
INTERNAL AUDIT ANNUAL ASSURANCE REPORT 2018/19

Report by Chief Officer Audit & Risk

AUDIT AND SCRUTINY COMMITTEE

13 May 2019

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to present to the Audit and Scrutiny Committee the Internal Audit Annual Assurance Report for the year to 31 March 2019 which includes the Chief Officer Audit & Risk's independent assurance opinion on the adequacy of the Council's overall control environment.**
- 1.2 In support of the overall governance arrangements of the Council, as set out in the Local Code of Corporate Governance, and the Public Sector Internal Audit Standards (PSIAS) which require that the Chief Officer Audit & Risk provides an annual internal audit opinion and report on the adequacy and effectiveness of the Council's governance, risk management and internal controls to support the preparation of the Annual Governance Statement.
- 1.3 The Remit of the Audit and Scrutiny Committee indicates that it should ensure an adequate framework of internal control, risk management and governance throughout the Council.
- 1.4 To meet the requirements of the PSIAS the Internal Audit Annual Assurance Report 2018/19, at Appendix 1, includes the annual Internal Audit opinion, provides details of the Internal Audit activity and performance during the year to fulfil its role, and summarises the outcomes of assessments of the Internal Audit service against the PSIAS.
- 1.5 The Chief Officer Audit & Risk's opinion is that, based on Internal Audit reviews and knowledge, the systems of internal control, governance and risk management within the Council are operating satisfactorily.
- 1.6 The Internal Audit Annual Assurance Report 2018/19 has been used to inform the Chief Executive's Annual Governance Statement 2018/19.

2 RECOMMENDATIONS

- 2.1 I recommend that the Audit and Scrutiny Committee:**
- a) Considers the Internal Audit Annual Assurance Report 2018/19 (Appendix 1) and provides any commentary thereon.**
 - b) Agrees that the Internal Audit Annual Assurance Report 2018/19 be published on the Council's website.**

3 BACKGROUND

3.1 The Public Sector Internal Audit Standards (PSIAS) (2017) requires that:
"The chief audit executive [SBC's Chief Officer Audit & Risk] must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report must incorporate:

- the opinion;
- a summary of the work that supports the opinion; and
- a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme."

3.2 The Remit and Terms of Reference of the Audit and Scrutiny Committee indicate that it should:

- Ensure adequate framework of internal control, risk management and governance throughout the Council
- Encourage propriety and probity throughout the Council
- Assist in accountability to stakeholders

4 INTERNAL AUDIT ANNUAL ASSURANCE REPORT 2018/19

4.1 The Internal Audit Annual Assurance Report 2018/19, at Appendix 1, includes the Chief Officer Audit & Risk's independent and objective opinion regarding the adequacy and effectiveness of the Council's governance, risk management and internal controls, provides details of the Internal Audit activity that supports the opinion and of the performance during the year to fulfil its role, and summarises the outcomes of assessments of the Internal Audit service against the PSIAS.

4.2 The Chief Officer Audit & Risk's opinion is that, based on Internal Audit reviews and knowledge, the systems of internal control, governance and risk management within the Council are operating satisfactorily.

4.3 Internal Audit reports during the year confirm improvements in internal controls, governance, and risk management through Management-initiated improvements complemented by the implementation of audit recommendations. The most significant of these improved controls related to the Business World ERP system. Further improvements in internal controls, governance, and risk management have been agreed by Management as highlighted in Internal Audit reports during the year.

4.4 The Internal Audit Annual Assurance Report 2018/19 provides assurances in relation to the Council's corporate governance framework that is a key component in underpinning delivery of the corporate priorities within the Council's Corporate Plan and has been used to inform the Chief Executive's Annual Governance Statement 2018/19.

4.5 The annual internal self-assessment against the Public Sector Internal Audit Standards (PSIAS) in 2018/19 demonstrates sufficient evidence that the Council's Internal Audit section conforms with the Definition of Internal Auditing, Code of Ethics, and the Standards in the PSIAS.

5 IMPLICATIONS

5.1 Financial

- (a) It is anticipated that efficiencies will arise either as a direct or indirect result of Management implementing the recommendations made by Internal Audit during 2018/19 through improved internal controls and governance arrangements.
- (b) The net cost (projected outturn at January 2019) of the Internal Audit service was £254k (2017/18 £234k). The majority of service expenditure relates to staff costs (99%) for resources comprising Chief Officer Audit & Risk (50% allocation), Principal Internal Auditor, two Senior Internal Auditors, and two Internal Auditors.

