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## **INTERNAL AUDIT WORK TO JUNE 2017**

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### **Report by Chief Officer Audit and Risk**

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## **AUDIT AND SCRUTINY COMMITTEE**

**28 June 2017**

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### **1 PURPOSE AND SUMMARY**

- 1.1 The purpose of this report is to provide members of the Audit and Scrutiny Committee with details of the recent work carried out by Internal Audit and the recommended audit actions agreed by Management to improve internal controls and governance arrangements, and an outline the work of Scottish Local Authorities Chief Internal Auditors Group.**
- 1.2 The work Internal Audit has carried out in the period from 3 April to 9 June 2017 is detailed in this report. During this period a total of 2 final Internal Audit reports have been issued. There were 7 recommendations made relating to 2 of the reports which have been accepted by Management for implementation.
- 1.3 An Executive Summary of the final Internal Audit reports issued, including audit objective, findings, good practice, recommendations (where appropriate) and the Chief Officer Audit and Risk's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1 to this report.
- 1.4 The SBC Internal Audit function conforms to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective 1 April 2013 including the production of this report to communicate the results of the reviews.
- 1.5 Further information on the work of Scottish Local Authorities Chief Internal Auditors Group (SLACIAG), which is the professional networking group for Heads of Internal Audit, is shown in Appendix 2 to this report.

### **2 RECOMMENDATIONS**

- 2.1 I recommend that the Audit and Scrutiny Committee:**
- a) Notes the final assurance reports issued in the period from 3 April to 9 June 2017 associated with the delivery of the approved Internal Audit Annual Plan 2017/18;**
  - b) Notes the Internal Audit consultancy and other work undertaken in this period;**
  - c) Acknowledges the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work; and**
  - d) Acknowledges the benefits to Scottish Borders Council Internal Audit function arising from its participation in the SLACIAG national forum for Heads of Internal Audit.**

### 3 PROGRESS REPORT

- 3.1 The Internal Audit Annual Plan 2017/18 was approved by the Audit and Risk Committee on 28 March 2017. As previously stated, it should be considered to be flexible and will be periodically reviewed, and amended as required, to reflect any new arrangement or changing risks and priorities of the Council. Any amendments will be brought to this Committee for approval.
- 3.2 Internal Audit has carried out the following work in the period from 3 April to 9 June 2017, associated with the delivery of the approved Internal Audit Annual Plan 2017/18, to meet its objective of providing an opinion on the efficacy of the Council's risk management, internal control and governance.
- 3.3 The SBC Internal Audit function conforms to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective 1 April 2013 including the production of this report to communicate the results of the reviews.

#### Internal Audit Reports

- 3.4 Internal Audit issued final assurance reports on the following subjects:
- Corporate Transformation Programme
  - Corporate and Social Work Complaints
- 3.5 An Executive Summary of the final Internal Audit assurance reports issued, including audit objective, findings, good practice and recommendations (where appropriate), and the Chief Officer Audit and Risk's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1.

The definitions for Internal Audit assurance categories, as outlined in the approved Internal Audit Charter, are as follows:

Level	Definition
Comprehensive assurance	Sound risk, control, and governance systems are in place. These should be effective in mitigating risks to the achievement of objectives. Some improvements in a few, relatively minor, areas may be required.
Substantial assurance	Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement as current arrangements could undermine the achievement of objectives or leave them vulnerable to error or misuse.
Limited assurance	Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives and leave them vulnerable to an unacceptable risk of error or misuse.
No assurance	The systems for risk, control, and governance are ineffectively designed and operated. Objectives are not being achieved and the risk of serious error or misuse is unacceptable. Significant improvements are required.

#### Internal Audit Consultancy and Other Work

- 3.6 Internal Audit staff have been involved in the following to meet its aims and objectives, and its roles and responsibilities in accordance with the approved Internal Audit Charter:
- 3.6.1 Involvement in the independent validation of Payroll, Procurement and Finance data migrated to the new Business World ERP system which went live from April 2017.
- 3.6.2 Offering advice on internal controls and governance to Managers on request through engagement in a number forums as the Council continues to transform its services. For example, Information Governance Group, and Business World ERP Project Board.

