
INTERNAL AUDIT WORK TO FEBRUARY 2018

Report by Chief Officer Audit and Risk

AUDIT AND SCRUTINY COMMITTEE

19 March 2018

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 23 December 2017 to 23 February 2018 is detailed in this report. During this period a total of 5 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 23 December 2017 to 23 February 2018 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 23 December 2017 to 23 February 2018, 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:
- Capital Investment
 - Performance Management (Corporate Priorities)
 - Petty Cash Review and Emergency Funding
 - Information Governance
 - ICT Contract Management
- 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
Grants incl. Following the Public Pound	Testing Underway
Financial Governance (incorporating Payroll, Procure to Pay, Sales to Cash, and Record to Report)	Testing Nearly Completed (1 st phase Key Controls completed; 2 nd phase underway)
Community Safety	Testing Underway
Asset Registers	Deferred to 2018/19 to align to Business World development
Selkirk CARS	Deferred to 1 st Quarter 2018/19 to align with Funder's Return

Internal Audit Consultancy and Other Work

- 3.7 Internal Audit staff have been involved in the following for the Council to meet its aims and objectives, and its roles and responsibilities in accordance with the approved Internal Audit Charter:
- 3.7.1 Involvement in the independent validation of data migrated to the new Business World ERP system in this period, including Capital Budget, and Common Good and Trust Fund opening balances and budgets.
- 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 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.
- 3.7.4 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.

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	2
Priority 3	2
Sub-total reported this period	4
Previously reported	20
Total	24
Recommendations agreed with action plan	24
Not agreed; risk accepted	0
Total	24

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
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Background Papers: Appropriate Internal Audit files

Previous Minute Reference: Audit and Scrutiny Committee 15 January 2018

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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: 007/017</p> <p>Date issued: 9 March 2018</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to assess progress with implementation of identified improvement actions to ensure compliance with established good practice by Accounts Commission.</p> <p>The Accounts Commission 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 'Good Practice Guide'</p> <p>In performing our Internal Audit 'critical friend' role in confidence and providing some independent challenge, we have undertaken a follow-up of our 2016/17 work to assess 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 the accompanying 'Good Practice Guide', covering the following:</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>It is still the case that Strategic Asset Management Plans (SAMPs) are not currently in place for all classes of asset; however proposals are progressing to allow for implementation of a new operational Estates Strategy, a new operational Asset Management Strategy, and the new operational Corporate Landlord Model for Estates and Facilities. The latter is one of the 5 programmes under the revised approach to Corporate Transformation Programme approved by Council.</p>	0	0	0	Management have accepted the report findings.

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Subject: Capital Investment (cont'd)	<p>Since our previous audit some progress has been made in relation to: whole of project costs being added to the Capital Financial Budget Monitoring Reports in 2017 that are presented to the Corporate Management Team and the Executive Committee quarterly; and the Capital Tracker development to enhance information on quality, risk and delivery of benefits for individual projects, which is planned to complement the Capital Financial Monitoring Reports to Elected Members in 2018.</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 practices are sound. There is however scope for improvement to fully achieve good practice including:</p> <ul style="list-style-type: none"> • the continued development of the Corporate Landlord Model, Assets and Estates Strategies, and Strategic Asset Management Plans (SAMPs) for all remaining asset classes; • a continuing programme of training and enhanced scoring information for elected members on Capital issues; • enhancement of information on capital projects including on benefits realisation; and • monitoring via a formal and complete governance framework, including a Capital Programme Board to facilitate the adoption of standardised reporting and oversight of a Capital Programme Risk Register, workflow protocols and gateway reviews. <p>The Internal Audit report provides a summary of progress made and developments underway to move SBC towards compliance with the recommendations of 'Good Practice Guide'.</p> <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>				

