

Chief Officer Audit & Risk's Annual Assurance Report and Opinion 2021/22

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, which are not fixed but evolve as the Council changes.
- 1.2 Internal Audit, as the third line, 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 (the Council'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 2022 that underpins the opinion in accordance with the Internal Audit Charter, Strategy and Annual Plan 2021/22. 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 the systems of internal control, governance and risk management within the Council are operating satisfactorily. The opinion is based on our Internal Audit reviews and knowledge and our ability to gain assurance from compliance/service support functions (such as health and safety, IT client, information management, finance and procurement, HR, business continuity) that are key components of the Council's assurance framework.
- 2.2 The main issue for 2021/22 was non-completion by staff of the mandatory eLearning training (particularly child protection), and lack of oversight by Management to check compliance and include in staff annual appraisals. Common themes from Internal Audit findings during the year were: keeping policies and procedures up-to-date which is of particular importance during a period of change, for example HR and Financial Policy Frameworks; Senior Management need to carry out second line monitoring for assurance purposes, for example, Performance Management; and establish a board to provide strategic oversight on capital asset management planning and implementation of capital programmes and projects.
- 2.3 Internal Audit reports during the year confirm improvements in internal controls, governance, and risk management through Management-initiated actions complemented by their implementation of Internal Audit recommendations.
- 2.4 Substantial assurance can be provided on the adequacy of the internal controls and governance arrangements in place. The key governance documents have been reviewed and updated where required during the year, including: Scheme of Administration (approved September 2017; amended December 2021); Procedural Standing Orders (approved September 2021); Scheme of Delegation (approved March 2018; amended September 2021); Financial Regulations (approved February 2022); Procurement & Contract Standing Orders (approved January 2021); and Codes of Conduct for Councillors and for Employees. There is a need to update the Council's Local Code of Corporate Governance (approved June 2018). This will ensure it reflects the appropriate framework for effective governance of the Council's affairs and facilitates the exercise of its functions to deliver best value.
- 2.5 The Council continues to make progress in embedding Risk Management and awareness ensuring that the risks to achieving corporate objectives are systematically identified, analysed, evaluated, controlled, monitored and reported regularly. Corporate and Service Risk Registers are subject to regular review by those Managers who are allocated the responsibilities for managing individual risks. Organisations who are contracted to deliver services on behalf of the Council and through partnership arrangements, such as the Health and Social Care Integration Joint Board and Live Borders, have Risk Management processes in place. The revised Risk Management Policy and Strategy were approved by Council (December 2021) on recommendation by the Audit & Scrutiny Committee (ASC). ASC received presentations during the year from Directors on key risks and mitigations and a Risk Management Annual Report outlining activity against the risk management strategy, to fulfil their role of oversight of how risks are managed. Committee reports include a Risk and Mitigations section to ensure that decision makers are cognisant of the risks associated with the proposals/decisions to be taken. Improvements are required on the Council's Business Continuity Framework to ensure the policy is up-to-date, the system is fit for purpose, adequate support resources are deployed, and a programme of testing is developed and implemented to ensure business continuity is being applied in practice.
- 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. The Strategic Leadership Team should continue to monitor Audit Actions on a regular basis and to oversee implementation of Internal Audit recommendations to demonstrate continuous improvement.

3 Internal Audit Annual Plan 2021/22 Delivery

- 3.1 Internal Audit staff resources have been adversely affected during the year. Most notably the whole team continue to be working from home, facilitated by the use of MS Teams and access to network drives and business applications. There were reduced Audit Days capacity due to: long-term absence of one Internal Auditor in the first half of the year; and the sudden passing of the Senior Internal Auditor, with reallocation of interim Senior Internal Auditor shared with Midlothian Council to partially cover the vacancy from the 2nd quarter. This has resulted in the level of Actual Audit Days being lower than Plan (82%). There has been no impairment to the independence or objectivity of the Internal Audit function arising from the change to resourcing or from consultancy work during the year.
- 3.2 The following revisions to the Internal Audit Annual Plan 2021/22 were approved by the Audit and Scrutiny Committee (date notified):
- Central Schools (Internal Controls) - Due to its links to the Fit for 2024 transformation programme, this activity has been designated as an Internal Audit consultancy review in a 'critical friend' role, in agreement with the Director Education & Lifelong Learning. (14 February 2022)
 - Mental Health Services - Adults and Children ** brought forward from 2020/21 (Internal Controls) - Deferred on request by Management in light of ongoing capacity challenges due to Covid-19 pandemic. (14 March 2022)
 - Assessors (Internal Controls) - Deferred on request by Management to align with new development implementation plan as still awaiting legislation from Scottish Government. (14 March 2022)
- 3.3 The range and breadth of Internal Audit work that has been performed during the year, which is listed below, is sufficient to inform the Internal Audit assurance opinion.

