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## **INTERNAL AUDIT ANNUAL ASSURANCE REPORT 2019/20**

**Report by Chief Officer Audit & Risk**

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### **AUDIT AND SCRUTINY COMMITTEE**

**23 June 2020**

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#### **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 2020 which includes the Chief Officer Audit & Risk's independent assurance opinion on the adequacy of the Council's overall control environment.**
- 1.2 The Public Sector Internal Audit Standards (PSIAS) require that the Chief Audit Executive (CAE), the Council's 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. This is in support of the overall governance arrangements of the Council, as set out in the Local Code of Corporate Governance.
- 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 2019/20, 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 2019/20 has been used to inform the Chief Executive's Annual Governance Statement 2019/20.

#### **2 RECOMMENDATIONS**

- 2.1 I recommend that the Audit and Scrutiny Committee:**
- a) Considers the Internal Audit Annual Assurance Report 2019/20 (Appendix 1) and provides any commentary thereon.**
  - b) Agrees that the Internal Audit Annual Assurance Report 2019/20 be published on the Council's website.**

### **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 Public Sector Internal Audit Standards (PSIAS) 2017 require that:  
“The chief audit executive 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.”
- 3.3 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 2019/20**

- 4.1 The Internal Audit Annual Assurance Report 2019/20, 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. It also 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 Internal Audit Annual Assurance Report 2019/20 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 2019/20.

### **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 2019/20 through improved internal controls and governance arrangements.

- (b) The net cost (projected outturn at January 2020) of the Internal Audit service was £257k (2018/19 £254k). The majority of service expenditure relates to staff costs (99%) for resources comprising Chief Officer Audit & Risk (50% recharged to Midlothian Council to reflect the shared services arrangement), Principal Internal Auditor, one Senior Internal Auditor, and three Internal Auditors. These resources are for the provision of Internal Audit services to Scottish Borders Council, the Scottish Borders Council Pension Fund, the Scottish Borders Health and Social Care Integration Joint Board, and SB Cares until its reintegration into the Council from 1 December 2019.

## 5.2 Risk and Mitigations

- (a) The PSIAS require Internal Audit to evaluate the effectiveness of the Council's Risk Management arrangements and contribute to improvements in the process. Each Internal Audit engagement has been risk-based and, where appropriate, has tested the specific Service's management of risk.
- (b) Internal Audit provides assurance to the Corporate Management Team 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 Annual Plan. There is effective liaison between Internal Audit and the Corporate Risk Officer on an on-going basis to ensure that risks are considered in every audit and risk reviews take account of findings and improvements arising from Internal Audit work.
- (c) Continuous improvements in internal controls and governance arrangements can be demonstrated through Management-initiated actions complemented by the implementation of Audit recommendations.
- (d) It is anticipated that further 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.
- (e) 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 Integrated Impact Assessment

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). This report does not relate to new or amended policy or strategy and as a result an integrated impact assessment is not an applicable consideration.

**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 2019/20.

6.3 The Corporate Management Team, the Executive Director Finance & Regulatory, the Chief Legal Officer (Monitoring 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)**

Name	Designation and Contact Number
Jill Stacey	Chief Officer Audit & Risk Tel 01835 825036