- 3.6.3 Carrying out some contingency audit work on request by the Chief Executive where we have offered advice on improvements to complaints handling processes and practices associated with a social care client.
- 3.6.4 Reviewing outstanding and overdue audit recommendations to ensure their implementation.
- 3.6.5 Providing intelligence via data sharing requests from Police Scotland. Liaising with the Corporate Fraud & Compliance Officer on an on-going basis to ensure fraud risk is considered in every audit.
- 3.6.6 Carrying out performance appraisals for 2016/17 and objective setting and personal development plans for 2017/18 (PRDs) for each individual within the Audit and Risk team, to ensure their skills and knowledge are kept up-to-date and to support delivery of the Audit and Risk Service's Plans.
- 3.6.7 Revising the Council's Local Code of Corporate Governance to ensure it reflects the changing context of Scottish Borders Council and is consistent with the principles and recommendations of the new CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' (2016) and the supporting guidance notes for Scottish authorities.

### Recommendations

- 3.7 Recommendations in reports are suggested changes to existing procedures or processes to improve the controls or to introduce controls where none exist. The grading of each recommendation reflects the risk assessment of non-implementation, being the product of the likelihood of the risk materialising and its impact:

<b>Priority 1:</b> Significant weaknesses in existing controls, leaving the Council or Service open to error, fraud, financial loss or reputational damage, where the risk is sufficiently high to require immediate action within one month of formally raising the issue. Added to the relevant Risk Register and included in the relevant Assurance Statement.
<b>Priority 2:</b> Substantial weaknesses in existing controls, leaving the Council or Service open to medium risk of error, fraud, financial loss or reputational damage requiring reasonably urgent action within three months of formally raising the issue.
<b>Priority 3:</b> Moderate weaknesses in existing controls, leaving the Council or Service open to low risk of error, fraud, financial loss or reputational damage requiring action within six months of formally raising the issue to improve efficiency, effectiveness and economy of operations or which otherwise require to be brought to the attention of senior management.

The action plans in audit reports address only recommendations rated Priority 1, 2 or 3. Outwith the report, Internal Audit informs operational managers about other matters as part of continuous improvement.

- 3.8 The table below summarises the number of Internal Audit recommendations made during 2017/18:

	2017/18 Number of Recs
Priority 1	0
Priority 2	4
Priority 3	3
<b>Sub-total reported this period</b>	<b>7</b>
Previously reported	0
<b>Total</b>	<b>7</b>
Recommendations agreed with action plan	7
Not agreed; risk accepted	0
<b>Total</b>	<b>7</b>

## **4 SCOTTISH LOCAL AUTHORITIES' CHIEF INTERNAL AUDITORS' GROUP (SLACIAG) ANNUAL REPORT 2016**

- 4.1 The Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) is the professional networking group for Heads of Internal Audit from each Scottish Local Authority and Strathclyde Partnership for Transport. It is a Special Interest Group of CIPFA Scotland and therefore the Chair of SLACIAG is a member of the CIPFA Scotland Executive Committee.
- 4.2 Each year, SLACIAG produces an Annual Report highlighting achievements and ongoing workstreams and a copy of the report for 2016 is attached at Appendix 2 for information.
- 4.3 In particular, the Audit and Scrutiny Committee may wish to note that:
- 4.3.1 The Group considers learning and development needs and organises training for its members via the Training Sub-Group. Economies of scale make this a cost effective way of undertaking training;
- 4.3.2 Working groups are set up to consider matters of interest such as the development of a peer review approach for the periodic (at least 5 yearly) external quality assessment against the Public Sector Internal Audit Standards (PSIAS); and
- 4.3.3 Sub-groups are set up to deliver specific remits e.g. the Computer Audit Sub-Group (CASG) and the Counter Fraud Sub-Group (SLAIG).
- 4.4 During 2017 SLACIAG, as part of its role to share good practice across its members, will: continue to support its members to meet the mandatory requirements of the PSIAS, in particular through the roll out of its peer review External Quality Assessment arrangements to all participating Councils; hold its biennial conference in Dundee (June 2017); and host its joint meeting between Local Authority and Health Board Heads of Internal Audit to discuss Health & Social Care Integration risks, challenges, opportunities, and the role of Internal Audit.
- 4.5 Scottish Borders Council has a significant role in the work and success of the Group, as the Chief Officer Audit and Risk has been a member of the Group's Management Committee for a number of years (2014-2016 Chair, previously Vice Chair since July 2011, and Secretary of the Group for four years prior), a Senior Internal Auditor is a member of CASG, and the Corporate Fraud and Compliance Officer is a member of SLAIG.
- 4.6 In summary, SLACIAG acts as an effective forum for the dissemination of best practice within internal audit in local government. It is important that the Audit and Scrutiny Committee acknowledges the benefits to Scottish Borders Council Internal Audit function arising from its participation in this national forum.