5.2 Risk and Mitigations

- (a) Internal Audit provides assurance to Corporate Management and the Audit and Scrutiny Committee on the adequacy and effectiveness of internal controls, governance and risk management within the Council, highlights good practice and recommends improvements. Key components of the audit planning process include a clear understanding of the Council's functions, associated risks, and range and breadth of audit areas for inclusion within the plan. There is effective liaison between Internal Audit and the Risk Management support team on an on-going basis to ensure that risk is considered in every audit and risk reviews take account of improvements arising from audit work.
- (b) Continuous improvements in internal controls and governance arrangements can be demonstrated through Management-initiated improvements complemented by the implementation of Audit recommendations.
- (c) It is anticipated that improvements in the management and mitigation of risks will arise as a direct result of Management implementing the Internal Audit recommendations made during the year or outstanding from previous years which will enable Management to demonstrate further improvement in internal controls and governance arrangements.
- (d) Delivery of the Internal Audit services in conformance with the PSIAS 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.

5.3 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.

5.4 Acting Sustainably

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

5.5 Carbon Management

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

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 Changes to Scheme of Administration or Scheme of Delegation

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

6 CONSULTATION

- 6.1 As the Chief Officer Audit & Risk is required to give an independent opinion on the Council's governance, risk management and internal controls, full consultation on Appendix 1 is not appropriate.
- 6.2 The Corporate Management Team has been advised to take into account the work of Internal Audit and the independent opinion on the adequacy and effectiveness of the Council's governance, risk management and internal controls when completing the annual self-evaluation and assurance process for the Council's Annual Governance Statement 2018/19.
- 6.3 The Corporate Management Team, the Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Service Director HR, the Clerk to the Council and the Communications team have been consulted on this cover report and any comments received have been incorporated.

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 14 May 2018

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Contact us at Internal Audit intaudit@scotborders.gov.uk

Chief Officer Audit & Risk's Annual Report and Opinion 2018/19**1 Introduction**

- 1.1 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 which are not fixed but evolve as the Council changes.
- 1.2 Internal Audit, as the third line of defence, 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; and objectively provides relevant assurance.
- 1.4 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:
- In support of the Council's vision, values and priorities.
 - As a contribution to the Council's corporate management of risk.
 - 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.
 - As a contribution towards establishing and maintaining a culture of honesty, integrity, openness, accountability and transparency throughout the Council in all its activities and transactions.
 - As a contribution towards ensuring that financial statements and other published performance information are accurate and reliable.
- 1.5 The Public Sector Internal Audit Standards (PSIAS) (2017) requires that:
"The chief audit executive [SBC's Chief Officer Audit & Risk] must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.
The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.
The annual report must incorporate:
- the opinion;
 - a summary of the work that supports the opinion; and
 - a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme."
- 1.6 This Annual Report provides the annual internal audit opinion and summarises the work carried out by Internal Audit during the year to 31 March 2019 that underpins the opinion in accordance with the Internal Audit Charter, Strategy and Annual Plan. The report also summarises the outcomes of assessments of the Internal Audit service against the Public Sector Internal Audit Standards (PSIAS).

2 Opinion on the systems of Internal Control and Governance

- 2.1 My opinion is that, based on our reviews and knowledge, the systems of internal control, governance and risk management within the Council are operating satisfactorily.
- 2.2 Internal Audit reports during the year confirm improvements in internal controls, governance, and risk management through Management-initiated improvements complemented by the implementation of audit recommendations. The most significant of these improved controls related to the Business World ERP system.
- 2.3 Reasonable assurance can be provided on the adequacy of the internal controls and governance arrangements in place. There is adequate awareness and observation of the Council's Local Code of Corporate Governance (approved June 2018) and key governance documents including Scheme of Administration (approved November 2017; amended June 2018), Procedural Standing Orders (approved June 2017), Scheme of Delegation (approved March 2018), Financial Regulations (approved November 2018), Procurement and Contract Standing Orders (approved July 2017) and Codes of Conduct for Councillors and for Employees. The policies, procedures and guidelines associated with Financial Regulations need to be reviewed, updated and developed, as appropriate, to reflect changes arising from the implementation of the Business World ERP system.
- 2.4 The Chief Officer Audit & Risk facilitates the annual review of the Council's governance arrangements against its Local Code of Corporate Governance (Local Code) carried out by a self-evaluation working group of officers from across the Council's services. This is part of the process to produce the Annual Governance Statement.
- 2.5 Further improvements in internal controls, governance, and risk management have been agreed by Management as highlighted in Internal Audit reports and recommendations made during the year or outstanding from previous years.

