
Internal Audit Work 2016/17 to August 2016

Report by Chief Officer Audit and Risk

Audit and Risk Committee

26 September 2016

1 PURPOSE AND SUMMARY

1.1 The purpose of this report is to provide the Audit and Risk Committee with details of:

- a) the recent work carried out by Internal Audit and the recommended audit actions agreed by Management to improve internal controls and governance arrangements, and**
- b) Internal Audit work currently in progress.**

1.2 The work Internal Audit has carried out in the period from 1 April to 31 August 2016 to deliver the Internal Audit Annual Plan 2016/17 is detailed in this report. During this period a total of 6 final internal audit reports have been issued. There were nil recommendations made.

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.

2 RECOMMENDATIONS

2.1 I recommend that the Audit and Risk Committee:

- a) Notes the final reports issued in the period from 1 April to 31 August 2016 to deliver the approved Internal Audit Annual Plan 2016/17;**
- b) Notes the other Internal Audit assurance and consultancy work undertaken in this period; and**
- c) Acknowledges the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work.**

3 PROGRESS REPORT

- 3.1 The Internal Audit Annual Plan 2016/17 was approved by the Audit and Risk Committee on 29 March 2016. Internal Audit has carried out the following work in the period 1 April to 31 August 2016 to deliver the plan to meet its objective of providing an opinion on the efficacy of the Council's risk management, internal control and governance arrangements.
- 3.2 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

- 3.3 Internal Audit issued final internal audit reports on the following subjects:
- Performance Management – Statutory Performance Indicators (SPIs) and Local Government Benchmarking Framework (LGBF)
 - Revenues (Council Tax)
 - Selkirk Conservation Area Regeneration (CARs) Scheme
 - Carbon Management Programme
 - Public Services Network (PSN) Compliance
 - ICT Change Programme (previously ICT Review Project, and including ICT Security Controls and ICT Operational Processes)
- 3.4 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.

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

Level of Assurance	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.

Current Internal Audit Assurance Work in Progress

- 3.5 Internal Audit assurance work in progress to complete the delivery of the Internal Audit Annual Plan 2016/17 consists of the following:

Audit Area	Audit Stage
LEADER Grants Compliance with SLA	Drafting the report
European Maritime Fisheries Fund Compliance with SLA	Drafting the report
Procure to Pay	Fieldwork underway
Salaries including Expenses	Fieldwork underway
Schools	Assignments Issued

Other Internal Audit Assurance and Consultancy Work

- 3.5 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:
- 3.5.1 Attending relevant seminars, development workshops and user groups, and feedback to colleagues as relevant, to ensure their skills and knowledge are kept up-to-date and to fulfil their Continuing Professional Development (CPD) requirements. All Internal Audit team members have completed their 2015/16 performance appraisals and 2016/17 objective setting and development plans.
- 3.5.2 Offering advice on internal controls and governance to Managers on request and through engagement in a number of forums as the Council continues to transform its services, for example, the Welfare Reform Programme, the Information Governance Group, the Serious Organised Crime Officer Working Group, and the Roads Services Review Project.
- 3.5.3 Reviewing outstanding and overdue audit recommendations to ensure Internal Audit are satisfied that progress has been made to implement the previous internal audit recommendations and management actions, that actions taken have had the desired effect in improving internal controls and governance, and are reflected in the corporate performance system, Covalent, for reporting purposes. It is important that Management and the Audit and Risk Committee note that nine Finance-related Audit Recommendations (3 from 2013/14 and 6 from 2015/16) have been completed in Covalent on the basis that satisfactory improved measures have been put in place, considering that a number of the Financial control issues raised refer to the lack of appropriate functionality in FIS. It is expected that the Financial controls areas of improvement will be fully addressed via the Business World ERP System, it being a more modern system. These will be followed up within the coming 6 months as part of our Financial Governance assurance work, and in connection with our Business World ERP Project assurance role.
- 3.5.4 Offering advice on improvements to fraud prevention controls and detection processes put in place by Management liaising in fraud investigations where appropriate. Internal Audit resources have also been deployed on corporate process reviews, for example, the Corporate Fraud Working Group. Internal Auditors liaise with the Corporate Fraud & Compliance Officer on an on-going basis to ensure fraud risk is considered in every audit.

