

1. AIM OF STRATEGY

- 1.1. The aim of this strategy is to guide SBC Internal Audit function in delivering a high quality internal audit service 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 Internal Audit's Charter; and
 - adding value to each organisation by influencing and offering ways to enhance the governance and internal control environment in alignment to their strategic priorities .

2. STRATEGY OBJECTIVES

- 2.1. The objectives of this strategy are to:
- Outline the assurance framework which comprises assurances from within the organisation and from external providers of assurance to improve the organisational understanding of the expectations of Internal Audit;
 - State how the key themes which are integral to the assurance gathering process across the organisation's activities will be covered to inform the annual audit opinion statement;
 - Describe the approach to the development of the risk based Internal Audit Annual Plan;
 - Set out the relative allocation of Internal Audit resources;
 - Outline how the Internal Audit programme of work will be delivered to add value; and
 - 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 of defence. Internal Audit, as the third line of defence, is the review function which will provide independent assurance on the effectiveness of the first and second lines of defence, challenge current practices, recommend best practice and improvements to lead to a strengthening of the control environment and management of risks, therefore assisting the organisation in achieving its objectives.
- 3.2. The organisation's assurance framework is the means by which the relevant organisation's Senior Management and Audit Committee/Board ensures that they are properly informed on the risks of not meeting objectives or delivering appropriate outcomes and that it has adequate assurances on the design and operation of systems in place to mitigate those risks.
- 3.3. The assurance framework comprises assurances from within the organisation (from Management and compliance functions, and independent assurance from Internal Audit) and from external providers of assurance. For example, Accounts Commission, External Audit (Audit Scotland - 5 year appointment 2016/17 to 2020/21 inclusive - for SBC, Pension Fund, and IJB), Education Scotland, Care Inspectorate, Scottish Housing Regulator, etc.
- 3.4. The assurances are considered during the annual review of the effectiveness of each organisation's overall governance framework carried out by officers of each organisation and supported by Internal Audit. The output is the Annual Governance Statement which is included within their respective Annual Report and Accounts.
- 3.5. Where audit assurance is required on Services that are delivered by public sector joint working arrangements which include the organisation as a partner, these assurances will be sought as appropriate from partners' Internal Audit service providers and Management.

4. KEY THEMES INTEGRAL TO INTERNAL AUDIT ASSURANCE

- 4.1. Each organisation is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Fundamentally corporate governance is about the systems and processes, and cultures and values that are used by each organisation to discharge those responsibilities in a timely, inclusive, open, honest and accountable manner. This includes: 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; 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. Chief Financial Officer (roles relevant to the Council, Pension Fund, and 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 ICT 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 2020/21 have been prepared in conformance with the Public Sector Internal Audit Standards (PSIAS) to fulfil the requirement to produce the statutory annual assurance and audit opinion for each organisation.
- 5.2. As part of the Internal Audit planning process it was necessary to consider each organisation's objectives, priorities, strategies, plans, risks and mitigating controls, and the internal and external assurances provided to determine the priorities of the Internal Audit activity consistent with each organisation's goals, as follows:
 - Analysis was undertaken of Internal Audit work during the past 5 years against the Audit Universe to ensure appropriate coverage, 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.
- 5.3. The audit planning process involves consultation with key stakeholders including discussions with Senior Management and with the External Auditors of each organisation to capture potential areas of risk and uncertainty more fully. This is of particular importance during a period of change and transformation as each organisation responds to new legislation or service delivery arrangements that might affect plans, priorities and resources.

6. ALLOCATION OF INTERNAL AUDIT RESOURCES

- 6.1. The Internal Audit staff resources comprise Chief Officer Audit & Risk (shared with Midlothian Council and recharged), one Principal Internal Auditor, one Senior Internal Auditor, and three Internal Auditors with a mix of qualifications, knowledge, skills and competencies (such as the Code of Ethics set out in PSIAS) needed to perform the plan. The Available Audit Days reflects the Internal Audit resources after consideration of annual leave, public holidays, sickness absence (estimated), learning and development, management and supervision.
- 6.2. It is estimated that around 84% 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 statutory annual audit opinion on the adequacy of the organisation'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, 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.
- 6.4. It is estimated that around 6% of Internal Audit's available days will be spent on the provision of Internal Audit services to non-SBC organisations i.e. Scottish Borders Pension Fund, and Scottish Borders Health and Social Care Integration Joint Board. This reflects the Council's contribution of corporate support resources to partner organisations.

7. APPROACH TO DELIVERY OF PROGRAMME OF WORK

- 7.1. To facilitate operational delivery an Internal Audit Programme of Work will be developed which provides an indication of when work will be scheduled during the year, taking account of discussions with Senior Management and the availability of Internal Audit resources.
- 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 Executive/Service Director and Manager prior to commencement of the Internal Audit fieldwork. Internal Audit will:
 - Within the *Corporate Governance* and *Internal Control* assurance work, use the organisation's Local Code of Corporate Governance (Council/IJB) or Business Plan (Pension Fund) as an integrated toolkit to test the extent of compliance;
 - 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 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;
 - 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 ICT Strategy and Plans to confirm they are designed to support modern service delivery and each organisation's objectives and priorities;
 - During the course of all *assurance* work 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 highlight examples of effective internal controls and share good practice across Service areas; and
 - Consider and apply National Reports that give rise to introducing best practice arrangements or lessons learned from other local authorities or other public sector bodies. Engage proactively with, assist, and advise Management on best practice to evidence improvements.

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

8. MONITORING AND REPORTING THE WORK OF INTERNAL AUDIT

- 8.1. The Public Sector Internal Audit Standards (PSIAS) require periodic reporting on the Internal Audit activity to the relevant organisation's Senior Management and Audit Committee/Board.
- 8.2. The PSIAS also require an annual Internal Self-Assessment and an External Quality Assessment (EQA) each five years 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) implemented a "peer review" framework, in which SBC participates, as a cost effective means of complying with the EQA requirement. Reporting on outcomes include a statement on conformance with PSIAS and the quality assurance and improvement plan (QAIP) to enable an evaluation of conformance with the PSIAS, and to identify opportunities for improvement.
- 8.3. Internal Audit work completed and work in progress for the Council within regular reports to its Audit and Scrutiny Committee 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.
- 8.4. Regular reports to the Council's Audit and Scrutiny Committee, and the IJB Audit Committee will provide progress updates on implementation by Management of relevant Audit recommendations for each organisation.
- 8.5. Internal Audit's compliance with its Strategy, delivery of its risk-based Annual Plan, and outcomes of assessment(s) against PSIAS will be considered by the CAE on a regular basis and formally reported every six months to the Council's Corporate Management Team and the Audit and Scrutiny Committee, within a Mid-Term Performance Report and the Annual Assurance Report.
- 8.6. The Internal Audit Annual Assurance Report for each organisation (Scottish Borders Council, Scottish Borders 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 over the year to inform each organisation's Annual Governance Statement.