
Internal Audit Annual Report 2014/15

Report by Chief Officer Audit & Risk

Audit & Risk Committee

11 May 2015

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to present to the Audit & Risk Committee the Internal Audit Annual Report for the year to 31 March 2015 which includes the Chief Officer Audit & Risk's independent assurance opinion on the adequacy of the Council's overall control environment.**
- 1.2 In support of the overall governance arrangements of the Council the Local Code of Corporate Governance and the Public Sector Internal Audit Standards require that the Chief Officer Audit & Risk provides an annual internal audit opinion and report to the Chief Executive on the adequacy and effectiveness of the Council's internal control and governance arrangements to support the preparation of the Annual Governance Statement.
- 1.3 In addition the Chief Financial Officer requires a specific opinion on how adequate and effective the Council's systems of internal financial control are to support the fulfilment of his Section 95 statutory role.
- 1.4 The Remit of the Audit & Risk Committee indicates that it should ensure an adequate framework of internal control, risk management and governance throughout the Council.
- 1.5 The Internal Audit Annual Report 2014/15, at Appendix 1, includes the annual internal audit opinion regarding the adequacy and effectiveness of internal control within the Council, and provides details of the Internal Audit activity and performance during the year to fulfil its role.
- 1.6 The Chief Officer Audit & Risk's opinion is that, based on internal audit reviews, risk assessments and knowledge, the systems of internal financial control and internal control and governance arrangements within the Council are operating satisfactorily.
- 1.7 The Internal Audit Annual Report 2014/15 has been used to inform the Chief Executive's Annual Governance Statement 2014/15.

2 RECOMMENDATIONS

- 2.1 I recommend that the Audit & Risk Committee:**
- a) Considers the Internal Audit Annual Report 2014/15 and provides any commentary thereon.**
 - b) Agrees that the Internal Audit Annual Report 2014/15 be published on the Council's website.**

3 BACKGROUND

3.1 The Public Sector Internal Audit Standards (PSIAS) that became effective for local authorities on 1 April 2013 requires that:

“The chief audit executive [Chief Officer Audit & Risk] must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control.

The annual report must incorporate:

- the opinion;
- a summary of the work that supports the opinion; and
- a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.”

3.2 In addition the Chief Financial Officer requires a specific opinion on how adequate and effective the Council’s systems of internal financial control are to support the fulfilment of his Section 95 statutory role.

3.3 The Remit and Terms of Reference of the Audit & Risk Committee indicate that the Audit & Risk Committee should:

- Ensure adequate framework of internal control, risk management and governance throughout the Council
- Encourage propriety and probity throughout the Council
- Assist in accountability to stakeholders

4 INTERNAL AUDIT ANNUAL REPORT 2014/15

4.1 The Internal Audit Annual Report 2014/15, at Appendix 1, includes the Chief Officer Audit & Risk’s independent and objective opinion regarding the adequacy and effectiveness of internal control within the Council, and provides details of the Internal Audit activity and performance during the year to fulfil its role.

4.2 The Chief Officer Audit & Risk’s opinion is that, based on internal audit reviews, risk assessments and knowledge, the systems of internal financial control and internal control and governance arrangements within the Council are operating satisfactorily.

4.3 Internal Audit reports during the year confirm continuous improvements in internal financial control and internal control and governance by Management through the implementation of audit recommendations, complemented by other Management initiated improvements, which are designed to address control weaknesses or to ensure more robust controls and governance. Further improvements in internal financial control and internal control and governance have been agreed by Management in specific areas as highlighted in internal audit reports and recommendations made during the year.

4.4 The Internal Audit Annual Report 2014/15 provides assurances in relation to the Council’s corporate governance framework that is a key component in underpinning delivery of the corporate priorities within the Council’s Corporate Plan and has been used to inform the Chief Executive’s Annual Governance Statement 2014/15.

- 4.5 The Internal Audit Annual Report 2014/15 also provides details of the Internal Audit activity during the year that supports the opinion and outlines performance of the delivery of the annual plan to fulfil its role.
- 4.6 A statement on conformance with the PSIAS and the results of the quality assurance and improvement programme is also included in the Internal Audit Annual Report 2014/15. Although areas for further improvement have been identified in the Quality Assurance and Improvement Plan the annual internal self-assessment demonstrates sufficient evidence that the Council's Internal Audit section complies with the PSIAS in all significant respects. There is a reasonable level of conformance with both the Attribute Standards (Purpose, Authority and Responsibility; Independence and Objectivity; Proficiency and Due Professional Care; Quality Assurance and Improvement Programme) and the Performance Standards (Managing the Internal Audit Activity; Nature of Work; Engagement Planning; Performing the Engagement; Communicating Results; Monitoring Progress).

