

INTERNAL AUDIT STRATEGY

1. AIM OF STRATEGY

1.1. The aim of this strategy is to guide Internal Audit in delivering a high quality internal audit service, which is capable of:

- providing an audit opinion, to the Chief Executive, Chief Financial Officer, the Audit & Risk Committee and Management, on the adequacy of Scottish Borders Council's risk management, internal control and governance arrangements;
- carrying out all other objectives contained in Internal Audit's Charter; and
- adding value to the organisation by influencing and offering ways to enhance the governance and internal control environment in alignment to the strategic priorities of the Council and providing the required assurance.

2. STRATEGY OBJECTIVES

2.1. The objectives of this strategy are to:

- Outline the Council's assurance framework which comprises assurances from within the organisation and from external providers of assurance to improve the organisational understanding of the expectations of internal audit;
- State how the key themes which are integral to the assurance gathering process across the Council's activities will be covered to inform the annual internal control and governance audit opinion statement, including:
 - corporate governance and internal control arrangements;
 - financial governance and internal financial control systems; and
 - information technology governance.
- Describe the approach to the development and preparation of the periodic risk based audit plans and programme of work.
- Set out the relative allocation of resources.
- Describe the monitoring and reporting of the Internal Audit progress with plans and its work.

3. ASSURANCE FRAMEWORK

3.1. It is Management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for Management's responsibilities for the design and operation of these systems.

3.2. The organisation's assurance framework is the means by which the Corporate Management Team ('senior management') and the Audit and Risk Committee (the 'board' for the purposes of internal audit activity) ensures that they are properly informed on the risks of not meeting its objectives or delivering appropriate outcomes and that it has adequate assurances on the design and operation of the systems in place to mitigate those risks.

3.3. The assurance framework comprises assurances from within the organisation and from external providers of assurance, with Internal Audit being part of that assurance framework. The risk-based internal audit plan must take into account the requirement to produce an annual internal audit opinion and the assurance framework. As part of the internal audit planning process it is necessary to consider the organisation's priorities, plans, strategies, objectives, risks and mitigating controls and the internal and external assurances provided to determine the priorities of the internal audit activity, consistent with the organisation's goals.

- 3.4. The programme of work within the Internal Audit Annual Plan takes account of external audit and inspection activities to avoid duplication of assurance work. For example: Internal Audit will meet with the External Auditors 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 bodies, including Care Inspectorate and Scottish Housing Regulator, are considered in self-assessment validation work agreed with Management.
- 3.5. National reports that give rise to introducing best practice arrangements or lessons learned from other local authorities or other public sector bodies are considered and applied as part of the internal audit process to enable Management to evidence improvements in the Council's practices on a continuous basis. This enables Internal Audit to fulfil its role to influence and offer ways to enhance the governance and internal control environment aligned to the strategic priorities of the Council.
- 3.6. Where audit assurance is required on services that are delivered jointly by public sector joint working and partnership arrangements which include Council as a partner, these assurances will be sought as appropriate from partner internal audit service providers and Management. Where Internal Audit is the lead provider of audit services it will follow its Charter, conform with PSIAS and report assurances to the relevant audit committee(s).

4. CORPORATE GOVERNANCE AND INTERNAL CONTROL

- 4.1. Scottish Borders Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Fundamentally corporate governance is about the systems and processes, and cultures and values that are used by SBC to discharge those responsibilities. The Council's Local Code of Corporate Governance is consistent with the six core principles of good governance and the requirements of the new best practice framework 'Delivering Good Governance in Local Government'.
- 4.2. The Local Code of Corporate Governance will be used as an integrated toolkit covering key governance, risk management and internal control elements as part of the process to produce the Annual Governance Statement (AGS) which will be reported to the Audit & Risk Committee in advance of its inclusion in the published accounts in June each year. Internal Audit has a key role to play in validating evidence to support the AGS by leading the self-evaluation officer working group in assessing the extent of implementation of agreed actions and demonstrating continuous improvement in support of delivering best value.
- 4.3. Internal Audit will review the adequacy of the Council's corporate governance arrangements and internal control systems through a programme of annual audits that are aligned to its Local Code of Corporate Governance.

5. FINANCIAL GOVERNANCE AND INTERNAL FINANCIAL CONTROL SYSTEMS

- 5.1 The Council's Section 95 Finance Officer (Chief Financial Officer) is responsible for the proper administration of the Council's financial affairs. Arrangements to ensure that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively is an integral part of good corporate governance and therefore financial governance and key internal financial controls are embedded within the revised 'Local Code'. Furthermore, the Financial Regulations set out the rules and regulations for financial management or administration arrangements and link to other key financial documents that set out the policy framework, associated strategy, and the more detailed procedures and guidelines.
- 5.2 Internal Audit will continue to support and assist the Chief Financial Officer discharge the statutory responsibilities of the Section 95 Officer role by reviewing financial governance and the adequacy of the systems of internal financial control, and recommending improvements through a programme of annual audits. The latter will include end to end reviews of financial management and administration processes and substantive testing of transactions to ensure completeness and accuracy of data in core financial systems, and to confirm that robust prevention and detection controls are in place to counter fraud, corruption and crime. This is

of particular importance in recognition of the continuing difficult economic outlook and the need for tight fiscal constraint for the foreseeable future as indicated in the Financial Strategy.

- 5.3 Internal Audit will review the adequacy of the Council's systems of internal financial control through a programme of annual audits that are aligned to its Financial Regulations and other key financial documents including policies, strategies and procedures.

