
INTERNAL AUDIT WORK TO OCTOBER 2017

Report by Chief Officer Audit and Risk

AUDIT AND SCRUTINY COMMITTEE

13 November 2017

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 1 September to 27 October 2017 is detailed in this report. During this period a total of 4 Final Internal Audit Reports have been issued. There was 1 recommendation made relating to one of the reports which has 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) (2017) 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 1 September to 27 October 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 1 September to 27 October 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) (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:
- Implementation of the Community Empowerment Act
 - Revenues: Council Tax
 - Registration Service
 - EU Grant Funded Programmes 2014-2020 LEADER and European Maritime & Fisheries Fund
- 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	Testing nearly completed
Contract Management	Testing nearly completed
Schools	Testing Underway (Site Visits)
Financial Governance (incorporating Payroll, Procure to Pay, Sales to Cash, and Record to Report)	Drafting the Audit Assignment
Capital Investment	Follow-Up and Pre-Planning

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:

- 3.7.1 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.
- 3.7.2 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.
- 3.7.3 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.
- 3.7.4 Carrying out interim reviews of performance against goals and personal development plans for 2017/18 (PRDs) with each individual of the Audit and Risk team, to support delivery of the Audit and Risk Service's Strategies and Plans and to ensure their skills and knowledge are kept up-to-date in a changing environment.

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:

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.
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	0
Priority 3	1
Sub-total reported this period	1
Previously reported	15
Total	16
Recommendations agreed with action plan	16
Not agreed; risk accepted	0
Total	16

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 have been 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 25 September 2017

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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: Implementation of the Community Empowerment Act</p> <p>No: 005/009</p> <p>Date issued: 6 November 2017</p>	<p>The purpose of this assurance audit was to assess the implications of the Community Empowerment Act (the Act) and the extent of the Council’s preparedness to comply with key elements of the legislation.</p> <p>The Act is intended to help to empower community bodies through:</p> <ul style="list-style-type: none"> the ownership of land and buildings, extending the community right to buy and making it simpler for communities to take over public sector land and buildings; and giving communities a greater say in the decisions that matter to them. <p>This report is intended to provide a position statement on progress in putting arrangements in place which allow the Council to comply with key elements of the legislation.</p> <p>For those parts of the Act which have come into force:</p> <ul style="list-style-type: none"> Arrangements are in place for Participation Requests, Asset Transfer Requests, and Schemes for Reduction and Remission of Non Domestic Rates; and The Act specifically requires the Community Planning Partnerships to consult the community and based on that consultation produce a Local Outcomes Improvement Plan (LOIP) and to produce Locality Plans for the five localities identified within the Scottish Borders; finalised versions of these plans to be published by 1st October 2017. These deadlines have not been met. A draft Community Plan (the LOIP) has been produced and consulted on. A final version is expected to be approved by the Community Planning Strategic Board at its meeting on 23 November 2017. Work will not commence on the Locality Plans until after the November 2017 Council meeting where a decision will be taken on the associated governance structure. 	0	0	0	Management have confirmed factual accuracy and accepted the report findings.

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: 084/011</p> <p>Date issued: 3 November 2017</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to assess the application of the Council Tax increase in 2017/18 and the legislative changes to the 2017 Council tax multiplier affecting bands E – H; and to follow-up testing on completeness and accuracy of Council Tax income associated with the new 2016/17 approved policy on second homes, and key controls introduced including application of discretionary exemptions.</p> <p>The Scottish Government took a decision to increase the proportion of tax payable on Bands E-H. In addition the Council decided to increase Council Tax by 3%, which is the maximum allowed, and to remove the 10% discount currently awarded to properties that are second homes.</p> <p>The above changes to Council Tax that took effect from 1st April 2017 have been correctly applied. Time limited discretionary reliefs have been granted for legitimate reasons and for suitable periods of time.</p> <p>The collection rate is monitored and reported on a quarterly basis and where account payments are not received enforcement processes for debt recovery are promptly initiated as required.</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 to efficiency and effectiveness.</p> <p>We made the following recommendation:</p> <ul style="list-style-type: none"> • Management should re-evaluate the introduction of periodic reviews of claims for Single Occupancy Discount. (P3) 	0	0	1	<p>Management have confirmed factual accuracy and accepted the report findings, and agreed to implement the recommendation within reasonable timescales.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Registration Service</p> <p>No: 092/003</p> <p>Date issued: 3 November 2017</p> <p>Level of Assurance: Comprehensive</p>	<p>This review was not included within our Internal Audit Annual Plan 2017/18 and has been requested by the Service Area Management to assist in a change in overall management responsibility for the Registration Service.</p> <p>The Registration Service provides administration and management for the registration of births and deaths and applications to marry or register a civil partnership.</p> <p>The purpose of this assurance audit was to assess compliance with the relevant legislation and the adequacy of controls in place for registration fees and charges income, and Registrar's lump sums. This review was designed to provide assurance over areas selected by Service Management and to assist with improvement where required.</p> <p>The following good practice was found:</p> <ul style="list-style-type: none"> • Fees and charges are made in accordance with published price lists. • The approach to income collection is prudent requiring payment at or, in the case of marriages, before any services are performed. • Claims for ceremony expenses are appropriately authorised. Each individual entry in a claim is referenced to the entry number in the register of marriages making the review of any claim straightforward to achieve. <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 confirmed factual accuracy and accepted the report findings.