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<p>Audit Plan Category: Corporate Governance</p> <p>Subject: Performance Management – Corporate PIs</p> <p>No: 016/011b</p> <p>Date issued: 9 March 2018</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to provide independent validation of performance indicators and benchmarking information to support self-assessment and continuous improvement of the Council's services, specifically to ensure accuracy of data submitted for Corporate Priorities PIs.</p> <p>The Local Government (Scotland) Act 2003 places a statutory duty on Councils to secure best value through continuous improvement in performance and in doing so apply the principle of value for money by securing the right balance between Economy, Efficiency and Effectiveness. It also places a statutory duty on Councils to make arrangements to report to the public on the outcome of the performance function. The Accounts Commission has published direction and guidance requiring Councils to: Establish systems and procedures to ensure that the information is gathered; checks to ensure that the information gathered is complete and accurate; retains working papers and audit trails for examination by appointed auditors; and reports the information publically.</p> <p>We tested a sample of 5 PIs from the Quarterly Corporate Performance Report (Q2 2017/18) that was presented to the Executive Committee on 21 November 2017. Internal Audit was able to fully validate the 5 PIs (though 1 PI's audit trail was not immediately available), though 2 of the 5 PIs had no checks completed by Service Managers for completeness and accuracy.</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 for Service Managers to check and confirm that the information gathered is complete and accurate. This will be included in the revised Performance Management Framework to be presented to Council in August 2018 for approval.</p>	0	0	0	Management have accepted the report findings, and have confirmed that plans are in place to implement area of improvement.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Financial Governance</p> <p>Subject: Petty Cash Review and Emergency Funding</p> <p>No: 076/005</p> <p>Date issued: 12 March 2018</p> <p>Level of Assurance: Substantial (Petty Cash); Substantial (Emergency Funding)</p>	<p>The purpose of this assurance audit was initially to assess the processes and efficiency of the petty cash administration system (this follows on from our similar review in 2013) and provision of financial support to vulnerable people in emergency situations. However, following the Grenfell Tower incident in 2017 and a request from the Chief Financial Officer, our efforts have concentrated more on the availability and access to emergency funds after an event has materialised.</p> <p><u>Petty Cash</u> SBC Petty Cash Imprests account for a budget of £52k with Schools accounting for £24k of the total. It is likely that these figures will reduce as more items are purchased via Business World and Purchase Cards, once introduced, when there is less reliance on Petty Cash. A full review of imprest holders and the usage is underway.</p> <p>We found that there was an up to date Petty Cash Imprest Policy and Procedure (August 2017) that has been updated since the implementation of the Business World ERP system.</p> <p>Internal Audit considers that the level of assurance we are able to give in relation to Petty Cash is substantial. Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement to be achieved through the update of the Financial Regulations to reflect the implementation of the Business World ERP system and completion of the full review of imprest holders and usage.</p>	0	1	1	Management have accepted the report findings and agreed to implement the recommendations within reasonable timescales.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Subject: Petty Cash Review and Emergency Funding (Cont'd)	<p><u>Emergency Funding</u> The Care for People Team Emergency Plan (February 2015) is the main multi-partner emergency plan relating to people. It contains high level roles and responsibilities and obligations of the various parties during an emergency response, though it is out of date and does not include the supporting processes and procedures that would facilitate practical application of the Plan.</p> <p>In terms of accessible emergency funds: Treasury Management team have access to and hold unallocated funds and an overdraft facility; Service Directors hold Corporate Credit Cards which they can use; Frontline service areas can use Petty Cash; Social Work Service is enabled by legislation to make emergency payments in emergency circumstances subject to certain criteria being met.</p> <p>The Finance Business Continuity Plan (March 2014) is not up-to-date but it does have an Action Plan for accessing cash that explains the process and officers responsible for implementation.</p> <p>Internal Audit considers that the level of assurance we are able to give in relation to Emergency Funding is substantial. Largely satisfactory risk, control, and governance systems are in place. There is, however, scope for improvement as relevant emergency and business continuity plans are out-of-date and some detailed documented processes and procedures are not in place. Clear documentation on current practices is particularly important at a time of significant change in processes and personnel at the Council.</p> <p>We made the following recommendations:</p> <ul style="list-style-type: none"> • The Finance Business Continuity Plan should be updated to fully reflect emergency financial support in the event of a major external incident. (P3) • Supporting processes and procedures should be developed that would facilitate the practical application of the Care for People Team Emergency Plan, the latter which should also be updated. (P2) 				

