
INTERNAL AUDIT WORK TO OCTOBER 2018

Report by Chief Officer Audit and Risk

AUDIT AND SCRUTINY COMMITTEE

27 November 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 28 July to 26 October 2018 to deliver the Internal Audit Annual Plan 2018/19 is detailed in this report. During this period a total of 4 Final Internal Audit Reports have been issued. There was 1 recommendation made relating to 1 of the reports which has been accepted by Management for implementation.
- 1.3 An Executive Summary of the final Internal Audit reports issued, including audit objective, findings, good practice, recommendations (where appropriate) and the Chief Officer Audit and Risk's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1 to this report.
- 1.4 The SBC Internal Audit function conforms to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017) including the production of this report to communicate the results of the reviews.

2 RECOMMENDATIONS

- 2.1 I recommend that the Audit and Scrutiny Committee:**
- a) Notes the final assurance reports issued in the period from 28 July to 26 October 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 28 July to 26 October 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:
- Selkirk Conservation Area Regeneration Scheme (CARS)
 - EU Funded Programmes: LEADER and EMFF
 - Passenger Transport
 - ICT Security
- 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
Workforce Planning	Drafting the report
Licensing	Testing Nearly Completed
Adult Social Care Self Directed Support	Testing Nearly Completed
Financial Planning	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 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.
- 3.7.2 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.
- 3.7.3 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	1
Low	0
Sub-total reported this period	1
Previously reported	2
Total	3
Recommendations agreed with action plan	3
Not agreed; risk accepted	0
Total	3

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".
- (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 2018/19, 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.

5.7 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)

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Background Papers: Appropriate Internal Audit files