5 IMPLICATIONS

5.1 Financial

- (a) It is anticipated that efficiencies will arise either as a direct or indirect result of Management implementing the recommendations made by Internal Audit during 2014/15 through improved internal controls and governance arrangements.

5.2 Risk and Mitigations

- (a) Internal Audit provides assurance to management and the Audit & Risk Committee on the adequacy and effectiveness of internal controls and governance within the Council including risk management, and to highlight good practice and recommend improvements. 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 2014/15, to capture potential areas of risk and uncertainty more fully, key stakeholders were consulted and risk registers were considered.
- (b) Internal Audit reports during the year confirm continuous improvements in internal financial control, and internal control and governance by Management through the implementation of audit recommendations, complemented by other Management initiated improvements, which are designed to address control weaknesses or to ensure more robust controls and governance.
- (c) It is anticipated that improvements in the management and mitigation of risks will arise as a direct result of Management implementing the internal audit recommendations made during the year which will enable Management to demonstrate further improvement in internal control and governance arrangements.

5.3 Equalities

- (a) 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.

5.4 Acting Sustainably

- (a) There are no direct economic, social or environmental issues with this report.

5.5 Carbon Management

- (a) There are no direct carbon emissions impacts as a result of this report.

5.6 Rural Proofing

- (a) This report does not relate to new or amended policy or strategy and as a result rural proofing is not an applicable consideration.

5.7 Changes to Scheme of Administration or Scheme of Delegation

- (a) No changes to the Scheme of Administration or Scheme of Delegation are required as a result of this report.

6 CONSULTATION

- 6.1 As the Chief Officer Audit & Risk is required to give an independent opinion on the internal control and governance arrangements of the Council, consultation on Appendix 1 is not appropriate.
- 6.2 The Corporate Management Team has been advised to take into account the Chief Officer Audit & Risk's annual report on the work of internal audit and independent opinion on the adequacy and effectiveness of the systems of internal control and governance when completing the annual self evaluation and assurance process for the annual governance statement.
- 6.3 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Service Director Strategy and Policy, the Chief Officer HR, and the Clerk to the Council have been consulted on the covering report and any comments received have been incorporated into the report.

Approved by

Jill Stacey, Chief Officer Audit & Risk

Signature

Author(s)

Name	Designation and Contact Number
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Background Papers: Appropriate Internal Audit files

Previous Minute Reference: Audit Committee 21 March 2014

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Chief Officer Audit & Risk's Annual Report and Opinion 2014/15

1 Introduction

- 1.1 In support of the overall governance arrangements of the Council the Local Code of Corporate Governance and the Public Sector Internal Audit Standards require that the Chief Officer Audit & Risk provides an annual internal audit opinion and report to the Chief Executive on the adequacy and effectiveness of the Council's internal control and governance arrangements to support the preparation of the Annual Governance Statement.
- 1.2 In addition the Chief Financial Officer requires a specific opinion on how adequate and effective the Council's systems of internal financial control are to support the fulfilment of his Section 95 statutory role.
- 1.3 The opinions are based on:
- the internal audit work carried out during the year to 31 March 2015
 - my assessment of risk completed during the preparation of the internal audit strategic and annual plans
 - reports issued by the Council's external auditors and other external scrutiny, audit and inspection agencies
 - my knowledge of the Council's governance, risk management, and performance monitoring arrangements
- 1.4 This Annual Report provides those opinions and summarises the activities of Internal Audit for the period from 1 April 2014 to 31 March 2015.

2 Opinion on the systems of Internal Control and Governance

- 2.1 My opinion is that, based on our reviews, risk assessments and knowledge, the systems of internal control and governance are operating satisfactorily.
- 2.2 Continuous improvements in internal controls and governance can be demonstrated by Management through the implementation of audit recommendations, complemented by other Management initiated improvements, which are designed to address control weaknesses or to ensure more robust controls. Internal Audit reports during the year confirm improvements in internal controls and governance in:
- The Council is undertaking two significant strategic developments involving alternative service delivery arrangements. Firstly, from April 2015 several of the Council's adult care services (care at home, residential care, extra care housing, Bordercare, older peoples' day services, learning disability services and Borders ability equipment store) transferred to SB Cares, an arms-length external organisation (ALEO). Secondly, a feasibility study of options for Cultural services is underway including an option for an integrated sports and culture trust. Within both projects at appropriate stages Management have reviewed the guidance from the Accounts Commission issued in 2011 – *How Councils Work: an improvement series for councillors and officers – Arm's length external organisations (ALEOs): are you getting it right?* – and have used the toolkit included in that document in designing governance and scrutiny processes relating to the projects;
 - Good progress has been made against each element of the Community Planning Partnership (CPP) improvement plan. Where actions have not yet been completed, the partnership has a clear understanding of dependencies on other processes and has made a realistic appraisal of timescales for completion;

