
INTERNAL AUDIT WORK TO JULY 2018

Report by Chief Officer Audit and Risk

AUDIT AND SCRUTINY COMMITTEE

24 September 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 2 April to 27 July 2018 to deliver the Internal Audit Annual Plan 2018/19 is detailed in this report. During this period a total of two Final Internal Audit Reports have been issued. There were two recommendations made relating to one 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 An outline of the progress on current Internal Audit assurance work and details of specific Internal Audit consultancy and other work carried out during the period is included in this report.
- 1.5 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.
- 1.6 Further information on the work of Scottish Local Authorities Chief Internal Auditors Group (SLACIAG), which is the professional networking group for the Councils' Heads of Internal Audit, is shown in Appendix 2 to this report.

2 RECOMMENDATIONS

- 2.1 I recommend that the Audit and Scrutiny Committee:**
- a) Notes the final assurance reports issued in the period from 2 April to 27 July 2018 associated with the delivery of the approved Internal Audit Annual Plan 2018/19;**
 - 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 2018/19 was approved by the Audit and Scrutiny Committee on 19 March 2018. 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 2 April to 27 July 2018, associated with the delivery of the approved Internal Audit Annual Plan 2018/19, 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:
- Performance Management: Local Government Benchmarking Framework (LGBF)
 - Resilience Planning
- 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 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 2018/19 consists of the following:

Audit Area	Audit Stage
Passenger Transport	Drafting the report
ICT Security	Testing Nearly Completed
Adult Social Care - Self Directed Support	Testing Nearly Completed
Selkirk Conservation Area Regeneration Scheme (CARS)	Testing Nearly Completed
Licensing	Testing Nearly Completed
Financial Planning	Testing Underway
Workforce Planning	Testing Underway
EU Funded Programme – LEADER	Testing Underway
EU Funded Programme – EMFF	Testing Underway
Corporate Transformation Programme	Testing Underway
Winter Service	Testing Underway
Capital Investment	Audit Assignment issued

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 Follow-up work regarding the Carbon Reduction Programme to ensure that the Council’s submission to the Department of Energy and Climate Change for carbon emissions was delivered on time; that updates to the Evidence Pack regarding the Council’s structure, organisation and estate are maintained; and that progress continues with the Council’s Energy Efficiency Schemes. No direction has yet been received on the future of the Carbon Reduction Commitment Programme when this current phase ends in March 2019.
- 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 that 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:

High: 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.
Medium: 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.
Low: 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 2018/19:

	2018/19 Number of Recs
High	0
Medium	2
Low	0
Sub-total reported this period	2
Previously reported	0
Total	2
Recommendations agreed with action plan	2
Not agreed; risk accepted	0
Total	0

4 SCOTTISH LOCAL AUTHORITIES' CHIEF INTERNAL AUDITORS' GROUP (SLACIAG) ANNUAL REPORT 2017

- 4.1 The Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) is the professional networking group for Heads of Internal Audit from each Scottish Local Authority and Strathclyde Partnership for Transport. It is a Special Interest Group of CIPFA Scotland and therefore the Chair of SLACIAG is a member of the CIPFA Scotland Executive Committee.
- 4.2 Each year, SLACIAG produces an Annual Report highlighting achievements and ongoing workstreams and a copy of the report for 2017 is attached at Appendix 2 for information.
- 4.3 In particular, the Audit and Scrutiny Committee may wish to note that:
- 4.3.1 The Group considers learning and development needs and procures training for its members via the Training Sub-Group. Economies of scale make this a cost effective way of undertaking training courses;
- 4.3.2 Working groups are set up to consider time-specific matters of interest; such as the development of the 'peer review' approach for the periodic (at least 5 yearly) External Quality Assessment against the Public Sector Internal Audit Standards (PSIAS); and
- 4.3.3 Sub-groups are in place to deliver specific remits e.g. the Computer Audit Sub-Group (CASG) and the Counter Fraud Sub-Group (SLAIG).
- 4.4 The Chief Officer Audit and Risk has been a member of its Management Committee for many years, including Chair 2014-2016, and attends quarterly meetings. One of the Senior Internal Auditors is a member of CASG, and the Corporate Fraud and Compliance Officer is a member of SLAIG; thus attend those Sub-Group regular meetings. All Internal Audit team members attended all or part of the SLACIAG Conference in June 2017, which had the theme of 'Transformation and the Role of Internal Audit', to hear from a range of engaging and entertaining speakers and participate in workshops.

- 4.5 In summary, SLACIAG acts as an effective forum for the dissemination of best practice within internal audit in local government. It is important that the Audit and Scrutiny Committee acknowledges the benefits to Scottish Borders Council Internal Audit function arising from its participation in this national forum.

