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## **INTERNAL AUDIT WORK TO DECEMBER 2017**

**Report by Chief Officer Audit and Risk**

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### **AUDIT AND SCRUTINY COMMITTEE**

**15 January 2018**

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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 28 October to 22 December 2017 is detailed in this report. During this period a total of 8 Final Internal Audit Reports have been issued. There were 4 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) (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 28 October to 22 December 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 28 October to 22 December 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:
- Contract Management
  - Peebles High School
  - Berwickshire High School
  - Selkirk High School
  - Morebattle Primary School
  - Duns Primary School
  - St Boswells Primary School
  - Industrial and Business Premises
- 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
Petty Cash Review and Emergency Funding	Drafting the report
Capital Investment	Follow up nearly completed
Financial Governance (incorporating Payroll, Procure to Pay, Sales to Cash, and Record to Report)	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:
- 3.7.1 Completing the review on ICT Security by way of input to the Council's response to Scottish Government on the draft public sector action plan on cyber resilience, and consideration of cyber resilience essentials including reliance on ICT security risk, control, and governance systems in place to confirm its compliance with the requirements of the Public Services Network (PSN).
  - 3.7.2 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.
  - 3.7.3 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.
  - 3.7.4 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.
  - 3.7.5 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.

## 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	2
Priority 3	2
<b>Sub-total reported this period</b>	<b>4</b>
Previously reported	16
<b>Total</b>	<b>20</b>
Recommendations agreed with action plan	20
Not agreed; risk accepted	0
<b>Total</b>	<b>20</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 13 November 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)

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Financial Governance</p> <p>Subject: Contract Management</p> <p>No: 002/009</p> <p>Date issued: 8 January 2018</p> <p>Level of Assurance: Limited</p>	<p>The purpose of this assurance audit was to assess governance and internal controls in place over contract monitoring arrangements with 3rd parties including the integrated sports and culture trust (LIVE Borders) and the ALEO (SB Cares).</p> <p>In response to a previous Internal Audit recommendation, standalone Procurement and Contract Standing Orders have been developed (approved by Council 27 June 2017) which set out contract management roles and responsibilities within SBC, demonstrating improvements have been made since the previous Internal Audit review.</p> <p>The Contract Management Framework design and development was put on hold until Business World ERP system went live in April 2017 to see what it could offer. Following the Public Pound was to be reviewed and updated and monitoring be undertaken to ensure that contract management was being done across the Council. It was agreed that this would be done as part of the review and revision of the Financial Regulations and associated Procedures required as a result of Business World; this action is still to be progressed.</p> <p>For LIVE Borders, we found that although the contract management clauses within the contract are clearly defined and the key relationships, governance and contract management bodies (as specified in the contract) have been formed, contract management is not yet being fully undertaken in compliance with the contract terms. There is currently no mechanism to provide assurance to SBC that risks are being appropriately managed.</p> <p>For SB Cares, we found that although the contract management clauses within the contract are clearly defined and the key relationships, governance and contract management bodies (as specified in the contract) have been formed and are in operation, the full range of contract monitoring is not yet being undertaken.</p>	0	2	1	<p>Management recognise the importance of a robust approach to contract management and the skills required.</p> <p>Management have accepted the report findings and agreed to implement the recommendations within reasonable timescales though reflecting the challenge that limited resources will have on progress of the improvement actions.</p> <p>Internal Audit will support the implementation of recommendations in its 'critical friend' role.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Subject: Contract Management (cont'd)	<p>Internal Audit considers that we are able to provide limited assurance that best practice contract management is in place. Risk, control, and governance systems have some satisfactory aspects. However, there is an opportunity for the Council to lead the way in establishing a robust contract management to meet best practice guidance in support of evidencing the application of the Following the Public Pound principles and delivering Best Value.</p> <p>We made the following recommendations:</p> <ul style="list-style-type: none"> <li>• The work to design and develop an effective Contract Management Framework should be progressed, a contract management culture should be embedded across the Council, and consideration should also be given to including Contract Management skills as part of the broad set of commercial skills which Managers are expected to possess to effectively manage Council Services. (P3)</li> <li>• Contract Monitoring arrangements for LIVE Borders should be enhanced to comply with best practice guidance including the provision of assurance on managing risks. Furthermore it should be made clear in the Scheme of Administration whether the Major Contracts Governance Group's remit will include oversight, scrutiny and challenge of LIVE Borders. (P2)</li> <li>• Contract Monitoring arrangements for SB Cares should be enhanced to comply with best practice guidance. As this contract is large and high risk, it is likely that a multi-disciplinary team will be required to manage the contract, with members from Adult Social Care, Legal, Health and Safety, Finance, Information Governance amongst others. The Internal Audit Recommendation to form a multi-disciplinary Corporate Support Service Forum to support ICT in its contract monitoring activities (yet to be established) could meet this requirement. (P2)</li> </ul>				<p>First recommendation will be led by Executive Director (Commercial) with support from Procurement and HR; completion by March 2019.</p> <p>Second and third recommendations will be led by Executive Director (Commercial) and Chief Social Work Officer respectively with completion by June 2018.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Peebles High School</p> <p>No: 127/026</p> <p>Date issued: 22 December 2017</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to ensure internal financial controls and business administrative procedures are in place to ensure the efficient and effective use of resources in the school establishments.</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 and Income Collection procedures; School Fund; Ordering / Invoice processing procedures; Data Protection / Confidential Waste Management; DSM Budget; Health &amp; Wellbeing.</p> <p>Peebles High School is the largest of the 9 high schools and has a current role of 1,228 pupils.</p> <p>The Acting Rector and newly appointed Business Manager are both well supported by a very experienced Senior Management Team and, specifically for the Business Manager, an experienced Administrative Assistant. Within the school office are a team of experienced staff who complete the day to day administrative activities for the school. All staff are fully aware of the need to follow all the required policies and procedures. During the course of our visit, we found nothing of major concern regarding the financial procedures, and we were able to share Good Practice from other schools.</p> <p>Internal Audit considers that the level of assurance we are able to give is substantial, subject to the sign off of the School Fund accounts by the school's appointed independent reviewer which was outstanding at the time of this audit site visit. Largely satisfactory risk, control, and governance systems are in place.</p> <p>We have made no recommendations.</p>	0	0	0	Management have confirmed factual accuracy of the report and accepted findings.



Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Berwickshire High School</p> <p>No: 127/027</p> <p>Date issued: 21 December 2017</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to ensure internal financial controls and business administrative procedures are in place to ensure the efficient and effective use of resources in the school establishments.</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 and Income Collection procedures; School Fund; Ordering / Invoice processing procedures; Data Protection / Confidential Waste Management; DSM Budget; Health &amp; Wellbeing.</p> <p>Berwickshire High School has a current role of 686 children. Within the school building is a Complex Needs Base.</p> <p>The Head Teacher and Business Manager are both very experienced members of staff. The school office also has a team of experienced staff who complete the day to day administrative activities for the school. All office staff are fully aware of the need to follow the required SBC policies and procedures. During the course of our visit, we found nothing of major concern regarding the financial procedures, and we were able to share Good Practice from other schools.</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 whilst acknowledging the embedding of the new Business World ERP system, familiarity on which is expected to increase even more over time.</p> <p>We have made no recommendations.</p>	0	0	0	Management have confirmed factual accuracy of the report and accepted findings.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Selkirk High School</p> <p>No: 127/028</p> <p>Date issued: 19 December 2017</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to ensure internal financial controls and business administrative procedures are in place to ensure the efficient and effective use of resources in the school establishments.</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 and Income Collection procedures; School Fund; Ordering / Invoice processing procedures; Data Protection / Confidential Waste Management; DSM Budget; Health &amp; Wellbeing.</p> <p>Selkirk High School has a current role of 384 children.</p> <p>The Business Manager is a very experienced member of staff who is supporting the newly appointed Head Teacher. Within the school office are a team of experienced staff who complete the day to day administrative activities for the school. All staff are fully aware of the need to follow the required policies and procedures. During the course of our visit, we found nothing of major concern regarding the financial procedures, and we were able to share Good Practice from other schools.</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 whilst acknowledging the embedding of the new Business World ERP system, familiarity on which is expected to increase over time.</p> <p>We have made no recommendations.</p>	0	0	0	Management have confirmed factual accuracy of the report and accepted findings.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Morebattle Primary School</p> <p>No: 128/020</p> <p>Date issued: 13 December 2017</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to ensure internal financial controls and business administrative procedures are in place to ensure the efficient and effective use of resources in the school establishments.</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 and Income Collection procedures; School Fund; Ordering / Invoice processing procedures; Data Protection / Confidential Waste Management; DSM Budget; Health &amp; Wellbeing; Support for cluster Primary schools.</p> <p>Morebattle Primary is a small rural school with a current role of 52 children. The Head Teacher, who also has the responsibility for Yetholm Primary School, is experienced and fully aware of the need to follow all the required policies and procedures. During the course of our visit, we found nothing of concern regarding the financial procedures, and we were able to share Good Practice from larger primaries.</p> <p>The introduction of the High School Business Managers having responsibility for cluster Administrators provides the opportunity for consistent administrative processes across the schools. In addition the introduction of Parent Pay reduces financial risk within school establishments.</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.</p> <p>We have made no recommendations.</p>	0	0	0	Management have confirmed factual accuracy of the report and accepted findings.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Duns Primary School</p> <p>No: 128/021</p> <p>Date issued: 13 December 2017</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to ensure internal financial controls and business administrative procedures are in place to ensure the efficient and effective use of resources in the school establishments.</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 and Income Collection procedures; School Fund; Ordering / Invoice processing procedures; Data Protection / Confidential Waste Management; DSM Budget; Health &amp; Wellbeing; Support for cluster Primary schools.