- 3.5.5 Completing the review of the documentation applied in the VAT treatment of supplies and services made by the Council to customers using a variety of sources such as HMRC VAT Notices, Case Law, Sector guidance and peer expertise to establish the correct VAT treatment. The Finance service has confirmed that the document produced will become part of the reference library to be used when the monthly compliance check of VAT transactions is undertaken, and as part of the data migration to Business World ERP system.
- 3.5.6 During May 2016 various members of the Internal Audit team have engaged in Design Solution workshops in respect of the various HR, Payroll, Procurement and Finance management and administrative processes as part of the Business World ERP system project. Internal Audit resources have also since been deployed on project groups to ensure that appropriate internal controls are in the new system.
- 3.5.7 Completing the review on Asset Registers and the reconciliations between the source computer-based systems and the Financial Information System (FIS). Currently all assets are recorded both in the FIS general ledger and in the Tech Forge asset register. Assets are reconciled between the two systems either monthly as with vehicles, plant and machinery, or at year-end to include all other assets. External Audit examines the year-end reconciliation. We attended a Fixed Assets design workshop for the Business World ERP (BW) system and noted the proposal to use the Fixed Assets module as the register of fixed assets for all assets apart from property where the Tech Forge system will continue in use as the main register and any valuation adjustments will be transferred to BW by interface. For non-property assets this will eliminate the need for monthly and annual reconciliations between BW and Tech Forge.

4 IMPLICATIONS

4.1 Financial

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

4.2 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." Internal Audit provides assurance to Management and the Audit and Risk Committee on the effectiveness of internal controls and governance within the Council. Specifically as "a contribution to the Council's corporate management of risk" this includes responsibility in "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 2016/17, 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.

- (d) SBC Internal Audit staff resources comprise the Chief Officer Audit & Risk (50% allocation to Audit), three Senior Internal Auditors, and two Internal Auditors. This follows a recent net cost reduction restructure as an efficiency savings target and implementation of the people plans whereby the Internal Audit Manager post has been deleted arising from an early retirement, and a third Senior Internal Auditor post has been established with updates in the role to reflect current practice and additional duties. It is not anticipated that this change in Internal Audit resources would limit the level of Internal Audit assurances to all existing organisations within the Annual Plan 2016/17, though this will continue to be assessed by the Chief Officer Audit & Risk.

4.3 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.

4.4 Acting Sustainably

There are no direct economic, social or environmental issues in this report.

4.5 Carbon Management

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

4.6 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.

4.7 Changes to Scheme of Administration or Scheme of Delegation

No changes are required as a result of this report.

5 CONSULTATION

- 5.1 The Service Directors relevant to each of the internal audit reports have signed off the executive summaries within Appendix 1.
- 5.2 The Corporate Management Team has been consulted on this report and any comments received have been taken into account.
- 5.3 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
Jill Stacey	Chief Officer Audit and Risk Tel 01835 825036

