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## **INTERNAL AUDIT WORK TO JANUARY 2020**

**Report by Chief Officer Audit and Risk**

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### **AUDIT AND SCRUTINY COMMITTEE**

**10 February 2020**

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#### **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 2 November 2019 to 31 January 2020 associated with the delivery of the approved Internal Audit Annual Plan 2019/20 is detailed in this report. During this period a total of 4 Final Internal Audit Reports have been issued. There were 9 recommendations made associated with 4 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 2 November 2019 to 31 January 2020 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 2 November 2019 to 31 January 2020 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:
- Health and Safety
  - Peebles Schools Cluster (Peebles High School, and Priorsford, Kingsland, and St Ronan’s Primary Schools)
  - Developer Contributions / Development Management Fees
  - Adult Social Care - Learning Disability Service
- 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
Contracting and Procurement	Testing underway
SB Contracts	Testing underway
ICT Security	Testing underway
Paths Asset Management	Audit Assignment issued

Homelessness	Audit Assignment issued
Roads Asset Management	Audit Assignment issued
Property Asset Management	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) Provide 'critical friend' internal challenge and quality assurance through engagement in meetings of programmes and projects involving major change (Fit for 2024 Board, Information Governance Group, Digital Customer Steering Group, Public Protection Unit working group) and consultation on SEEMIS Early Years System Business Case.
  - b) Learning and development during the research stage of new audit areas and through: attendance at 2-day Essentials of Internal Audit training course (Internal Auditor) via SLACIAG, SLACIAG Chief Auditors Group meeting (Chief Officer Audit & Risk), SLACIAG Computer Audit Sub-Group meeting (Internal Auditor), CIIA 2-day Conference (Principal Internal Auditor), Data Analytics Forum (Principal Internal Auditor), 3-day IT Audit Basecamp Training Course (Senior Internal Auditor) via SLACIAG; presentation to IDEA Scotland and Northern England User Group on use of data analytics (PIA); and commencement of CIIA professional qualification modules (Internal Auditor).
  - c) Work has been carried out in advance of the scheduled Financial Governance assurance audits on the work streams for: Procure to Pay (Virtual Purchase Cards); Payroll (Overtime); Sales to Cash (ICON upgrade). The findings of these plus further work on these and the Record to Report work stream will be included within our report on Business World System Key Internal Controls (integration of 4 audits).
  - d) Following Council decision 26 September 2019 the Principal Internal Auditor has been involved in a working group to reintegrate all of the services directly delivered by the SB Cares 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:

<b>High:</b> 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.
<b>Medium:</b> 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.
<b>Low:</b> 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	0
<b>Sub-total reported this period</b>	<b>9</b>
Previously reported	12
<b>Total</b>	<b>21</b>
Recommendations agreed with action plan	21
Not agreed; risk accepted	0
<b>Total</b>	<b>21</b>

## 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 Executive Director (Finance and Regulatory), the Chief Legal Officer (and Monitoring 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
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**Background Papers:** Appropriate Internal Audit files

