
INTERNAL AUDIT WORK TO FEBRUARY 2019

Report by Chief Officer Audit and Risk

AUDIT AND SCRUTINY COMMITTEE

11 March 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 15 December 2018 to 22 February 2019 to deliver the Internal Audit Annual Plan 2018/19 is detailed in this report. During this period a total of 6 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 15 December 2018 to 22 February 2019 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 15 December 2018 to 22 February 2019, 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:
- Capital Investment
 - Financial Planning
 - Private Sector Landlord Registration
 - Adult Social Care Self-Directed Support
 - Protective Services
 - Information Governance
- 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
Corporate Transformation	Drafting the report
Revenues (Council Tax & NDR)	Drafting the report
Asset Registers	Audit Assignment issued
Business World ERP System Key Internal Controls (incorporating Procure to Pay, Sales to Cash, Payroll, and Record to Report)	Testing Underway
Winter Service	Roll over to 2019/20 and carry out as part of Consultancy work
ICT Contract Management	Covered in Consultancy work for CMT; included in 2019/20 Plan

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:

- a) Engagement in the design, development and delivery of a Contract Management Framework (first stage is the toolkit due for delivery April 2019) by the Contract Management Working Group, which will be the key mechanism that facilitates the monitoring and assurance of third party service providers.
- b) On request by CMT examined and evaluated at a high level the objectives, benefits and expected outputs from the original business case for each outsourcing agreement, determine whether or not these have been achieved, and provide some evidence associated with that assessment, for the following outsource contracts (Live Borders; SB Cares; CGI).
- c) Engagement in the Digital Customer Steering Group as a critical friend to provide internal challenge and quality assurance on the Digital Customer Access programme involving major change and system implementation.
- d) Attendance at an Internal Audit Data Analytics Forum to discuss how data analytics is developing and being used within Internal Audit.
- e) Visit to Edinburgh City Council to discuss and review the use of payment cards for Direct Payments (Self Directed Support).
- f) Attendance at Schools Business Managers Meeting and visits to Eyemouth and Berwickshire Primary Schools Clusters to provide information and assistance regarding Petty Cash policy and procedures and an overview of associated Council Financial policies.
- g) Review of our conformance with the Public Sector Internal Audit Standards (PSIAS) as an annual self-assessment requirement and in preparation for next External Quality Assessment (EQA) peer review.

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 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	3
Total	4
Recommendations agreed with action plan	4
Not agreed; risk accepted	0
Total	4

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 were consulted and risk registers 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, governance and risk management.

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 as appropriate.