**Background Papers:** Appropriate Internal Audit files

**Previous Minute Reference:** Audit and Scrutiny Committee 13 May 2019

**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)

**Chief Officer Audit & Risk's Annual Assurance Report and Opinion 2019/20 for Scottish Borders Council****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 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 2020 that underpins the opinion in accordance with the Internal Audit Charter, Strategy and Annual Plan 2019/20. 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. A common theme from Internal Audit findings during the year was the importance of Management ensuring that staff undertake training on a wide variety of topics to ensure that they have the up-to-date knowledge to fulfil their role, and to mitigate any associated risks.
- 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.
- 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 January 2020); Procedural Standing Orders (approved March 2020); Scheme of Delegation (approved March 2018; amended March 2020); 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 are in the process of being updated to ensure they reflect the current operating environment including the Business World ERP system. It is important to ensure that the Council's policies, procedures and guidelines associated with its service delivery are kept up-to-date, in particular as the pace of change increases.
- 2.4 The Chief Officer Audit & Risk facilitates the annual review of the Council's governance arrangements against its Local Code of Corporate Governance carried out by a self-evaluation working group of officers from across the Council's services. The outcomes from the Best Value review was a significant source of assurance during the year. This is part of the process to produce the Annual Governance Statement.
- 2.5 The Council recognises that Risk Management is an integral part of all activities and has Corporate and Service Risk Registers in place, which are subject to regular review by those Managers who are allocated the responsibilities for managing individual risks. The Audit and Scrutiny Committee received presentations from Executive/Service Directors on key risks and mitigations during the year and a Risk Management Annual Report outlining activity against the risk strategy, to fulfil their role of oversight of how risks are managed. Committee reports contain information on the risks and mitigations relevant to the subject matter to support decision-making.
- 2.6 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.
- 2.7 The significant incident which commenced in late March 2020 in response to the Covid-19 pandemic tested how well the risk management framework is operating. There were examples of innovations, new business processes and solutions, and new technology being embraced in order to deliver services to the community in the Council's role as Category 1 responder with its primary responsibilities to work with other resilience partners to protect life, especially the vulnerable, and to support businesses and the wider public. This was achieved using amended governance arrangements, new ways of decision-making, leadership and implementation including virtual meetings, conference calls, and systems remote access. Internal Audit were suitably informed of or engaged in changes in governance and internal controls. It will be important for the Council, at the appropriate time, to carry out a post-Covid-19 review, highlight any lessons learned and apply these in practice.

### 3 Internal Audit Annual Plan 2019/20 Delivery

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

	Plan days 2019/20	Actual days 2019/20	Plan Nos. 2019/20	Actual Nos. 2019/20
<b>Corporate Governance</b>	150	162	7	7
<b>Financial Governance</b>	85	205	5	5
<b>ICT Governance</b>	70	40	2	2
<b>Internal Controls</b>	165	190	8	7
<b>Asset Management</b>	45	22	3	3
<b>Legislative and other Compliance</b>	30	50	2	2
<b>Consultancy and Advice</b>	70	36		
<b>Other</b>	75	57		
<b>SBC Total</b>	<b>690</b>	<b>762</b>	<b>27</b>	<b>26</b>
<b>Non-SBC</b>	<b>85</b>	<b>69</b>	<b>3</b>	<b>2</b>
<b>Total</b>	<b>775</b>	<b>831</b>	<b>30</b>	<b>28</b>

3.2 The level of Actual Audit days was higher than plan (107%). This can be attributed to unplanned secondment of Graduate Finance Trainee for the second half of the year which more than offset the extraordinary staff sickness absence during the first half of 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:

- **Financial Governance:** The review of Business World ERP System Key Controls included additional assurance work associated with the migration of SB Cares processes and transactions back to the Council (Payroll, Sales to Cash, Procure to Pay), and additional testing of processes and transactions associated with new Business World ERP system functionality that had been rolled out across the Council during the year.
- **Internal Controls:** The planned assurance audit on Assessors was not carried out in agreement with Senior Management to align with system change and development that has been delayed, in part due to the impact of elections during 2019.
- **Asset Management:** The full scope of the planned assurance audit on Roads Asset Management (roads, bridges, footways, lighting) framework including inspection has been deferred to 2020/21 Audit Plan to align with the phasing of the Roads Service Review in agreement with Senior Management, though assurance was gained from the follow-up on the implementation of previous recommendations.
- **Legislative and Compliance:** Additional compliance testing on projects and claims as the EU Funded Programmes (LEADER and EMFF) come to the end of their cycle.
- **Consultancy:** Lesser than anticipated involvement in the implementation phase of the Contract Management Framework. The Contract Management Steering Group was not established once the Working Group was disbanded during 2019 at the end of the development phase.
- **Non-SBC:** the full extent of Internal Audit planned work associated with SB Cares as an ALEO was not completed due to the transfer of its services back to the Council from 1 December 2019.

