
INTERNAL AUDIT WORK TO MARCH 2019

Report by Chief Officer Audit and Risk

AUDIT AND SCRUTINY COMMITTEE

13 May 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 24 February to 31 March 2019 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 were 0 recommendations made associated with the reports.
- 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.
- 1.5 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 24 February to 31 March 2019 associated with the delivery of the approved Internal Audit Annual Plan 2018/19; and**
 - b) **Acknowledges the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work.**

3 PROGRESS REPORT

- 3.1 The Internal Audit Annual Plan 2018/19 was approved by the Audit and Scrutiny Committee on 19 March 2018. Internal Audit has carried out the following work in the period from 24 February to 31 March 2019 to deliver the Plan to meet its objective of providing an opinion on the efficacy of the Council's risk management, internal control and governance.
- 3.2 The SBC Internal Audit function conforms to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017) including the production of this report to communicate the results of the reviews.

Internal Audit Reports

- 3.3 Internal Audit issued final assurance reports on the following subjects:
- Asset Registers
 - Corporate Transformation
 - Business World ERP System Key Internal Controls (incorporating Procure to Pay, Sales to Cash, Payroll, and Record to Report)
 - Revenues (Council Tax & NDR)
- 3.4 An Executive Summary of the final Internal Audit assurance reports issued, including audit objective, findings, good practice and recommendations (where appropriate), and the Chief Officer Audit and Risk's independent and objective opinion on the adequacy of the control environment and governance arrangements within each audit area, is shown in Appendix 1.

The definitions for Internal Audit assurance categories are as follows:

Level	Definition
Comprehensive assurance	Sound risk, control, and governance systems are in place. These should be effective in mitigating risks to the achievement of objectives. Some improvements in a few, relatively minor, areas may be required.
Substantial assurance	Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement as current arrangements could undermine the achievement of objectives or leave them vulnerable to error or misuse.
Limited assurance	Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses 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.

Internal Audit Consultancy and Other Work

- 3.5 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) Provide independent challenge of the evidence to support improvement arising from the Joint Older People Services inspection.
 - b) Engagement in the design and development of the Public Protection Unit to support improvement as a critical friend.
 - c) Engagement in the initial meeting of Corporate Landlord Model / Capital Programme Board to provide internal challenge and quality assurance on the programme involving major change.

Recommendations

- 3.6 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.

- 3.7 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	4
Total	4
Recommendations agreed with action plan	4
Not agreed; risk accepted	0
Total	4

4 SCOTTISH LOCAL AUTHORITIES' CHIEF INTERNAL AUDITORS' GROUP (SLACIAG) ANNUAL REPORT 2018

- 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 2018 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.

- 4.5 In summary, SLACIAG acts as an effective forum for the dissemination of best practice within internal audit in local government to reinforce the important statutory role of internal audit. 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 within the plan. During the development of the Internal Audit Annual Plan 2018/19 and at the start of each audit engagement, 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.

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, the Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Service Director HR, the Clerk to the Council, and the Communications team have been consulted on this report and any comments received have been incorporated into the final 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 11 March 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