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 February 2019

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

APPENDIX 1

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Asset Management</p> <p>Subject: Capital Investment</p> <p>No: 007/018</p> <p>Date issued: 1 March 2019</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to assess progress with implementation of identified improvement actions to ensure compliance with established good practice in the development of: strategic asset management plans; governance of capital investment; capital planning; review, scrutiny and challenge; capital financial budget monitoring; delivery of the capital programme and capital plan projects.</p> <p>The scope of the audit included:</p> <p>(a) development of Strategic Asset Management Plans;</p> <p>(b) implementation of an operational Estates Strategy; and</p> <p>(c) adoption of the Corporate Landlord model of operation for estate and property management in the Council (<i>a strand within the Council's Corporate Transformation Programme</i>).</p> <p>Testing of the programme for the Corporate Transformation Model found the processes in place to be satisfactory relating to financial management, risk management, benefits realisation, and deployment of technology to enable change.</p> <p>Our previous audit report issued on 9 March 2018 noted that the Corporate Landlord Programme Board had not yet been established, despite it being a commitment contained in the paper to CMT in April 2017. At the time of writing of the current report, Management have yet to establish this Programme Board.</p> <p>We consider that we are able to provide substantial assurance. Largely satisfactory risk, control, and governance systems are in place. Progress is being made with the implementation of the Corporate Landlord model and therefore with establishing good practice in strategic asset management. There is some scope for improvement as current arrangements could undermine the achievement of objectives; for example, the establishment and operation of the Programme Board which is a key part of governance monitoring and reporting arrangements.</p>	0	0	0	<p>Management have confirmed the factual accuracy of the report and accepted the report findings, and advised that the first meeting of the Corporate Landlord / Capital Programme Board is 4 March 2019.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Financial Governance</p> <p>Subject: Financial Planning</p> <p>No: 035/007</p> <p>Date issued: 1 March 2019</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit, incorporating Financial Planning Process and Financial Policy Framework, was to ensure that the systems and procedures for preparing, monitoring and controlling the budget, including efficiency savings, are robust to provide the foundation for sound internal financial control, to deliver the financial strategy, and to ensure plans and priorities match available resources including the roles and responsibilities of budget holders.</p> <p>A 'lessons learned' review following the 2018/19 budget planning process was used to determine what worked well and identify improvements to inform the 2019/20 planning process.</p> <p>Internal Audit observations during a sample of the budget setting process meetings confirmed: collaborative working between HR, Finance, Business Planning staff to support Service Directors / Managers to align financial and workforce planning processes; and the opportunity for effective scrutiny and engagement with Elected Members to arrive at the draft financial plan for 2019/20.</p> <p>The Council's Financial Regulations were updated and subsequently approved at Council on 29 November 2018. Following this update, the associated financial policies and procedures that underpin the Financial Regulations are currently being reviewed to ensure they reflect current practice.</p> <p>We consider that we are able to provide substantial assurance. Largely satisfactory risk, control, and governance systems are in place. There is some scope for improvement, such as updating financial policies and procedures, lessons learned from the 2019/20 financial planning process, and reviewing non-savings actions that also help achieve Council objectives and priorities which are either underway or planned.</p> <p>We made no recommendations.</p>	0	0	0	Management have confirmed the factual accuracy of the report and accepted the report findings.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Asset Management</p> <p>Subject: Private Sector Landlord Registration</p> <p>No: 172/009</p> <p>Date issued: 1 March 2019</p> <p>Level of Assurance: Comprehensive</p>	<p>The purpose of this assurance audit was to assess the end-to-end procedures and practices for Private Sector Landlord Registration to ensure that statutory obligations are met and risks appropriately managed.</p> <p>New rules for Letting Agents came into force from 31 January 2018. All private landlords must display a current landlord registration number on any adverts to rent a property. A registration number shows that a landlord is approved by the local authority to let property. Where an application for registration has been submitted but not yet approved landlords must include the words "landlord registration pending".</p> <p>Currently Scottish Borders Council has 6,997 Landlords registered on the Landlord Registration System database, with some Landlords having multiple properties. There are 12 Private Sector Landlord properties which the Council's Homelessness Service manages. In the financial year 2017/18 the fees received for registering as a Landlord generated an income for the Council of £78k.</p> <p>We consider that we are able to provide 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 are required to reflect recent upgrades of the Scottish Government Landlord Registration System database and the Council's Business World ERP system in the process document.</p> <p>We made no recommendations.</p>	0	0	0	Management have confirmed the factual accuracy of the report and accepted the report findings.