
INTERNAL AUDIT WORK TO JULY 2019

Report by Chief Officer Audit and Risk

AUDIT AND SCRUTINY COMMITTEE

23 September 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 1 April to 2 August 2019 associated with the delivery of the approved Internal Audit Annual Plan 2019/20 is detailed in this report. During this period a total of 5 Final Internal Audit Reports have been issued. There were 10 recommendations made associated with three of 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.

2 RECOMMENDATIONS

- 2.1 I recommend that the Audit and Scrutiny Committee:**
 - a) Notes the final assurance reports issued in the period from 1 April to 2 August 2019 associated with the delivery of the approved Internal Audit Annual Plan 2019/20; 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 2019/20 was approved by the Audit and Scrutiny Committee on 11 March 2019. Internal Audit has carried out the following work in the period from 1 April to 2 August 2019 associated with the delivery of 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:
- Performance Management: Local Government Benchmarking Framework (LGBF)
 - Members Allowances
 - Building Standards Emergency Works
 - Looked After Children
 - ICT Business Systems
- 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.

Current Internal Audit Assurance Work in Progress

- 3.5 Internal Audit assurance work in progress to complete the delivery of the Internal Audit Annual Plan 2019/20 consists of the following:

Audit Area	Audit Stage
Attendance Management	Draft Report Issued 6 August 2019
EU Funded Programmes (LEADER and EMFF)	Testing underway
Adult Social Care Services - Learning Disability Service	Audit Assignment Issued
Audit Area	Audit Stage

SB Contracts	Planning underway
Homelessness	Planning underway
Jedburgh Conservation Area Regeneration Scheme (CARS)	Planning underway

Internal Audit Consultancy and Other Work

- 3.6 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:
- Engagement in meetings of programmes and projects involving major change (Fit for 2024, Corporate Landlord Model, Public Protection Unit, Contract Management Framework) as a critical friend to provide internal challenge and quality assurance.
 - Providing advice for policy development (School Fund, Purchase Cards).
 - Follow up of previous recommendations and review of Carbon Reduction Commitment last submission for the present programme.
 - Learning and development through attendance at Chief Auditors Group, Computer Audit Sub-Group, and Data Analytics training with Midlothian Council as part of shared services.

Recommendations

- 3.7 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.

- 3.8 The table below summarises the number of Internal Audit recommendations made during 2019/20:

	2019/20 Number of Recs
High	0
Medium	9
Low	1
Sub-total reported this period	10
Previously reported	0
Total	10
Recommendations agreed with action plan	10
Not agreed; risk accepted	0
Total	10

4 IMPLICATIONS

4.1 Financial

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

4.2 Risk and Mitigations

- (a) During the development of the Internal Audit Annual Plan 2019/20 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.
- (b) If audit recommendations are not implemented, there is a greater risk of loss and/or reduced operational efficiency and effectiveness, and Management may not be able to demonstrate effective management of risks through improved internal controls and governance.

4.3 Equalities

There are no direct equalities and diversities as a result of 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.

4.7 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, 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 taken into account.

