
INTERNAL AUDIT WORK TO DECEMBER 2018

Report by Chief Officer Audit and Risk

AUDIT AND SCRUTINY COMMITTEE

14 February 2019

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 27 October to 14 December 2018 to deliver the Internal Audit Annual Plan 2018/19 is detailed in this report. During this period a total of 8 Final Internal Audit Reports have been issued with 0 recommendations made. During these reviews Internal Audit informed operational Managers about minor matters to which Management have committed to progress as part of continuous improvement.
- 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 27 October to 14 December 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 27 October to 14 December 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:
- Workforce Planning
 - Licensing
 - Earlston High School
 - Eyemouth High School
 - Kelso High School
 - Melrose Primary School
 - Greenlaw Primary School
 - Eddleston Primary School
- 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
Adult Social Care Self Directed Support	Drafting the report
Financial Planning	Testing Nearly Completed
Capital Investment	Testing Nearly Completed
Corporate Transformation Programme	Testing Underway
Protective Services	Testing Underway
Winter Service	Audit Assignment issued
Private Sector Landlord Registration	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	0
Low	0
Sub-total reported this period	0
Previously reported	3
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 final Internal Audit reports issued have signed off the relevant Executive Summary within Appendix 1.
- 5.2 The Corporate Management Team has been consulted on this report and any comments received have been taken into account.
- 5.3 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Service Director HR, and the Clerk to the Council have been consulted on this report and any comments received have been incorporated into the report.

Approved by

Jill Stacey, Chief Officer Audit and Risk Signature

Author(s)

Name	Designation and Contact Number
Jill Stacey	Chief Officer Audit and Risk Tel 01835 825036
Sue Holmes	Principal Internal Auditor Tel 01835 825556