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Corporate Governance</p> <p>Subject: Information Governance & GDPR Interim Review</p> <p>No: 236/011</p> <p>Date issued: 9 March 2018</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; review policy development and implementation; assess progress with implementation of improvement actions; and assess preparedness for the General Data Protection Regulations (GDPR) to come into force May 2018.</p> <p>The Information Governance Group meets regularly and follows an agreed themed programme of work: Records Management; Information Access; Information Security; and Information Governance. Progress during the year includes:</p> <ul style="list-style-type: none"> • The Records Management Plan was submitted on time at end of April 2017, and was formally agreed by the Keeper of Scotland’s Records on 25 October 2017; • The current Information Management priorities and actions to be progressed either through business as usual or through transformation change projects has been relaunched as the Information Management Improvement Tracker, approved as the new monitoring and reporting tool by the IGG. • A GDPR Project was set up and the work is being informed through collaboration, facilitated by the Digital Office of the Scottish Government, to ensure best practice is developed and is consistently applied across the 32 Scottish Local Authorities, and to avoid duplication of effort and reinvention of the wheel. <p>We consider that we are able to provide 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 particularly in relation to the population of the Information Asset Registers by Service Managers as information asset owners, on which progress of the GDPR project and Contract Management activities depend as well as the success of the Office 365 Project.</p>	0	0	0	Management have accepted the report findings and observations, and have confirmed that improvement actions are progressing.

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: 238/003</p> <p>Date issued: 12 March 2018</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to review the client relationship and contract management of the CGI contract to assess compliance with Service Delivery and terms and conditions; specifically we reviewed progress made on the recommendations from our previous report and in the development of the SBC ICT contract management function.</p> <p>Progress has been made by Management on implementation of the three recommendations made in our previous report dated March 2017, with one having been completed.</p> <p>There are now enhanced governance arrangements in place and further are under development; these reflect appropriate governance, monitoring and reporting arrangements for the CGI contract via either the established or proposed Boards and Forums and through the transformation change deliverables (through the monthly Digital Transformation Highlight Report), and for service delivery performance and CGI Contract Management (via the monthly ICT Client Report).</p> <p>The ICT governance and contract management that is currently being developed could be used to help inform the work of the group that will design the Corporate Contract Management Framework and, in a complementary fashion, the best practice adopted by the Corporate Contract Management Framework could then be adopted by the ICT Client function.</p> <p>The ICT team consists of the Head of IT (who is a contractor) and 4 FTE. A significant key person dependency risk still exists with the contract knowledge and skills of the individuals who make up this team, reported at the previous audit and reflected on the Finance ICT risk register, partially mitigated by wider knowledge out with the ICT function (e.g. Legal and Finance services) and this should be further mitigated by the establishment of the Corporate Support Service Forum i.e. one of the previous audit recommendations.</p>	0	1	1	Management have accepted the report findings and agreed 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>We consider that we are able to provide substantial assurance. Largely satisfactory risk, control, and governance systems are in place. There is, however, scope for improvement as current arrangements could undermine the achievement of objectives. Further governance arrangements are being developed, and we have made some further recommendations which are designed to enhance reporting to elected members and reflect accountability:</p> <ul style="list-style-type: none"> • Management should consider stating the ICT Contract with CGI explicitly within the Scheme of Administration under the remit of the Major Contracts Governance Group to ensure transparency of ICT Client reporting and ICT Contract Management to elected members. (P2) • The Scheme of Delegation should be updated to reflect the current responsibility and accountability for ICT. (P3) <p>The Scrutiny Work Programme 2017-2018 (approved by Council on 21 December 2017) includes Delivery of the IT Strategy and Plan within SBC as one of its Review Subjects; to confirm whether the deliverables set out in the ICT Programme are in place to deliver the transformation programme and other corporate plan outcomes.</p>				