
INTERNAL AUDIT WORK 2016/17 TO MARCH 2017

Report by Chief Officer Audit and Risk

AUDIT AND RISK COMMITTEE

28 March 2017

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to provide the Audit and Risk 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.**
- 1.2 The work Internal Audit has carried out in the period from 4 January to 20 March 2017 to deliver the Internal Audit Annual Plan 2016/17 in full is detailed in this report. During this period a total of 6 final Internal Audit reports have been issued. There were 7 recommendations made relating to 3 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.

2 RECOMMENDATIONS

- 2.1 I recommend that the Audit and Risk Committee:**
- a) Notes the final assurance reports issued in the period from 4 January to 20 March 2017 to deliver the approved Internal Audit Annual Plan 2016/17 in full;**
 - b) Notes the Internal Audit consultancy and other 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 4 January to 20 March 2017 to deliver the plan in full 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 assurance reports on the following subjects:
- Capital Investment
 - Performance Management (Corp Priorities)
 - Workforce Planning
 - Adult Social Care Services
 - Information Governance
 - ICT Contract Management
- 3.4 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

- 3.5 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 Involvement in testing 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.
 - 3.5.2 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.
 - 3.5.3 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.
 - 3.5.4 Reviewing outstanding and overdue audit recommendations to ensure their implementation.
 - 3.5.5 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.
 - 3.5.6 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.
 - 3.5.7 Developing Internal Audit Strategy and Plan for 2017/18 including workshops to fully analyse audit universe, to use governance self-assessment to clarify existing assurance framework, and to check current corporate risks to ensure risk-based audit approach.
 - 3.5.8 Carrying out a "peer review" External Quality Assessment of Fife Council against the Public Sector Internal Audit Standards.
 - 3.5.9 Our planned audit work on the Corporate Transformation Programme has not yet reached final report stage with Management; therefore findings will be reported at the next meeting. It is hoped that any observations or recommendations will be considered by Management as part of their planned review and possible reshaping of the Corporate Transformation Programme.

Recommendations

- 3.6 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.

- 3.7 The table below summarises the number of Internal Audit recommendations made during 2016/17:

	2016/17 Number of Recs
Priority 1	0
Priority 2	5
Priority 3	2
Sub-total reported this period	7
Previously reported	3
Total	10

Recommendations agreed with action plan	10
Not agreed; risk accepted	0
Total	10

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: Asset Management</p> <p>Subject: Capital Investment</p> <p>No: 007/016</p> <p>Date issued: 20 March 2017</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to review the management and governance systems in place for Strategic Asset Planning and Capital Investment to ensure that both asset and capital planning are informed on the basis of the Council’s priorities and outcomes; to review governance in place to ensure that capital projects are being managed efficiently and effectively from inception to completion; and to assess progress with implementation of identified improvement actions to ensure compliance with established good practice.</p> <p>In performing our Internal Audit ‘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 Report “Major capital investment in councils” (March 2013) and accompanying ‘Good Practice Guide’, covering the following elements:</p> <ul style="list-style-type: none"> • Strategic Asset Management Plans (SAMPs) • Governance of Capital Investment • Capital Planning (Development of the Capital Programme) • Review, Scrutiny and Challenge • Capital Financial Budget Monitoring • Delivery of Capital Programme and Capital Plan Projects <p>The Accounts Commission have published “Major capital investment in councils Follow up” report in January 2016; which reports the extent to which councils have improved in managing their capital investment programmes and projects since the 2013 Report. The message within is that councils have made limited progress and need to increase the pace of change in implementing improvement actions and in complying with the ‘Good Practice Guide’.</p>	0	0	0	Management have agreed the report findings.

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Subject: Capital Investment (cont'd)	<p>It is still the case that Strategic Asset Management Plans (SAMPs) are not currently in place for all classes of asset; however plans are being developed for the design and implementation of an asset management framework. The Capital Planning Process has been further developed for the 2017/18 Capital Programme; Strategic Planning of all concurrent projects at programme level is facilitated by the Capital Planning Process and the Project Business Case evaluation, prioritisation and selection. Improved quality of the information is received by Elected Members as whole of project costs are included within 2016/17 Capital Financial Budget Monitoring reports.</p> <p>Internal Audit considers that implementation of the proposals developed and those under development will allow the Council to demonstrate satisfactory compliance with the Accounts Commission's Good Practice Guide. Roles and responsibilities are clear, and Capital Financial Planning and Monitoring arrangements are sound. There is, however, some scope for improvement to fully achieve the good practice recommendations including:</p> <ul style="list-style-type: none"> • the development of SAMPs for all remaining asset classes; • a continuing programme of training for elected members on Capital issues; • enhancement of information on capital projects (quality, risk, delivery of benefits); and • monitoring via a formal governance framework, including a Capital Programme Board to facilitate standardised reporting, workflow protocols and gateway reviews. <p>To illustrate the current governance and the best practice governance arrangements to be developed and implemented, Internal Audit have created some visuals that have been provided to Management as part of this Internal Audit report.</p>				