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Asset Management</p> <p>Subject: Asset Registers</p> <p>No: 009/011</p> <p>Date issued: 3 May 2019</p> <p>Level of Assurance: Comprehensive</p>	<p>The purpose of this assurance audit was to review the systems, processes and controls that are in place to ensure complete and accurate records of all Property, Fleet, and IT assets that underpin Asset Management Plans to deliver the Council's strategies, plans and priorities.</p> <p>The fixed assets module within Business World ERP system has not been deployed as an Asset Register. Technology Forge system will continue to be used to record the details of individual assets, and to calculate depreciation.</p> <p>The following good practice was found:</p> <ul style="list-style-type: none"> • There was evidence that the Business World ERP system and Technology Forge system were reconciled on a regular basis. • There was evidence that spend within Business World ERP system was reviewed to ensure that all capital spend is identified and accounted for appropriately. • We identified evidence that gives assurance that assets are regularly inspected for condition and existence, and that any obsolescence or impairment is reflected in the Asset Register, and in the items carrying value in the accounts. • There was evidence that the accounting policy described in the Council's published accounts was being applied consistently and that assumptions about the estimated lives of assets were reasonable. <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.</p>	0	0	0	<p>Management have confirmed the factual accuracy and accepted the findings of this report.</p> <p>Internal Audit is aware of upcoming changes to the Technology Forge system and will review this during 2019/20 as part of our work on ICT Business Systems.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Corporate Governance</p> <p>Subject: Corporate Transformation</p> <p>No: 010/016</p> <p>Date issued: 3 May 2019</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to review the new governance and accountability arrangements of the revised Corporate Transformation Programme structure; processes for benefit identification (financial and other); tracking and realisation (return on investment and value for money); evaluation of outcomes and lessons learned including a series of Gateway Reviews.</p> <p>The Corporate Transformation Programme is designed to help achieve Council Corporate Priorities and is critical in supporting the delivery of significant savings set out in the Council's 5-year Revenue Financial Plan.</p> <p>The financial and other benefit realisation from Change and Improvement Projects are monitored on a weekly basis by Corporate Management Team and through the Council's Financial Plan and associated monitoring to Executive Committee at the same meeting as the quarterly performance reports. The latter includes a high level summary of the business change programmes and projects, including significant highlights, as well as periodic case studies to demonstrate return on investment.</p> <p>Risk management is applied at both programme and individual project level, and risks are subject to regular review.</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 some scope for improvement such as the transition from paper-based claims to using Business World ERP system for all employees within Workforce Transformation, and further alignment of Workforce, Business and Financial Planning processes. These are included in Management Action Plans and therefore we have made no recommendations.</p>	0	0	0	<p>Management have confirmed the factual accuracy and accepted the findings of this report.</p> <p>Gateway reviews:</p> <ul style="list-style-type: none"> o Workforce Transformation – Business Travel / Staff Travel Costs o Workforce Transformation – Overtime Costs o Corporate Landlord Model <p>Internal Audit will continue to act as a 'critical friend' in these areas as part of our planned work in 2019/20 on the Corporate Transformation Programme and other Internal Audit reviews where they relate to these areas.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Financial Governance</p> <p>Subject: Business World ERP System Key Internal Controls (incorporating Procure to Pay, Sales to Cash, Payroll, and Record to Report)</p> <p>No: 073/002</p> <p>Date issued: 7 May 2019</p> <p>Level of Assurance for the specific areas tested:</p> <ul style="list-style-type: none"> • Procure to Pay – Substantial with exception of GL07 Limited • Sales to Cash – Substantial • Payroll – Comprehensive • Record to Report – Substantial • System Roles / User Access – Limited • Systems Documentation and Training Materials post “go live” – Substantial 	<p>This Business World ERP System Key Internal Controls review was an integration of 4 audits as part of our Financial Governance assurance work included within our Internal Audit Annual Plan 2018/19 relating to the workstreams: Procure to Pay; Sales to Cash; Payroll; and Record to Report.</p> <p>The Council replaced older legacy systems in April 2017 with an integrated Enterprise Resource Planning solution, Business World, for HR, Finance and Procurement processes designed to reduce redundancy in processing and data handling. Business World is one of the cornerstones by which the Council seeks to continue to achieve transformational change in the way that it operates. The complexity of the new system and the recent upgrade in January 2019 has been assessed as high inherent risk requiring frequent Internal Audit reviews over the next few years including other functionality as it is rolled out.</p> <p>The purpose of the review was to test the end to end processes and internal controls in place which are intended to:</p> <ul style="list-style-type: none"> • ensure complete and accurate processing of transactions with suppliers and customers; • ensure complete and accurate processing of payments to current and former employees; and • record transactions and payments in an appropriate manner for the purposes of budgetary control and financial reporting. <p>This audit was intended to satisfy three objectives: to provide Management with assurance on the operation of the Business World system; to contribute towards the production of the Internal Audit annual assurance opinion; and to supplement the work undertaken by Audit Scotland in the external audit process.</p> <p>We tested processes and internal controls in place during the period April 2018 to February 2019 in order to confirm that controls continue to operate as previously assessed and to review any changes to processes or controls in recognition of the ongoing Business World (BW) work being delivered by CGI.</p>	0	0	0	<p>Management have confirmed the factual accuracy and accepted the findings of this report.</p> <p>Internal Audit will continue to monitor and review progress in 2019/20 with the 3 remaining recommendations which are in work progress to address risks, issues and concerns.</p>