Background Papers: Appropriate Internal Audit files

Previous Minute Reference: Audit and Risk Committee 29 March 2016

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Contact us at Internal Audit 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: Performance Management (SPIs and LGBF)</p> <p>No: 016/010</p> <p>Date issued: 15 September 2016</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review was to validate the Council’s Statutory Performance Indicators (SPIs) which are reported on an annual basis to the Improvement Service as part of the Local Government Benchmarking Framework (LGBF).</p> <p>We tested all the SPIs figures for the 2015/16 submission to ensure the LGBF guidance was followed, that arrangements are in place to collect the required data, and that data gathered could be agreed back to management systems and reports.</p> <p>We found no significant areas of concern with the data collected or the collection methods used. However, we identified three minor errors in the draft SPIs 2015/16 which were corrected prior to submission, thus confirming the benefits of an independent review to prevent errors in SPIs going undetected.</p> <p>We consider that the figures for these SPIs, as detailed in the LGBF 2015/16 pro-forma, are reasonable and agree to the underlying records. The Council’s LGBF Indicators 2015/16 return was submitted by the August 2016 deadline.</p> <p>The SPIs are incorporated in performance reports, when the data is available, which are monitored and reported throughout the year to Corporate Management Team, Elected Members (Executive Committee) and the Public as per the timetable set out in the Council’s Performance Management Framework.</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. However, some minor errors in figures originally reported has emphasised the need for an independent review prior to submission of the LGBF figures.</p> <p>With the advent of significant organisational changes and system development during 2016/17 there is also a need to ensure performance monitoring and reporting is managed appropriately within services in order to ensure figures reported are consistent, reported on time, and in line with the LGBF criteria.</p>	0	0	0	<p>Management have agreed the report findings.</p> <p>Further Internal Audit work relating to Performance Management across all Council services will continue during the year including the PIs reported against the Council’s 8 corporate priorities and performing the ‘critical friend’ role within the planned programme of self-assessment as part of the Performance Management Framework.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Financial Governance</p> <p>Subject: Revenues (Council Tax)</p> <p>No: 084/010</p> <p>Date issued: 16 September 2016</p> <p>Level of Assurance: Comprehensive</p>	<p>The purpose of the review was to assess the consistency of the application and the administration of the 200% increase to empty property Council Tax (CT) policy change introduced in April 2016, and incorporates other elements carried forward from our 2015/16 audit work including data collection and submissions to Scottish Government, blue badge applications and appeals, and large payment to CT accounts.</p> <p>With effect from 1 April 2013 Government changed legislation to allow Councils to vary the amount of CT charged on long term empty dwellings up to a maximum of 200%. Prior to the changes these properties in the Scottish Borders attracted a 90% charge. The main aim of this change is to encourage owners of these empty dwellings to bring them back into use to help tackle housing shortages. Scottish Borders Council agreed on 11 February 2016 to implement these changes with effect from 1 April 2016. Our review of samples of properties confirmed that the 10% delay/discretionary delay had been applied correctly and that the premium had been applied correctly (both new policy from 1 April 2016).</p> <p>Appropriate arrangements are in place to ensure data and information supplied in returns to Scottish Government is accurate and on time.</p> <p>All appropriate checks and assessments are carried out prior to the issue of Blue Badges.</p> <p>Processes are in place to review large payments to CT accounts for appropriateness and accuracy. An adequate audit trail exists for transfers between accounts or where refunds are made.</p> <p>Internal Audit considers that the level of assurance we are able to give is comprehensive. Sound risk, control, and governance systems are in place. Some improvements in a few, relatively minor, areas are required. We have no recommendations to make at this time.</p>	0	0	0	<p>Management have agreed the report findings.</p> <p>In agreement with Customer Services Management, further Internal Audit work on a sample of properties under the new policy change from 1 April 2016 will be carried out during the 4th quarter 2016/17 to ensure the charges and discounts are applied correctly. Findings will be reported on an exception basis only to highlight to Management and Audit and Risk Committee if new areas of concern emerge.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Legislative and Other Compliance</p> <p>Subject: Selkirk Conservation Area Regeneration (CARs) Scheme</p> <p>No: 154/015</p> <p>Date issued: 2 August 2016</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review was to satisfy the external funder's requirement of programme compliance and evaluation and produce a report to confirm that the terms and conditions under which the grant offer was made and accepted have been properly applied.</p> <p>The Selkirk Conservation Area Regeneration Scheme (CARs) is a Partnership Project between Historic Environment Scotland (HES) and Scottish Borders Council (SBC). Its purpose is to undertake heritage and conservation based regeneration activities within Selkirk town centre over a five year period from 2013 to 2018. This is achieved through the award of grants to property owners for external fabric building repairs and complementary initiatives relating to upgrading the public realm, education and training opportunities. The total project budget is £1.43million, jointly funded by HES (£865k) and SBC (£565k).</p> <p>We found that the Selkirk CARs Scheme has been established and is being managed well and run substantially in accordance with the requirements of the contract. It is the Project Team's intention to start the process in 2016/17 of gathering the information and documentation required for the Regeneration Output Report due with HES by 30 June 2018.</p> <p>The audit work we performed has allowed us to provide assurance of substantial compliance with the scheme rules and the HES contract. The assurance reports, in the formats required by the funder, will be issued to satisfy the requirement for an Accountant's Report and Abstract Annual accounts for the first three financial years of the project.</p> <p>During the course of our audit we noted the following minor areas where processes were in need of improvement: written agreement from the funder where any practice has varied from the specific terms of the contract; and quality review of project files to ensure documentation is complete.</p>	0	0	0	Management have agreed the report findings.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Legislative and Other Compliance</p> <p>Subject: Carbon Management Programme</p> <p>No: 202/009</p> <p>Date issued: 5 August 2016</p> <p>Level of Assurance: Comprehensive</p>	<p>The purpose of the review was to fulfil the requirement under the Carbon Reduction Commitment Energy Efficiency Scheme (CRC) to carry out an audit prior to the Council's annual submission to Department of Energy and Climate Change (DECC).