
Internal Audit Annual Report 2015/16

Report by Chief Officer Audit and Risk

Audit and Risk Committee

9 May 2016

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to present to the Audit & Risk Committee the Internal Audit Annual Report for the year to 31 March 2016 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 to the Chief Executive on the adequacy and effectiveness of the Council's internal control and governance arrangements to support the preparation of the Annual Governance Statement.
- 1.3 The Remit of the Audit and Risk Committee indicates that it should ensure an adequate framework of internal control, risk management and governance throughout the Council.
- 1.4 The Internal Audit Annual Report 2015/16, at Appendix 1, includes the annual internal audit opinion regarding the adequacy and effectiveness of internal control within the Council, 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 Public Sector Internal Audit Standards (PSIAS).
- 1.5 The Chief Officer Audit & Risk's opinion is that, based on internal audit reviews, risk assessments and knowledge, the systems of internal control and governance arrangements within the Council are operating satisfactorily. Some improvements are required.
- 1.6 The Internal Audit Annual Report 2015/16 has been used to inform the Chief Executive's Annual Governance Statement 2015/16.

2 RECOMMENDATIONS

- 2.1 I recommend that the Audit and Risk Committee:**
- a) Considers the Internal Audit Annual Report 2015/16 and provides any commentary thereon.**
 - b) Agrees that the Internal Audit Annual Report 2015/16 be published on the Council's website.**

3 BACKGROUND

- 3.1 Internal Audit 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.
- 3.2 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.
- 3.3 The Objectives of Internal Audit are set out in its Charter: "As part of Scottish Borders Council's system of corporate governance, Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives and to do so:
- As a contribution to the Council's corporate management of risk.
 - As an aid to ensuring that the Council and its Members, managers and officers are operating within the law and relevant regulations.
 - In support of the Council's vision, values and priorities.
 - As a contribution towards establishing and maintaining a culture of honesty, integrity, openness, accountability and transparency throughout the Council in all its activities and transactions.

As a contribution towards ensuring that financial statements and other published information are accurate and reliable."

- 3.4 The Public Sector Internal Audit Standards (PSIAS) that became effective for local authorities on 1 April 2013 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."

- 3.5 The Remit and Terms of Reference of the Audit & Risk Committee indicate that the Audit & Risk Committee 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 REPORT 2015/16

- 4.1 The Internal Audit Annual Report 2015/16, at Appendix 1, includes the Chief Officer Audit & Risk's independent and objective opinion regarding the adequacy and effectiveness of internal control within the Council, 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 Public Sector Internal Audit Standards (PSIAS).

- 4.2 The Chief Officer Audit & Risk's opinion is that, based on internal audit reviews, risk assessments and knowledge, the systems of internal control and governance arrangements within the Council are operating satisfactorily.
- 4.3 Continuous improvements in internal controls and governance arrangements can be demonstrated through Management-initiated improvements complemented by the implementation of audit recommendations. Further improvements in internal control and governance have been agreed by Management as highlighted in internal audit reports and recommendations made during the year or outstanding from previous years.
- 4.4 The Internal Audit Annual Report 2015/16 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 2015/16.
- 4.6 A statement on conformance with the Public Sector Internal Audit Standards (PSIAS) and the results of the quality assurance and improvement programme is also included in the Internal Audit Annual Report 2015/16. Although areas for further improvement have been identified in the Quality Assurance and Improvement Plan the annual internal self-assessment demonstrates sufficient evidence that the Council's Internal Audit section complies with the PSIAS in all significant respects. This was confirmed by an External Quality Assessment during 2015.

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 2015/16 through improved internal controls and governance arrangements.
- (b) The net cost (projected outturn at February 2016) of the Internal Audit service was £250k (2014/15 £256k). The majority of service expenditure relate to staff costs (98%) for resources comprising Chief Officer Audit & Risk (50% allocation), Internal Audit Manager (75%), two Senior Internal Auditors, and two Internal Auditors.