Background Papers: Appropriate Internal Audit files

Previous Minute Reference: Audit and Scrutiny Committee 27 November 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: Workforce Planning</p> <p>No: 033/007</p> <p>Date issued: 18 December 2018</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to review the approach to workforce development in alignment with business and financial planning processes to provide skills, knowledge and competency requirements for service delivery to meet the Council's objectives.</p> <p>The Corporate Management Team has responsibility for the strategic direction and the development of workforce planning as part of their corporate responsibility for Business, Financial and People Planning. The Strategic People Plan 2016-2021 discusses having the right people with the right skills deployed in the right place, and People Planning process is about helping to achieve that match, by analysing current working arrangements, and by identifying future workforce requirements, skills and competencies which are needed to deliver services. Our review shows that People Plans are now more integrated with business and financial planning as outlined in the people plan cycle.</p> <p>The following good practice was found:</p> <ul style="list-style-type: none"> The structure of the People Plan templates allows the process to be applied consistently across services, with HR Business Partners utilising the People Planning Phase 2 template to assist discussions and capture relevant information and develop an action plan where appropriate. <p>We consider that we are able to provide substantial assurance. Largely satisfactory risk, control, and governance systems are in place. Improvements could be made to the People Planning process through sharing of best practice, lessons learned, resource pooling, actions and initiative, and highlighting cross cutting and corporate issues, etc. across Council Services. This would enhance the alignment of the workforce, business and financial planning processes.</p>	0	0	0	Management have confirmed factual accuracy and accepted the findings of the report, and have confirmed their commitment to progressing the improvements noted in the report.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Licensing</p> <p>No: 091/004</p> <p>Date issued: 21 December 2018</p> <p>Level of Assurance: Comprehensive</p>	<p>The purpose of this assurance audit was a review of the New Licensing Policy Statement (requirement of law reviewed every 5 years), due to be in place by November 2018, to check that the Council is following best practice through its policies and procedures.</p> <p>The opportunity was taken to combine the audit assurance work with a counter fraud controls assessment on Licensing.</p> <p>A short life working group was established to complete a full review of the existing Licensing Policy Statement, make recommendations to update it, and oversee the public consultation period. Consultation responses were considered and reflected in the final updated Licensing Policy Statement which was approved by the Licensing Board on 26 October 2018 and published on the Council's website on 22 November 2018 in line with statutory requirements. The statutory Annual Functions Report and Annual Financial Report were approved by the Licensing Board in line with legislative requirements.</p> <p>Licensing staff ensure that the Council's processes are compliant with the varied and detailed legislative responsibilities over a wide range of licensed businesses. Our counter fraud controls review and assessment focused on Taxi and Alcohol licenses and there is no evidence to suggest that any fraudulent activity is taking place in order to obtain a license or abuse licensing rules. Validation checks that are currently in place are working well. Some further compliance work such as verification of ID checks and comparing license holders to other Council-held data such as Creditors, Council Tax, Payroll, etc., might provide greater assurance that processes are accurate and secure.</p> <p>Internal Audit considers that the level of assurance we are able to give is comprehensive. Sound risk, control, and governance systems are in place. Some improvements in a few, relatively minor, areas may be required.</p>	0	0	0	Management have confirmed factual accuracy and accepted the findings of the report.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Earlston High School</p> <p>No: 127/029</p> <p>Date issued: 17 December 2018</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to ensure internal financial controls and business administrative procedures are in place to ensure the efficient and effective use of resources in the school establishments.</p> <p>The scope of this audit was to examine and evaluate the key controls in the following areas: Petty Cash Imprests; Inventories; Staffing establishment; Business Continuity Planning; School lets and Income Collection procedures; School Fund; Ordering / Invoice processing procedures; Data Protection / Confidential Waste Management; DSM Budget; Health & Wellbeing.</p> <p>Earlston High School has a current role of 1,053 children and operates from a PPP building; facilities management has been sub-contracted through the SPV to Amey. Devolved School Management (DSM) budget for 2018/19 is ~£4.7m. There is an 88% uptake of ParentPay, which helps to reduce the financial risk within the school.</p> <p>The Head Teacher and Cluster Business Manager are both very experienced members of staff. The school office also has a team of experienced staff who complete the day to day administrative activities for the school. All office staff are fully aware of the need to follow the required SBC policies and procedures. During the course of our visit, we found nothing of major concern regarding the financial procedures, and we were able to share Good Practice from the schools.</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 minor improvement re the School Fund, and GDPR mandatory training completions. During the audit we have discussed these with relevant Managers to ensure continuous improvement.</p>	0	0	0	Management have accepted the findings of the report and are committed to the implementation of the minor improvements noted in the report, indicating that progress has already been made.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Eyemouth High School No: 127/030</p> <p>Date issued: 17 December 2018</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to ensure internal financial controls and business administrative procedures are in place to ensure the efficient and effective use of resources in the school establishments.</p> <p>The scope of this audit was to examine and evaluate the key controls in the following areas: Petty Cash Imprests; Inventories; Staffing establishment; Business Continuity Planning; School lets and Income Collection procedures; School Fund; Ordering / Invoice processing procedures; Data Protection / Confidential Waste Management; DSM Budget; Health & Wellbeing.</p> <p>Eyemouth High School has a current role of 454 children, and operates from a PPP school building; facilities management has been sub-contracted through the SPV to Amey. The Devolved School Management (DSM) budget for 2018/19 is ~£2.5m. There is an 89% uptake of ParentPay, which helps to reduce the financial risk within the school.</p> <p>The Head Teacher and Cluster Business Manager are both very experienced members of staff. The school office also has a team of experienced staff who complete the day to day administrative activities for the school. All office staff are fully aware of the need to follow the required SBC policies and procedures. During the course of our visit, we found nothing of major concern regarding the financial procedures, and we were able to share Good Practice from other schools.</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 minor improvements re the School Fund, and GDPR mandatory training completions. During the audit we have discussed these with relevant Managers to ensure continuous improvement.</p>	0	0	0	<p>Management have accepted the findings of the report and have indicated that since the audit teaching staff completed the mandatory GDPR training thus significantly increasing the percentage completion figure, and have made a commitment to implementing the other minor area of improvement.