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<p>Audit Plan Category: Financial Governance</p> <p>Subject: Business World ERP System Key Internal Controls (incorporating Procure to Pay, Sales to Cash, Payroll, and Record to Report)</p> <p>(cont'd)</p>	<p>The BW Masterfile records (Supplier, Customer, Employee) contain financial and personal data and it is essential that any changes to Masterfile records in terms of creation, amendment or deletion are tightly controlled and restrictions around access are applied. Substantive testing of these indicated that Masterfile amendments were processed by officers authorised to undertake those tasks and those changes are generally supported by appropriate documentation.</p> <p>Our review of Audit trails of amendments made to Masterfile records in BW for Procure to Pay and Sales to Cash continues to reveal some limitations in their usefulness; these were incomplete for a number of items in our sample testing. Management have agreed to consider how appropriate evidence is available in every case in order that the audit trail is meaningful and captures relevant information to ensure unintended, inaccurate or fraudulent changes are detected.</p> <p>The testing of P2P transactional processing evidences that valid transactions are being accurately and correctly recorded. In respect of the continued use of GL07 payment process for both non-invoice payments to individuals and invoice payments that have been authorised in sub-systems for which no interface with Business World exists, there is an Action Plan in place to help address the known control risks with relevant Services, and we will continue to monitor progress in this area.</p> <p>The testing of Sales invoices indicates that the time taken to raise these has improved, and the narrative supplied on credit notes is more detailed allowing appropriate authorisations to be made. Both are improvements from the previous year's audit.</p> <p>The testing of Payroll transactions, to determine appropriate authorisation and notification, relevant supporting documentation, and monthly reconciliations (where appropriate), highlighted no issues or areas of concern.</p>				

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<p>Audit Plan Category: Financial Governance</p> <p>Subject: Business World ERP System Key Internal Controls (incorporating Procure to Pay, Sales to Cash, Payroll, and Record to Report)</p> <p>(cont'd)</p>	<p>We consider that sufficient functionality currently exists within the Record to Report module and further roll out of Financial Information Centre to assist Service Managers with budget monitoring and forecasting and moving to self-service will help to further achieve objectives.</p> <p>Role separation within BW has been designed and implemented to provide an appropriate separation of duties to ensure officers have appropriate and correct permissions to carry out their tasks. As it is not easy to ascertain that the configuration of the role profiles fully ensures this in every instance there is a risk that fraud or error might occur in the event that an officer has inappropriate or conflicting permissions. A role review is currently underway but until this role review is completed we can only give limited assurance in this area.</p> <p>The Council's Financial Regulations were updated to reflect the implementation of BW system and approved in November 2018. The associated Financial Policies and Procedures require review and updating to ensure they reflect current practices thus enabling roles and responsibilities to be appropriately discharged. This is work in progress.</p> <p>Our 2017/18 Internal Audit report on Business World ERP System Key Controls dated 4 May 2018 consisted of 18 recommendations (8 Medium Risk; 10 Low Risk). Our follow up review of previous recommendations from 2017/18 shows that 15 of these are now completed and we have been able to evidence improvements made, or action plans put in place to address issues and concerns. The outstanding recommendations relate to: (R2R) the bank reconciliation module in BW (Medium Risk); (R2R) suspense account error transaction report (Low risk); and (All modules) audit trails (Medium Risk), all of which are work in progress. We made no further recommendations.</p>				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Financial Governance</p> <p>Subject: Revenues (Council Tax and Non Domestic Rates)</p> <p>No: 084/012</p> <p>Date issued: 3 May 2019</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to assess the application of and key controls relating to Council Tax and Non-Domestic Rates (NDR) exemptions, discounts, and reliefs including review periods.</p> <p>The opportunity was taken to combine the audit assurance work with an evaluation of fraud prevention controls and detection in liaison with the Corporate Fraud & Compliance Officer.</p> <p>The following good practice was found:</p> <ul style="list-style-type: none"> • Samples tested were accurate and consistent with the award of appropriate discounts, exemptions and relief for Council Tax and NDR accounts. • There have been further improvements in the completion of history sheets for Council Tax and NDR accounts. <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, such as planned account reviews, a programme for updating policies and procedures to ensure they remain fit for purpose, and further counter fraud compliance work, as current arrangements could undermine the achievement of objectives or leave them vulnerable to error or misuse.</p> <p>Management actions are either underway or planned, thus we have made no recommendations.</p>	0	0	0	Management have confirmed the factual accuracy and accepted the findings of this report, and will ensure that the Management actions outlined are progressed.