- Effective management and administration of the Carbon Reduction Commitment Energy Efficiency Scheme (CRC) within governance of Carbon Management Programme to meet obligations on energy efficiency;
 - Restructured and integrated Communications, Graphics and Print functions resulting in closer working, enhancing the work processes and ultimately the end to end service provided by the team including the range of products on offer.
 - The inspections, planning and work schedules within Neighbourhood Operations show that the area teams now work on a more flexible approach which ensures that the Council has the ability to move teams or target specific areas as necessary regarding parks and open spaces, street cleansing, litter picking, snow clearing, gritting, etc.;
 - Progress has been made to integrate the corporate plan, service business plans, employees' performance review and development process, the programme of change and transformation, and the financial plan aligned to the Single Outcome Agreement;
 - Progress has been made on corporate performance monitoring. For each of the eight identified corporate priorities there is a set of more outcome focussed performance indicators, which management reports on quarterly, allowing elected members and officers to assess how well work is progressing towards addressing the priorities. Significant development work has been carried out to complete the Local Government Benchmarking Framework exercise developed to help Councils compare their performance using a standard set of indicators;
 - There is evidence of effective information management processes and procedures which has resulted in improved response times to Freedom of Information requests.
- 2.3 The Health and Social Care Integration Scheme for the Scottish Borders has been developed with the full involvement of the Council's Internal Audit section. The Chief Officer Audit & Risk has been fully involved in developing the governance scheme for the Partnership as a member of the Integration & Governance working group since November 2013 and has been consulted on the draft Scheme of Integration. Significant work has been undertaken for the Scottish Borders to develop the governance arrangements in respect of the Health and Social Care integration programme including the appointment of the Chief Officer for Health and Social Care Integration in July 2014, the submission of the final Scheme of Integration to Scottish Ministers on 31 March 2015, the establishment of an Integration Joint Board with effect from 2 April 2015, and the commencement on the development of the strategic plan which will become live on 1 April 2016.
- 2.4 The Council has reviewed and refreshed its risk management policy and approach whose main priorities are the robust systems of identification, evaluation and control of risks which threaten the Council's ability to meet its objectives to deliver services to the public.
- 2.5 The Council has a number of IT security policies in place which are designed to minimise the risks to the Council's electronic assets from attacks on confidentiality, integrity and availability, the SBC Computer Security Policy and Standards being the overarching policy.
- 2.6 The Chief Officer Audit & Risk facilitates the annual review of the Council's governance arrangements against its Local Code of Corporate Governance carried out by a self-evaluation working group of officers from across the Council's services. This is part of the process to produce the Annual Governance Statement for assurance purposes which is published in the Statement of Accounts to report publicly on the extent of compliance with the Local Code. There is a commitment to update and gain approval to the revised Council's Local Code of Corporate Governance. This is to ensure this key document continues to be relevant and complete to reflect the appropriate framework for effective governance of the Council's affairs and facilitate the exercise of its functions.

- 2.7 There were nil Priority 1 (Significant weaknesses in existing controls) recommendations issued during the year that related to Internal Control and Governance (3 in 2013/14).
- 2.8 Reasonable assurance can be provided on the adequacy of the internal controls and governance arrangements in place. There is adequate awareness and observation of the Council's Local Code of Corporate Governance (February 2012) and key governance documents Scheme of Delegation (June 2014), Scheme of Administration (November 2014), Procedural Standing Orders (December 2013), Financial Regulations (March 2012), and Codes of Conduct for Councillors and for Employees which can be demonstrated by way of the findings of Internal Audit reviews during 2014/15.
- 2.9 Further improvements in internal control and governance have been agreed by Management in the following areas as highlighted in internal audit reports and recommendations made during the year:
- Arrangements for monitoring the financial and service performance of the Sports Trusts and for maintaining accountability for the public funding given to the Sports Trusts;
 - Additional asset types to be included within the Road Asset Management Plan, development of a road maintenance manual to reflect policy and standards, and monitoring and review of road safety inspection and related repairs performance information.
 - Implementation in full of the Council's new approach and governance for the corporate transformation programme, utilise the project managers' forum to facilitate sharing best practice and lessons learned, and implement robust mechanisms to ensure consistent use of methodologies and toolkits to positive effect for the Council. This is of particular importance as the Council continues to review and transform its service provision to deliver the required efficiency savings in light of the significant financial challenges it continues to face in the medium term;
 - Fully implement the Performance Management Framework including the establishment of an appropriate self-assessment process in all Council services to demonstrate achievement of Best Value. Evaluation of the new Committee structure arising from the 2014 review within 12 months of its operation to assess the effectiveness of elected members scrutiny of plans, progress, performance and quality;
 - Implement further Information Management actions facilitated by the re-established Information Governance Group: design processes to confirm that records are weeded in line with retention schedules; measure and report annually by the Senior Information Risk Officer (SIRO) on the Council's compliance with the Data Protection, the activities and effectiveness of the Information Governance Group; design and implement processes for identifying, recording and reporting incidents of data loss, or near misses; and design and introduce housekeeping processes to securely store data and records;
 - Enhanced recording of staff performance appraisal and development (PRD) completion dates to enable monitoring and review to ensure there is a consistent approach to staff performance appraisal and development (PRD) in all Council services. Full roll out of workforce planning and succession planning across the Council, building on the successful pilots that have been undertaken in targeted areas.
 - Need for a consistent approach to the development of strategic asset management plans by officers and their subsequent review by elected members to inform the capital financial planning process. Establish a Capital Governance Group to formally assess and prioritise business need within the Council, and to consider the implications of how resources are allocated.