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Kelso High School</p> <p>No: 127/031</p> <p>Date issued: 17 December 2018</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to ensure internal financial controls and business administrative procedures are in place to ensure the efficient and effective use of resources in the school establishments.</p> <p>The scope of this audit was to examine and evaluate the key controls in the following areas: Petty Cash Imprests; Inventories; Staffing establishment; Business Continuity Planning; School lets and Income Collection procedures; School Fund; Ordering / Invoice processing procedures; Data Protection / Confidential Waste Management; DSM Budget; Health & Wellbeing.</p> <p>Kelso High School operates from a new school building, just over one year old, and has a current role of 600 pupils. The Devolved School Management (DSM) budget for 2018/19 is ~£3m. There is a 77% uptake of ParentPay which helps to reduce the financial risk within the school.</p> <p>The Head Teacher and Cluster Business Manager are both very experienced members of staff. The school office also has a team of experienced staff who complete the day to day administrative activities for the school. All office staff are fully aware of the need to follow the required SBC policies and procedures. During the course of our visit, we found nothing of major concern regarding the financial procedures, and we were able to share Good Practice from other schools.</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 minor improvements re petty cash imprest levels, management of inventories, formal agreement with LIVE Borders relating to school lets, the School Fund, and GDPR mandatory training completions. During the audit we have discussed these with relevant Managers to ensure continuous improvement.</p>	0	0	0	Management have accepted the findings of the report and have made a commitment to progress the minor improvements noted in the report in due course.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Melrose Primary School</p> <p>No: 128/023</p> <p>Date issued: 17 December 2018</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to ensure internal financial controls and business administrative procedures are in place to ensure the efficient and effective use of resources in the school establishments.</p> <p>The scope of this audit was to examine and evaluate the key controls in the following areas: Petty Cash Imprests; Inventories; Staffing establishment; Business Continuity Planning; School lets and Income Collection procedures; School Fund; Ordering / Invoice processing procedures; Data Protection / Confidential Waste Management; DSM Budget; Health & Wellbeing.</p> <p>Melrose Primary School has a current role of 339 children, and is one of the larger primary schools in the region. Within the school building is a Nursery. The Devolved School Management (DSM) budget for 2018/19 is ~£950k. The school ceased operating a Petty Cash imprest in January 2018, as it was no longer required, and there is a 90% uptake of Parentpay, both of which help to reduce the financial risk within the school.</p> <p>The Head Teacher and Administrator are both very experienced members of staff. There is another experienced member of staff within the school office who also carries out administrative activities for the school. Both school office staff are fully aware of the need to follow the required SBC policies and procedures. During the course of our visit, we found nothing of major concern regarding the financial procedures, and we were able to share Good Practice from other schools.</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 minor improvements re the School Fund, and GDPR mandatory training completions. During the audit we have discussed these with relevant members of staff to ensure continuous improvement.</p>	0	0	0	Management have accepted the findings of the report and are committed to implementing the minor improvements noted in the report, indicating that progress has already been made.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Greenlaw Primary School</p> <p>No: 128/024</p> <p>Date issued: 17 December 2018</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to ensure internal financial controls and business administrative procedures are in place to ensure the efficient and effective use of resources in the school establishments.</p> <p>The scope of this audit was to examine and evaluate the key controls in the following areas: Petty Cash Imprests; Inventories; Staffing establishment; Business Continuity Planning; School lets and Income Collection procedures; School Fund; Ordering / Invoice processing procedures; Data Protection / Confidential Waste Management; DSM Budget; Health & Wellbeing.</p> <p>Greenlaw Primary School has a current role of 65 children, including the Nursery within the school. The Devolved School Management (DSM) budget for 2018/19 is £245k. There is a 96% uptake of Parentpay, which helps to reduce the financial risk within the school.</p> <p>The Head Teacher also has the responsibility for Swinton Primary School. For the purposes of this report all information relates to Greenlaw Primary School only. Both the Head Teacher and the Administrator are very experienced members of staff. The Administrator completes the day-to-day administrative activities for the school. Both members of staff are fully aware of the need to follow the required SBC policies and procedures. During the course of our visit, we found nothing of major concern regarding the financial procedures, and we were able to share Good Practice from other schools.</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 minor improvements re the Petty Cash Imprest, the School Fund, and GDPR mandatory training completions. During the audit we have discussed these with relevant members of staff to ensure continuous improvement.</p>	0	0	0	<p>Management have accepted the findings of the report, have confirmed that some of the areas of improvement have already been addressed in response to the findings, and have given a commitment that any other outstanding points will be addressed in a timely manner to ensure continuous improvement.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Eddleston Primary School</p> <p>No: 128/025</p> <p>Date issued: 17 December 2018</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to ensure internal financial controls and business administrative procedures are in place to ensure the efficient and effective use of resources in the school establishments.</p> <p>The scope of this audit was to examine and evaluate the key controls in the following areas: Petty Cash Imprests; Inventories; Staffing establishment; Business Continuity Planning; School lets and Income Collection procedures; School Fund; Ordering / Invoice processing procedures; Data Protection / Confidential Waste Management; DSM Budget; Health & Wellbeing.</p> <p>Eddleston Primary is a small rural school with a current role of 46 children. The Devolved School Management (DSM) budget for 2018/19 is £229k. There is a 100% uptake of Parentpay, which helps to reduce the financial risk within the school.</p> <p>The Head Teacher is new to the region, though has vast experience as a Head Teacher from another Local Authority. She is supported by a competent Administrator who completes the day-to-day administrative activities for the school. Both are fully aware of the need to follow the required SBC policies and procedures. We were able to share Good Practice from other schools. During the course of our visit, we found nothing of major concern regarding the financial procedures.</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 minor improvements re the Petty Cash Imprest, the School Fund, and GDPR mandatory training completions (though the latter is good compared to other schools). During the audit we have discussed these with relevant members of staff to ensure continuous improvement.</p>	0	0	0	Management have accepted the findings of the report and are committed to the implementation of the minor improvements noted in the report.