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 European Maritime & Fisheries Fund (EMFF)</p> <p>Nos: 154/016 & 154/017</p> <p>Date issued: 6 November 2017</p> <p>Level of Assurance: Substantial compliance with SLA (LEADER) and Framework Agreement (EMFF)</p>	<p>The purpose of the LEADER review was to assess compliance with the requirements of the new Service Level Agreement (SLA) and relevant EC Regulations for the LEADER Programme 2014-2020. The new SLA requires that Internal Audit annually assess compliance by SBC with the terms of the SLA, and report on it.</p> <p>The SLA is between Scottish Ministers (Managing Authority and Paying Agency) and Scottish Borders Council (acting as Accountable Body for the Local Action Group) as a delivery partner in the SRDP (Scottish Rural Development Programme) for 2014-2020, which runs until 31 December 2022.</p> <p>This is an area of high risk owing to the potential for disallowance (financial corrections) and significant fines levied by either the EU Auditors (as a result of their conformity audits) and / or Audit Scotland (in their capacity as certifiers of the EC accounts).</p> <p>The previous Internal Audit recommendation has been acted upon with risk registers updated and discussions progressed with the Scottish Government through the Accountable Bodies Group.</p> <p>Internal Audit tested one Project and two claims within that Project to evaluate compliance with the rules, regulations and guidance. The sample was chosen on the basis of value of claims proportionate to total Project payments to date.</p> <p>Internal Audit considers 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 only extends to the extent to which SBC complies with the terms of the SLA. It does not provide any assurance on the extent to which this compliance protects the Managing Authority or SBC (as Accountable Body) from the risk of disallowance following key or ancillary control failure findings of EU conformity or certification of accounts audits.</p>	0	0	0	<p>Management have confirmed factual accuracy and accepted the report findings.</p> <p>The Audit Assurance Report will be submitted to the Scottish Government by the 13 November 2017 timescale.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Subject: EU Funded Programmes 2014-2020 LEADER and European Maritime & Fisheries Fund (EMFF)</p> <p>(cont'd)</p>	<p>The European Maritime & Fisheries Fund is being delivered locally by the FORTH FLAG (Fisheries Local Action Group), an autonomous body which includes Fife, Tyne and Esk, and Scottish Borders, with SBC as lead partner and Secretariat responsible for efficient administration of FLAG business.</p> <p>A Framework Agreement exists between Marine Scotland (responsible for national delivery of the EMFF) and the FLAG which sets out roles and responsibilities. Marine Scotland retains financial responsibility for final verification and approval of projects, issuing award of funding letters, and administration and payment of claims.</p> <p>Animation and Administration costs relating to both programmes (EMFF and LEADER) are met through the 'lead fund', European Agricultural Fund for Rural Development (EAFRD). Our testing on claims includes those for this element of the EMFF. We undertook no Project testing for EMFF.</p> <p>Internal Audit considers that the EMFF Programme is being managed well and our assurance is that SBC substantially comply with the terms of the Framework Agreement. This is on the basis that we have received confirmation from Marine Scotland that they are the responsible party for monitoring of Project progress against key conditions and milestones and have responsibility for ensuring compliance with claims rules.</p> <p>We made no recommendations for LEADER or EMFF Programmes.</p>				