**Previous Minute Reference:** Audit and Scrutiny Committee 25 November 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](mailto: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: Health and Safety</p> <p>No: 070/005</p> <p>Date issued: 17 December 2019 Draft; 24 January 2020 Final</p> <p>Level of Assurance: Substantial assurance for Policy, Procedures and LEXI system; and Limited assurance for the Application through Processes and Training</p>	<p>The purpose of the review was to assess whether the Council is complying with relevant Health and Safety legislation, has a structured approach to Health and Safety awareness, including the use of the new Health and Safety Management system (LEXI), to ensure there are adequate and effective controls in place for health and safety (H&amp;S).</p> <p>The following good practice was found:</p> <ul style="list-style-type: none"> <li>• H&amp;S policies and procedures are available on the Council’s intranet and e-learning modules are available via SB Learn.</li> <li>• The Council has a team of trained and qualified H&amp;S personnel, who provide advice and training, and a H&amp;S Committee of officers that meets quarterly.</li> <li>• H&amp;S Team investigate significant accidents, incidents and near misses to identify root causes and recommend actions.</li> </ul> <p>Internal Audit are able to provide: Substantial assurance for Policy, Procedures &amp; LEXI system; and Limited assurance for the Application through Processes and Training. There is scope for improvement on the 2<sup>nd</sup> line of defence of H&amp;S compliance and monitoring such as: develop reporting from the LEXI system; consider mandatory training; disseminate H&amp;S information; reporting to Senior Management and Elected Members.</p> <p>The following Internal Audit recommendations were made:</p> <ul style="list-style-type: none"> <li>• H&amp;S Management should consider making some aspects of the H&amp;S policies and training mandatory to ensure that all managers and staff understand their H&amp;S responsibilities. (Medium)</li> <li>• More informed H&amp;S management information and performance reporting should be presented to DMTs as well as reporting to CMT on a more regular basis. This should include an Annual H&amp;S Report to enable the Council to demonstrate how it is fulfilling its H&amp;S obligations. (Medium)</li> </ul>	0	2	0	<p>H&amp;S 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 Managers and Staff will be responsible for familiarising themselves with the Health and Safety policies and undertaking training to apply these in practice.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Peebles High School, Priorsford Primary School, Kingsland Primary School, St Ronan's Primary School</p> <p>No: 127/032, 128/026, 128/027, 128/028</p> <p>Date issued: 11 December 2019 Drafts; 17 December 2019 PPS, 20 December 2019 PHS, 7 January 2020 KPS and SRPS Finals</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review was to assess the internal financial controls and business administrative procedures in place to ensure the efficient and effective use of resources in the school establishments (Peebles High School and Priorsford, Kingsland and St Ronan's Primary Schools), to complement the assurance received from Education Scotland arising from their inspection programme of schools.</p> <p>Each primary school in this cluster has admin staff who are either new to the Council, or have limited working knowledge of the Council's financial administration processes. A newly appointed Grade 6 who is based at the high school supports and oversees all the admin staff for the Peebles cluster primaries. The high school has a newly appointed Business Manager who is supported by an experienced high school Grade 6.</p> <p>Internal Audit are able to provide Substantial assurance relating to all four schools (largely satisfactory risk, control, and governance systems are in place). Improvements have been notified during the audit relating to the use of the School Fund (Peebles HS, Kingsland PS, St Ronan's), school lets income (Priorsford PS), and completion of mandatory training (St Ronan's PS).</p> <p>Further to the minor improvements being discussed during the Audits at all schools, the following Internal Audit recommendations were made for Peebles High School:</p> <ul style="list-style-type: none"> <li>• The long-standing reconciliation issue with the Petty Cash imprest should be resolved and thereafter, to coincide with the distribution of Purchase cards to the school, the Petty Cash imprest should be reduced to £100. (Medium)</li> <li>• The invoice process should be completed in relation to the school lets in order to generate the income for the Council. (Medium)</li> </ul>	0	2	0	<p>The Head Teachers and Business Manager / Admin Staff of the various schools have accepted the factual accuracy and findings of the various reports. The Senior Leadership Team of PHS have discussed the two recommendations and other areas of improvement and have accepted these for implementation.</p> <p>Going forward, Internal Audit intend to cover 2 schools clusters per year, thus covering all 9 clusters over a 5-year period.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Developer Contributions / Development Management Fees</p> <p>No: 150/009</p> <p>Date issued: 27 January 2020 Draft; 31 January 2020 Final</p> <p>Level of Assurance: Substantial for Policy, Legal agreements, and Capital Financial Management information, monitoring and reporting; Limited Assurance for procedures, control and monitoring, and Service areas' knowledge of the process</p>	<p>The purpose of the review was to ensure adequate controls are in place over income and expenditure and use of resources. Commitment from Services to ensure policies and procedures are operating effectively, including conditions within legal agreements and payback of contributions.