3 Opinion on the Systems of Internal Financial Control

- 3.1 My opinion is that, based on our reviews, risk assessments and knowledge, the systems of internal financial control are operating satisfactorily.
- 3.2 Continuous improvements in internal financial controls can be demonstrated by Management through the implementation of audit recommendations, complemented by other Management initiated improvements, which are designed to address control weaknesses or to ensure more robust controls. Internal Audit reports during the year confirm improvements in internal financial control in:
- Financial administration and management arrangements of the Early Years' service, Building Standards Emergency Works, one Residential Home, one Day Service, and three Secondary Schools are effective and adhere to Financial Regulations;
 - Significant work to incorporate the Plant and Vehicle asset planning process into the capital and revenue budget planning process and to improve governance and controls over this expenditure.
 - Specific procedures and measures in place for LEADER and European Fisheries Fund grant funded projects to enable compliance with the terms of the Service Level Agreements including strengthening of file compliance and documentary evidence of eligibility and transparency of procurement compliance at individual project level, and enhanced scrutiny of project application and assessment documentation;
 - Enhanced Procurement to Payment processes including completion of the Proactis e-procurement system rollout covering 72% of payments and thereby ending the use of the manual "pink slip" payment authorisation process, significant work to populate the Scottish Government Information Hub ('Spikes Cavell') Contracts Register to meet the statutory obligation to publish a public facing version by April 2016, ongoing positive outcome on performance arising from the Procurement Capability Assessment, and 93% of invoices paid within 30 days (Q1 2014/15);
 - Significant improvement in the average time taken to raise an invoice and to receive the invoice payment, heightened income collection and recovery processes and procedures resulting in significantly reduced write-offs and reduced overdue debt and aged debt balances, and extensive review of Social Work fees and charges regime;
 - There has been a considerable improvement in the completion of history sheets associated with accounts for Council Tax and Non Domestic Rates. Discounts, reliefs and exemptions awarded are supported by appropriate evidence. Performance for Council Tax and Non Domestic Rates is regularly monitored and reviewed by management.
 - There is a substantial improvement in the completion of history sheets associated with benefit claims. Awards made were supported by appropriate evidence. Performance for benefit assessment is regularly monitored and reviewed by management.
- 3.3 The Council has reviewed its counter fraud management arrangements and Corporate Management Team have endorsed the recommended areas of improvement from the review which are key to the Council's proactive, holistic approach to tackling fraud, theft, corruption and crime, as an integral part of protecting public finances, safeguarding assets, and delivering services effectively and sustainably.
- 3.4 There is a commitment to complete the review the Council's Financial Regulations to ensure they continue to reflect the appropriate framework for sound financial management, and to ensure they are relevant and complete. They complement the other key governance documents by establishing the accountabilities, responsibilities and authority levels for officers and elected members.