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 within the Annual Governance Statement, Annual Evaluation against Local Code of Corporate Governance as part of the Annual Assurance Process, and support for the Audit and Scrutiny Committee's learning and development).
- Information Governance (Review of the framework including roles and responsibilities, policy development and implementation, assess compliance with legislation, and provide annual assurance to Senior Information Risk Owner and Data Protection Officer).
- Performance Management (Validation of the Council's Performance Indicators to ensure accuracy of data submitted on an annual basis to the Improvement Service as part of the Local Government Benchmarking Framework).
- Corporate Transformation Programme (Review the new governance and accountability arrangements of the Fit for 2024 corporate transformation programme structure, 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).
- Contracting and Procurement (Review of the Contract Management Framework to ensure that there are adequate and effective controls in place over Contract Monitoring arrangements throughout the Council).
- Health and Safety (Assess compliance with relevant legislation and the approach to Health and Safety awareness, including the use of the new system (LEXI), to ensure there are adequate and effective controls in place for health and safety).
- Attendance Management (Review the controls in place to manage short and long-term absences to minimise the impact on service delivery).

#### **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:

- Business World ERP System Key Controls (An integration of 4 audits to 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).
- Members Allowances (Assess the controls in place to ensure members' remuneration, allowances and expenses are accurate, are paid correctly and timely, and disclosed in accordance with regulations).

#### **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).

- ICT Business Systems (Review the governance and processes in place to review and redesign computer based systems/business applications outwith the CGI Contract to ensure they are fit for purpose to support service delivery).

#### **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 – Peebles High School and Priorsford, Kingsland and St Ronan's Primary Schools (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).
- Looked After Children (Assess the governance processes to meet service delivery needs for Looked after Children and the controls in place to evidence sound budgetary control).
- Developer Contributions/Development Management Fees (Review the controls in place over income and expenditure and use of resources, and the commitment from Services to ensure policies and procedures are operating effectively, including conditions within legal agreements and payback of contributions).
- Building Standards Emergency Works (Assess controls in place for emergency works income and expenditure including credit control and performance reporting).
- Adult Social Care Services – Learning Disability Service (Assess the governance and accountability arrangements for Adults with Learning Disabilities to ensure obligations are met to deliver integrated social work and health learning disability services via partnership working).
- SB Contracts (Review the financial and operational controls in place over externally sourced income and operations to ensure sustainability, and evaluate fraud prevention controls and detection processes to ensure fraud risk is managed).
- Homelessness (Assess the progress with the self-evaluation exercise of the Homelessness Service to fulfil its statutory obligations, and the annual assurance process to the Scottish Housing Regulator).

#### **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:

- Property Asset Management (Assess the Property Management Framework and associated property maintenance programme for its buildings, other property and facilities to ensure they are fit for purpose, and review the completeness and accuracy records to demonstrate efficient and effective use).
- Paths Asset Management (Assess whether risks are identified and effectively mitigated relating to Asset Management issues on managed paths).
- Roads Asset Management (Review progress by Management with the implementation of the outstanding three Internal Audit 2014 recommendations relating to reviewing the Roads Asset Management Plan (RAMP), creating standard operating procedures, and developing performance information on inspections and repairs).

## **Legislative and Other Compliance Audits**

- 3.11 To test compliance with the terms of the funders' service level agreements or legislative requirements, reviews included:
- Jedburgh Conservation Area Regeneration Scheme (Examine and evaluate compliance with the scheme rules and contract, specifically: Historic Environment Scotland Clause 5 (Auditing Procedures) of the contract signed 5 April 2017).
  - EU Funded Programmes - LEADER and EMFF (Perform annual audits of EU grant-funded programmes for 2014-2020, Liaison Entre Actions de Développement de l'Économie Rurale (LEADER) and the European Maritime Fisheries Fund (EMFF), under the terms of Service Level Agreements (SLAs) to assess compliance with the requirements of the SLAs and the relevant EC Regulations).

