
INTERNAL AUDIT WORK TO MARCH 2018

Report by Chief Officer Audit and Risk

AUDIT AND SCRUTINY COMMITTEE

14 May 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 24 February to 31 March 2018 to deliver the Internal Audit Annual Plan 2017/18 is detailed in this report. During this period a total of 3 Final Internal Audit Reports have been issued. There were 18 recommendations made associated with 1 of the reports which have been accepted by Management for implementation. These relate to the Business World ERP System Key Internal Controls review which was an integration of 4 audits as part of our Financial Governance assurance work. The implementation of the new Business World ERP system and administrative processes was a significant change for the Council which went live from April 2017 for HR, Payroll, Procurement and Finance Management (replacing four long-established Legacy systems with one integrated ERP system, though eight Legacy feeder systems remain live (including those for road contracts, fleet, property, income management) requiring a degree of operational workaround and manual reconciliation due to lack of interfaces. The project was the largest system and business process change ever undertaken by the Council requiring the assistance of specialist technical implementation team of external consultants in addition to significant Council staff resource. The system is extremely complicated and demanding on project resource and time, and a balance has been achieved between business as usual and project development and implementation. External Auditors, Audit Scotland, will place reliance on this Internal Audit work.
- 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 24 February to 31 March 2018 associated with the delivery of the approved Internal Audit Annual Plan 2017/18; and**
- (b) 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. Internal Audit has carried out the following work in the period from 24 February to 31 March 2018 to deliver the Plan to meet its objective of providing an opinion on the efficacy of the Council's risk management, internal control and governance.
- 3.2 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

- 3.3 Internal Audit issued final assurance reports on the following subjects:
- Grants incl. Following the Public Pound
 - Business World ERP System Key Internal Controls (incorporating Procure to Pay, Sales to Cash, Payroll, and Record to Report)
 - Community Safety
- 3.4 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 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, or uncertainties, which could 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.

Recommendations

- 3.5 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. Senior Management to add to relevant Risk Register and include in 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.

- 3.6 The table below summarises the number of Internal Audit recommendations made during 2017/18:

	2017/18 Number of Recs
Priority 1	0
Priority 2	8
Priority 3	10
Sub-total reported this period	18
Previously reported	24
Total	42
Recommendations agreed with action plan	42
Not agreed; risk accepted	0
Total	42

4 IMPLICATIONS

4.1 Financial

There are no costs attached to any of the recommendations in this report.

4.2 Risk and Mitigations

- 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."
- 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.
- 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 Chief Financial Officer has 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 19 March 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: Financial Governance</p> <p>Subject: Grants including Following the Public Pound</p> <p>No: 004/003</p> <p>Date issued: 4 May 2018</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to follow-up on progress with implementation of previous Recommendations including the update of the Following the Public Pound code of practice, and the Grants Review Project in support of securing best value.</p> <p>Two of the agreed actions were progressed at the time of the previous audit (i.e. reconciling the master Grants Received Register and Grants Disbursed Register to FIS). The rectification work on Business World ERP system since its roll out in April 2017 has been the main focus of much business activity and resources, both officers and consultants. The Finance Service has undergone a restructure which has further delayed the work to progress the remaining Recommendations.</p> <p>A Discussion Paper by the Communities & Partnership Manager, responsible for the Grants Review, has been prepared for presentation to Corporate Management Team with proposals relating to the future management and administration of community grants.</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. These include: continued development of Business World ERP system functionality to enable a complete and transparent overview of all grants received and disbursed and the ability to link them back to source funding; progress of work planned for update of Following the Public Pound/Best Value Policy Statement and Grants and Distributions procedures that will enable compliance monitoring; and progress of proposed developments to the administration of grants that are intended to enhance and simplify the customer experience, provide meaningful Management Information for analysis and decision making, and ensure equitable opportunity for communities to make grant applications across the Scottish Borders area.</p>	0	0	0	Management have accepted the report findings and continue to progress the improvement actions.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Financial Governance</p> <p>Subject: Business World ERP System Key Internal Controls (incorporating Procure to Pay, Sales to Cash, Payroll, and Record to Report)</p> <p>No: 073/001</p> <p>Date issued: 4 May 2018</p> <p>Level of Assurance for the specific areas tested:</p> <ul style="list-style-type: none"> • Procure to Pay – Limited (GL07 and Role Profiles); Substantial for other areas tested • Sales to Cash – Substantial • Payroll – Substantial • Record to Report – Substantial • System Roles / User Access – Limited • Systems Documentation and Training Materials post “go live” – Limited 	<p>This Business World ERP System Key Internal Controls review was an integration of 4 audits as part of our Financial Governance assurance work included within our Internal Audit Annual Plan 2017/18 relating to the workstreams: Procure to Pay; Sales to Cash; Payroll; and Record to Report.</p> <p>The Council has replaced its older legacy systems with an integrated Enterprise Resource Planning (ERP) solution, Business World, for HR, Finance and Procurement processes designed to reduce duplication in processing and data handling. The successful implementation of Business World is one of the cornerstones by which the Council seeks to achieve transformational change in the way that it operates. The introduction of the Business World ERP system is extremely complicated and demanding on project resource and time, and a balance has been achieved between business as usual (for example, payroll payments being processed on time and supplier payments being made) and project development and implementation. This complexity and the timescales within which introduction was required has led to the implementation being assessed as high inherent risk requiring frequent Internal Audit reviews over the next few years.</p> <p>The purpose of the review was to test the end to end processes and internal controls in place which are intended to:</p> <ul style="list-style-type: none"> • ensure complete and accurate processing of transactions with suppliers and customers; • ensure complete and accurate processing of payments to current and former employees; and • record transactions and payments in an appropriate manner for the purposes of budgetary control and financial reporting. <p>This audit was intended to satisfy three objectives: to provide Management with assurance on the operation of the Business World system; to contribute towards the production of the Internal Audit annual assurance opinion; and to supplement the work undertaken by Audit Scotland in the external audit process.</p>	0	3	2	P2P
		0	0	2	S2C
		0	0	1	PAY
		0	3	5	R2R
		0	2	0	All Modules
					<p>Management have accepted the report findings, and have confirmed that plans are in place to implement areas of improvement within reasonable timescales though reflecting the challenge that limited resources and complexity will have on progress of these improvement actions.</p> <p>Internal Audit will support the implementation of recommendations in its ‘critical friend’ role.</p>

