4.3 The most significant variations of Actual below Plan are as follows:

- Financial Governance: testing on Payroll, Sales to Cash, and Procure to Pay processes and key controls within Business World ERP system reflects progress with rectification plan; reports scheduled 4th Quarter.
- IT Governance: ICT Security work delayed slightly due to staff sickness absence – Report scheduled 3rd Quarter.
- Internal Controls: Licensing work and Adult Social Care Services (Self Directed Support) work delayed slightly due to staff sickness absence and knock-on effect – 2 Reports scheduled 3rd Quarter, slightly offset by Schools pre-planning and research which has been accelerated to ensure productivity levels are retained to use resources effectively.
- Asset Management: Passenger Transport work delayed slightly due to staff sickness absence – Report scheduled 3rd Quarter.
- Legislative and Other Compliance: LEADER and European Maritime Fisheries Fund (EMFF) work delayed slightly due to knock-on effect of staff sickness absence – 2 Reports scheduled 3rd Quarter.

4.4 The Appendix 1 to this report provides details of the half yearly progress by Internal Audit with the delivery of its programme of work to deliver the approved Internal Audit Annual Plan 2018/19 (those audits which are complete are highlighted in dark shading, those underway to reflect their continuous audit approach are highlighted in light shading, those scheduled for the second half of the year are not shaded, and those audit reports that have not been delivered as planned are marked *).

4.6 The continuous audit approach enables Internal Auditors to provide added value advice on internal controls and governance and 'critical friend' consultancy services as the Council continues to transform its service delivery, for example, the Digital Transformation Programme, ICT Contract with CGI, Business World ERP Project, and Information Governance Group with Assurance Reports scheduled for the end of the year. The continuous audit approach is applied to non-SBC Internal Audit work for the Scottish Borders Council Pension Fund, the Scottish Borders Health and Social Care Integration Joint Board, and SB Cares.

5 COMPLETING THE PLAN FOR 2018/19

5.1 The Internal Audit staff resources taking account of the shared Internal Audit services arrangement with Midlothian Council comprises the Chief Officer Audit & Risk (50%), one Principal Internal Auditor, two Senior Internal Auditors, and two Internal Auditors. Internal Audit team members will continue to work in a collaborative way with the Corporate Risk Officer and the Corporate Fraud and Compliance Officer within the Audit and Risk service to provide assurance and compliance services.

5.2 The Internal Audit programme of work for the six months from October 2018 to March 2019 to complete the delayed work and incorporate the remaining planned audit work, based on staffing levels within this period, presently indicates the Internal Audit Annual Plan 2018/19 can be delivered in full. There is no change proposed to the audit plan that would require approval by the Audit and Scrutiny Committee.

5.3 The following table summarises the Internal Audit planned work in the second half of the year to 31 March 2019:

	Plan days Oct-Mar 2018/19	Plan Report Nos. Oct-Mar 2018/19
Corporate Governance	70	4
Financial Governance	115	7
IT Governance	25	1+1
Internal Controls	80	3+2
Asset Management	48	3+1
Legislative and other Compliance	0	0+2
Consultancy and Advice	22	
Other	40	
Non Council	23	3
Total	**423**	**21+6**

5.4 The Internal Audit work completed and work in progress will continue to be reported to the Corporate Management Team and to the Audit and Scrutiny Committee. This report will include an Executive Summary of the audit objective, findings, good practice, recommendations (where appropriate) and audit opinion of assurance for each Final Internal Audit Report issued to relevant Service Management.

5.5 Internal Audit's compliance with its Strategy and delivery of its risk-based Annual Plan will continue to be communicated to the Corporate Management Team and the Audit and Scrutiny Committee within the Internal Audit Annual Assurance Report which will also provide an opinion on the levels of assurance based on audit findings over the year.

6 THE LOCAL AUTHORITY ACCOUNTS (SCOTLAND) REGULATIONS 2014

6.1 The Local Authority Accounts (Scotland) Regulations 2014 which 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 authority.

