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## **INTERNAL AUDIT WORK TO AUGUST 2017**

**Report by Chief Officer Audit and Risk**

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### **AUDIT AND SCRUTINY COMMITTEE**

**25 September 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.**
- 1.2 The work Internal Audit has carried out in the period from 10 June to 31 August 2017 is detailed in this report. During this period a total of x final Internal Audit reports have been issued. There were 8 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.

#### **2 RECOMMENDATIONS**

- 2.1 I recommend that the Audit and Scrutiny Committee:**
  - a) Notes the final assurance reports issued in the period from 10 June to 31 August 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; 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 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 10 June to 31 August 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 April 2013 and amended April 2017, 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:
- Performance Management: Local Government Benchmarking Framework (LGBF)
  - Children & Young People Services: Excursions
  - Carbon Reduction Programme
  - Fleet Management
  - Public Services Network (PSN) Compliance
- 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.

## Current Internal Audit Assurance Work in Progress

- 3.6 Internal Audit assurance work in progress to complete the delivery of the Internal Audit Annual Plan 2017/18 consists of the following:

Audit Area	Audit Stage
Industrial and Business Premises	Audit testing nearly completed
Contract Management	Audit testing nearly completed
Revenues: Council Tax	Audit testing nearly completed
Community Engagement	Audit testing underway
Registration Service	Audit testing underway

## Internal Audit Consultancy and Other Work

- 3.7 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 Revenue Budget data migrated to the new Business World ERP system which went live from April 2017.
  - 3.6.2 In its 'critical friend' role, providing internal challenge on the planned programme of "How Good is Your Council" assessment and evidence completed by various Services to support self-evaluation and improvement as part of the Performance Management Framework.
  - 3.6.3 Reviewing outstanding and overdue audit recommendations to ensure their implementation by Management. Liaising with the Corporate Risk Officer on an on-going basis to ensure that risk is considered in every audit and risk reviews take account of improvements arising from audit work.
  - 3.6.4 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.
  - 3.6.5 Highlighting opportunities by way of a report to Management to improve the effectiveness, efficiency and sustainability of the arrangements for internal recharging of Passenger Transport Services provided to the Children and Young People Service and the Adult Social Care Service through innovation and change.

## Recommendations

- 3.8 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.
Outwith the report, Internal Audit informs operational managers about other matters as part of continuous improvement.

- 3.9 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	4
<b>Sub-total reported this period</b>	<b>8</b>
Previously reported	7
<b>Total</b>	<b>15</b>
Recommendations agreed with action plan	15
Not agreed; risk accepted	0
<b>Total</b>	<b>15</b>

## 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." 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, and effective management of risks.

### 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 Executive/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 taken into account.
- 5.3 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Service Director 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 Scrutiny Committee 28 June 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)