</p> <p>Development Contributions help the Council to provide proper, and necessary, infrastructure, services and facilities to support development proposals. The legal agreements can cover a period of either 5 or 10 years, and fee payments are received during this period. The fees received within 2018/19 were £2.736m, and the fees which had been applied (and used) were £0.294m. The balance will be used in future years, dependant on the length of the legal agreement. Any fees not used within the legal agreement timescale are returned to the developer with interest.</p> <p>At the time of our previous audit there was a staff position within Planning whose role was to liaise with the appropriate Service areas as well as Finance and Legal regarding the Developer Contributions and fees. Upon the member of staff leaving (during 2015), the job content was shared out to other team members. Whilst this has been successful in some respects, for example between Finance and Planning, there has been a lower level of liaison between Planning and other Service areas.</p> <p>Whilst the Council adheres to Scottish Government Legislation and the policy documents are based upon it, the working practices and procedures are in need of updating.</p> <p>We met with Service area contacts and found a range of knowledge about the process; the experience varied from proactively monitoring their legal agreements and incoming fees to having little understanding of what their role is. Only one Service area had any formal working procedure for their involvement. There is a lack of a holistic approach across the whole Council in planning the use of Developer Contributions.</p>	0	3	0	<p>Management have confirmed the factual accuracy of the report, and accepted the report findings and recommendations. Planning will lead on the implementation of the improvement actions with input from Finance and the Service area representatives from across the Council to enable a holistic approach across the whole Council in planning the use of Developer Contributions.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: Developer Contributions / Development Management Fees (Cont'd)</p>	<p>The Finance team complete monthly capital plan monitoring. During our discussions with Service area representatives it was mentioned that a RAG (Red, Amber, Green) report had previously been issued to them quarterly which highlighted the fees that were due to be used within the current financial year. We mentioned this to the Finance contact who agreed to re-establish this report.</p> <p>Internal Audit are able to provide: Substantial Assurance for Policy which reflects Legislation, Legal agreements, and Capital Financial Management information, monitoring and reporting; Limited Assurance for procedures, monitoring of developer contributions and collection of amounts owed by the relevant due date, the control of incoming contributions within the specified timescales as shown in the legal agreement, and Service areas' knowledge of the process.</p> <p>The following Internal Audit recommendations were made:</p> <ul style="list-style-type: none"> <li>• Operating procedures, relevant to both the Planning team and the Service areas, should reflect current Legislation and be drafted and/or updated to reflect current working practices. (Medium)</li> <li>• Service areas should take responsibility for monitoring of incoming fees, ensuring they are used as specified and within the stipulated timescale, with input from the Planning team and from Finance through the re-instatement of a RAG report which will highlight the fees to be used within the current financial year. (Medium)</li> <li>• A working group, which would be accountable to CMT, should be established with a documented remit and roles and responsibilities for the Planning team and Service area representatives. (Medium)</li> </ul>				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Adult Social Care Learning Disability Service</p> <p>No: 181/003</p> <p>Date issued: 22 November 2019 Draft; 28 November 2019 Final</p> <p>Level of Assurance: Substantial (for overall governance, budgetary management, procurement and contract management, partnership working, and risk management) and Limited (for review of policy and procedures, and mandatory training)</p>	<p>The purpose of the audit was to assess whether governance and accountability arrangements for Adults with Learning Disabilities ensure obligations are met to deliver integrated social work and health learning disability services via partnership working.</p> <p>In 2006 Learning Disability resources in SBC and NHS Borders were integrated. At September 2019 the number of service users (allocated cases) was 248, of which 16 were allocated to the LD transition worker (from children to adults). In addition, there were 218 serviced cases. Social Work LDS budget is £18.9m.</p> <p>Good practice was found: Extensive work has been completed in relation to the transition process from children to adults.</p> <p>Internal Audit are able to provide Substantial assurance (Largely satisfactory risk, control, and governance systems are in place) for overall governance, budgetary management, procurement and contract management, partnership working, and risk management) and Limited assurance (Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses which could undermine the achievement of objectives) for review of policies and procedures, and mandatory training.</p> <p>The following Internal Audit recommendations were made:</p> <ul style="list-style-type: none"> <li>• 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 receive periodic reports that policies are up to date and that procedures correctly reflect those policies. (Medium)</li> <li>• All staff have the responsibility for completing their Mandatory training. Management should monitor the completion of the GDPR mandatory training to ensure it is completed in line with corporate policy. (Medium)</li> </ul>	0	2	0	Management have confirmed the factual accuracy of the report, and accepted the report findings and recommendations to improve the policy monitoring and completion of mandatory GDPR training.