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 13 May 2019

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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: Corporate Governance</p> <p>Subject: Performance Management: Local Government Benchmarking Framework (LGBF)</p> <p>No: 016/013</p> <p>Date issued: 09 August 2019 Draft; 10 September 2019 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review was to validate the Council’s Performance Indicators which are reported on an annual basis to the Improvement Service as part of the Local Government Benchmarking Framework (LGBF).</p> <p>The LGBF brings together a wide range of information about how all Scottish Councils perform in delivering better services to local communities. The data is from all Scottish Councils which represent very diverse communities in terms of geography, population, deprivation levels and community needs.</p> <p>We tested the 11 PIs figures for the 2018/19 submission under 4 headings (Corporate; Corporate Assets; Culture & Leisure; and Environment) to ensure the LGBF guidance was followed, that arrangements are in place to collect the required data, and that data gathered could be agreed back to source systems.</p> <p>Our validation testing found anomalies with data provided for 5 of the indicators, some of which were data transcribing issues, incorrect calculations, or where data provided was not up to date. All queries raised were subsequently corrected and the LGBF return was updated prior to submission to the Improvement Service by the 30 August 2019 deadline. Previous recommendations have been implemented to improve Live Borders data collection and reporting methodology for Culture & Leisure PIs. Internal Audit considers the figures provided and reported in the LGBF for 2018/19 to be reasonable and accurate. The individual data collection methods applied by the Services are suitable and appropriate.</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. Our review has identified where better validation is required in specific areas, and the relevant Service areas are aware of that required improvement.</p>	0	2	1	<p>The draft Internal Audit Report findings and recommendations were discussed by Corporate Management Team on 14 August 2019 alongside the associated draft LGBF return prior to submission.</p> <p>Management have confirmed the factual accuracy and accepted the findings of this report, and have agreed the implementation of recommendations within timescales appropriate to the standard for recommendation risk ratings.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Corporate Governance</p> <p>Subject: Performance Management: Local Government Benchmarking Framework (LGBF)</p> <p>(cont'd)</p>	<p>We made the following recommendations to improve monitoring of performance indicators in general and validation of performance indicators in specific areas:</p> <ul style="list-style-type: none"> • Performance Management should be included as an agenda item on Department Management Team meetings to ensure that both data and insight are recorded and reported within timescales requested by the Performance Team for performance reporting purposes. As system and organisational developments continue during 2019/20 there is a need to ensure performance monitoring and reporting is accurate, robust and provided on time. (M) • Cost of Collecting Council Tax (Corp 4) Staff should ensure that they understand and are able to explain the calculations they have made. (L) • % of operational buildings which are suitable for their current use & proportion of internal floor space which is in a satisfactory condition (Corp Asset 1 & 2) A reconciliation should be carried out to ensure that information migrated from Technology Forge Facility to Technology Forge Cloud is accurate and correct. (M) 				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Financial Governance</p> <p>Subject: Members Allowances</p> <p>No: 022/013</p> <p>Date issued: 20 August 2019 Draft; 10 September 2019 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to assess whether adequate controls are in place to ensure members' remuneration, allowances and expenses are accurate; are paid correctly and timely, and disclosed in accordance with regulations.</p> <p>It is a requirement of The Ethical Standards in Public Life etc. (Scotland) Act 2000 that elected members' remuneration and expenses are made public. The Democratic Services team provides advice and guidance to the elected members regarding their remuneration, expenses and allowances.</p> <p>The following good practice was found:</p> <ul style="list-style-type: none"> • There is compliance with the relevant guidance from Government on the setting of remuneration rates for Councillors. • The required information is published. • There is a thorough programme of communication and training with Councillors to ensure that all relevant interests are declared promptly. <p>For all samples we examined, we were able to reconcile the published amounts with the sum of individual monthly claims. We are satisfied that the amounts published are correct and that claims were being made within the required timescales.</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: the transition from paper-based forms for mileage and expenses claims to using Business World system to automate the process; and to ensure Business World system reports are accurate and can be relied upon for monitoring purposes. There are Management Actions underway to address these identified areas of improvement.</p>	0	0	0	<p>Management have confirmed the factual accuracy and accepted the findings of this report.</p> <p>Discussions are ongoing on the automation of the process to ensure that disclosure requirements continue to be met using the Business World system.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Building Standards Emergency Works</p> <p>No: 153/005</p> <p>Date issued: 09 August 2019 Draft; 10 September 2019 Final</p> <p>Level of Assurance: Limited</p>	<p>The purpose of this assurance audit was to ensure adequate controls are in place for emergency works income and expenditure including credit control and performance reporting.</p> <p>Where a building poses a danger to members of the public the Council has a duty under the Building (Scotland) Act 2003 to either immediately carry out (Section 29 cases), or urgently carry out (Section 30 cases), the work necessary to remove that danger (including demolishing the building). In respect of urgent action, the owner(s) must first be notified by serving a notice under Section 30 allowing the opportunity to carry out the necessary work. If this fails, the Council will take action and will reclaim the costs and expenses from the owner(s).</p> <p>In the period 1 January 2018 to 30 June 2019 a total of 71 Section 29 and 19 Section 30 cases were recorded in the Uniform system; of which 12 S29 cases and 5 S30 cases were randomly selected for audit testing. As at 31 July 2019, a total of £333k had been invoiced and the amount outstanding was £162k.</p> <p>While the assessment of premises and the instruction of work to protect the public from dangerous buildings is good, our testing highlighted issues with the oversight of the end-to-end process, completeness of recorded information in the Uniform system, efficiency and effectiveness of invoice raising and debt collection monitoring, and a lack of documented procedures for write-offs. Performance reports are made quarterly to Scottish Government, and they are available on the Council's website. Our previous recommendation to enhance performance reporting to Senior Management has not been sustained.</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 and leave them vulnerable to an unacceptable risk of error or misuse.</p>	0	5	0	<p>Management have confirmed the factual accuracy and accepted the findings of this report, and have agreed to implement the recommendations.</p> <p>Some improvements have already been made since the draft report was issued and a 'Building Standards Action Plan – Audit – Emergency Works' has been created to review processes from start to finish, and put revised procedures in place that will address the recommendations in the report with full implementation by March 2020.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Building Standards Emergency Works</p> <p>(Cont'd)</p>	<p>We made the following recommendations:</p> <ul style="list-style-type: none"> • The master suspense spreadsheet should be improved and reconciled to both Uniform and Business World systems. More checks are required to ensure that all costs are invoiced. (Medium) • All information relating to work carried out should be recorded in the Uniform system. (Medium) • Invoices should display: the Uniform reference number; the property address; and the dates the work was carried out. Notes of how amounts for invoices are raised should be retained especially when split across shared properties. Unpaid invoices should be regularly scrutinised. Regular monitoring of income should take place. (Medium) • The write off procedure should be documented. Information should be recorded to support cases written off including the reasons for write off and the actions taken. (Medium) • Reports should be made available to Senior Management on the number of cases, the amount invoiced and the amount not yet received. (Medium) 				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Looked After Children</p> <p>No: 165/002</p> <p>Date issued: 26 August 2019 Draft; 13 September 2019 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to ensure that governance processes are appropriate to meet service delivery needs for Looked after Children and that adequate controls are in place which evidence sound budgetary control.</p> <p>The Looked after Children service is responsible for children who cannot – for whatever reason – live with their families. The service aims to support children living with relatives, family, friends and foster families, or in children’s homes and units. The Children and Young People service manage the cases of 201 children (May 2019). This is a decrease (212 cases in May 2018).</p> <p>No formal process exists for the periodic review and update of policies and procedures. While review and revision does take place, it appears to be ad hoc rather than planned. Testing of case management identified that not all sample cases had been reviewed within the statutory timescales. We are satisfied that the service is taking appropriate measures to monitor closely the budget position. Management had considered some alternative measures to meet service need at lower cost.</p> <p>We consider that we are able to provide substantial assurance. Largely satisfactory risk, control, and governance systems are in place. Improvements are required to ensure objectives are met.</p> <p>We made the following recommendations:</p> <ul style="list-style-type: none"> • The process of ensuring (i) policies reflect current legislation and (ii) procedures reflect those policies, needs to be more formalised. This should form part of the remit of a senior officer forum which should check that policies are up to date and that procedures correctly reflect those policies. (Medium) • Processes need to be reviewed to ensure that the statutory requirement is met that all placements are reviewed 6 months after they commence and every 6 months thereafter (Medium) 	0	2	0	Management have confirmed the factual accuracy and accepted the findings of this report, and have agreed actions for implementation with target dates that are within standard timescales linked to the recommendations’ risk ratings.