6.2 The regulations require a local authority to assess the efficiency and effectiveness of internal auditing activity from time to time in accordance with recognised internal auditing standards and practices i.e. PSIAS.

7 PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS) AND QUALITY ASSURANCE & IMPROVEMENT PLAN (QAIP)

7.1 The SBC Internal Audit function follows the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective April 2013 (updated April 2017) which includes:

- Definition of Internal Auditing;
- Code of Ethics;
- Attribute Standards (responsibility, independence, proficiency, quality);
- Professional Standards (managing activity, nature of work, engagement planning, performing the engagement, communicating results, monitoring progress, risk management).

7.2 The PSIAS requires the Chief Audit Executive (CAE), the Council's Chief Officer Audit & Risk, to carry out an annual internal self-assessment against the PSIAS, develop a quality assurance and improvement plan (QAIP) based on the outcome, and report the results of the QAIP to senior management and elected members.

7.3 The PSIAS also requires the self-assessment to be subject to an External Quality Assessment (EQA) each five years, by appropriately qualified and independent reviewers. This EQA was carried out by Renfrewshire Council in October 2015 and the results reported to the Audit and Risk Committee in November 2015. The schedule for the second cycle of EQAs, with other participating Scottish Councils as peer reviewers, is being prepared and the CAE has indicated that Scottish Borders Council will take part.

7.4 An annual internal self-assessment against the PSIAS of the Internal Audit function will be completed prior to the end of 2018/19. The results and any associated improvement actions will continue to be reported to Corporate Management and the Audit and Scrutiny Committee within the Internal Audit Annual Assurance Report. This will enable the Council to meet the requirements of the Local Authority Accounts (Scotland) Regulations 2014 to consider the findings of assessments as part of the consideration of the system of internal control required by regulation 5.

8 IMPLICATIONS

8.1 Financial

(a) There are staff resources available to achieve the Internal Audit Annual Plan 2018/19 and to meet the key objective of delivering an effective Internal Audit function to provide independent and objective assurance on internal controls and governance, and to highlight good practice and recommend improvements.

(b) Budget monitoring of the Audit and Risk service (Internal Audit, Risk Management and Counter Fraud) is discussed by the Chief Officer Audit & Risk on a quarterly basis with Finance staff to address any budgetary pressures and to manage service delivery within budget.

8.2 Risk and Mitigations

(a) The Objectives of Internal Audit are set out in its Charter. "As part of Scottish Borders Council's system of corporate governance, Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives." Specifically as "a contribution to the Council's corporate management of risk".

(b) Key components of the audit planning process include a clear understanding of the Council's functions, associated risks, and potential range and breadth of audit areas for inclusion. During the development of the Internal Audit Annual Plan 2018/19, to capture potential areas of risk and uncertainty more fully, key stakeholders were consulted and risk registers were considered, to ensure the Plan was formulated on a risk-based approach.

(c) If Internal Audit staffing levels fall below that assumed for the remaining six-month period, there is the risk that the annual plan will not be achieved. That in turn increases the risk of reduced assurance available to Management and the Audit and Scrutiny Committee on the effectiveness of internal controls and governance within the Council. This has been mitigated by way of workforce planning, scheduling of audit programme of work, regularly monitoring progress, and taking action as necessary.

8.3 **Equalities**

It is anticipated there will be no adverse impact due to race, disability, gender, age, sexual orientation or religious/belief arising from the work contained in this report.

8.4 **Acting Sustainably**

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

8.5 **Carbon Management**

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

8.6 **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.

8.7 **Changes to Scheme of Administration or Scheme of Delegation**

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

9 CONSULTATION

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

9.2 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Service Director HR, and the Clerk to the Council have been consulted on this report and any comments received have been incorporated into the report.

Approved by

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

Author(s)

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Background Papers: Appropriate Internal Audit files
Previous Minute Reference: Audit and Scrutiny Committee 19 March 2018

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

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