6. IT GOVERNANCE

- 6.1. Scottish Borders Council continues to invest in computer systems to support service delivery and business transformation through electronic service delivery. Delivery of the Council's ICT Strategy will be subject to regular monitoring and review as part of corporate transformation to ensure it continues to be linked to Corporate Priorities and Strategies. The ICT Security Policy is the overarching policy that provides the framework to protect the Council from attack in relation to data integrity and availability.
- 6.2. The objective of ICT Governance programme of work is to provide assurance to interested parties that computer systems are secure, reliable and conform to nationally agreed standards.
- 6.3. Internal Audit staff personal development plans will aspire to achieve at least one staff member with computer audit skills and one other staff adequately trained to carry out these audits.

7. APPROACH TO PERIODIC PLANNING

- 7.1. The Internal Audit Strategy and the risk-based Internal Audit Annual Plan 2016/17 will be prepared in accordance with the Public Sector Internal Audit Standards 2013 (PSIAS) and will be presented to the March meeting of the Audit & Risk Committee for approval.
- 7.2. The audit planning process involves consultation with key stakeholders including discussions with senior management at various Service and Departmental Management Teams and with External Auditors to capture potential areas of risk and uncertainty more fully.
- 7.3. The plan will include details of the following Internal Audit activities:
- *assurance* audits, which includes sufficient work across a range and breadth of audit areas within the key themes of corporate governance, financial governance, IT governance, internal controls and asset management to enable preparation of an annual internal audit opinion on the adequacy of the Council's overall control environment. During the course of all assurance work Internal Audit will highlight any opportunities to reduce costs through greater economy and efficiency, consider fraud risk and controls, and will highlight examples of effective internal controls and share good practice across Council areas;
 - verifying a range of performance indicators in Local Government Benchmarking Framework (LGBF) to ensure the accuracy of data submitted will be carried out as an integral part of the annual assurance work on the Council's performance management framework;
 - testing *compliance* in accordance with the terms of the funders' service level agreements or legislative requirements, as part of the wider assurance framework;
 - carrying out *follow-up* to monitor progress with implementation of audit recommendations and ensure that management actions have been effectively implemented, to check that these have had the desired effect to manage identified risks, and to demonstrate continuous improvement to internal control and governance. The procedure to input Audit recommendations into Covalent, the Council's corporate performance management system, to assist Management in tracking and recording their implementation in a consistent way will continue to facilitate the internal audit follow-up activity;
 - performing potentially high risk *contingency audits, investigations and review* of problems highlighted during the year that may be the result of a weakness in internal controls or that may be requested by the Audit & Risk Committee, Chief Executive or Chief Financial Officer. Contingency audit work will only be carried out with the approval of the Chief Officer Audit & Risk as set out in specific audit scopes, in accordance with the Internal Audit Charter to ensure internal audit and Management roles and responsibilities are fulfilled, and only if this work was unable to be incorporated into already planned audit assurance activity;

- responding on behalf of the Council to *key national developments* e.g. National Fraud Initiative as part of the wider assurance framework on counter fraud controls; and
- providing *consultancy and support activities* which support Management in delivering innovation and transformational change. Internal Audit will continue to play an important role for the Council as it transforms its service delivery models, re-designs its business processes, and utilises technology to automate processes. For example Internal Audit 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 projects involving major change and systems development, and provide an independent and objective assessment of the evidence to support self-evaluation and of progress with implementing action plans to demonstrate continuous improvement.

8. ALLOCATION OF INTERNAL AUDIT RESOURCES

- 8.1. It is estimated that around 80% of Internal Audit's productive audit time will be spent on traditional assurance activities which assure those processes that are currently in place and which Management rely on to deliver services, and to enable preparation of an annual internal audit opinion on the adequacy of the Council's overall control environment.
- 8.2. An estimate of around 11% of Internal Audit's productive audit time will be utilised on those consultancy and support activities which support Management in delivering innovation and transformational change. Management seek more of this value added activity during this unprecedented period of change for Local Government though this allocation reflects a reasonable estimate of what is actually deliverable within the boundaries of the role of Internal Audit and the resources available.
- 8.3. It is estimated that around 9% of Internal Audit's productive audit time will be spent on the provision of Internal Audit services to non-Council organisations. This reflects the Council's contribution of corporate support resources as it continues to change its governance arrangements in response to utilisation of alternative service delivery models, statutory partnership working for the provision of health and social care integration, and legislative requirements governing the pension fund.

9. MONITORING THE WORK OF INTERNAL AUDIT

- 10.1 Internal Audit's compliance with its Strategy, delivery of its risk-based Annual Plans and its Business Plan actions, and outcomes of its internal self-assessment of conformance with Public Sector Internal Audit Standards (PSIAS) will be considered by the Chief Officer Audit & Risk on a regular basis and reported every six months to the Corporate Management Team and the Audit & Risk Committee, through a Mid-Term Performance Report and an Annual Report. The Internal Audit Annual Report will provide an opinion on the levels of assurance based on audit findings over the year.
- 10.2 Internal Audit work completed and work in progress will be reported to the Corporate Management Team and the Audit & Risk Committee. This report will include an Executive Summary of the findings, recommendations and audit opinion of assurance for each final internal audit report issued to relevant Service Management.
- 10.3 The PSIAS requires the internal self-assessment to be subject to an External Quality Assessment (EQA) each five years, by appropriately qualified and independent reviewers. The Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) have agreed proposals for a "peer review" framework as a cost effective means of complying with this requirement, in which Scottish Borders Council has agreed to participate. The outcomes of the EQA will be included in the quality assurance and improvement plan (QAIP) reported to Corporate Management Team and the Audit & Risk Committee, through the Mid-Term Performance Report and an Annual Report.