5.2 Risk and Mitigations

- (a) Internal Audit provides assurance to management and the Audit and Risk Committee on the adequacy and effectiveness of internal controls and governance within the Council, including risk management, and to highlight good practice and recommend improvements. Key components of the audit planning process include a clear understanding of the Council's functions, associated risks, and potential range and breadth of audit areas for inclusion within the plan.
- (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 with 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 internal control and governance arrangements of the Council, consultation on Appendix 1 is not appropriate.
- 6.2 The Corporate Management Team has been advised to take into account the Chief Officer Audit & Risk's annual report on the work of internal audit and independent opinion on the adequacy and effectiveness of the systems of internal control and governance when completing the annual self-evaluation and assurance process for the annual governance statement.
- 6.3 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Chief Officer HR, and the Clerk to the Council have been consulted on the covering report and any comments received have been incorporated into the report.

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 Risk Committee 23 March 2015

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. James Collin can also give information on other language translations as well as providing additional copies.

Contact us at James Collin jcollin@scotborders.gov.uk or tel. 01835 825232

Chief Officer Audit & Risk's Annual Report and Opinion 2015/16**1 Introduction**

- 1.1 Senior Management have a responsibility to set up suitable and sound systems of internal control and governance arrangements and to monitor the continuing effectiveness of these systems and arrangements to ensure robust and efficient governance of the Council. These are not fixed but evolve as the Council changes.
- 1.2 Internal Audit 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:
- As a contribution to the Council's corporate management of risk.
 - As an aid to ensuring that the Council and its Members, managers and officers are operating within the law and relevant regulations.
 - In support of the Council's vision, values and priorities.
 - As a contribution towards establishing and maintaining a culture of honesty, integrity, openness, accountability and transparency throughout the Council in all its activities and transactions.
 - As a contribution towards ensuring that financial statements and other published information are accurate and reliable."
- 1.5 The Public Sector Internal Audit Standards (PSIAS) that became effective for local authorities on 1 April 2013 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 2016 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, risk assessments and knowledge, the systems of internal control and governance are operating satisfactorily.
- 2.2 Continuous improvements in internal controls and governance arrangements can be demonstrated through Management-initiated improvements complemented by the implementation of audit recommendations. Internal Audit reports during the year confirm improvements in internal controls and governance, internal financial control and risk management including the following:
- Significant progress has been made on corporate performance monitoring and reporting to Corporate Management Team, Elected Members and the Public as per the timetable set out in the Council's Performance Management Framework.
 - Effective management and administration of the Carbon Reduction Commitment Energy Efficiency Scheme (CRC) within the governance of the Carbon Management Programme to meet obligations on energy efficiency.
 - The ICT Security Policy, which is designed to minimise the risks to the Council's electronic assets from attacks on confidentiality, integrity and availability, had been reviewed regularly by Management and updated to reflect changes to corporate structure, in the regulatory environment, and in the deployment of new technology.
 - Utilisation of national publications such as Accounts Commission "Options appraisal; are you getting it right?" and "ALEOs: are you getting it right?" when considering alternative service delivery models and learning lessons from their implementation.
 - Specific procedures and measures in place for EU LEADER and European Fisheries Fund grant funded projects to enable compliance with the terms of the Service Level Agreements including strengthening of file compliance and enhanced scrutiny of project application and assessment documentation.
 - Establishment of the Performance Management Framework for monitoring the financial and service performance of the Integrated Culture and Sports Trust (Live Borders) and for maintaining accountability for the public funding.
 - There is a thorough, consistent and transparent approach to the review and scrutiny of the Corporate Transformation Programme by senior managers and elected members by way of the Tracker, and highlight reports on individual projects.
 - Substantial progress on the implementation of Risk Management improvement actions which are designed to embed the management of risks within business planning and performance management processes.
 - Progress on the implementation of Corporate Fraud improvement actions enabling a proactive, holistic approach to tackling fraud, theft, corruption and crime, as an integral part of protecting public finances and safeguarding assets.
 - Further improvements in the completion of history sheets associated with accounts for Council Tax and Non Domestic Rates.
- 2.3 The Council has undertaken two significant strategic developments involving different structures for delivering its services, requiring different governance arrangements. Firstly, from 1 April 2015 the LLP Strategic Governance Group, a Sub-Committee of Council, was set up to carry out the monitoring and control functions required by the Council in connection with SB Cares LLP, a wholly owned subsidiary for the delivery of the Council's adult care services. Secondly, from 1 April 2016 the Executive Committee will fulfil the performance monitoring role to ensure delivery of the agreed outcomes by the Integrated Culture and Sports Trust and a Member-Trustee Liaison Group has been created as a strategic forum.