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<p>Subject: Business World ERP System Key Internal Controls (incorporating Procure to Pay, Sales to Cash, Payroll, and Record to Report)</p> <p>(Cont'd)</p>	<p>Initial tests within Business World concerned Data Migration from the Council's legacy systems at implementation. This was generally robustly undertaken though some issues were addressed and our checks confirmed that data was correctly migrated.</p> <p>Our work was then carried out in two stages. During the first stage we tested processes and internal controls in place during the period April 2017 to November 2017. In the second stage of our work we covered the period December 2017 to the end of the 2017/18 financial year in order to confirm that controls continue to operate as previously assessed and additionally to review any changes to processes or controls during the second period in recognition of the ongoing Rectification Plan being delivered by CGI.</p> <p>The Business World Masterfile records (Supplier, Customer, Employee) contain financial and personal data and it is essential that any changes to Masterfile records in terms of creation, amendment or deletion are tightly controlled and restrictions around access are applied. Substantive testing of these indicated that Masterfile amendments were processed by officers with positions expected to undertake those tasks and those changes are generally supported by appropriate documentation.</p> <p>Audit trails of amendments made to Masterfile records in Business World can be produced and our review of the audit trails for Procure to Pay and Sales to Cash revealed some limitations in their functionality.</p> <p>The testing of transactional processing evidences that valid transactions are being accurately and correctly recorded, but weaknesses in internal controls create vulnerabilities making processes susceptible to error or fraud.</p>				

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<p>Subject: Business World ERP System Key Internal Controls (incorporating Procure to Pay, Sales to Cash, Payroll, and Record to Report)</p> <p>(Cont'd)</p>	<p>Our review of the GL07 payment process, which was created to facilitate making payments to non-supplier/non-payroll individuals and businesses, highlights particular areas of concern; specifically, the lack of workflow and systems-based authorisation, and the inability to distinguish GL07 transactions in General Ledger from other P2P payments.</p> <p>At present we consider that sufficient functionality currently exists within the Record to Report module to broadly achieve its objectives; however, weaknesses in controls and authorisations could undermine the accuracy of information contained with the General Ledger and subsequent reporting.</p> <p>Role separation has been designed and implemented to provide an appropriate separation of duties. It is not easy to ascertain that the configuration of the role profiles fully ensures this in every instance. We understand that a role review is currently underway but until this role review is completed we can only give limited assurance in this area.</p> <p>Changes to the configuration of the Business World system since implementation means that the Solution Design Documents do not accurately reflect the way the system now operates and therefore training materials may be out of date. If systems processes are not documented and/or staff are not adequately trained in their operation, processing may not be efficient and errors may occur. Therefore we have made recommendations accordingly concerning system documentation and training.</p> <p>Financial Regulations, Policies and Procedures require review and updating to ensure they reflect current practices.</p> <p>Some modules within BW are currently not operational, such as the Asset Register, therefore we did not carry out any review of this. The legacy Asset Register provided through the Techforge system is being used for the remainder of 2017/18 including the statutory accounting process; this provides a low risk alternative ahead of transfer to Business World in 2018/19. We have also not reviewed the operation of Commitment Accounting.</p>				