## APPENDIX 1

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Corporate Governance</p> <p>Subject: Performance Management (LGBF)</p> <p>No: 016/011</p> <p>Date issued: 15 September 2017</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review was to validate the Council's Performance Indicators which are reported on an annual basis to the Improvement Service as part of the Local Government Benchmarking Framework (LGBF).</p> <p>We tested the 12 PIs figures for the 2016/17 submission under 4 headings (Corporate; Corporate Assets; Culture &amp; Leisure; and Environment) 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.</p> <p>The validation testing found a few anomalies which were the result of data transcribing and two errors with the data collected which raised concerns about the collection methods used in the draft PIs 2016/17. However, these were all corrected prior to submission. The individual data collection methods applied by the services are suitable with the majority of services having adequate validation / quality assurance mechanisms in place. This review has identified where better validation is required in specific areas, and the relevant service areas are aware of that required improvement.</p> <p>We consider that the figures for these PIs, as detailed in the final LGBF 2016/17 pro-forma, are reasonable and agree to the underlying records. The Council's LGBF Indicators 2016/17 return was submitted by the August 2017 deadline.</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>With the advent of further organisational changes and significant system development during 2017/18 there is also a need to ensure performance monitoring and reporting is robust.</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 sample testing of the PIs reported against the Council's 8 corporate priorities.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Children &amp; Young People School Excursions</p> <p>No: 165/001</p> <p>Date issued: 6 September 2017</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to ensure that there is a governance framework in place for School Excursions, that it complies with legislative requirements, substantially conforms to best practice guidance and is reflected in current policies and procedures; and that there are satisfactory risk management and internal control arrangements in place to safeguard participants and adequate assurances are in place to evidence the effectiveness of these arrangements.</p> <p>The following good practice was found:</p> <ul style="list-style-type: none"> <li>• The Governance Framework is in place with clearly defined roles and responsibilities.</li> <li>• SBC Policy and Procedures substantially comply with '<i>Going Out There – Scottish Framework for Safe Practices in Off-site Visits</i>'.</li> <li>• Outdoor Education has produced standardised processes for all Establishments to follow.</li> <li>• Risk Assessments are completed and held in H&amp;S RIVO Safeguard system; and</li> <li>• There exists a process for vetting of providers.</li> </ul> <p>However, procedures were not always being followed. There is also a lack of consistency in the recording of incidents/accidents and the evidence of follow up action, and not all excursions had post excursion reviews. PVG/Disclosure policies and procedures are at times contradictory, ambiguous and open to interpretation</p> <p>There is currently no monitoring of Category 1 &amp; 2 Excursions and although some central monitoring of Category 3 Excursions takes place this could be improved. Further standardisation of processes for Establishments to follow would further enhance the controls and enable Outdoor Education to perform the necessary 2nd line of defence monitoring and Management assurance.</p>	0	1	3	<p>Management have agreed the report findings and have developed a detailed Action Plan to assist with implementation of recommendations during the 2017/18 academic session.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Subject: Subject: Children & Young People School Excursions (cont'd)	<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 the Council vulnerable to risk.</p> <p>We made the following recommendations:</p> <ul style="list-style-type: none"> <li>• Material Policy updates and relevant appendices should be approved, utilising the delegated powers of the Service Director Children &amp; Young People "Authorise and approve educational excursions", and appended to the procedures to enable easy access by Schools. (P3)</li> <li>• The importance of compliance with policy and procedures should be reaffirmed including those on authorisations, post excursion reporting, accident reporting, monitoring of compliance with the excursions procedures and processes, and assurance reporting to Management. (P3)</li> <li>• Clear guidance on the Disclosure requirements for non-supervisory, non-staff adults accompanying an excursion should be clarified with the support of HR and Legal services. (P2)</li> <li>• Consideration should be given to the use of "Evolve" software to facilitate better standardisation and centralisation of processes and provide valuable Management Information to support monitoring and assurance reporting. A cost benefit analysis should be undertaken. (P3)</li> </ul>				



Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Asset Management</p> <p>Subject: Fleet Management</p> <p>No: 204/004</p> <p>Date issued: 15 September 2017</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to evaluate controls in place to ensure value for money in fleet replacement decisions, procurement practices for fleet assets, workforce planning and service sustainability.</p> <p>The following good practice was found:</p> <ul style="list-style-type: none"> <li>• The replacement decision is based on a number of factors the most important being the assessed end of life. When a vehicle has reached its originally assessed end of life its performance is reviewed in terms of utilisation, reliability, repairs history and continued suitability to the service. The review is prompted by reporting of vehicles at end of life from the Tranman system. Based upon this assessment the vehicle life may be extended or a decision made to replace. Fleet Management will advise the Service area on the best options but the final decision rests with the Service area.</li> <li>• Procurement processes are in place to ensure that the Council complies with complex procurement legislation using a considered and measured approach which is defensible in the event of a challenge.</li> <li>• Fleet Management is not a trading operation but generates income from both internal and external sources which exceed the full cost of operations, offering highly competitive rates in a challenging environment.</li> </ul> <p>There are a number of matters which require consideration in order to manage the risks to the sustainability of the service and to consistently evidence best value for service users:</p> <ul style="list-style-type: none"> <li>• Finance recognises that deferring replacement on the basis of short term affordability is not sustainable indefinitely and is developing a proposal on a business case basis.</li> <li>• The procurement process is a multidisciplinary activity involving Service Managers, Fleet Management and both the Procurement and Finance sections. The process is a time consuming but essential aspect in ensuring that the Council meets its legal obligations.</li> </ul>	0	3	1	Management have agreed the report findings and to implement recommendations made within appropriate timescales.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Subject: Fleet Management (cont'd)	<ul style="list-style-type: none"> <li>A workforce plan for Fleet Management has been produced for 2016 to 2021. The plan identifies a number of serious issues which remain largely unresolved.</li> <li>Whilst Fleet Management offers highly competitive rates in a challenging environment, transparency in the breakdown of costs to Service Users could be improved.</li> </ul> <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 not deliver best value.</p> <p>We made the following recommendations:</p> <ul style="list-style-type: none"> <li>The proposal that replacement of fleet assets is based on a business case should be developed further and refined by Finance. Fleet Management and Service Managers should be involved in developing revised processes. Finalised proposals should be presented to the Chief Financial Officer for assessment and possible approval. (P2)</li> <li>Given the complexity and possible long lead times in procuring fleet assets Fleet Management and Service Managers should start the procurement process earlier in each financial year; Whole of Life costs should be used in the evaluation of competition responses to secure the asset which represents best value rather than that with the least initial cost. (P2)</li> <li>Actions to address the issues identified in Fleet Management workforce plan should be progressed to assist with key person dependency, management capacity, recruitment and retention, and succession planning. (P2)</li> <li>For repairs above an agreed value service users should receive a full cost breakdown which includes a reasonable estimate of what the cost would have been had the repair been undertaken by the main dealer. (P3)</li> </ul>				

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Legislative and Other Compliance</p> <p>Subject: Carbon Reduction</p> <p>No: 202/010</p> <p>Date issued: 18 September 2017</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 (CO<sub>2</sub>) 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 CO<sub>2</sub> emitted.</p> <p>The scope of this year's review included: Updates to the evidence pack; Collation of data; Annual Return data; Energy efficiencies achieved and underway; and Performance reporting.</p> <p>The 2016/17 annual submission has been completed and reported to DECC by end of July 2017 deadline along with the annual Audit Certificate. There is a very good level of knowledge whilst using the Systemslink database (good practice).</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 carbon emissions for the Council for 2016/17 are 13,084 tCO<sub>2</sub> for 2016/17 at a cost of £211K; a reduction from 16,451 tCO<sub>2</sub> costing £262K for 2015/16. Contributing factors are: SB Cares was discounted from the annual return since 2015/16 and Live Borders from 2016/17; and implementation of energy efficiency spend-to-save programmes and initiatives across the Council.</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: 237/003</p> <p>Date issued: 15 September 2017</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"> <li>• Appropriate processes to manage actions necessary to achieve accreditation were in place;</li> <li>• Appropriate processes to identify and manage risks and issues were in place;</li> <li>• The PSN Project Board met regularly and was provided with good quality information, which facilitated effective decision making;</li> <li>• Comments and observations from previous audit reports had been taken on board.</li> </ul> <p>A successful submission of the Council's PSN Code of Connection Application was made in July 2017 and the Council achieved accreditation of its compliance with the requirements of the Public Services Network (PSN) with the Certificate issued by the Cabinet Office dated 4 September 2017. The Council is now fully PSN compliant and accredited until 4 September 2018.</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 mid-September 2017. For future years the PSN compliance and accreditation process will be overseen by the continuance of the PSN Project Board throughout the year to facilitate effective planning and compliance monitoring for the annual submission.</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. These should be effective in mitigating risks to the achievement of objectives.</p> <p>We have made no recommendations.</p>	0	0	0	Management have agreed the report findings.