- 2.4 Further significant work has been undertaken to develop the governance arrangements for the Scottish Borders Health and Social Care Partnership. The Chief Officer Audit & Risk has been fully involved as a member of the Integration & Governance working group. The Integration Joint Board's (IJB) Audit Committee was established and the Chief Officer Audit & Risk appointed as the IJB's Chief Internal Auditor in February 2016 with agreement that the Internal Audit services for the IJB will be provided by the Council's Internal Audit team for review of the adequacy of the arrangements for risk management, governance and control of the delegated resources. The integration authority's Risk Management Strategy and Local Code of Corporate Governance were approved by the IJB in March 2016 arising from significant work involving the Chief Officer Audit & Risk. The Scottish Government and Scottish Parliament approved the Scheme of Integration, which enabled the formal establishment of the IJB in March 2016 along with the formal appointment of the Chief Officer Health and Social Care Integration and the interim Chief Financial Officer. Consultation on the draft Strategic Plan was completed in December 2015; and the Strategic Plan was approved by the IJB in March 2016 which became live on 1 April 2016.
- 2.5 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. The Local Code has been updated as part of the annual review process and it is anticipated to be presented to full Council for approval in May 2016. This is to ensure this key document continues to be relevant and complete to reflect the appropriate framework for effective governance of the Council's affairs and facilitate the exercise of its functions to deliver best value.
- 2.6 The Chief Officer Audit & Risk fulfilled an advisory role in the formal recruitment and selection process associated with the appointment of three (previously two) external members to Audit and Risk Committee in October 2015, and has supported the development of the members of the Audit and Risk Committee during the year to enable effective scrutiny and challenge to fulfil its remit.
- 2.7 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 February 2012; revised and awaiting approval) and key governance documents including Scheme of Administration (approved January 2015; amended November 2015), Procedural Standing Orders (approved December 2013), Scheme of Delegation (approved June 2014; amended August 2015), Financial Regulations (approved March 2012), and Codes of Conduct for Councillors and for Employees which can be demonstrated by way of the findings of Internal Audit reviews during 2015/16.
- 2.8 Further improvements in internal control and governance have been agreed by Management as highlighted in internal audit reports and recommendations made during the year or outstanding from previous years, some of which would enhance internal financial control through compliance with Financial Regulations. These include:
- Introduce Stock Control processes for Trade Waste Assets and Consumables in accordance with the Council's Financial Regulations and procedures.
 - Complete the data cleanse and update and introduce further improvements to the management and maintenance of the delegation of authority and authorised signatories process for approval and payment of supplier orders/invoices and payments to employees.
 - Delivery of policy awareness training relating to Income Management and External Charging and full development of performance management reporting which are designed to strengthen these processes further (previous audit recommendations).

- Update the Council's Financial Regulations to ensure they continue to reflect the appropriate framework for sound financial management, and be relevant and complete (External Audit recommendation). Fully develop written guidelines and procedures for financial processes linked to the Financial Regulations and make improvements to their availability (previous years audit recommendations).
- Implementation of Homelessness Management actions and audit recommendations on rent setting policy, information sharing and segregation of duties to address gaps and risks in the service's utilisation of the rent accounting system.
- Introduce a more rigorous approach to dissemination of ICT Disaster Recovery Plan outside the IT service to ensure a thorough understanding by all services' staff on the execution of the plan and to ensure its fit with services' business continuity plans.
- Implement further Information Management Improvement Plan actions including evidence of records weeding in compliance with retention policy, confirmation of appropriate physical records storage (previous audit recommendations), management and monitoring of data sharing agreements, and review of Information Policy and Strategy to enable Information Governance Group to fulfil its role.
- Introduce a consistent approach to the development of strategic asset management plans by officers and their subsequent review by elected members to inform the capital financial planning process (previous audit recommendation), and use the HM Treasury Green Book Checklist in selected projects within the Council (recommendation from the Audit and Risk Committee).