</p> <p>Duns Primary relocated to the former Berwickshire High School building and opened in August 2017. It has a current role of 345 children. The Head Teacher is experienced and fully aware of the need to follow all the required policies and procedures. During the course of our visit, we found nothing of concern regarding the financial procedures, and we were able to share Good Practice from larger primaries.</p> <p>The implementation of the Business World ERP system has had a significant effect across the Council. With the new system comes training and familiarisation of the changes in process and access to data. This is something which will develop over time and will enhance the effectiveness of internal controls and administrative processes.</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.</p> <p>We have made no recommendations.</p>	0	0	0	Management have confirmed factual accuracy of the report and accepted findings.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: St Boswells Primary School</p> <p>No: 128/022</p> <p>Date issued: 13 December 2017</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to ensure internal financial controls and business administrative procedures are in place to ensure the efficient and effective use of resources in the school establishments.</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 and Income Collection procedures; School Fund; Ordering / Invoice processing procedures; Data Protection / Confidential Waste Management; DSM Budget; Health &amp; Wellbeing; Support for cluster Primary schools.</p> <p>St Boswells Primary is a rural school with a current role of 142 children. The Head Teacher, who also has the responsibility for Newtown St Boswells Primary School, is experienced and fully aware of the need to follow all the required policies and procedures. During the course of our visit, we found nothing of concern regarding the financial procedures, and we were able to share Good Practice from larger primaries.</p> <p>The introduction of the High School Business Managers having responsibility for cluster Administrators provides the opportunity for consistent administrative processes across the schools. In addition the introduction of Parent Pay reduces financial risk.</p> <p>The implementation of the Business World ERP system has had a significant effect across the Council. With the new system comes training and familiarisation of the changes in process and access to data. However ultimately it will result in enhanced controls and administrative practices.</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.</p> <p>We have made no recommendations.</p>	0	0	0	Management have confirmed factual accuracy of the report and accepted findings.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Asset Management</p> <p>Subject: Industrial and Business Premises</p> <p>No: 151/001</p> <p>Date issued: 5 January 2018</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to assess the corporate governance and financial governance arrangements linked to priorities within the Economic Strategy relating to Industrial and Business Premises and associated estate management.</p> <p>Estates actively markets property available for letting on the Council's website and handles enquiries from interested parties. The occupancy rate is fairly high at approx. 90% and robust processes are in place for issuing invoices to tenants.</p> <p>There is no formal process for analysis of demand for industrial and commercial property. Current and historic demand could however be ascertained from enquires from businesses regarding properties available to rent.</p> <p>Planned sites are developed in line with the Local Plan and within the constraints of available land, finance, planning and resources</p> <p>Whilst the Economic Strategy recognises the need for leveraging external funding the importance of and the approach to doing so, and the circumstances where funding is crucial to successful outcomes is not clearly articulated. Notwithstanding this the Council has had considerable success in recent times in attracting external funding to contribute towards the cost of development.</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.</p> <p>We made the following recommendation to enhance governance:</p> <ul style="list-style-type: none"> <li>• When the Economic Strategy is refreshed: clearer linkages between the development of the industrial and business property estate and the requirements of the Economic Strategy should be established; the approach to increasing the supply of immediately available land and business premises should be set out; and the importance of and approach to securing external funding should be articulated. (P3)</li> </ul>	0	0	1	<p>Management have confirmed factual accuracy of the report, welcomed the findings and agreed to implement the recommendation as part of the refresh of the Economic Strategy which is currently underway.</p>