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Corporate Governance</p> <p>Subject: Performance Management (Corporate Priorities)</p> <p>No: 016/010b</p> <p>Date issued: 16 March 2017</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to evaluate and assess what validation processes are in place to verify the data that feeds into the Performance Management reporting on the 8 Council Priorities and to agree the data back to management systems and reports.</p> <p>The following good practice was found:</p> <ul style="list-style-type: none"> Public facing Performance Management reports are published quarterly on the Council's website with clear links to the Corporate Priorities to which they relate. <p>In relation to current processes on quality assurance and service area validation of the data we found that although some areas were carrying out validation others were not (2 of 21 sample PIs had no validation completed). Internal Audit validation found that for most part the source data provided corresponded to that reported in the Quarterly Performance Management Report November 2016. During the audit some minor improvements were discussed and agreed for implementation.</p> <p>The Performance Management Framework will fall within the review of the existing Business Intelligence environment which was reflected in the Corporate Transformation Annual Progress Report to Council on 9 February 2017.</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 or leave them vulnerable to error.</p> <p>We have not made any recommendations in view of the Business Intelligence project that will be undertaken over the next few months, though we would hope that the Internal Audit findings and observations within the report would be considered as part of that work.</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: Corporate Governance</p> <p>Subject: Workforce Planning</p> <p>No: 033/006</p> <p>Date issued: 15 March 2017</p> <p>Level of Assurance: Limited</p>	<p>The purpose of this assurance audit was to examine the approach to workforce development, and to evaluate the alignment with business and financial planning processes, to provide skills, knowledge and competency requirements for service delivery to meet the Council's objectives.</p> <p>The following good practice was found:</p> <ul style="list-style-type: none"> • The structure of the Business Plan and People Plan templates, which gave the required framework to be adopted by all services to enable consistent planning processes; • Clear links to the Council's priorities in the Business and People Plans; • Risk management of HR that considers risks throughout the Council; • There was the opportunity for elected members to scrutinise the future plans and progress on delivery in relation to Workforce Transformation Programme; • The Performance Review and Development (PRD) guidance and the structure of templates, which gave the required framework to be adopted by all services. <p>The People Planning process approved by CMT was introduced on the basis that it would be implemented in two phases: Service People Plans would be developed first, to strengthen forecasting staff numbers and skills, knowledge and competency requirements at an operational level; then the Council's Strategic People Plan would be developed, informed by the Service People Plans.</p> <p>There have been delays with the completion of the first phase Service People Plans as there are a number of Services that have not yet provided any People Plans that relate to a relatively large proportion of the overall workforce which has a knock-on effect in delaying the development of the Strategic People Plan.</p>	0	2	0	Management have agreed the report findings, and to implement the recommendations within reasonable timescales.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Subject: Workforce Planning (cont'd)	<p>Internal Audit concurs with HR Management that the Strategic People Plan is of significant importance in that it would provide strategic direction for ongoing people planning in a similar way to that given by the Corporate Plan for the Business Planning Process and the Financial Strategy for the Financial Planning Process.</p> <p>Internal Audit considers that we are able to provide limited assurance. Risk, control, and governance systems have some satisfactory aspects, in that the framework, templates and guidance for the People Planning and PRD processes are in place and are supported by HR staff resource. There are, however, some substantial weaknesses likely to undermine the achievement of objectives which requires consistent application of the People Planning and PRD processes across all services governed by the corporate transformation programme and CMT.</p> <p>We made the following recommendations:</p> <ul style="list-style-type: none"> • CMT should ensure all remaining Services' People Plans are completed to enable development of the Council's Strategic People Plan, thus ensuring a consistent approach is applied across the Council to how it staffs its services. (P2) • Management should ensure that financial, people and business plans are developed concurrently and continue to be aligned to the Council's corporate plan and priorities. (P2) 				