3 Internal Audit Plan Delivery in 2015/16

3.1 The Internal Audit Annual Plan 2015/16 was delivered using the following approach:

- Staff resources comprised the Chief Officer Audit & Risk (50% allocation to Audit), Internal Audit Manager (75%), two Senior Internal Auditors, and two Internal Auditors who have a diverse range of experience, knowledge, skills and technical competencies needed to complete the programme of work and are aware of the professional and ethical standards required.
- The Internal Audit function operates in line with the professional standards as set out in the Public Sector Internal Audit Standards (PSIAS) effective from 1 April 2013. The PSIAS sit alongside the CIPFA Role of the Head of Internal Audit document. The Audit Manual outlines the policies, procedures, processes and systems in place to guide staff in performing their duties and conform to the PSIAS.
- There has been consultation and engagement with Senior Management in services to schedule, plan and scope audit work on a regular basis to co-ordinate with Management review, change and development work and external audit and inspection activity.
- Each Internal Auditor has been assigned audits to complete as part of their personal objectives and performance targets, and have learning and development plans to ensure they continue to have the skills, knowledge and professional competency to deliver the service in an ever-changing and complex environment. Interim reviews of progress and annual appraisals of performance against objectives, targets and plans have been completed.
- 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.
- 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.

- The Internal Audit work on Risk Management and Counter Fraud was carried out with the Chief Officer Audit & Risk as the client and the Internal Audit Manager fulfilling the CAE role to ensure internal audit independence and objectivity is maintained.
- 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 audit process to evidence improvements in the Council's practices on a continuous basis.
- Resources were deployed in the provision of those consultancy and support activities which support Management in delivering innovation and transformational change.

3.2 The following table shows the analysis of audit days and numbers by audit type:

	Plan days 2015/16	Actual days 2015/16	Plan Nos. 2015/16	Actual Nos. 2015/16
Corporate Governance	205	190	7	6
Financial Governance	195	158	6	5
IT Governance	60	25	4	4
Internal Controls	55	60	3	3
Asset Management	55	47	2	2
Legislative and other Compliance	50	85	4	4
Consultancy and Advice	80	97		
Other	69	131		
Non-SBC	40	34		
Total	809	826	26	24

3.3 The level of Actual hours was broadly on plan (102%). This performance can be attributed to the greater direct audit productivity from the Internal Audit team than anticipated in the audit plan. This has been achieved by individual internal auditors striving to meet their personal objectives and performance targets, and by deploying internal auditors to audit work which uses their specific qualifications, skills, knowledge and experience thus lessening the learning curve and familiarisation process.

3.4 The allocation of audit plan hours is not an exact science and some of the audit scopes have been carried out using less than planned hours and some using more.

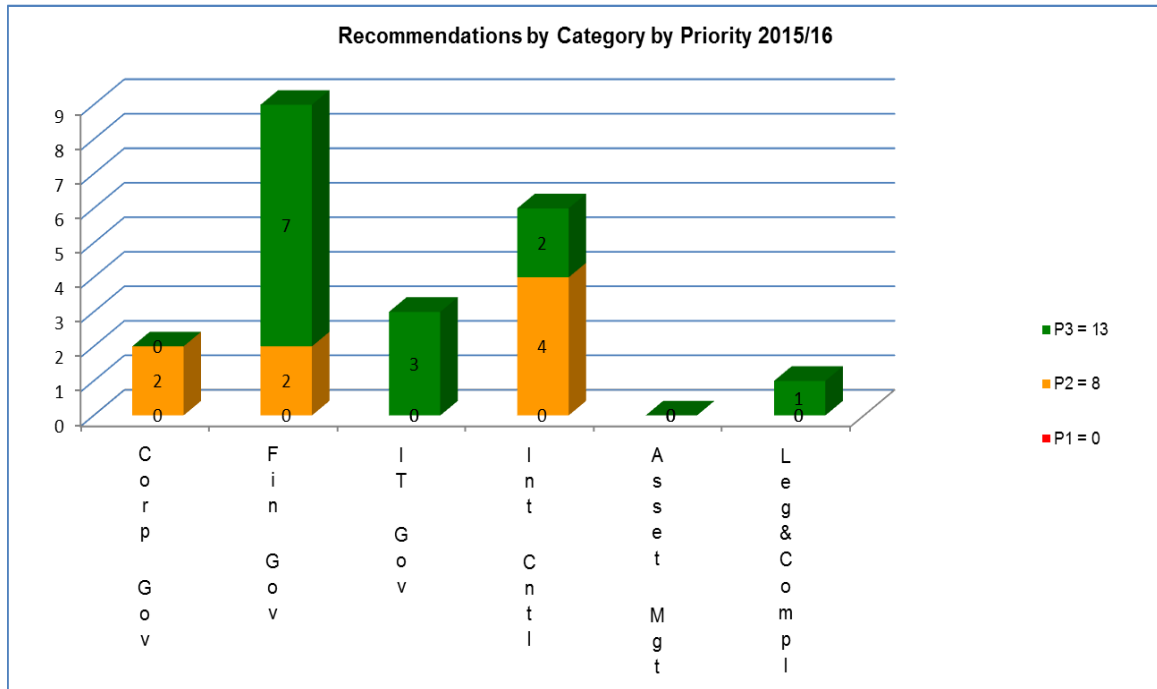
3.5 The full scopes of two of the planned audits have not been completed for the following reasons in agreement with the relevant Senior Management:

- The Workforce Planning audit has been rescheduled to 2016/17 to align with the phasing of the rollout of the Council's people planning process; and
- The Contract Management audit has been part completed due to delays in national guidance thus the remaining audit scope will be deferred until 2017/18.

This has not affected the assurance that internal audit is able to give.

4 Audit Recommendations

4.1 Where areas of improvement were identified these were highlighted to Management and actions were agreed for implementation within acceptable timescales to manage the risks to the Council. During the year 2015/16 Internal Audit have made 21 recommendations (there were 34 in 2014/15) categorised as Priority 1 - 0 (0 in 2014/15), Priority 2 - 8 (8 in 2014/15) and Priority 3 - 13 (26 in 2014/15). The following table summarises the 2015/16 Internal Audit Recommendations by Category by Priority:



4.2 Management has the responsibility for ensuring that agreed audit actions are implemented to address the identified weaknesses and mitigate risks. At final internal audit report stage the Audit Recommendations are input to Covalent, the Council's corporate performance management system. This is designed to assist with management tracking of implementation, to link with relevant risks and to evidence improvement in internal controls and governance.

4.3 Internal Audit continues to perform its standard quarterly follow-up activity and works with Management to address any actions that become overdue, and bring any matters to the attention of the Audit and Risk Committee. The follow-up activity takes into consideration their priority status, what target timescales are in place for full implementation, the explanation of the reason for any delay in implementation, and a review of their status to ensure the recommendations are still relevant or whether alternative solutions are required to manage the identified risks. The following table highlights the current position (as at 29 April 2016) with regards to internal audit recommendations arising from current and previous years:

Year identified	Total	Implemented	Not Yet Due	Overdue
2015/16	21	6	15	0
2014/15	34	16	18	0
2013/14	51	42	9	0

5 Internal Audit activity during 2015/16

5.1 The wide range of internal audit work performed during the year is listed below:

Corporate Governance Audits

5.2 To provide 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, reviews during 2015/16 included:

- Corporate Governance (Assessment of progress on implementation of Improvement action plans and Annual Evaluation against Local Code of Corporate Governance).
- Risk Management (Assessment of progress on the implementation of Improvement actions including policy, strategy, training and toolkits).
- Information Governance (Review of the framework including roles and responsibilities, policy development and implementation).
- Performance Management (Validation of performance indicators and benchmarking information to support self-assessment and continuous improvement).
- Workforce Planning (Review of approach to workforce development to provide skills, knowledge and competency requirements for service delivery to meet objectives).
- Corporate Transformation (Review of governance and accountability arrangements including programme and project management, and of processes for benefit (financial and other) identification, tracking and realisation).
- Health and Social Care Integration (Review governance arrangements being developed to meet new statutory obligations which are designed to promote closer integration and partnership working to meet the needs of the community).
- Cultural Services Review (Review governance arrangements being developed as part of transformation proposals for transferring Cultural Services to an Integrated Trust).