## **5 IMPLICATIONS**

### **5.1 Financial**

There are no costs attached to any of the recommendations in this report.

### **5.2 Risk and Mitigations**

- (a) 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." Specifically as "a contribution to the Council's corporate management of risk, including assisting Management to improve the risk identification and management process in particular where there is exposure to significant financial, strategic, reputational and operational risk to the achievement of the Council's objectives."

- (b) 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. During the development of the Internal Audit Annual Plan 2017/18, to capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted and risk registers have been considered.
- (c) If audit recommendations are not implemented, there is a greater risk of financial loss and/or reduced operational efficiency and effectiveness, and Management may not be able to demonstrate improvement in internal control and governance arrangements.

**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 in this report.

**5.5 Carbon Management**

No direct carbon emissions impacts arise 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 are required as a result of this report.

**6 CONSULTATION**

- 6.1 The Service Directors relevant to the Internal Audit reports issued have signed off the relevant Executive Summary within Appendix 1.
- 6.2 The Corporate Management Team has been consulted on this report and any comments received have been taken into account.
- 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 this report and any comments received have been incorporated into the report.

**Approved by**

**Jill Stacey, Chief Officer Audit and Risk Signature .....**

**Author(s)**

Name	Designation and Contact Number
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**Background Papers:** Appropriate Internal Audit files

**Previous Minute Reference:** Audit and Risk Committee 28 March 2017

**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)

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Corporate Governance</p> <p>Subject: Corporate Transformation Programme</p> <p>No: 010/014</p> <p>Date issued: 20 June 2017</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to review governance and accountability arrangements for the Corporate Transformation Programme including programme and project management, and processes for benefit (financial and other) identification, tracking and realisation.</p> <p>Our review focused on: Overall Governance arrangements of the Corporate Transformation Programme, including monitoring, reporting and scrutiny procedures involving Senior Officers and Elected Members; Specific programme and project governance arrangements by performing walk-through testing and gathering evidence of controls within a sample of programmes and projects (Digital Transformation – Digital Customer Access; Energy Efficiency; Property &amp; Assets; and Workforce Transformation).</p> <p>The following good practice was found:</p> <ul style="list-style-type: none"> <li>• There was the opportunity for elected members to scrutinise the future plans and progress on delivery via reports of the Corporate Transformation Programme which are presented to the Council (plans and annual progress reports) and the Executive Committee (quarterly progress reports);</li> <li>• Corporate Management Team, who lead the Programme and act as its Board, dedicate one day a month to Corporate Transformation which is reviewed alongside Financial Planning and Monitoring; Efficiency Savings and Business Planning.</li> <li>• A Corporate Transformation Tracker, giving information on each project within the Programme, is prepared and updated on a monthly basis, and provided to the Corporate Management Team;</li> <li>• The functionality within the Sharepoint system enables all aspects of programme and project management;</li> <li>• There are links with the Council priorities set out in the Corporate Plan to the Transformation programme; and</li> <li>• Highlight reports enable comprehensive updates on progress of the programmes and projects.</li> </ul>	0	0	3	<p>Management have accepted the report findings and agreed to implement the recommendations within reasonable timescales.</p> <p>It is anticipated that the recommendations will be implemented as part of the planned review and possible reshaping of the Corporate Transformation Programme, with 'critical friend' support provided by Internal Audit.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Subject: Corporate Transformation Programme (cont'd)	<p>The Corporate Transformation Programme is planned to deliver £7.966m of the £12.36m financial efficiency savings within the 2016/17 revenue financial plan for the Council. Transparency of reporting could be improved for medium term transformation programmes / projects to enable Corporate Management Team and Elected Members to fully scrutinise return on investment.</p> <p>We found some inconsistencies in the application of project governance methodology and documentation and with current methods for managing risk across the programme, in particular how identified risks are being mitigated.</p> <p>Internal Audit considers that the level of assurance we are able to give is substantial. Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement as current arrangements could undermine the achievement of objectives.</p> <p>We made the following recommendations:</p> <ul style="list-style-type: none"> <li>• Corporate Transformation Monitoring Reports (including the Annual Report) should include cumulative investment and savings, covering several years, for individual programmes and projects, to enable benefits realisation monitoring and to provide return on investment (ROI) information. (P3)</li> <li>• Management should ensure that Corporate Transformation business cases identify the benefits to be realised (both financial and non-financial) including initial and ongoing investment and savings forecast, to facilitate prioritisation and allocation of support resources at the start, and to enable evaluation of progress towards achievement of the defined benefits throughout the life of the project / programme. (P3)</li> <li>• Management should set the standards for key documentation requirements to ensure that the information provided across all programmes and projects are consistent and in particular risks are consistently identified and managed throughout the Corporate Transformation Programme. (P3)</li> </ul>				