3 Internal Audit Annual Plan 2018/19 Delivery

- 3.1 The following table shows the analysis of audit days and numbers by audit theme:

	Plan days 2018/19	Actual days 2018/19	Plan Nos. 2018/19	Actual Nos. 2018/19
Corporate Governance	165	141	6	6
Financial Governance	175	152	7	7
IT Governance	65	35	2	1
Internal Controls	105	94	5	4
Asset Management	75	72	4	4
Legislative and other Compliance	40	45	3	3
Consultancy and Advice	70	109		
Other	75	65		
SBC Total	770	713	27	25
Non-SBC	85	88	3	3
Total	855	801	30	28

- 3.2 The level of Actual Audit days was slightly lower than plan (94%). This performance can be attributed to extraordinary staff sickness absence during the first half of the year, and a staff leaver in the fourth quarter of the year thus reducing overall output despite greater than planned direct audit productivity from the Internal Audit team resources that were available during the year.

3.3 The allocation of audit plan days is not an exact science and some of the audit scopes have been carried out using less than planned days and some using more. The most significant variations are as follows:

- Corporate Governance: The second element of the planned assurance audit on Performance Management relating to KPIs of Corporate Priorities was not carried due to resource capacity in fourth quarter, though assurance will be gained from the Best Value Assurance Review of the Council that is underway.
- Financial Governance: The planned assurance audit on Financial Policy Framework was included within the Financial Planning assurance audit.
- ICT Governance: The full scope of the planned assurance audit on ICT Contract Management has been deferred to 2019/20 Audit Plan in agreement with Senior Management; aspects of the ICT outsource contract with CGI was covered as part of Consultancy work on request by CMT Review of Business Case Objectives.
- Asset Management: The full scope of the planned assurance audit on Winter Service has been deferred to 2019/20 Audit Plan to align with the phasing of the Winter Service Review in agreement with Senior Management and will be carried out as part of Consultancy work.
- Consultancy: engagement in the Contract Management Working Group and the Business Objectives Evaluation utilised significant resources.

3.4 This has not affected the assurance that Internal Audit is able to give.

3.5 The wide range of Internal Audit work performed during the year is listed below:

Corporate Governance Audits

3.6 To provide assurances in relation to the Council's corporate governance framework that is a key component in underpinning delivery of the corporate objectives and priorities within the Council's Corporate Plan, reviews included:

- Corporate Governance (Assessment of progress on implementation of Improvement action plans, Annual Evaluation against Local Code of Corporate Governance, support the recruitment process to appoint external members to Audit and Scrutiny Committee (Audit business) and support for the Committee's learning and development).
- Information Governance (Review of the framework including roles and responsibilities, policy development and implementation, and assess compliance with the General Data Protection Regulation (GDPR) which came into force May 2018; and to provide annual assurance to the Senior Information Risk Owner and Data Protection Officer).
- Performance Management (Validation of performance indicators and benchmarking information to support self-assessment and continuous improvement of the Council's services, specifically to ensure accuracy of data submitted for Local Government Benchmarking Framework).
- Corporate Transformation Programme (continual audit approach to influence the governance and accountability arrangements, including processes for benefit (financial and other) identification, tracking and realisation (return on investment and value for money), and evaluation of outcomes and lessons learned).
- Workforce Planning (Review of approach to workforce development in alignment with business and financial planning processes to provide skills, knowledge and competency requirements for service delivery to meet the Council's objectives).
- Resilience Planning (Review the approach to emergency and business continuity planning, including risk assessments, early warning systems, resilient communities initiative, post incident reviews and lessons learned).

Financial Governance Audits

3.7 To provide assurance on the internal financial controls in place and substantive testing of transactions to ensure completeness and accuracy of data in core financial systems, reviews included:

- Financial Planning Processes incorporating Financial Policy Framework (Review of the systems and procedures for preparing, monitoring and controlling the budget including efficiency savings to provide the foundation for sound internal financial control, to deliver the financial strategy, and to ensure plans and priorities match available resources including the roles and responsibilities of budget holders, and evaluate whether there is a comprehensive programme in place to review, update and develop relevant policies, procedures and guidelines).
- Business World ERP System Key Controls incorporating Payroll, Sales to Cash, Procure to Pay, and Record to Report system process (Assess key controls of the Business World system for Payroll, Sales to Cash, and Procure to Pay processes and core General Ledger and Management Reporting (Record to Report), assess System Access, test sample of transactions from various data sets to determine if expected improved internal financial controls are being achieved).
- Revenues – Council Tax and Non Domestic Rates (Assess the application and key controls regarding Council Tax and Non Domestic Rates exemptions and discounts, including review periods, policies, discretionary relief and disabled persons relief).

