
INTERNAL AUDIT WORK 2016/17 TO DECEMBER 2016

Report by Chief Officer Audit and Risk

AUDIT AND RISK COMMITTEE

16 January 2017

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 September to 23 December 2016 to deliver the Internal Audit Annual Plan 2016/17 is detailed in this report. During this period a total of 10 final Internal Audit reports have been issued. There were 3 recommendations made 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.

2 RECOMMENDATIONS

2.1 I recommend that the Audit and Risk Committee:

- a) Notes the final reports issued in the period from 1 September to 23 December 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 September to 23 December 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:
- Procure to Pay
 - Salaries
 - Hawick High School
 - Galashiels Academy
 - Jedburgh Grammar
 - Kingsland Primary School
 - Reston Primary School
 - Parkside Primary School
 - Primary Schools Support (Consultancy)
 - EU Funded Programmes 2014-2020 LEADER and EMFF
- 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.

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.

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
Capital Investment	Drafting the report
Adult Social Care Services	Drafting the report
Corporate Transformation	Fieldwork nearly completed
Workforce Planning	Fieldwork nearly completed

Other Internal Audit Assurance and Consultancy 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 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.
- 3.6.2 Offering advice on internal controls and governance to Managers on request and performing our 'critical friend' role in confidence and providing some independent challenge through engagement in a number forums as the Council continues to transform its services. For example, Alternative Service Delivery Models Board, Information Governance Group, Business World ERP Project Board, Digital Integration (Customer Services) & Business Intelligence workshops.
- 3.6.3 Highlighting opportunities by way of a report to Management in connection with our Primary Schools audit work to improve the effectiveness, efficiency and sustainability of the Primary Schools business support arrangements.
- 3.6.4 Reviewing outstanding and overdue audit recommendations to ensure their implementation. The status as at 26 October 2016 of Internal Audit recommendations arising from current and previous years was highlighted within the report 'Progress with Implementation of Audit Recommendations' to Management and the Audit and Risk Committee on 14 November 2016.
- 3.6.5 Carrying out some contingency audit work on request by Management where we have offered advice on improvements to internal controls and financial administration processes within a Social Work Area Office. Progress has been made by Management to implement the improvements.
- 3.6.6 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.
- 3.6.7 Involvement in project groups to ensure that appropriate internal controls are within the new Business World ERP system which will be used from April 2017 for HR, Payroll, Procurement and Finance management and administrative processes. This includes follow-up on areas of improvement e.g. Income Charging, Billing and Collection key controls within Sales to Cash project workstream.
- 3.6.8 Contributing to the Council's Procurement PCIP assessment (specifically Internal Controls, Risk Management, Fraud Prevention) whereby positive outcomes were noted with a final score of 71.9%. This takes the Council into the highest possible scoring band of F1.

3.6.9 Performing our 'critical friend' role in confidence and providing some independent challenge we have undertaken an assessment of both current practice within the Council and the proposals under development against the key recommendations of the Accounts Commission Reports "Major capital investment in councils" and 'Good Practice Guide' (March 2013) and "Follow-Up" (January 2016).

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:

Priority 1: 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.
Priority 2: 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.
Priority 3: 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 2016/17 to date:

	2016/17 Number of Recs
Priority 1	0
Priority 2	2
Priority 3	1
Sub-total reported this period	2
Previously reported	0
Total	2
Recommendations agreed with action plan	3
Not agreed; risk accepted	0
Total	3

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.