Corporate Governance Audits

- 3.4 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 (date reported to Audit and Scrutiny Committee):
- Corporate Governance (Assessment of progress on implementation of improvement actions within the Annual Governance Statement including Best Value Assurance Report actions (BVAR). Annual evaluation against the Local Code of Corporate Governance to determine whether the arrangements are operating as described. Prepare this Annual Assurance Report for Management and the Audit and Scrutiny Committee, forming the statutory opinion on the adequacy of the Council's arrangements for governance, internal control and risk management.) - 27 June 2022.
 - Information Governance (Continuous audit approach performing 'critical friend' role through the review of the Information Governance 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) - 27 June 2022.
 - Performance Management Framework (Continuous audit approach to assess progress of the review and enhancement of the Council's Performance Management Framework, including background research and engagement.) – 14 February 2022.
 - Performance Management LGBF (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) – 20 September 2021.
 - Corporate Transformation Programme - Fit for 2024 (Continuous audit approach to review the governance and accountability arrangements associated with the planning

and implementation of the corporate transformation programme, and updates on programmes and projects via the Fit for 2024 Board, 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.) – 14 March 2022.

- HR Policy Framework (Assess the HR Policy Framework (including Gifts & Hospitality and Register of Interests) and evaluate whether there is a comprehensive programme in place to review, update and develop relevant policies, procedures and guidelines, including the rollout to employees.) – 22 November 2021.
- Business Continuity Framework (Review the process for setting, testing, reviewing and updating Business Continuity plans (including ICT disaster recovery strategies and plans) to ensure the delivery of business critical (and other) services across the Council, that they are aligned with requirements and that they are fit for purpose (i.e. no critical single points of failure).) – 22 November 2021.
- Risk Management (Progress on the implementation of corporate risk management improvement actions including policy, strategy, training and toolkits.) – 29 June 2021.

Financial Governance Audits

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

- Financial Policy Framework (Assess the Financial Policy Framework, and evaluate whether there is a comprehensive programme in place to review, update and develop relevant Financial Regulations, Policies, Procedures, Guidelines, and any associated Codes of Practice, including the rollout to employees.) – 14 February 2022.
- Grants incorporating 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 Following the Public Pound code of practice in support of securing best value.) – 14 March 2022.
- Business World ERP System Key Controls (An integration of 4 audits to assess key controls of the Business World system for Payroll and HR, Sales to Cash, and Procure to Pay processes and core General Ledger and Management Reporting (Record to Report), assess System Access, and test sample of transactions from various data sets.) – 27 June 2022.

ICT Governance Audits

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

- Digital Strategy (Ensure that the Digital Strategy is aligned to Council priorities and business requirements. Review of client relationship and contract management with CGI to assess compliance with Service Delivery and terms and conditions.) – 14 February 2022.

Internal Controls Audits

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

- Schools Financial and Business Administration Processes (Review of internal financial controls and business administrative procedures in place to ensure the efficient and effective use of resources in the school establishments including evaluation of the systems in place to set and monitor DSM budgets.) – 14 March 2022.
- Justice Services ** brought forward from 2020/21 (Assess the adequacy of internal controls, administrative procedures and resources in place to meet statutory obligations.) – 14 February 2022.

