
INTERNAL AUDIT WORK TO OCTOBER 2019

Report by Chief Officer Audit and Risk

AUDIT AND SCRUTINY COMMITTEE

25 November 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 3 August to 1 November 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 3 Final Internal Audit Reports have been issued. There were 2 recommendations made associated with 1 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 3 August to 1 November 2019 associated with the delivery of the approved Internal Audit Annual Plan 2019/20; and**
 - b) Notes the Internal Audit Assurance work in progress and Internal Audit Consultancy and other work carried out in accordance with the approved Internal Audit Charter.**
 - 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 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 3 August to 1 November 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:
- Attendance Management
 - Jedburgh Conservation Area Regeneration Scheme (CARS)
 - EU Funded Programmes (LEADER and EMFF)
- 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
Adult Social Care - Learning Disability Service	Drafting the report
Health & Safety	Drafting the report
Schools	Drafting the reports
SB Contracts	Testing underway
Contracting & Procurement	Testing underway
ICT Security	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:
- a) On request by Chief Executive examined and evaluated at a high level the objectives, benefits and expected outputs from the original business case for SB Cares, identified and evaluated the mechanisms in place to review how SB Cares is performing and how it fits with Council and communities' priorities, and considered any changes in the operating context from the assumptions made in the original business case. This Internal Audit Consultancy work was referred to within report to Council 26 September 2019 by Chief Executive "Strategic Review of SB Cares – Future Provision of Adult Social Care Services".
 - b) Engagement in meetings of programmes and projects involving major change (Fit for 2024 Transformation Programme Board, Public Protection Unit, Information Governance Group) as a critical friend to provide internal challenge and quality assurance. There have been no recent meetings of the Capital Programme Board - Corporate Landlord though we note actions are underway to rectify this. During this year to date there have been no meetings of the Contract Management Steering Group to oversee the implementation of the new CM Framework.
 - c) Learning and development through attendance at Chief Auditors Group, Computer Audit Sub-Group, CIIA Forum, and Data Analytics Forum
 - d) Work has also been carried out in advance of the scheduled assurance audits for: Procure to Pay (Virtual Purchase Cards); Payroll (Overtime); Sales to Cash (Review of ICON upgrade).
 - e) Following Council decision 26 September 2019 Internal Audit are involved in a working group to reintegrate all of the services presently directly delivered by the ALEO into the Council from 1 December 2019 to provide assurance to the Council.

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:

<p>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.</p>
<p>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.</p>
<p>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.</p>
<p>Outwith the report, Internal Audit informs operational managers about other matters as part of continuous improvement.</p>

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

	2019/20 Number of Recs
High	0
Medium	2
Low	0
Sub-total reported this period	2
Previously reported	10
Total	12
Recommendations agreed with action plan	12
Not agreed; risk accepted	0
Total	12

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.
- (c) Internal Audit recommendations also highlight potential risks and are taken into account when risk registers are reviewed and new risks are identified. Internal Audit is the third line of defence in the governance of risk.

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, the Communications team and the Corporate Risk Officer have been consulted on this report and any comments have been taken into account.