Report	Summary of key findings and recommendations	Recommendations	Status
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		H	M	L	
<p>Audit Plan Category: ICT Governance</p> <p>Subject: ICT Business Systems</p> <p>No: 233/024</p> <p>Date issued: 27 August 2019 Draft; 13 September 2019 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of this assurance audit was to establish that governance and processes are in place to review and redesign computer based systems/business applications outwith the CGI Contract to ensure they are fit for purpose to support service delivery.</p> <p>A significant proportion of the systems utilised by the Council are managed outwith the core contract for ICT Services with CGI. They are managed within operational Services. A representative sample of systems was chosen for testing, as follows:</p> <ul style="list-style-type: none"> • Technology Forge - Asset Register • Routewise - Passenger Transport planning, costing and recharging tool • Servitor - Roads service job costing system <p>We consider that we are able to provide substantial assurance. Largely satisfactory risk, control, and governance systems are in place for each of the three systems for: physical security, backup and business continuity; data transfer and reconciliation with Business World system; periodic review of whether systems deployed remain fit for purpose and represent good value to meet requirements; data protection arrangements; and management of risk.</p> <p>There is some scope for improvement such as: consider an automated interface between Routewise and Business World systems to address the current time-consuming manual process; and develop a strategy for the future deployment of Routewise system which is affordable within budget constraints to respond to conclusions made by Internal Audit (August 2017) and by External Consultants (November 2018) that the system is no longer fit for purpose. There are Management Actions underway to enhance efficiency and effectiveness of controls and to ensure ICT systems represent good value to meet service requirements. Progress needs to be made to address the identified risks.</p>	0	0	0	<p>Management have confirmed the factual accuracy and accepted the findings of this report.</p> <p>Discussions are ongoing on the consideration of an automated interface between Routewise and Business World systems and the development of a strategy for the future deployment of Routewise system.</p>