Financial Governance Audits

5.3 To provide assurance on the internal financial controls in place including fraud prevention and detection controls, reviews during 2015/16 of the Council's financial and management information systems and substantive testing of transactions to ensure completeness and accuracy of data in core financial systems included:

- Financial Policies and Procedures (Assess progress with review and update of Financial Regulations and associated procedures and guidelines including revenue and capital budgetary control codes of practice).
- Income Charging, Billing & Collection (Follow-up the implementation of Improvement actions including policy awareness and training, and debt reporting tools).
- VAT (Review of treatment of supplies and services made by the Council to customers)
- Revenues – Council Tax and Non Domestic Rates (Assess completeness and accuracy of income, including application of relevant reductions, discounts, reliefs, exemptions).
- Grants and Following The Public Pound (Review of authorisation and monitoring procedures including criteria to evaluate grant applications and monitoring compliance with conditions of grant; Assess process against FTTP code of practice).
- Contract Management (Follow-up on contract monitoring improvement actions).
- Creditors Payments (Review of payments processes at Service level including authorisation and non-Proactis source systems such as Servitor, Framework-I, etc.)
- Salaries including Expenses (Review of controls at Service level including authorisation).

IT Governance Audits

- 5.4 To provide assurances that computer systems are secure, reliable and conform to nationally agreed standards, reviews during 2015/16 included:
- ICT Security Controls (Assess the adequacy of the physical access and environmental controls to the Council's ICT equipment, software and data to prevent unauthorised access and damage including third party access agreements).
 - Public Sector Network (PSN) Compliance (Examine the Council's compliance with PSN requirements and progress with implementation of actions to achieve full compliance).
 - ICT Disaster Recovery (Review of strategies and plans to ensure they are aligned with business continuity requirements, are fit for purpose and tested appropriately).
 - ICT Operational Processes (A review of the change / incident / problem management operational controls to ensure they are designed appropriately and that all parties are adhering to and complying with them).

Internal Controls Audits

- 5.5 To provide assurances in relation to a range of the Council's internal controls in areas identified by Management, reviews during 2015/16 included:
- Homelessness Rent Accounting System (Assess the adequacy of processes and procedures, including collection and recovery of rents, training and guidance notes).
 - Primary Schools – Tweedbank PS, Denholm PS and St Ronans PS } Review of internal financial controls and business administrative procedures in place to ensure the efficient and effective use of resources.
 - Waste & Recycling Services – Trade Waste (Review of income collection, debt recovery and streamlining of processes and systems to ensure income maximisation).

Asset Management Audits

- 5.6 To provide assurances that Council assets are safeguarded and properly accounted for, and used economically, efficiently and effectively, reviews during 2015/16 included:
- Asset Registers (Review of processes and controls management have implemented 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 Projects (Review of management systems in place to ensure that capital projects are being managed efficiently and effectively from inception to completion including post project evaluation; Capital planning basis on priorities of the Council).

Legislative and Other Compliance Audits

- 5.7 To test compliance with the terms of the funders' service level agreements or legislative requirements as part of the wider assurance framework, reviews during 2015/16 included:
- Kelso Town Heritage Initiative and Conservation Area Regeneration Scheme (Audit review as part of end of programme compliance and evaluation requirements of the two external funders (the Heritage Lottery Fund and Historic Scotland).
 - EU LEADER Grants (Annual review of LEADER programme required by the SLA between Scottish Ministers and SBC to assess SBC's compliance with the terms of the SLA).
 - European Fisheries Fund (Annual audit under the terms of the SLA and legislative compliance including an assessment of compliance with the requirements of the SLA and the relevant EC Regulations).
 - Carbon Management Programme (Annual audit as part of the requirement under the Carbon Reduction Commitment Energy Efficiency Scheme prior to the Council's annual submission to Department of Energy and Climate Change).

Advice and Consultancy Work

- 5.8 Internal Auditors responded to a number of requests for ad hoc advice and assistance on internal controls, risk management and governance. The two significant pieces of consultancy work related to the development and implementation of approved governance arrangements associated with the programme for Health and Social Care Integration, and the 'critical friend' role during the due diligence and implementation phases of the Integrated Culture and Sports Trust.
- 5.9 The two Senior Internal Auditors each continue to provide project assurance relating to the Welfare Reform Programme and Information Management Project.