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 23 September 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: Attendance Management</p> <p>No: 013/005</p> <p>Date issued: 06 August 2019 Draft; 07 October 2019 Final</p> <p>Level of Assurance:</p> <ul style="list-style-type: none"> • Policy and Procedures – substantial (subject to minor policy amendments) • Processes (monitoring, reporting and action planning) and Line Managers training - limited 	<p>The purpose of this assurance audit was to ensure there are adequate controls in place to manage short and long term absences to minimise the impact on service delivery.</p> <p>The policies and procedures for attendance management are readily available on the intranet and were last updated in February 2018, though they require further update. Managing attendance is a Line Management responsibility which includes the recording, reporting and monitoring of absence. Whereas previously anyone with intranet access could report sickness absence via the online forms, with the introduction of absence recording in Business World system (BW) this has resulted in only line managers now being able to record absence. The online form remains available until external access is rolled out to all line managers. This culture shift is proving to be challenging for some service areas which have large staff numbers. Automated monitoring and reporting of sickness absences has not been carried out since the implementation BW in April 2017, though HR still provided absence information on request. System generated trigger reports from BW were introduced on 1 July 2019. Our review showed that less than 5% of current (525) Line Managers have completed any kind of attendance management training during the last 3 years.</p> <p>Internal Audit are able to provide substantial assurance for Policy and Procedures and limited assurance for Processes (monitoring, reporting & action planning) and Managers training.</p> <p>The following Internal Audit recommendations were made:</p> <ul style="list-style-type: none"> • The Attendance Management policy should be updated to reflect the current systems and practices in place. (Medium) • Line Managers should undertake training, or a refresher regarding Attendance Management policy and processes. Further guidance and/or training in Business World processes regarding absence monitoring, reporting and action planning should be provided for line managers. (Medium) 	0	2	0	<p>HR Management have confirmed the factual accuracy and accepted the findings of this report, and have agreed actions for implementation on which they will lead though Line Managers will be responsible for familiarising themselves with the Attendance Management policy and guidance and undertaking training.</p> <p>Internal Audit as part of the planned assurance work on Business World key controls (Payroll) will carry out further testing of sickness absence reporting by Line Managers.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Legislative and Other Compliance</p> <p>Subject: Jedburgh Conservation Area Regeneration Scheme (CARS)</p> <p>No: 154/022</p> <p>Date issued: 12 November 2019 Draft; 15 November 2019 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review was to examine and evaluate compliance with the scheme rules and contract specifically: Historic Environment Scotland Clause 5 (Auditing Procedures) of the contract signed 5 April 2017.</p> <p>Jedburgh Conservation Area Regeneration (CARs) Partnership Project between Historic Environment Scotland and SBC started in 2017/18 and is now in its third year. Its purpose, to undertake heritage and conservation based regeneration activities within Jedburgh town centre over a five-year period from 2017 to 2022. This is being achieved through the award of grants to property owners for external fabric building repairs and complementary initiatives relating to upgrading the public realm, education and training opportunities.</p> <p>The revenue project budget is £1,016.5k jointly funded by HES (£866.5k) and SBC (£150k). In addition, £50k has been allocated from SBC's capital budget.</p> <p>Internal Audit are able to provide assurance of substantial compliance with the scheme rules and the HES contract. We found that the Jedburgh CAR Scheme has been managed well and run substantially in accordance with the requirements of the contract, and appropriate controls exist around segregation of duties and authorisations were in operation.</p> <p>No Internal Audit recommendations were made.</p>	0	0	0	<p>Management have confirmed the factual accuracy and accepted the findings of the audit report.</p> <p>The submission to Historic Environment Scotland will include the findings from this Internal Audit report, an Accountant's Report and Audited Annual Accounts.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Legislative and Other Compliance</p> <p>Subject: EU Funded Programmes (LEADER and EMFF)</p> <p>No: 154/023</p> <p>Date issued: 28 October 2019 Draft; 15 November 2019 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review was to perform annual audits of EU grant-funded programmes for 2014-2020, Liaison Entre Actions de Développement de l'Économie Rurale (LEADER) and the European Maritime Fisheries Fund (EMFF), under the terms of Service Level Agreements (SLAs) to assess compliance with the requirements of the SLAs and the relevant EC Regulations.</p> <p>Internal Audit tested all claims made during the period 16 October 2018 and 15 October 2019: fourteen LEADER claims of project costs totalling £737k; four LEADER claims for the reimbursement of staff costs totalling £178k; and four EMFF claims for staff and admin costs totalling £28k.</p> <p>Internal Audit are able to provide Substantial Assurance that SBC has complied with the LEADER SLA and the EMFF Framework Agreement.</p> <p>The previous Internal Audit recommendation for LEADER Programme was implemented to ensure that staffing levels were sufficient to clear a backlog of claims and has been sustained to bring claims and data held in LARCs up-to-date.</p> <p>The audit work undertaken allows Internal Audit to confirm that SBC, as Accountable Body, has complied substantially with the requirements of the LEADER SLA. This is an area of ongoing high risk owing to the potential for disallowance of costs and significant fines levied by either the EU Auditors (as a result of their conformity audits) and / or Audit Scotland (in their capacity as certifiers of the EC accounts). Internal Audit cannot provide assurance that this level of compliance with the LEADER SLA will be enough to reduce the risk of disallowance and financial penalty. The risk of disallowance is contained in the Economic Development Risk Register and is reviewed regularly.</p>	0	0	0	<p>Management have confirmed factual accuracy and accepted the findings of the audit report.</p> <p>The annual submission to the Scottish Government will include the findings from this Internal Audit report.</p>