- Homelessness ** Brought forward from 2020/21 (Review the rent accounting processes and procedures in place, including collection and recovery of rents for temporary accommodation, the launch of the Crisis Intervention Fund process, and the provision, funding and costs associated with providing accommodation for homeless clients. Review progress with Self-Evaluation assessment.) – 22 November 2021.
- Waste and Recycling Services ** Brought forward from 2020/21 (Ensure there are adequate operational and financial controls in place for the effective delivery of waste and recycling services.) – 14 February 2022.
- Parks & Environment (Bereavement Services) ** Brought forward from 2020/21 (Procedures and controls are in place to provide for efficient and effective use of operational resources in Parks & Environment pertaining to the Cemeteries and Burials service delivery.) – 29 June 2021.
- Scottish Government Support Grants (Assess the adequacy of operational processes in place to administer the payment of Scottish Government Business Support Grants to ensure that they are appropriate and consistent.) – 20 September 2021.
- Registration Service (Assess compliance with the relevant legislation and the adequacy of controls in place for registration fees and charges income.) – 14 February 2022.
- Community Safety - CAT Team (Review of operational and financial controls in place for the effective delivery of services and use of resources.) – 22 November 2021.

Asset Management Audits

3.8 To provide assurances that Council assets are safeguarded and properly accounted for, and used economically, efficiently and effectively, reviews included:

- IT Asset Management (Review of systems, processes and controls that are in place to ensure complete and accurate records of all IT assets that underpin the IT Asset Management Plan to deliver the Council's strategies, plans & priorities.) – 27 June 2022.
- Capital Investment (Review the governance arrangements in place for capital planning and investment including strategic asset management plans to ensure these are aligned to Council priorities and business requirements.) – 27 June 2022.
- Economic Development Industrial Property (Assess the corporate governance and financial governance arrangements relating to Industrial property estate, including strategy, processes, and performance.) – 27 June 2022.
- Roads Asset Management ** Brought forward from 2020/21 (Assess that the Council has a structured framework for Roads Asset Management (roads, bridges, footways, lighting), including an inspection programme and management information and reporting, to demonstrate efficient and effective use of resources.) – 27 June 2022.

Legislative and Other Compliance Audits

3.9 To test compliance with the terms of the funders' service level agreements or legislative requirements, reviews included:

- Jedburgh Conservation Area Regeneration Scheme (CARS) ** Brought forward from 2020/21 (Review as part of programme compliance and evaluation requirements of the external funders including audit requirements.) – 29 June 2021.
- Hawick Conservation Area Regeneration Scheme (CARS) ** Brought forward from 2020/21 (Review as part of programme compliance and evaluation requirements of the external funders including audit requirements.) – 29 June 2021.
- 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.) – 22 November 2021.

- Sustainable Environment ** Brought forward from 2020/21 (Assess progress with the development of new governance arrangements and action plans to meet obligations regarding sustainable environmental programmes, including corporate and social responsibility.) – 27 June 2022.

Consultancy Work

- 3.10 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: Fit for 2024 Transformation Programme Board; Information Governance Group; Social Work Performance Board; Social Work Review Delivery Group; Sustainable Development Board; Homelessness Compliance Review Group).
- 3.11 During the year Internal Audit responded to a number of requests for ad hoc advice and assistance on internal controls, risk management and governance.

Other Audit Work

- 3.12 During the year Internal Audit resources were deployed in undertaking the following other audit work in support of the Internal Audit function meeting its wider objectives as set out in the Internal Audit Charter:
- Follow-up (Undertook two reviews: The first assessed performance of Management in implementing Internal Audit recommendations by the agreed due date; and the second included a sample check of Internal Audit recommendations which were flagged as closed, to check that they have been effectively implemented and to ensure that the new controls have had the desired effect on improving internal controls, risk management and governance.)
 - Counter Fraud (Internal Audit evaluated fraud prevention controls and detection processes on an on-going basis to ensure fraud risk is considered in every audit, and specifically provided intelligence via data sharing requests from Police Scotland as part of the wider assurance framework on counter fraud and crime controls.)
 - PSIAS Self-Assessment (Undertook an annual self-assessment of the Internal Audit service against the Public Sector Internal Audit Standards (PSIAS) and reported its findings to Management and the Audit and Scrutiny Committee.)
 - Audit and Scrutiny Committee Self-assessment (Provided assistance to the Chair in undertaking the Self-Assessment of the Audit and Scrutiny Committee (Audit functions) against the CIPFA best practice guidance, and provided support for the A&SC members' learning and development during the year.)
 - Integrity Group (Attended the Integrity Group virtual meetings and provided support to the Group to fulfil its role.)
 - Boards / Committees (Prepared for and attended Audit and Scrutiny Committee virtual meetings and other Boards / Committees, as relevant.)
 - Administration of Audit Scotland Reports (Monitored publication of Audit Scotland reports and co-ordinated submission of Audit Scotland Reports to the relevant Committees. Internal Audit considered and applied national audit reports that give rise to introducing best practice arrangements or lessons learned from other local authorities or other public sector bodies, thus adding value to the Council.)
 - Audit Planning 2022/23 (Reviewed and updated the Internal Audit Charter and Internal Audit Strategy. Reviewed and extensively updated the Audit Universe to develop and consult on the proposed coverage within the Internal Audit Annual Plan 2022/23.)