ICT Governance Audits

3.8 To provide assurances that computer systems are secure, reliable and conform to nationally agreed standards, reviews included:

- ICT Security Controls (Assess the adequacy of ICT security arrangements including: physical and environmental controls; disaster recovery; third party access; operational controls (change/incident/problem management) and business applications, to ensure they are designed appropriately and that all parties are adhering and complying with them. Review of PSN compliance and Cyber Essentials requirements).

Internal Controls Audits

3.9 To provide assurances in relation to a range of the Council's internal controls in areas identified by Management, reviews included:

- Schools – Earlston HS, Eyemouth HS, Kelso HS, Melrose PS, Greenlaw PS and Eddleston PS (Review of internal financial controls and business administrative procedures in place to ensure the efficient and effective use of resources in the school establishments, to complement the assurance received from Education Scotland arising from their inspection programme of schools, including evaluation of the systems in place to set and monitor budgets devolved to head teachers to ensure adherence to DSM standards and practices).
- Licensing (Review of New Licensing Policy Statement (requirement of law reviewed every 5 years), due to be in place by November 2018 to check that the Council is following best practice through its policies and procedures).
- Adult Social Care Services (Review of internal financial controls and governance arrangements regarding Self Directed Support to ensure national policy objectives are being met and public funds are safeguarded).
- Protective Services (Review the change in business practices and ways of working following the restructure within Environmental Health and Trading Standards to ensure that regulatory obligations are met and risks are appropriately managed).

Asset Management Audits

- 3.10 To provide assurances that Council assets are safeguarded and properly accounted for, and used economically, efficiently and effectively, reviews included:
- Asset Registers (Review of systems, processes and controls that are in place to ensure complete and accurate records of all Property, Fleet, and IT assets that underpin Asset Management Plans to deliver Council's strategies, plans and priorities).
 - Capital Investment (Assess progress with implementation of identified improvement actions to ensure compliance with established good practice by Accounts Commission - strategic asset management plans; governance of capital investment; capital planning; review, scrutiny and challenge; capital financial budget monitoring; delivery of the capital programme and capital plan projects, including transformation achieved through the Corporate Landlord Model).
 - Private Sector Landlord Registration (Assess the end to end procedures and practices for private sector landlord registration to ensure that statutory obligations are met and risks are appropriately managed).
 - Passenger Transport (Analyse and assess current processes for Passenger Transport to identify the approach which represents best value, review procurement practices for compliance and consider options for improvement).

Legislative and Other Compliance Audits

- 3.11 To test compliance with the terms of the funders' service level agreements or legislative requirements, reviews included:
- Selkirk Conservation Area Regeneration Scheme (Review Selkirk CARS as part of programme compliance and evaluation requirements of the external funders' requirements including audit).
 - EU Funded Programmes - LEADER and European Maritime and Fisheries Fund (Annual audits of the LEADER and EMFF Programmes under the terms of the respective Service Level Agreements and legislative compliance including an assessment of compliance with the requirements of the respective SLAs and the relevant EC Regulations).

Consultancy Work

- 3.12 The most significant piece of consultancy work related to the engagement in the design, development and delivery of a Contract Management Framework by the Contract Management Working Group, which will be the key mechanism that facilitates the monitoring and assurance of third party service providers.
- 3.13 On request by Corporate Management Team, Internal Audit examined and evaluated at a high level the objectives, benefits and expected outputs from the original business case for each outsourcing agreement (Live Borders; SB Cares; CGI), determined whether or not these have been achieved, and provided some evidence associated with that assessment.
- 3.14 In its 'critical friend' role, Internal Audit provided internal challenge and advice to Managers through engagement in a number forums as the Council continues to transform its services. For example, Information Governance Group, Business World ERP Project Board, and Digital Customer Steering Group.
- 3.15 During the year Internal Audit responded to a number of requests for ad hoc advice and assistance on internal controls, risk management and governance. One significant activity was attendance at Schools Business Managers Meeting and visits to Eyemouth and Berwickshire Primary Schools Clusters to provide information and assistance regarding Petty Cash policy and procedures and an overview of associated Council Financial policies.