- 3.5 There were nil Priority 1 recommendation (Significant weaknesses in existing controls) issued during the year that related to internal financial control (4 in 2013/14).
- 3.6 Reasonable assurance on the systems of internal financial control can be provided based on the extent of compliance with fundamental financial systems as set out in the Council's Financial Regulations (March 2012) and Procedural Standing Orders (December 2013). There is adequate awareness and observation of the regulations and procedures that can be demonstrated by way of the findings from Internal Audit reviews during 2014/15 and other key indicators.
- 3.7 Further improvements in internal financial control have been agreed by Management in the following areas as highlighted in internal audit reports and recommendations made during the year:
- Setting realistic income budgets specifically Development Management Fees to ensure these are based on trend analysis and anticipated growth or reduction;
 - Opportunity to improve controls and governance of workforce utilisation prior to commitment of overtime and to improve authorisation of overtime hours and claims in order to more easily demonstrate delivery of services at costs which represent good value for money and to ensure compliance with legislation;
 - Some improvements required relating to the arrangements for monitoring external carers' provision of service and for monitoring the financial and service performance of the Homecare service as a whole;
 - Further improvements are planned to deliver an effective Contract Management Framework which to be a success will require to be embedded in the business practices and culture of the Council. Improving contract management at performance and supplier management stage has been identified at a national level as key to unlocking the Supply Chain Value;
 - Full implementation of improvements to Social Care Charging process including monthly reporting on billing, policies and procedures that ensure timely assessment and billing, key performance measures and targets, and staff training;
 - Further policy awareness training relating to Income Management and External Charging and full development of performance management reporting which are designed to strengthen these processes further;
 - Requirement to update budget monitoring codes of practices and to fully develop written guidelines and procedures for financial processes linked to the Financial Regulations and to make improvements to their availability.

4 Internal Control Systems

- 4.1 Senior Management have a duty to:
- set up suitable and sound systems of internal control
 - monitor the continuing effectiveness of these systems
- 4.2 The main aims of these systems are to ensure that :
- assets are safeguarded
 - statutory requirements, management policies and procedures are observed
 - information and records are appropriate, reliable, complete and accurate
- 4.3 Control systems can only ever provide reasonable and not complete assurance that:
- control weaknesses or irregularities do not exist
 - there is no risk of material errors, losses, fraud, or breaches of laws and regulations
- 4.4 The system of internal control is not fixed but should change as the local government environment evolves.

5 Internal Audit Background

- 5.1 I, Jill Stacey BA(Hons) ACMA CGMA, have been in the role of Head of Internal Audit (HIA) from January 2005, currently Chief Officer Audit & Risk.
- 5.2 The Internal Audit resources were made up of:
- Chief Officer Audit and Risk (50%)
 - Internal Audit Manager (75%)
 - two Senior Internal Auditors, and
 - two Internal Auditors
- 5.3 The Internal Audit function operates in line with the professional standards as set out in the Public Sector Internal Audit Standards (PSIAS) effective from 1 April 2013. The PSIAS sit alongside the CIPFA Role of the Head of Internal Audit document. The Audit Manual outlines the policies, procedures, processes and systems in place that underpin the continued provision of independent and objective internal audit assurance to guide staff in performing their duties and conform to the PSIAS.
- 5.4 The Chief Officer Audit & Risk reports administratively to the Service Director Strategy & Policy, reports functionally to the Audit & Risk Committee, meets regularly with the Chief Financial Officer, and has direct access to the Chief Executive, Depute Chief Executives, and Service Directors who make up the Corporate Management Team. The HIA reports in her own name and retains final edit rights over all internal audit reports.
- 5.5 The Chief Officer Audit & Risk has managerial responsibility for the functions which develop, support and advise on the frameworks in place at the Council on Risk Management and Counter Fraud. In order to ensure that internal audit independence and objectivity is maintained in this scenario, the internal audit work on these areas will be carried out with the Chief Officer Audit & Risk as the client and with the Internal Audit Manager fulfilling the HIA role in accordance with the Internal Audit Charter.
- 5.6 The net cost (projected outturn at February 2015) of the Internal Audit service was £256k (2013/14 £234k) to deliver the Internal Audit Annual Plan 2014/15 and to provide assurance on the adequacy and effectiveness of the Council's internal controls, risk management and governance arrangements. The majority of internal audit service expenditure related to staff costs £252k – 98% (2013/14 £229k – 98%) including training costs associated with a staff member undertaking professional accountancy qualification (£5k) and internal audit specialist resources to cover temporary secondments (£36k). In addition there were travel expenses £2k – 1% (2013/14 £2k - 1%) and supplies and services £2k - 1% (2013/14 £3k - 1%).
- 5.7 Internal Audit is continuously improving its service in accordance with the Council's corporate performance improvement framework. Activities that will ensure Internal Audit has the resources and competences to deliver the standard of service expected to provide the required assurance to Management and the Audit & Risk Committee include:
- Support Audit & Risk Committee members' development to enable effective scrutiny and challenge to fulfil its remit.
 - Set personal objectives and development plans for all staff, interim reviews of progress, and annual appraisal of performance against objectives and plans.
 - Maintain staff knowledge and competency: Staff development workshops and attendance at relevant forums/training events; Key messages from these have been discussed with the team members; a programme of continuing professional development (CPD) has been undertaken by internal auditors as appropriate.
 - Achieve internal audit standards: An internal self-assessment of internal audit practices was carried out during 2014/15 against the PSIAS. Demonstrated improvements have been made during the year through implementation of agreed actions arising from the 2013/14 self-assessment, and the 2014/15 self-assessment has indicated a reasonable