## **Consultancy Work**

- 3.12 The most significant piece of consultancy work, requested by the Chief Executive, was the examination and evaluation at a high level of the objectives, benefits and expected outputs from the original business case for SB Cares. This included the identification and evaluation of the mechanisms in place to review how SB Cares is performing and how it fits with Council and communities' priorities, and consideration of any changes in the operating context from the assumptions made in the original business case. This Internal Audit Consultancy work was referred to within the report to the Council on the 26 September 2019 by the Chief Executive; "Strategic Review of SB Cares – Future Provision of Adult Social Care Services".
- 3.13 In its 'critical friend' role, Internal Audit:
- Provided internal challenge and advice to Managers through engagement in a number of forums as the Council continues to transform its services (for example, Capital Programme Board – Corporate Landlord, Fit for 2024 Transformation Programme Board, Older People's Strategy Board, Digital Customer Steering Group, and Information Governance Group);
  - Engaged in the design and development of the Public Protection Unit to support improvement;
  - Provided independent challenge of the evidence to support improvement arising from the Joint Older People Services inspection; and
  - Engaged in the consultation on the SEEMIS Early Years System Business Case.
- 3.14 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 providing advice for policy development (School Fund, Purchase Cards).
- 3.15 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 with the Council's strategic priorities.
- 3.16 Following Council decision 26 September 2019 Internal Audit were involved in a working group to reintegrate all of the services presently directly delivered by the ALEO into the Council from 1 December 2019 to provide assurance to the Council.

## **Other Work**

- 3.17 Internal Audit responded to specific control issues highlighted by Managers during the year by incorporating those aspects within specific audit scopes. No significant Contingency Audit activity was required during the year.

3.18 Resources were deployed in the delivery of the Follow-up work to check that Internal Audit recommendations have been implemented and to ensure that the new controls had the desired effect on improving internal control and governance. In light of the additional Service pressures on Management arising from the Council’s emergency response on Covid-19, Internal Audit approved an automatic 3-month extension to target dates for all open audit actions, noting that none of them related to key control risks but were rather improvements to systems and processes. The following table highlights the current position (Source: Pentana performance system as at 03 June 2020) with regards to Internal Audit recommendations arising from current and previous years:

<b>Year identified</b>	<b>Total</b>	<b>Implemented</b>	<b>Not Yet Due</b>	<b>Overdue</b>
2019/20	40	8	32	0
2018/19	4 + 1 SB Cares	4	1	0
2017/18	42 + 2 SB Cares	37	7	0

3.19 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**

3.20 The Council’s Internal Audit service provided independent assurance on the overall risk management, internal control and corporate governance processes for SB Cares (the adult social care ALEO, until its reintegration to the Council on 1 December 2019), 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.

3.21 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. The Chief Internal Auditor provides the strategic leadership for the effective delivery of Internal Audit services to their respective client organisations. The Principal Internal Auditors in each Council are in regular contact to share tools and techniques to facilitate the operational practices. There is good liaison between Internal Audit and Corporate Fraud staff across the two Councils to share knowledge of risks and controls relating to specific audits. An Interim Internal Auditor who has extensive Internal Audit knowledge and experience of internal controls and governance of Councils and Integration Joint Boards has been deployed to supplement the Midlothian Council team resources under a contract for services.

#### **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 2019/20, as required by the PSIAS. The minor improvement action arising from the previous year's self-assessment, as set out in the Quality Assurance and Improvement Programme (Review of working papers needs to be evidenced, consistently) has been adequately progressed.
- 4.3 The 2019/20 self-assessment against the PSIAS carried out in March 2020 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: Final quality checking of working papers by Auditors to enable Audit File Review needs to be consistently applied. This minor 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. An 'EQA Peer Review Framework' was developed by the Scottish Local Authorities' Chief Internal Auditors' Group (SLACIAG) to achieve this, which is now in its second cycle. The SLACIAG Schedule of Reviews indicates Scottish Borders Council is to have its EQA Peer Review by North Lanarkshire Council in 2020. The EQA had to be postponed from March 2020 due to Covid-19 emergency response though it needs to be completed by October 2020 to ensure it is within the required every five years.

**Jill Stacey BA(Hons) ACMA CGMA**

**Chief Officer Audit & Risk**

**03 June 2020**