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Corporate Governance</p> <p>Subject: Corporate and Social Work Complaints</p> <p>No: 023/001</p> <p>Date issued: 19 June 2017</p> <p>Level of Assurance: Limited</p>	<p>The purpose of this audit was to review and assess arrangements in place for both Corporate and Social Work complaints, and to provide assurance on whether the complaints process is being applied consistently to enable successful outcomes, and the benefits associated with efficient resolution of complaints are being realised.</p> <p>Resolving complaints quickly and productively will help the Council improve relationships with its customers and enhance public perception of the authority as well as provide a better understanding of how to improve services by learning from complaints.</p> <p>The following good practice was found:</p> <ul style="list-style-type: none"> <li>• Governance and accountability arrangements are set out in a Corporate Complaints Handling Procedure which has been developed through close working with the Scottish Public Services Ombudsman (SPSO) in order to produce a standard approach to handling complaints across the authority. The procedure for Social Work complaints is slightly different from the corporate complaints procedure as it follows specific legislation and guidance.</li> <li>• The right to complain is publicised and the process explained. Complaints to be made through a wide variety of methods and allows a representative of a person to complain on their behalf.</li> <li>• The Council has up to date complaints handling procedures in place which clearly define the roles and responsibilities of officers at all levels in the organisation.</li> </ul>	0	4	0	<p>Management have accepted the report findings and agreed to implement the recommendations within reasonable timescales.</p> <p>Customer Services will lead the corporate implementation of the improvement actions though Service Directors and Managers will be required to ensure compliance in practice across the whole Council.</p>



Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Subject: Corporate and Social Work Complaints (cont'd)	<p>The procedures are, however, not consistently applied in practice. There are a number of weaknesses in procedure which should be addressed in order to improve compliance with the Complaints Handling procedures and improve the quality of service received by those using the complaints process. Existing practices to learn lessons from upheld complaints also merit further development.</p> <p>Internal Audit considers that the level of assurance we are able to give is limited. Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives.</p> <p>We made the following recommendations:</p> <ul style="list-style-type: none"> <li>• Training arrangements for staff new to complaints handling and for highlighting changes to procedure to existing staff should be revised to ensure coordinated and consistent delivery. (P2)</li> <li>• Processes for validating service quality control which is proportionate to the relatively low number of complaints should be put in place. (P2)</li> <li>• Reporting of complaints should be expanded to include analysis of the root cause of complaints and the service areas involved. Routine reporting for managers should be developed in order to manage ongoing complaints. (P2)</li> <li>• Lessons learned from upheld complaints should be consistently and logically recorded in CRM together with action taken in order to provide increased opportunities for learning from complaints and avoid similar complaints in the future. (P2)</li> </ul>				