level of conformance with both the Attribute Standards (Purpose, Authority and Responsibility; Independence and Objectivity; Proficiency and Due Professional Care; Quality Assurance and Improvement Programme) and the Performance Standards (Managing the Internal Audit Activity; Nature of Work; Engagement Planning; Performing the Engagement; Communicating Results; Monitoring Progress). Scottish Borders Council will be one of the local authorities in Scotland piloting the external quality assessment framework developed by the Scottish Local Authorities' Chief Internal Auditors' Group (SLACIAG). The Quality Assurance and Improvement Plan which is designed to enable evaluation of Internal Audit's conformance with the Definition of Internal Auditing and the Standards, along with an evaluation of whether Internal Auditors apply the Code of Ethics, includes an action plan to implement further improvements during 2015/16. Specifically the Audit Manual will be reviewed and updated to reflect changes in working practices and standards to conform to the PSIAS.

6 Internal Audit Plan Delivery in 2014/15

6.1 The Internal Audit Annual Plan 2014/15 was delivered using the following approach:

- There has been consultation and engagement with senior management in departments to schedule, plan and scope audit work on a regular basis to co-ordinate with management review, change and development work and external audit and inspection activity.
- Each auditor has been assigned audits to complete as part of their individual performance targets.
- Staff development workshops have been held and personal learning and development plans have been implemented to ensure internal auditors continue to have the skills and knowledge to deliver the service in an ever-changing and complex environment.
- Resources were deployed in the delivery of the follow-up work to check that recommendations have been implemented. In cases where recommendations were priority 1 or 2 further testing work was carried out to ensure that the new controls had the desired effect on improving internal control and governance.
- Internal Audit responded to specific control issues highlighted by managers during the year by incorporating those aspects within specific audit scopes or performing contingency audits approved by the Chief Officer Audit & Risk.

6.2 The following table shows the analysis of hours and audit numbers by audit type:

	Plan hours 2014/15	Actual hours 2014/15	Plan Audit Nos. 2014/15	Actual Audit Nos. 2014/15
High Risk Audits	2520	2332	23	21
Medium Risk Audits	1085	1154	15	13
Low Risk Audits	245	158	6	2
Follow-up	70	67		
Planned Audits Sub-Total	3920	3711	44	36
Consultancy		1263		4
Contingency Audits	1730	509		5
Advice		274		
Total	5650	5757	44	45

- 6.3 The following table shows the analysis of hours and audit numbers by department combining planned, consultancy and contingency audit work:

	Plan hours 2014/15	Actual hours 2014/15	Plan Audit Nos. 2014/15	Actual Audit Nos. 2014/15
Corporate	2590	2711	17	18
Place	1670	1627	18	16
People	1070	1078	9	11
Follow-up	70	67		
Advice	250	274		
Total	5650	5757	44	45

- 6.4 The level of Actual hours was broadly on plan (102%). This was despite the temporary reduction in internal audit staff resources in 4th quarter 2014/15 due to long-term sickness absence of one member of staff. This performance can be attributed to the greater direct audit productivity from the Internal Audit team than anticipated in the audit plan. This has been achieved by individual internal auditors striving to meet their personal objectives and performance targets, and by deploying internal auditors to audit work which uses their specific qualifications, skills, knowledge and experience thus lessening the learning curve and familiarisation process.
- 6.5 The allocation of audit plan hours is not an exact science and some of the audit scopes have been carried out using less than planned hours and some using more than planned hours.
- 6.6 Internal Audit completed 45 audits during the year (43 - 2013/14) with reports containing a total of 34 recommendations (51 – 2013/14), which have been agreed with management with acceptable timescales for their implementation.
- 6.7 Not all planned audits have been completed for the following reasons in agreement with the relevant Senior Management:
- The Economic Development & Regeneration audit was not carried out as there has been a high level of corporate management and elected member scrutiny of this area given the corporate priority of 'encourage sustainable economic growth' and assurance was gained from contingency audit work on LEADER and European Fisheries Fund grants and compliance with service level agreements.
 - The audits on Winter Service, Developer Contributions, Licensing and Registrars were not carried out in full as internal control systems and governance in these areas had not changed significantly since the previous audits when satisfactory assurances were gained and therefore only light touch audits were deemed of value.
 - The Homelessness audit has been rescheduled to 2015/16 to align with system review and development work within the service.
 - The specific audit on People with Mental Health Needs was not carried out as this service area is included within Health and Social Care Integration which was covered by the wider consultancy audit work.
 - The audit on Treasury Management was not carried out in light of the national study carried out by Audit Scotland on Treasury Management during 2014 from which assurance will be gained.
- 6.8 The above have not affected the assurance that internal audit is able to give to Management and the Audit & Risk Committee on the adequacy and effectiveness of internal control systems and governance arrangements.