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 the Internal Audit reports issued have signed off the relevant Executive Summary 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: Financial Governance</p> <p>Subject: Procure to Pay Service No: 078/010</p> <p>Date issued: 6 January 2017</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review was to ensure payment processes at a Service level are accurate, correct and authorised appropriately.</p> <p>Our review for 2016/17 focused on: SB Contracts job costing and estimating, and recording and collation of pricing information; trend analysis regarding the percentage of invoices paid electronically; the process and authorisation for emergency payments and refunds; and progress with implementation of the previous audit recommendations from the 2015/16 report.</p> <p>The following good practice was found:</p> <ul style="list-style-type: none"> • SBc Contracts have in place a Management Quality System for which there are documented procedures and flow charts which detail all steps to be followed regarding SBc Contracts works. • There is an improvement in the number of invoices paid electronically. • The number of emergency payments has dramatically reduced due to an improvement in the process. • Refunds that were tested were appropriate and authorised. • The previous audit recommendation has been implemented. <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 in SBc Contracts as current arrangements could undermine the achievement of objectives or leave them vulnerable to error or misuse.</p> <p>We made the following recommendation:</p> <ul style="list-style-type: none"> • SBc Contracts Management should ensure there is sufficient segregation of duties for the raising and authorisation of purchase orders for materials and small plant. (P2) 	0	1	0	<p>Management have agreed the report findings.</p> <p>SBc Contracts Management have agreed to implement the recommendation promptly to improve internal controls.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Financial Governance</p> <p>Subject: Salaries</p> <p>No: 079/011</p> <p>Date issued: 2 December 2016</p> <p>Level of Assurance: Comprehensive</p>	<p>The purpose of the review was to ensure that controls are in place at Service level to ensure that salaries paid (including expenses) are accurate, correct and authorised appropriately.</p> <p>Our review for 2016/17 focused on: staff transfers to Live Borders; overpayment recovery policy and processes; and the progress with implementation of previous audit recommendation relating to internal controls for Leavers to ensure the return of equipment and property when an employee exits the Council.</p> <p>There were no duplications of payments made for posts which had transferred from the Council to Live Borders at 1st April 2016; all 253 staff were transferred as agreed.</p> <p>The process for identifying a potential overpayment, calculating the amount overpaid, and subsequent recovery process is effective and this is monitored on a monthly basis by the HR Shared Services Manager.</p> <p>The previous 2015/16 Internal Audit recommendation has been incorporated into the development of the new Business World ERP system as part of an improved Leavers process. However, in the interim, a reminder to Line Managers reminding them of their responsibilities when an employee leaves the Council has been issued on the Intranet and SB Update.</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. Some improvements in a few, relatively minor, areas may be required.</p> <p>We made the following recommendation:</p> <ul style="list-style-type: none"> • Management should review the interpretation of the SBC Document Retention Policy in relation to financial papers, to ensure that documentation is retained for all 'live' overpayment recovery cases. (P3) 	0	0	1	<p>Management have agreed the report findings.</p> <p>The current year Internal Audit recommendation was implemented with immediate effect during the course of the audit.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Hawick High School</p> <p>No: 127/023</p> <p>Date issued: 19 December 2016</p> <p>Level of Assurance: Comprehensive</p>	<p>The purpose of the review was to assess whether adequate internal financial controls and administrative procedures are in place to ensure the effective use of resources.</p> <p>The scope of this audit was to examine and evaluate the key controls in the following areas: Petty Cash Imprests; Inventories; Staffing establishment; Business Continuity Planning; School lets, Income Collection and Banking procedures; School Fund; Ordering/Invoice processing procedures; Data Protection / Confidential Waste Management; DSM Budget; Parent Pay.</p> <p>Hawick High School is the third largest high school in the Scottish Borders area and has a school roll of over 900 pupils.</p> <p>Hawick High School has a very experienced school office administration team who, under the guidance of the Business Manager, contribute to the effective running of the school.</p> <p>Within our testing process of the School Fund it was noted that two minimal value items (within our sample for testing) which were reimbursed did not meet the criteria for School Fund expenditure. It would be opportune for the Head Teacher to remind all staff of the Financial Procedure FP6 on School Fund activity.</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> <p>We made no recommendations.</p>	0	0	0	<p>Management have agreed the report findings.</p> <p>The Interim Head Teacher has confirmed that he will respond to the request to ensure that all staff are aware of the advice in Financial Procedure FP6 on School Fund activity.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Galashiels Academy</p> <p>No: 127/024</p> <p>Date issued: 2 December 2016</p> <p>Level of Assurance: Comprehensive</p>	<p>The purpose of the review was to assess whether adequate internal financial controls and administrative procedures are in place to ensure the effective use of resources.