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<p>Subject: Business World ERP System Key Internal Controls (incorporating Procure to Pay, Sales to Cash, Payroll, and Record to Report)</p> <p>(Cont'd)</p>	<p>We made the following recommendations:</p> <p><u>Procure to Pay</u></p> <ul style="list-style-type: none"> Processes for recording workflow should be amended such that subsequent changes to records do not overwrite workflow recorded arising from earlier changes to the same Masterfile record. (P2) The processes in place in respect of GL07 payments require urgent reconsideration such that they are sufficient to enforce the Councils' "No order, no payment" policy and financial authorisation limits in accordance with the Scheme of Delegation. (P2) Except in special circumstances invoices should be processed through the workflow process. (P2) Officers should be reminded of the importance of promptly receipting goods and services received. (P3) Officers should be reminded that orders should be raised for goods and services via official Business World orders and not retrospectively in order to facilitate supplier payment. (P3) <p><u>Sales to Cash</u></p> <ul style="list-style-type: none"> Managers should ensure that invoices are raised in a more timely manner to ensure that the Council receives its income for goods and services that have been provided. (P3) Where a credit note does not detail sufficient information, then the officer authorising the credit note should request this information prior to authorisation in order to confirm that the credit note is appropriate and accurate. (P3) <p><u>Payroll</u></p> <ul style="list-style-type: none"> A compliance exercise should be run to validate the existence of employees and confirm they are actively employed. (P3) 				<p>The first 3 P2P recs are systems based whereas the final 2 are operational processes.</p> <p>The 2 S2C recs are operational processes.</p> <p>The PAY rec is an operational process.</p>

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		1	2	3	
<p>Subject: Business World ERP System Key Internal Controls (incorporating Procure to Pay, Sales to Cash, Payroll, and Record to Report)</p> <p>(Cont'd)</p>	<p><u>Record to Report</u></p> <ul style="list-style-type: none"> • Journals which are not presently processed through workflow should be subjected to system enforced separation of duties and authorisation controls. Ideally this would be achieved by resolving issues with the workflow that presently prevent this from happening. (P3) • Problems with the Planner module which prevent virements to the capital budget being processed within Business World should be resolved. Capital budget virements which have been manually recognised should be input into Business World. (P3) • Problems preventing the correct operation of the bank reconciliation module in Business World should be resolved to permit automation of the Bank Reconciliation process. (P2) • Reconciliations of uploads from feeder systems should be independently and periodically reviewed by Management. (P2) • All journals should be supported by appropriate documentation. (P3) • Periodic agreement should be undertaken between control account balances in the trial balance and total account balances according to the aged creditors and aged debtors reports. (P2) • Balances on suspense accounts should be regularly reviewed, promptly cleared and independently monitored. (P3) • Now that Bank Reconciliations have been brought up to date they should be produced timeously and subject to independent review by a Senior Officer. (P3) <p><u>All Modules</u></p> <ul style="list-style-type: none"> • A review of the available (or other) Audit Logs should be carried out to ensure all transactions are listed and enable regular review. (P2) • Comprehensive systems documentation and training materials for all modules should be produced and Training materials should be updated and periodically reviewed. (P2) 				<p>The first 3 R2R recs are systems based whereas the final 5 are operational processes.</p> <p>The first All Module rec is systems based and the second is operational processes.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Community Safety</p> <p>No: 216/008</p> <p>Date issued: 30 April 2018</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to evaluate partnership working within Community Safety to ensure responsibilities and accountabilities of partners are clearly defined and to ensure funds are used effectively and economically for the intended purpose to meet local priorities. Specifically, a review of controls in place for the effective and sustainable delivery of Domestic Abuse services and use of resources.</p> <p>The Safer Communities team have responsibility for Community Justice, Anti-Social Behaviour, and Domestic Abuse. The majority of funding for the Domestic Abuse service has been secured through grant applications, such as Big Lottery, and Scottish Government. However, the service has been informed there will be no future grants available. This leaves a funding shortfall from 2020. Following delivery of a paper to Corporate Management Team (CMT) which highlighted this issue, a decision was taken that all options should be considered for future funding and a paper outlining them presented to CMT. This has been slightly overtaken by the Public Protection agenda which is now considering which elements of the Safer Communities activities sit within their remit. The deadline for this work is October 2018.</p> <p>The Domestic Abuse service is led by a very experienced member of staff who has been instrumental in gaining the grant funding in the past. She in turn is supported by a team of Advocates who are equally as passionate about their work.</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. The scope for improvement relates to the funding shortfall from 2020 for the Domestic Abuse service though progress is being made to address this to support the national strategy 'Equally Safe' and Government guidance on Violence Against Women Partnerships. We have made no recommendations.</p>	0	0	0	Management have accepted the report findings