6.9 Internal Audit received positive customer comments from clients relating to 2014/15 audits, advice and consultancy work which indicates positive feedback of the value and performance of the Internal Audit section. Opportunities for improvements are discussed with Management on a regular basis as part of reporting on progress with delivery of the internal audit programme of work or when consulting on audit plans being developed.

7 Internal Audit activity during 2014/15

7.1 The wide range of internal audit work performed during the year is listed below:

Governance Audits

7.2 To provide assurances in relation to the Council's corporate governance framework that is a key component in underpinning delivery of the corporate priorities within the Council's Corporate Plan, reviews during 2014/15 included:

- Business Transformation Programme & Project Management
- Local Code of Corporate Governance
- Performance Management
- Workforce Planning
- Sports Trusts (ALEOs)
- Proposed Culture Trust (Consultancy)
- Community Planning, Joint Working and Partnership
- Social Enterprise review (Consultancy)
- Communications
- Early Years' Service
- Home Tuition (Contingency)
- EU LEADER Grants compliance with Service Level Agreement (Contingency)
- European Fisheries Fund compliance with Service Level Agreement (Contingency)
- Criminal Justice
- Proposed Social Care ALEO (Consultancy)
- Health & Social Care Integration (Consultancy)
- Carbon Management Programme
- Roads Asset Management
- Waste & Recycling Services
- Passenger Transport
- Flood Risk and Coastal Management
- ICT Infrastructure
- ICT Business Systems
- Data Security and Information Management

7.3 Where governance improvements were identified these were highlighted to management and actions were agreed to make improvements to manage the risks to the Council.

Financial Control Systems Audits

- 7.4 To provide assurance on the internal financial controls in place, reviews during 2014/15 of the Council's financial and management information systems and fraud prevention and detection controls included:
- Capital Investment
 - Property Asset Management
 - Financial Planning & Reporting including Efficiency Savings
 - Procurement to Payment
 - Contract Management (Consultancy)
 - HR Shared Services
 - Overtime (Contingency)
 - Revenues – Council Tax & Non Domestic Rates
 - Benefits Assessment
 - Scottish Welfare Fund (Contingency)
 - Income Charging, Billing & Collection
 - Secondary Schools – Earlston High School
 - Secondary Schools – Eyemouth High School
 - Secondary Schools – Hawick High School
 - Development Management Fees
 - Building Standards Emergency Works
 - Homecare
 - St Ronan's Residential Home and Tweeddale Day Service
 - Fleet Management
 - Neighbourhood Management
 - Safer Communities – Pathway Project Grant Funding Compliance
- 7.5 Where control improvements were identified these were highlighted to management and actions were agreed to make improvements to manage the financial risks to the Council.

Advice and Consultancy Work

- 7.6 Internal Auditors provided advice and consultancy services in accordance with the approved Internal Audit Charter as set out in the Internal Audit Annual Plan 2014/15. The two significant pieces of consultancy work related to the development and implementation of approved governance arrangements associated with the Integration programme for Health & Social Care, and the development and implementation of alternative service delivery arrangements including feasibility of options for Cultural services and SB Cares for Adult Social Care services, resulting in reports to provide assurance on governance arrangements being designed.
- 7.7 Internal Auditors responded to a number of requests for ad hoc advice and assistance on internal controls, risk management and governance. There has been an increase in the number and range of requests indicating management's awareness of this value-added service provided by Internal Audit and acknowledgement by Management of the benefits of proactively engaging with Internal Audit as the Council's continues to transform its services and processes.
- 7.8 The two Senior Internal Auditors each continue to provide quality assurance on the Welfare Reform Programme and the Information Governance Group. Internal Audit resources have also been deployed on corporate process reviews to inform revised policy and strategy, specifically the Corporate Risk Management Review and the Counter Fraud Management Review.