</p> <p>The scope of this audit was to examine and evaluate the key controls in the following areas: Petty Cash Imprests; Inventories; Staffing establishment; Business Continuity Planning; School lets, Income Collection and Banking procedures; School Fund; Ordering/Invoice processing procedures; Data Protection / Confidential Waste Management; DSM Budget; Parent Pay.</p> <p>Galashiels Academy is the fourth largest high school in Scottish Borders area and has a school roll of over 800 pupils.</p> <p>Galashiels Academy benefits from a Business Manager who introduced clear working guidelines over the last few years. This has ensured that the staff who support the day to day running of the school have good reference material, and clear processes to refer to and follow in the course of their work. There is a strong working relationship with the Head Teacher and other members of SMT. The business element of running of the school is effective and complies with the Financial Regulations.</p> <p>It was noted that due to the extensive use of Parent Pay, the requirement for a high petty cash imprest has significantly reduced. The same can be said for Home Economics petty cash requirement. It was agreed during the audit that the Business Manager would take action to reduce the financial levels on both imprests and that going forward they would operate only one petty cash imprest for the whole school.</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> <p>We made no recommendations.</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: Internal Controls</p> <p>Subject: Jedburgh Grammar</p> <p>No: 127/025</p> <p>Date issued: 13 December 2016</p> <p>Level of Assurance: Comprehensive</p>	<p>The purpose of the review was to assess whether adequate internal financial controls and administrative procedures are in place to ensure the effective use of resources.</p> <p>The scope of this audit was to examine and evaluate the key controls in the following areas: Petty Cash Imprests; Inventories; Staffing establishment; Business Continuity Planning; School lets, Income Collection and Banking procedures; School Fund; Ordering/Invoice processing procedures; Data Protection / Confidential Waste Management; DSM Budget; Parent Pay.</p> <p>Jedburgh Grammar is the smallest high school in the Scottish Borders area and has a school roll of 345 pupils.</p> <p>Jedburgh Grammar benefits from a very experienced Business Manager. The role of Business Manager, in supporting the Head Teacher and SMT in the business running of the school, is vital and an excellent relationship exists within Jedburgh Grammar. The team who support the Business Manager are very effective and fully aware of the need to follow the Financial Regulations and SBC policies.</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> <p>We made no recommendations.</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: Internal Controls</p> <p>Subject: Kingsland Primary School</p> <p>No: 128/017</p> <p>Date issued: 13 December 2016</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review was to assess whether adequate internal financial controls and administrative procedures are in place to ensure the effective use of resources.</p> <p>The scope of this audit was to examine and evaluate the key controls in the following areas: Petty Cash Imprests; Inventories; Staffing establishment; Business Continuity Planning; School lets, Income Collection and Banking procedures; School Fund; Ordering/Invoice processing procedures; Data Protection / Confidential Waste Management; DSM Budget; Parent Pay.</p> <p>Kingsland Primary School is one of the larger primary schools in the Scottish Borders area with a school roll of 401 pupils.</p> <p>The overall business running of the school is efficient. However, during the audit some minor improvements relating to Petty Cash Imprests and Inventories were discussed with the Business Administrator and since our visit, the Head Teacher has agreed to implement them immediately. These are designed to enable Management at the school to comply fully with the Financial Regulations.</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 minor improvement relating to Petty Cash Imprests and Inventories as current arrangements could undermine the achievement of objectives or leave them vulnerable to error or misuse, though action is already underway to fulfil this.</p> <p>We made no recommendations.</p>	0	0	0	<p>Management have agreed the report findings.</p> <p>Action was undertaken with immediate effect to fulfil the minor improvements relating to Petty Cash Imprests and Inventories.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Reston Primary School</p> <p>No: 128/018</p> <p>Date issued: 23 November 2016</p> <p>Level of Assurance: Comprehensive</p>	<p>The purpose of the review was to assess whether adequate internal financial controls and administrative procedures are in place to ensure the effective use of resources.</p> <p>The scope of this audit was to examine and evaluate the key controls in the following areas: Petty Cash Imprests; Inventories; Staffing establishment; Business Continuity Planning; School lets, Income Collection and Banking procedures; School Fund; Ordering/Invoice processing procedures; Data Protection / Confidential Waste Management; DSM Budget; Parent Pay.</p> <p>Reston Primary School is one of the smaller schools in Scottish Borders area with a school roll of 50 pupils. It is a Joint Headship school with the Head Teacher also having responsibility for Ayton Primary School.</p> <p>Reston Primary School benefits from having both an experienced Head Teacher and Administrator.</p> <p>The business element of running of the school is effective and complies with the Financial Regulations with good practice being shared with Ayton Primary School – the joint school.</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> <p>We made no recommendations.</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: Internal Controls</p> <p>Subject: Parkside Primary School</p> <p>No: 128/019</p> <p>Date issued: 13 December 2016</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review was to assess whether adequate internal financial controls and administrative procedures are in place to ensure the effective use of resources.