5 IMPLICATIONS

5.1 Financial

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

5.2 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".
- (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. During the development of the Internal Audit Annual Plan 2018/19, to capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted and risk registers have been considered, to ensure the Plan is formulated on a risk-based approach.
- (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.

5.3 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.

5.4 Acting Sustainably

There are no direct economic, social or environmental issues in this report.

5.5 Carbon Management

No direct carbon emissions impacts arise as a result of this report.

5.6 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.

5.7 Changes to Scheme of Administration or Scheme of Delegation

No changes are required as a result of this report.

6 CONSULTATION

- 6.1 The Executive/Service Directors relevant to the Internal Audit reports issued have signed off the relevant Executive Summary within Appendix 1.
- 6.2 The Corporate Management Team has been consulted on this report and any comments received have been taken into account.
- 6.3 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.

Approved by

Jill Stacey, Chief Officer Audit and Risk Signature

Author(s)

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Background Papers: Appropriate Internal Audit files

Previous Minute Reference: Audit and Scrutiny Committee 14 May 2018

Note – You can get this document on tape, in Braille, large print and various computer formats by using the contact details below. Information on other language translations can also be given as well as provision of additional copies.

Contact us at Internal Audit intaudit@scotborders.gov.uk

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Corporate Governance</p> <p>Subject: Performance Management (LGBF)</p> <p>No: 016/012a</p> <p>Date issued: 14 September 2018</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review was to validate the Council’s Performance Indicators which are reported on an annual basis to the Improvement Service as part of the Local Government Benchmarking Framework (LGBF).</p> <p>We tested the 11 PIs figures for the 2017/18 submission under 4 headings (Corporate; Corporate Assets; Culture & Leisure; and Environment) to ensure the LGBF guidance was followed, that arrangements are in place to collect the required data, and that data gathered could be agreed back to source systems.</p> <p>Our validation testing did find anomalies with data provided for 4 of the indicators, some of which were data transcribing issues and have been resolved. More significant anomalies were queried with Live Borders regarding the figures submitted for Culture and Leisure. All queries raised were subsequently corrected (where applicable) and the LGBF return was updated prior to submission to the Improvement Service by the August 2018 deadline. Internal Audit considers the figures provided and reported in the LGBF for 2017/18 to be reasonable and accurate. The individual data collection methods applied by the Services are suitable and appropriate with the majority of Services having adequate validation / quality assurance mechanisms in place.</p> <p>Internal Audit considers that the level of assurance we are able to give is substantial. Largely satisfactory risk, control, and governance systems are in place.</p> <p>We have made the following recommendations to improve validation of performance indicators in specific areas:</p> <ul style="list-style-type: none"> • A review of the Live Borders recording and reporting system (Gladstone) should be carried out to ensure that accurate and robust information is provided for performance and management reporting. (Medium) • As above for Berwickshire Recreation Education Sports Trust (Medium) 	0	2	0	<p>Management have confirmed factual accuracy of the report, accepted report findings, and agreed to implement the recommendations.</p> <p>Further Internal Audit work relating to Performance Management across all Council services will continue during the year including sample testing of the PIs reported against the Council’s 8 corporate priorities.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Corporate Governance</p> <p>Subject: Resilience Planning</p> <p>No: 054/003</p> <p>Date issued: 16 July 2018</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to review the approach to emergency and business continuity planning, including risk assessments, early warning systems, resilient communities' initiative, post incident reviews, and lessons learned.</p> <p>Local authorities have a number of duties placed on them by the Civil Contingencies Act 2004 (Contingency Planning) (Scotland) Regulations 2005. Scottish Borders Council has duties as a Category 1 responder under this Act, including: assess risk; maintain emergency plans and business continuity plans; promote business continuity; and communicate with the public.</p> <p>The following good practice was found:</p> <ul style="list-style-type: none"> • An annual presentation is given to Members to ensure they are aware of the latest information about the service Emergency Planning provides, e.g. post incident reviews covering actions and responses, roles and responsibilities. • Post Incident debriefs and annual presentations are held to encourage new resilient communities to come on board, covering various different aspects to enable them to respond to a range of different scenarios that they may face. <p>The existing Business Continuity (BC) system is out of date and no longer supported. It is in the process of being updated. The new BC system is at the 'design and build' stage which will then require data migration of existing BC Plans and training provision to named plan holders, which will enable compliance monitoring and reporting by the Emergency Planning service.</p> <p>Internal Audit considers that the level of assurance we are able to give is substantial assurance. Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement, such as updating the BC system, as current arrangements could undermine the achievement of objectives. We have made no recommendations at this time as there are Management actions underway to mitigate the risks.</p>	0	0	0	Management have confirmed factual accuracy of the report and have accepted report findings.