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Adult Social Care Self-Directed Support</p> <p>No: 181/002</p> <p>Date issued: 11 February 2019</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to assess that the internal financial controls and governance arrangements regarding Self-Directed Support ensure that national policy objectives are being met and public funds are safeguarded.</p> <p>Self-Directed Support (SDS) is provided to enable people to live as independently as possible, giving as much choice & control as they wish over the way in which their care and support needs are met in order to achieve outcomes that are important to them.</p> <p>We reviewed the framework, policies, procedures and processes for the administration and management of Self-Directed Support, including forward planning and the transition from children to adults. We found no areas of concern with the process for the administration and management of SDS. The transition of children to adults within the Learning Disability Service is working well; however, further development work is currently underway within Children's Services.</p> <p>We reviewed a sample of cases with the Care Resource Team, including overpayments, underpayments, change of circumstances and the transition from children to adult payments and our testing showed no issues or concerns. We reviewed a sample of cases with Encompass to ensure that information was received from clients as agreed and found no areas of concern.</p> <p>The SDS process is reviewed on a regular basis through a variety of meetings and reviews. National information, reports and tools are reviewed and used to improve how SDS is administered and managed and also for future development and implementation.</p> <p>We consider that we are able to provide substantial assurance in this area. 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. We made no recommendations.</p>	0	0	0	<p>Management have confirmed the factual accuracy of the report and accepted the report findings, and stated that Older Persons Services will continue to review the SDS service to ensure optimal functioning. This will include taking action where this audit has identified where improvements can be made.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Protective Services</p> <p>No: 207/004</p> <p>Date issued: 4 March 2019</p> <p>Level of Assurance: Limited</p>	<p>The purpose of this assurance audit was to review the change in business practices and ways of working within Environmental Health and Trading Standards to ensure that regulatory obligations are met and risks are appropriately managed.</p> <p>The main risks that exist for Protective Services is failure to fulfil their varied and numerous respective statutory duties which are reflected in the appropriate risk registers and reviewed in accordance with the Corporate Risk Management Process.</p> <p>As a result of reducing budgets, shortage of qualified skilled and experienced staff, increasing regulation and statutory functions, workload has been prioritised to address high risk areas.</p> <p>We consider that we are able to provide limited assurance. Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives in fulfilling the Council's statutory regulatory services obligations. Our opinion is not a reflection of Management in this area as the challenges faced are mirrored nationally.</p> <p>In addition to the actions being progressed by Management (thorough people planning process; engagement with their counterpart Councils, regulatory bodies and the Scottish Government to address the national shortage of qualified, skilled and experienced staff; and progress the Business Case for the Enterprise Module and mobile handhelds that would increase the efficiencies for the team), we have made the following recommendation:</p> <ul style="list-style-type: none"> • Performance indicators on achievement of statutory duties of Trading Standards, Environmental Health, and Health & Safety functions should be included within the Quarterly Performance Reports to Corporate Management Team and Executive Committee to monitor and action as required. (Medium). 	0	1	0	<p>Management have confirmed the factual accuracy of the report, accepted the report findings and recommendation, and stated that the Service will commence quarterly performance reporting from 1 April 2019, with the aim of the first quarter to be reported after the end of June 2019.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Corporate Governance</p> <p>Subject: Information Governance</p> <p>No: 236/012</p> <p>Date issued: 22 February 2019</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to: examine the Information Governance Framework including roles and responsibilities; review policy development and implementation and assess compliance with the General Data Protection Regulations (GDPR) which came into force in May 2018; and to provide annual assurance to the Senior Information Risk Owner (SIRO) and Data Protection Officer (DPO).</p> <p>The Information Governance Group meets regularly and follows an agreed themed programme of work: Information Governance; Records Management; Information Security and Information Sharing; Data Protection and Information Access. Progress during the year includes:</p> <ul style="list-style-type: none"> • The Information Governance policies and procedures were updated to reflect the new legislation, GPDR; • The Information Asset Register whose update piggybacked on the GDPR Project is now complete; • The updated Records Management Plan was submitted to the Keeper of Scotland's Records (the Keeper) in January 2019; • PSN Certification has been achieved; awarded for one year to 21 December 2019; • The GDPR Project achieved its objectives to put in place the mechanisms to enable compliance with the new legislation; • Other outputs of the GDPR project include: Training and Awareness; Data Protection by Design & Default Framework; Data Protection Impact Assessments; and Privacy Notices. <p>We consider that we are able to provide substantial assurance. Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement specifically to ensure that the GDPR business as usual activity is progressed, the mandatory training completion rate is enhanced, and lessons are learned from PSN Certification.</p>	0	0	0	Management have confirmed the factual accuracy of the report and accepted the report findings.