</p> <p>The scope of this audit was to examine and evaluate the key controls in the following areas: Petty Cash Imprests; Inventories; Staffing establishment; Business Continuity Planning; School lets, Income Collection and Banking procedures; School Fund; Ordering/Invoice processing procedures; Data Protection / Confidential Waste Management; DSM Budget; Parent Pay.</p> <p>Parkside Primary School is one of the medium-sized schools in the Scottish Borders area with a school roll of 207 pupils. It is a Joint Headship school with the Head Teacher also having responsibility for Ancrum Primary School.</p> <p>This is a well organised school with an experienced Administrator and Head Teacher. There are some good working practices, although the main financial administration of Petty Cash Imprest and School Fund require some improvement. This has been discussed with the Head Teacher and it has been agreed that the Administrator who is full time and based permanently in the school should have the full financial administration processes. The Administrator who is only present for 1.5 hours per week should complete more of the ad hoc duties. This will provide continuity and better compliance with the Financial Regulations.</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 minor improvement as noted above.</p> <p>We made no recommendations.</p>	0	0	0	<p>Management have agreed the report findings.</p> <p>Action was undertaken with immediate effect to fulfil the minor improvements relating to Petty Cash Imprests and School Fund administration and security of keys.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Legislative and Compliance</p> <p>Subject: EU Funded Programmes 2014-2020 LEADER and EMFF</p> <p>No: 154/013</p> <p>Date issued: 12 December 2016</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review was to assess compliance with the requirements of the new Service Level Agreement (SLA) and relevant EC Regulations for the LEADER Programme 2014-2010. The new SLA requires that Internal Audit annually assess compliance by SBC with the terms of the SLA and that the resulting report is sent to them by 31 October of each year.</p> <p>The new LEADER Programme for EU Funding Session 2014-2020 has been launched. The EC Regulations came into force January 2014 and these have been transposed into national law in the Rural Development (Scotland) Regulations 2015, in force 12 June 2015. Nationally LEADER is delivered through the Scottish Rural Development Programme (SRDP) by the Scottish Government Directorate of Agriculture, Food and Rural Communities (DAFRC) who act as the Managing Authority and Paying Agency on behalf of the EU. It is then delivered locally by Local Action Groups (LAGs) who act as the programmes decision making bodies. It is funded by The European Agricultural Fund for Rural Development (EAFRD) one of the five European Structural and Investment (ESI) Funds.</p> <p>The Scottish Borders Service Level Agreement (SLA) between SBC (as Accountable Body) and the Scottish Government (as Managing Authority and Paying Agency) was signed on 30 July 2015. It delegates certain functions in the delivery and administration of the LEADER programme to SBC as delegated agent and defines responsibilities and obligations, duties and accountabilities.</p> <p>As Accountable Body, SBC is obliged under the terms of the SLA to carry out certain delegated functions including coordination, facilitation and administration for delivery of the LEADER Programme 2014-2020 on behalf of the Scottish Borders Local Action Group (LAG) and payment processing of claims.</p>	0	1	0	<p>Management have agreed to implement the recommendation within appropriate timescales.</p> <p>The Audit Assurance Report was submitted to the Scottish Government by 31 October 2016 timescale.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Subject: EU Funded Programmes 2014-2020 LEADER and EMFF (cont'd)	<p>The Scottish Borders LAG Local Development Strategy (LDS) was approved by the Scottish Government on 3 July 2015 along with indicative funding awarded of £4,018,427. In a change from the previous programme the LDS is a joint multi-funded strategy for both the EU LEADER and EMFF (European Maritime and Fisheries Fund) with the Animation and Administration costs relating to both programmes being met through the 'lead fund' (EAFRD).</p> <p>We consider that the LEADER Programme is being managed well and our assurance opinion is that SBC substantially complies with the terms of the SLA. Largely satisfactory risk, control, and governance systems are in place. This opinion however does not provide any assurance on the extent to which this compliance protects the Managing Authority or for that matter SBC (as Accountable Body) from the risk of disallowance following key or ancillary control failure findings of EU Conformity or Certification of Accounts Audits (Clause 16.3 of the new SLA for the 2014-2020 Programme passes liability to the Accountable Body; and it can certainly not be taken to be confirmation of 100% compliance with the rules and regulations of the terms of SLA.</p> <p>For the EMFF Programme it is not yet clear how the administration will work in practice and so it is not possible at this time for Internal Audit to offer an opinion on compliance with the Framework Agreement and Marine Scotland Guidance.</p> <p>We have made the following recommendation:</p> <ul style="list-style-type: none"> • Management should progress discussions that they have started with the Scottish Government, COSLA and the Accountable Bodies Group regarding the nature of the audit and penalty regime, the associated unquantifiable risk and the inadequate support systems and guidance provided by Scottish Government. Furthermore, the risk "SG and EU Compliance and Audit failure may lead to financial penalties" on the Economic Development Service Risk Register should be noted on the Council's Financial Strategy Risk Register as the likely financial impact would fall upon Council budgets. (P2) 				