Previous Minute Reference: Audit and Scrutiny Committee 24 September 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: Legislative and Other Compliance</p> <p>Subject: Selkirk Conservation Area Regeneration (CARs) Scheme</p> <p>No: 154/019</p> <p>Date issued: 5 October 2018</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review was to provide assurance to the external funder on programme compliance to confirm that the terms and conditions under which the grant offer was made have been properly applied.</p> <p>This is our second and final assurance report on the Selkirk CARs Project. In August 2016 we published our Interim Scheme Report covering the first three financial years. This report includes the final two financial years.</p> <p>The Selkirk Conservation Area Regeneration Scheme (CARs) Partnership Project between Historic Environment Scotland (HES) and Scottish Borders Council (SBC) has come to a close. Its purpose was to undertake heritage and conservation based regeneration activities within Selkirk town centre over a five year period from 2013 to 2018. This was achieved through the award of grants to property owners for external fabric building repairs and complementary initiatives relating to upgrading the public realm, education and training opportunities. The total project budget was £1.43m, funded by HES (£865k) and SBC (£565k).</p> <p>We found that the Selkirk CARs Scheme has been managed well and run substantially in accordance with the requirements of the contract. Improvements have been implemented arising from our Interim Scheme Report including where practice has varied from the specific terms of the contract HES has been consulted.</p> <p>The audit work we performed has allowed us to provide assurance of substantial compliance with the scheme rules and the HES contract. The assurance reports, in the formats required by the funder, have been issued to satisfy the requirement for an Accountant’s Report and Abstract Annual accounts for the final two financial years of the project.</p>	0	0	0	Management has confirmed factual accuracy and accepted the findings of the audit report.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Legislative and Compliance</p> <p>Subject: EU Funded Programmes 2014-2020 LEADER and European Maritime & Fisheries Fund (EMFF)</p> <p>Nos: 154/020 & 154/021</p> <p>Date issued: 13 November 2018</p> <p>Level of Assurance: Substantial compliance with SLA (LEADER) and Framework Agreement (EMFF)</p>	<p>The purpose of the LEADER review was to assess compliance with the requirements of the Service Level Agreement (SLA) and relevant EC Regulations for the LEADER Programme 2014-2020. The SLA requires that Internal Audit annually assess compliance by SBC with the terms of the SLA, and report on it.</p> <p>The SLA is between Scottish Ministers (Managing Authority and Paying Agency) and Scottish Borders Council (acting as Accountable Body for the Local Action Group) as a delivery partner in the SRDP (Scottish Rural Development Programme) for 2014-2020, which runs until 31 December 2022.</p> <p>This is an area of high risk owing to the potential for disallowance (financial corrections) and significant fines levied by either the EU Auditors (as a result of their conformity audits) and / or Audit Scotland (in their capacity as certifiers of the EC accounts).</p> <p>Internal Audit tested two projects and four claims to evaluate compliance with the rules, regulations and guidance based on value of claims proportionate to total Project payments to date.</p> <p>Internal Audit considers that the LEADER Programme is being managed well and our assurance opinion is that SBC substantially complies with the terms of the SLA. Largely satisfactory risk, control, and governance systems are in place. This opinion, however, only extends to the extent to which SBC complies with the terms of the SLA. It does not provide any assurance on the extent to which this compliance protects the Managing Authority or SBC (as Accountable Body) from the risk of disallowance following key or ancillary control failure findings of EU conformity or certification of accounts audits.</p> <p>We made one recommendation for LEADER Programme:</p> <ul style="list-style-type: none"> • Management should extend the existing skilled staff resources to enable the LEADER team to meet its compliance obligations over the next 6 months and to the end of the Programme. (Medium) 	0	1	0	Management has confirmed factual accuracy and accepted the findings of the audit report, and are progressing with the implementation of the recommendation.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: EU Funded Programmes 2014-2020 LEADER and European Maritime & Fisheries Fund (EMFF)</p> <p>(cont'd)</p>	<p>The European Maritime & Fisheries Fund (EMFF) is being delivered locally by the FORTH FLAG (Fisheries Local Action Group), an autonomous body which includes Fife, Tyne and Esk, and Scottish Borders, with SBC as lead partner and Secretariat responsible for efficient administration of FLAG business.</p> <p>A Framework Agreement exists between Marine Scotland (responsible for national delivery of the EMFF) and the FLAG which sets out roles and responsibilities. Marine Scotland retains financial responsibility for final verification and approval of projects, issuing award of funding letters, and administration and payment of claims.</p> <p>A FLAG Partnership Agreement & Operating Protocol (Group Protocol) defines further the roles and responsibilities and details the main functions of the FLAG, one of which is to ensure projects comply with the objectives of the 3 LDSs and Business Plans and all relevant EC and National regulations.</p> <p>Animation and Administration costs relating to both programmes (EMFF and LEADER) are met through the 'lead fund', European Agricultural Fund for Rural Development (EAFRD).</p> <p>Internal Audit considers that the EMFF Programme is being managed well and our assurance is that SBC substantially complies with the terms of the Framework Agreement. This is on the basis that we have received confirmation from Marine Scotland that they are the responsible party for monitoring of Project progress against key conditions and milestones and have responsibility for ensuring compliance with claims rules.</p> <p>We made no recommendations for EMFF Programme.</p>				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Asset Management</p> <p>Subject: Passenger Transport - Provision of Escorts</p> <p>No: 211/008</p> <p>Date issued: 12 November 2018</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to consider options for the delivery of the provision of escorts which achieves value for money, and meets the Council’s obligations and policies.</p> <p>The Council currently employs c100 escorts to accompany children and young people on journeys from and to their homes and places of education and support. They are employed within the Passenger Transport Service and costs are recharged to client user services. Assessments of need are undertaken within the Children and Young People’s Service against a Council policy which is subject to periodic review.</p> <p>The following good practice was found:</p> <ul style="list-style-type: none"> Processes for commissioning of journeys for Special and Additional Needs (SAN) clients are effective, and ensure appropriate authorisation, agreement of costs, consideration of special requirements and efficient combination within existing journeys for new requests. There are effective and appropriate processes for the initial assessment, and periodic review, of the needs of service users, and the agreement to provide an escort. <p>The Revenue Budget Monitoring (Executive Committee 21 August 2018) stated £170k savings had been made against the ASN Transport target of £200k, with the remainder expected to be achieved. It appears that the introduction of increased scrutiny of individual commissioning decisions has identified savings opportunities by reducing the use of single occupancy taxis.</p> <p>Escorts receive general training, including administration of first aid and child protection, though there may be merit in providing the opportunity for the escorts in particular cases to familiarise themselves with the individual circumstances and needs.</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.</p>	0	0	0	<p>Management has confirmed factual accuracy, and accepted and support the findings of the Internal Audit report.</p> <p>Management intends to undertake a review of options for the deployment and management of escorts within the Council with assistance from Internal Audit.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: ICT Governance</p> <p>Subject: ICT Security</p> <p>No: 230/006</p> <p>Date issued: 19 November 2018</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to assess the adequacy of the ICT security arrangements including: physical and environmental controls; disaster recovery; third party access; operational controls (change / incident / problem management) and business applications, to ensure they are designed appropriately and that all parties are adhering and complying with them, and to assess readiness to achieve compliance with the requirements of the Public Services Network (PSN).</p> <p>The following good practice was found:</p> <ul style="list-style-type: none"> • Appropriate arrangements are in place to manage the physical security of the IT asset. There are controls in place to scrutinise these arrangements and to consider remedial action when breaches and exceptions are reported. • An interim Disaster Recovery Plan has been developed, and is framed to reflect the current deployment of servers and prioritisation of systems recovery. The Disaster Recovery Plan will be revised to reflect the intended migration to CGI-hosted data centres. • Responsibilities and controls for management of third party access to systems are defined in the Security Management Plan. Exceptions are reported and managed through the monthly reports by CGI, which are shared with the Council's Corporate Management Team. • Responsibilities and processes for Change Control are set out in the agreement between SBC and CGI. Processes in place require assessment of the impact of changes on the security profile of the Council network. <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 i.e. completion of the review of the Security Management Plan, and incorporation of lessons learned into management of PSN submissions in future years.</p>	0	0	0	<p>Management has confirmed factual accuracy, and accepted the findings of the Internal Audit report.</p> <p>Management actions are underway to implement the identified improvements and to mitigate the risks.</p>