- 3.16 Internal Audit considered and applied National Reports that give rise to introducing best practice arrangements or lessons learned from other local authorities or other public sector bodies. This adds value to the Council by influencing and offering ways to enhance the governance and internal control environment in alignment to the Council's strategic priorities.
- 3.17 Provided independent challenge of the evidence to support improvement arising from the Joint Older People Services inspection, and engaged in the design and development of the Public Protection Unit to support improvement as a 'critical friend'.

Other Work

- 3.18 Internal Audit responded to specific control issues highlighted by Managers during the year by incorporating those aspects within specific audit scopes or performing Contingency Audits approved by the Chief Officer Audit & Risk.
- 3.19 Work was carried out regarding the Carbon Reduction Programme to ensure that the Council's submission to the Department of Energy and Climate Change for carbon emissions was delivered on time; that updates to the Evidence Pack regarding the Council's structure, organisation and estate are maintained; and that progress continues with the Council's Energy Efficiency Schemes. No direction has yet been received on the future of the Carbon Reduction Commitment Programme; this current phase ends in March 2019.
- 3.20 Resources were deployed in the delivery of the Follow-up work to check that recommendations have been implemented and to ensure that the new controls had the desired effect on improving internal control and governance. The following table highlights the current position (Source: Pentana performance system as at 22 April 2019) with regards to Internal Audit recommendations arising from current and previous years:

Year identified	Total	Implemented	Not Yet Due	Overdue
2018/19	4	2	1	1
2017/18	42	32	9	1
2016/17	10	9	1	0
2015/16	21	21	0	0
2014/15	34	30	3	1

- 3.21 In collaboration with the Corporate Fraud and Compliance Officer, Internal Audit evaluated fraud prevention controls and detection processes on an on-going basis to ensure fraud risk is considered in every audit, and provided intelligence via data sharing requests from Police Scotland as part of the wider assurance framework on counter fraud and crime controls.

Non SBC Work

- 3.22 The Council's Internal Audit service provided independent assurance on the overall risk management, internal control and corporate governance processes for SB Cares (the Council's adult social care ALEO), Scottish Borders Pension Fund, and Scottish Borders Health and Social Care Integration Joint Board. Separate annual audit assurance opinions are reported to their respective Senior Management and Boards, based on the work delivered in accordance with Annual Audit Plans that have been approved by their respective Senior Management and Boards.
- 3.23 Approval was given in November 2018 to continue with Shared Internal Audit Services between Midlothian and Scottish Borders Councils after a 12-month pilot demonstrated positive outcomes including the sharing of expertise and knowledge, and the identification and assessment of best practice across both organisations.

4 Public Sector Internal Audit Standards and Quality Assurance & Improvement Plan

- 4.1 The professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017) include:
- Definition of Internal Auditing;
 - Code of Ethics;
 - Attribute Standards (Purpose, Authority and Responsibility; Independence and Objectivity; Proficiency and Due Professional Care; Quality Assurance and Improvement Programme);
 - Performance Standards (Managing the Internal Audit Activity; Nature of Work; Engagement Planning; Performing the Engagement; Communicating Results; Monitoring Progress; and Communicating the Acceptance of Risks).
- 4.2 An internal self-assessment of Internal Audit practices against the Standards was carried out in 2018/19, as required by the PSIAS, taking into account the progress with implementation of improvement actions arising from the previous year's self-assessment, as set out in the Quality Assurance and Improvement Programme.
- 4.3 The 2018/19 self-assessment against the PSIAS carried out in January 2019 has indicated that Internal Audit either 'Fully Conforms' or 'Generally Conforms' with the requirements within the 13 Assessment Areas of the Definition of Internal Auditing, the Code of Ethics, Attribute Standards and Performance Standards. The one minor housekeeping matter in the current Quality Assurance and Improvement Programme is: Review of working papers needs to be evidenced, consistently. This improvement action is in progress.
- 4.4 The Public Sector Internal Audit Standards (PSIAS) requires the self-assessment to be subject to an External Quality Assessment (EQA) every five years, by appropriately qualified and independent reviewers. To achieve this, an 'EQA Peer Review Framework' was developed by the Scottish Local Authorities' Chief Internal Auditors' Group (SLACIAG). Scottish Borders Council had its EQA Peer Review by Renfrewshire Council in October 2015. SLACIAG has refined its 'EQA Peer Review Framework' based on lessons learned and a programme for the second phase is being finalised, with Scottish Borders Council's EQA Peer Review expected sometime during 2020 to meet the requirements.

Jill Stacey BA(Hons) ACMA CGMA
Chief Officer Audit & Risk
23 April 2019