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

- 6.1 The professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective 1 April 2013 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).
- 6.2 The Quality Assurance and Improvement Plan (QAIP) is designed to enable evaluation of Internal Audit's conformance with the Definition of Internal Auditing and the Standards, along with an evaluation of whether Internal Auditors apply the Code of Ethics, and an action plan to implement identified improvements.
- 6.3 An internal self-assessment of internal audit practices against the Standards was carried out in 2015/16, as required by the PSIAS, taking into account the improvement actions implemented since the previous year's self-assessment. The 2015/16 self-assessment has indicated a reasonable level of conformance with both the Attribute Standards and Performance Standards and improved evidence of applying the Code of Ethics.
- 6.4 The PSIAS requires the self-assessment to be subject to an External Quality Assessment (EQA) each five years, by appropriately qualified and independent reviewers. To this end the Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) developed its "Peer Review" framework in which SBC took part. The EQA Peer Review site visit by Renfrewshire Council was held in October 2015. The Final Report concluded that the SBC Internal Audit Service generally conforms to the PSIAS, has identified areas of Good Practice, and has highlighted a few areas where improvements can be made. The Summary of Conformance with the PSIAS in the Final Report states either 'Fully Conforms' or 'Generally Conforms' against the 13 Assessment Areas. Areas of good practice include: substantial compliance with PSIAS and the International Professional Practices Framework (IPPF); clear, concise and easy to follow Internal Audit Charter; appropriate functional and administrative reporting lines for the CAE; appropriately qualified and experienced Internal Audit team.
- 6.5 Internal Audit received positive comments from clients relating to 2015/16 audits, advice and consultancy work which indicates positive feedback of the value and performance of Internal Audit. Opportunities for improvement are discussed with Management on a regular basis when reporting on progress with delivery of the internal audit programme of work or when consulting on audit plans being developed. The methodology for the EQA Peer Review included a canvass of the opinions of key stakeholders such as Chair of the Audit and Risk Committee and members of the Corporate Management Team.

6.6 The PSIAS includes the requirement to report the results of the Quality Assurance and Improvement Plan (QAIP) to senior management and elected members. The following table provides Corporate Management and the Audit and Risk Committee with a summary overview and current status of the improvement actions arising from the internal self-assessment 2014/15 against the PSIAS and External Quality Assessment during 2015/16:

Standard	Improvement action	Target Date	Action Owner
B1 Integrity B2 Objectivity B3 Confidentiality B4 Competence	Adherence to <i>Code of Ethics</i> included in "Performance Standards" on PRD forms	July 2015- Complete	Senior Internal Auditor
1100.14 Due consideration to potential impairments to independence and objectivity	Development of pre-Audit checklist	October 2015- Complete	Senior Internal Auditor
	Development of pre-Audit checklist	October 2015- Complete	Senior Internal Auditor
	EQA Action Plan 3.3 a-c a) Agree line reporting arrangements to carry out audits for Risk Management and Counter Fraud b) Rotate audit engagements by Internal Auditors c) Obtain stakeholder feedback for CAE performance appraisal	a – Complete b – April 2016 c – May 2016	Service Director Regulatory Services and Chief Officer Audit & Risk
1300.1 Performance monitoring	Develop Balanced Scorecard measures in line with SLACIAG guidance and input into Covalent	Complete except input to Covalent	Internal Audit Manager
1300 Quality Assurance and Improvement Programme	EQA Action Plan 3.4 Housekeeping actions including evidence of internal quality review process, state conformance with the PSIAS, and regular records retention	May 2016	Senior Internal Auditor
2000.6 Risk management	Continued improvement in identification and management of risk within the Council	March 2018	Chief Officer Audit & Risk
2000.12 Policies and Procedures	Review and revision of Audit Manual	June 2016	Internal Auditor
2100 Nature of Work	EQA Action Plan 3.1 Clarify adding value to the Council through work of Internal Audit taking account of role and resources available & 3.2 Develop a documented assurance framework	March 2016	Chief Officer Audit & Risk

Jill Stacey BA(Hons) ACMA CGMA
Chief Officer Audit & Risk
29 April 2016