</p> <p>The Carbon Reduction Commitment Scheme is mandatory with the aim to reduce the amount of carbon dioxide (CO₂) emitted in the UK and improve energy efficiency. The Council is obliged to participate in CRC, which means it has to monitor its emissions and purchase allowances based upon each tonne of CO₂ emitted.</p> <p>The scope of this year's review included: Updates to the evidence pack; Collection arrangements and evidence collation relating to changes in the Council's property estate; and Systemslink consumption figures for monitoring and reporting.</p> <p>We note that the 2015/16 annual submission has been completed and reported to DECC by end of July 2016 deadline. The annual Audit Certificate will be issued as necessary.</p> <p>Energy performance reports produced from Systemslink are presented to Corporate Management Team and Elected Members as part of the Quarterly Public Performance Reports which are then published on the Council's website. Total emissions for the Council for 2015/16 are 16,451 tCO₂, at a cost of £262K; a reduction from 19,207 tCO₂ costing £314K for 2014/15. Contributing factors are: the transferring of properties; the pre-purchase of carbon tax credits at reduced prices; reduction in street lighting emissions due to the use of LEDs; and a fall in the carbon factor of electricity due to the reliance on fossil fuels reducing because of increased renewables.</p> <p>Internal Audit considers that the level of assurance we are able to give is comprehensive. Sound risk, control, and governance systems are in place. These should be effective in mitigating risks to the achievement of objectives.</p>	0	0	0	Management have agreed the report findings.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: ICT Governance</p> <p>Subject: Public Services Network (PSN) Compliance</p> <p>No: 237/002</p> <p>Date issued: 12 September 2016</p> <p>Level of Assurance: Comprehensive</p>	<p>The purpose of the review was to examine the Council's compliance with the requirements of the Public Services Network (PSN) and progress with implementation of actions required to achieve full compliance.</p> <p>The following examples of good practice were found:</p> <ul style="list-style-type: none"> • Appropriate processes to manage actions necessary to achieve accreditation were in place; • Appropriate processes to identify and manage risk were in place; • The PSN project board met regularly and was provided with good quality information, which facilitated effective decision making; • Comments and recommendations from previous audit reports had been actioned <p>A successful submission of the Council's PSN Code of Connection Application was made and the Council achieved accreditation of its compliance with the requirements of the Public Services Network (PSN) in July 2016 approved by the Cabinet Office. The Council is fully PSN compliant and accredited until August 2017.</p> <p>The PSN Project Manager will prepare an End of Project report which will include lessons learned and will be issued to the Project Board. This will allow Managers to anticipate and manage any issues, and to allocate resources accordingly. One observation of the successful submission this time around was early engagement by the PSN Project Manager with key managers to plan activity on each of the areas highlighted in the lessons learned report from last year's PSN project. Another key success factor was early engagement by the PSN Project Manager with the Cabinet Office.</p> <p>Internal Audit considers that the level of assurance we are able to give in respect of PSN compliance is comprehensive. Sound risk, control, and governance systems are in place.</p>	0	0	0	Management have accepted report findings.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: ICT Governance</p> <p>Subject: ICT Change Programme (previously ICT Review Project, and including ICT Security Controls and ICT Operational Processes)</p> <p>No: 238/001</p> <p>Date issued: 16 September 2016</p> <p>Level of Assurance: Comprehensive</p>	<p>The purpose of the review was to: evaluate the effectiveness of governance, monitoring and reporting arrangements for the ICT Change Programme (next phase of transition associated with Gate Review Milestones set out in Project Plan, previously ICT Review Project); assess the adequacy of proposed arrangements to manage the security of the Council's equipment, software and data, and; review proposed change management and incident management controls.</p> <p>The following examples of good practice were found:</p> <ul style="list-style-type: none"> • There are appropriate governance arrangements in place for monitoring and reporting on the progress of the programme to elected members, and to senior officers. There are appropriate governance structures in place between the Council and CGI with regard to the delivery of the services. • Monitoring of the budgetary spend and financial implications of the contract takes place in line with the Council's procedures. • Performance Indicators to be measured and reported have been agreed and will be included in reporting to the Executive Committee from 31 December 2016. • The role of the Council and CGI in the development of security policy and the delivery of the service in line with that policy is clearly detailed in the contract. Services are to be delivered in line with industry good practice. • Operational procedures are documented for a variety of business processes. These are designed to comply with best practice. • Roles and responsibilities for change management are clearly defined. <p>Our audit work has been restricted to a review of governance arrangements and proposed processes by examining relevant documentation and discussions with officers. We have sought evidence of the existence of appropriate controls and reviewed against good practice.</p>	0	0	0	<p>Management have agreed the report findings.</p> <p>In agreement with IT Management, further Internal Audit assurance work will be carried out during the 3rd and 4th quarter 2016/17.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Subject: ICT Change Programme (previously ICT Review Project, and including ICT Security Controls and ICT Operational Processes)</p> <p>(cont'd)</p>	<p>Highlight Reports presented to the ICT Board have contained some assessment of risk. Officers have commented, and Management have agreed, that risk strategy and management should be reviewed to ensure it complies with Council policy, and this is being addressed.</p> <p>Service transfer to CGI is due to take place on 1 October 2016. The establishment of the Intelligent Client function, which will remain within the Council and will be responsible for ICT client management, contract management, financial management and business partnering, is currently under way.</p> <p>We intend to perform further Internal Audit assurance work once the Intelligent Client function is fully established, which will be discussed with Management, and will include an element of walk-through testing to allow us to comment on the effectiveness of the controls in operation. We also plan to conduct substantive testing on contract monitoring and performance management data, to allow us to obtain appropriate audit assurance.</p> <p>Internal Audit considers that the level of assurance we are able to give is in respect of ICT Change Programme governance arrangements and proposed processes, as described above, is comprehensive. 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 are required, notably in respect of programme risk management.</p> <p>We have made no recommendations.</p>				