Non SBC Work

- 3.13 The Council's Internal Audit service provided independent assurance work relating to the systems of internal control, corporate governance and risk management arrangements of the Scottish Borders Council Pension Fund and Scottish Borders Health and Social Care Integration Joint Board. Separate Internal Audit annual assurance opinions will be reported to their respective Senior Management and Board / Audit and Scrutiny Committee, based on the work delivered in accordance with Annual Plans that have been approved by their respective Senior Management and Board / Audit and Scrutiny Committee in March 2021.
- 3.14 The shared Internal Audit services arrangement between Midlothian and Scottish Borders Councils continued to be delivered during 2021/22, albeit via remote working. The SBC Chief Officer for Audit & Risk fulfilled the roles of Chief Internal Auditor for Midlothian Council and for Midlothian Health and Social Care Integration Joint Board, and provided the strategic leadership for the effective delivery of Internal Audit services to those client organisations through approved Plans and Reports to their respective Senior Management and Boards / Audit and Scrutiny Committees. The Council approved a report 'Shared Internal Audit Services and Proposed Way Forward 2022/23' on 16 December 2021. The report provided details of the wider options for joint working that had been explored and the evaluation of the shared Internal Audit services arrangements, the operating environment for which had changed significantly since its inception. The report proposed a way forward for 2022/23 onwards for the mutual opt out of the shared Internal Audit services at the end of 2021/22 and progression towards a permanent staff resourcing of the Midlothian Council Internal Audit team. Management in both Midlothian Council and Scottish Borders Council have agreed that the shared Internal Audit services arrangement will continue for a transitional period in 1st quarter of 2022/23 to allow for the Midlothian Council recruitment of a permanent Chief Internal Auditor.

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 The Public Sector Internal Audit Standards (PSIAS) requires the annual internal self-assessment against the PSIAS to be subject to an External Quality Assessment (EQA) every five years, by appropriately qualified and independent reviewers. The findings of the SBC EQA, completed by North Lanarkshire Council in early January 2021, assessed the function as 'fully conforms' with the requirements within the 13 Assessment Areas of the Definition of Internal Auditing, the Code of Ethics, Attribute Standards and Performance Standards (consistent with the internal self-assessment 2019/20). The findings and the main areas for improvement highlighted in the Final EQA Report were reported to the Audit and Scrutiny Committee on 15 February 2021.
- 4.3 The PSIAS requires the chief audit executive, the Council's Chief Officer Audit & Risk, to carry out an annual internal self-assessment against the PSIAS, develop a quality assurance and improvement plan (QAIP) based on the outcome, and report the results of the QAIP to senior management and elected members. An internal self-assessment 2021/22 of Internal Audit practices against the Standards was carried out in April/May 2022, as required by the PSIAS.

This confirmed the implementation of the improvements identified in the EQA January 2021, and further identified some minor enhancements relating to operational tools to ensure their efficiency and effectiveness. There are no improvement actions for inclusion in the QAIP arising from the 2021/22 internal self-assessment.

Progress will be reported to the Audit and Scrutiny Committee within the Internal Audit Mid-Term Performance Report 2022/23.

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9 June 2022