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Corporate Governance</p> <p>Subject: Adult Social Care Services</p> <p>No: 181/001</p> <p>Date issued: 16 March 2017</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to ensure that the Council's Adult Social Care service is making changes in order to effectively deliver integrated services commissioned by the Scottish Borders Health and Social Care Integration Joint Board. Our review for 2016/17 focused on corporate governance and scrutiny, financial governance, and performance management.</p> <p>Adult Social Care has developed a new management structure, building capacity in anticipation of changes to services resulting from Health and Social Care integration.</p> <p>For 2016/17, the Integration Joint Board (IJB) issued a direction for "business as usual". Consequently reconfiguration of services has not been necessary. Notwithstanding, Adult Social Care is beginning to reconfigure services most notably at present relating to Transitional Care and Reablement in line with IJB current thinking and strategic objectives.</p> <p>Budget monitoring reports are produced on a monthly basis. Arrangements in place make it straightforward to identify and separate the costs of operating services delegated by the IJB from those areas that have not been delegated.</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"> • Key risks facing Adult Social Care which arise from integration should be formally identified, assessed and appropriate mitigating actions put in place. Risks and mitigating actions should be documented in the service risk register. (P2) • Adult Social Care should align performance monitoring to better measure its support of the Integration Joint Board's strategic objectives. (P2) 	0	2	0	Management have agreed the report findings, and to implement the recommendations within reasonable timescales.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Corporate Governance</p> <p>Subject: Information Governance</p> <p>No: 236/010</p> <p>Date issued: 10 March 2017</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to examine the Information Governance framework including roles and responsibilities, policy development and implementation, and to assess progress with the implementation of improvement actions including transformation project.</p> <p>In undertaking this assurance work we employed a continuous audit approach and a Senior Internal Auditor attends Information Management Project progress meetings in an assurance and "critical friend " capacity and the Chief Officer Audit and Risk is a member of the Information Governance Group (IGG).</p> <p>This year there is evidence of substantial improvement. The IGG meets regularly and follows an agreed themed programme of work: Records Management; Information Access; Information Security; and Information Governance. The 2nd Project has successfully delivered a number of key deliverables including the all-important Information Asset Register and is on track to deliver the Records Management Plan in time for its submission date of end of April 2017. Data Protection, Information Management and Information Security Risks have been identified and are being managed.</p> <p>Internal Audit considers that the level of assurance that 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 or leave them vulnerable to error or misuse. To clarify, this is largely because the governance framework is now in place and working effectively, whereas previously it had not been and because of progress made on key deliverables on which other improvement actions are dependant.</p> <p>Work is ongoing to implement remaining Improvement Actions and further work is planned to enable compliance with General Data Protection Regulations, due to come into force May 2018.</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: ICT Contract Management</p> <p>No: 238/002</p> <p>Date issued: 17 March 2017</p> <p>Level of Assurance: Substantial</p>	<p>As a follow-up report on our previous ICT Change Programme Report published September 2016, the purpose of this assurance audit was to establish whether, following the start of the CGI Contract for provision of ICT Services from 1 October 2016 and completion of ICT Change Programme, a Contract Management Framework had been put in place and was being followed.</p> <p>It is too early in terms of the relationship and partially established processes for Internal Audit to carry out walk through testing of the controls and substantive testing on contract management and performance management data. Instead, our assurance report takes the form of a Position Statement on the progress made towards establishing the client management function and implementing contract management. It also covered key person dependency, PSN compliance, transformation change deliverables, governance and reporting, and risk management.</p> <p>The SBC IT function has been established under the direction of the Chief Financial Officer and reports into the Digital Transformation Programme Board for the transformation elements and via the Performance Management Reporting process for service delivery performance. SBC IT is responsible for client management of CGI and monitoring and assurance of Service Delivery and Compliance with the Terms of the Contract including contractually agreed deliverables.</p> <p>The SBC IT team consists of 4 FTE that includes the ICT Manager (covered by the interim Head of IT); 2 Business Partners (1 vacant – appointment offer made) and an Enterprise Architect. A significant key person dependency risk exists with the contract knowledge and skills of the individuals who make up this team, partially mitigated by wider knowledge out with the ICT function.</p> <p>Contract management is in its early stages of development, focusing mainly on transformation change deliverables agreed within the contract; and some Service Delivery Monitoring is undertaken but not all that has been specified within contract.</p>	0	1	2	Management have agreed the report findings, and to implement the recommendations within reasonable timescales.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Subject: ICT Contract Management (cont'd)	<p>Internal Audit considers that the level of assurance we are able to give in respect of ICT Contract Management governance arrangements and proposed processes 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"> • Establish a formal Corporate Support Services Forum to provide expert advice for client relationship management and the CGI contract and to support SBC IT in its contract monitoring responsibilities. This should include representation from HR, Finance, Audit and Risk, and Legal. (P3) • SBC IT review the contract and its relationship with CGI and devise a Compliance Plan within the Contract Management Framework in which they identify exactly what contract monitoring and management will be done against each element within the schedules to enable them to provide their management assurance and evidence that it is comprehensive. (P3) • Management should ensure that ICT risks are reflected in the relevant risk registers and ensure that the suite of risk registers is comprehensive and adequately reflects the relevant risks; and that the relationships between the ICT risk registers is clarified to ensure accountabilities are understood by Management and those charged with governance. (P2) 				