Meetings and user groups

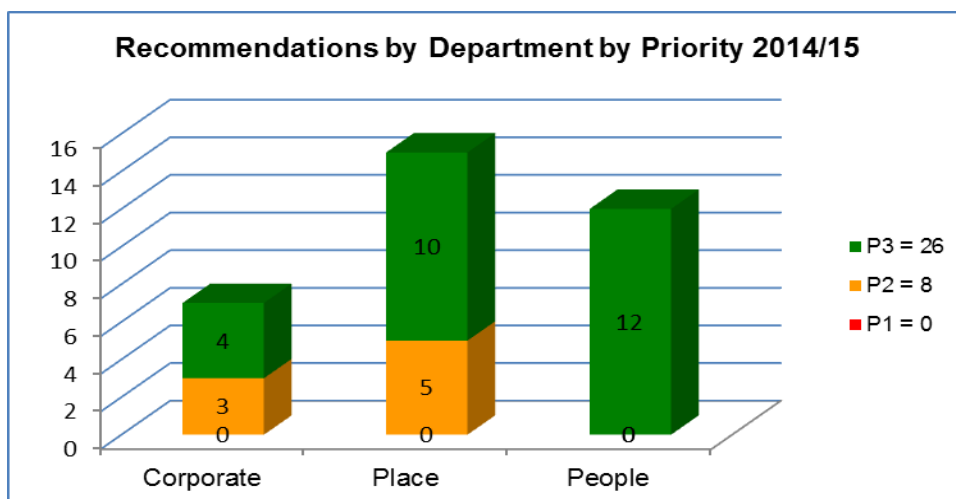
7.9 Internal Audit staff regularly attended the following meetings and user groups:

- Audit & Risk Committee: the Chief Officer Audit & Risk (HIA) developed a structured work programme of Informal Sessions to support the development of the members of the Audit & Risk Committee including formal assessment against the Knowledge and Skills Framework within CIPFA 'audit committees' Guidance 2013 and a formal Evaluation of the Effectiveness of the Committee using the toolkit within CIPFA 'audit committees' Guidance 2013.
- Department Management Teams: the Chief Officer Audit & Risk attended meetings to update Depute Chief Executives, Service Directors and Managers on key internal control and governance issues, to provide assurance arising from recent internal audit work, and to discuss key risks and assurance requirements as part of consultation on planning specific audit assignments and future internal audit plans.
- Scottish Local Authorities Chief Internal Auditors Group (SLACIAG): the Chief Officer Audit & Risk was appointed as Chairman of this internal audit forum in March 2014 having served as Vice Chairman for the previous two years. The purpose of the group is to develop and improve the practice of Internal Audit in Scottish local authorities, police, fire and public transport bodies. It achieves this by meeting to discuss issues of common concern, commissioning work to develop ideas, sharing good practice, working in partnership with other professions/governing bodies and promoting SLACIAG as the representative body for internal audit in public authorities.
- SLACIAG Computer Audit sub group: one of the Senior Internal Auditors is a member on this forum which has the aim of furthering the practice of technical Information Systems auditing across member Authorities.
- IDEA Scotland User Group: one of the Senior Internal Auditors is a member on the Committee. IDEA is a computer assisted audit technique (CAAT) tool employed for data analysis, data mining, and forensic auditing.

8 Audit Recommendations

8.1 Management has responsibility for ensuring that agreed audit actions are implemented to address the identified weaknesses and mitigate risks. At final internal audit report stage the Audit Recommendations have been input to Covalent to assist with management tracking of implementation, to link with relevant risks and to evidence improvement in internal control and governance arrangements.

8.2 During the year 2014/15 Internal Audit have made 34 recommendations categorised as Priority 1 - 0 (7 in 2013/14), Priority 2 - 8 (28 in 2013/14) and Priority 3 - 26 (16 in 2013/14). The following table summarises the 2014/15 Internal Audit Recommendations:



- 8.3 Internal Audit accepts that its responsibility does not cease at the point where a report is issued and will take reasonable action to follow up the implementation of agreed actions to ensure they are in place and are effective. The following table highlights the latest position with regards to internal audit recommendations arising from previous years:

Year identified	Total	Implemented	Not Yet Due	Overdue
2014/15	34	8	16	10
2013/14	51	34	10	7

- 8.4 Internal Audit will continue to follow their standard quarterly follow-up activity and continue to work with management to address any actions that become overdue, and bring any matters to the attention of the Audit & Risk Committee. The follow-up activity takes into consideration their priority status, what target timescales are in place for full implementation, the explanation of the reason for any delay in implementation, and a review of their status to ensure the recommendations are still relevant or whether alternative solutions are required to address the identified weakness.

Jill Stacey
Chief Officer Audit & Risk
30 April 2015