
INTERNAL AUDIT WORK TO MARCH 2020

Report by Chief Officer Audit and Risk

AUDIT AND SCRUTINY COMMITTEE

23 June 2020

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 to 31 March 2020 associated with the delivery of the approved Internal Audit Annual Plan 2019/20 is detailed in this report. A total of 3 final Internal Audit reports have been issued. There were a total of 14 recommendations made associated with the 3 reports (10 Medium Risk; 4 Low Risk).
- 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 Internal Audit reports issued based on Internal Audit work carried out in the period from 1 to 31 March 2020 in accordance 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, and the actions agreed by Management to improve internal controls and governance.**

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 to 31 March 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:
- Contracting and Procurement
 - BW ERP System Key Internal Controls
 - SB Contracts
- 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.

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 2019/20:

	2019/20 Number of Recs
High	0
Medium	10
Low	4
Sub-total reported this period	14
Previously reported	26
Total	40
Recommendations agreed with action plan	40
Not agreed; risk accepted	0
Total	40

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 Integrated Impact Assessment

This is a routine good governance report for assurance purposes, required under the Local Authority Accounts (Scotland) Regulations 2014 and the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) (2017). This report does not relate to new or amended policy or strategy and as a result an integrated impact assessment is not an applicable consideration.

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, Executive Director Finance & Regulatory, Chief Legal Officer (and Monitoring Officer), Service Director HR, Clerk to the Council, and 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)

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Background Papers: Appropriate Internal Audit files

Previous Minute Reference: Audit and Scrutiny Committee 9 March 2020

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: Corporate Governance</p> <p>Subject: Contracting and Procurement</p> <p>No: 002/010</p> <p>Date issued: 14 April 2020 Draft; 02 June 2020 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review was to assess the procurement processes and internal controls to ensure these adequately address the key risks, and to assess compliance with the procurement framework and adequacy of contract monitoring.</p> <p>The Commercial and Commissioned Services Strategy sets out the role of strategic procurement in supporting the need to 'do more with less' and with the challenges that the Council faces requires an imaginative and commercially-focussed approach to how the supply chain and suppliers are engaged and managed.</p> <p>Procurement governance, policies and procedures in place are effective in discharging the Council's obligations. The Procurement and Contract Standing Orders were however last reviewed and approved in July 2017 and need to be updated.</p> <p>Procurement Business Planning processes document the rationale for contract award, risk management, business continuity and sustainability. Procurement processes allow for instances where competition is not being sought, subject to criteria being met to ensure value for money from suppliers is evidenced (waiver); the waiver process is not always complied with in its entirety.</p> <p>Procurement and purchasing guidelines are available on the Intranet and SB Learn (training stats indicate that uptake is low).</p> <p>Contract management and monitoring is still not fully embedded within the culture of the Council. The Contract Management Framework, which has been designed, developed and tested by the Contract Management Working Group, is in implementation phase as part of the Fit for 2024 transformation programme. The delivery of Contract Management functionality is to be achieved through the adoption of two new, dedicated software modules provided by Proactis. These modules share the supplier master file data contained in Business World system.</p>	0	2	1	<p>Management have accepted the report findings and have agreed to implement the recommendations within realistic timescales.</p> <p>Executive/Service Directors will be responsible for Management monitoring of procurement activity (2nd line of defence for assurance purposes) with support from the Procurement Team. Service Managers will be responsible for familiarising themselves with procurement policy and guidance, and ensuring that staff undertake training.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Contracting and Procurement (cont'd)	<p>Internal Audit are able to provide Substantial assurance. Largely satisfactory risk, control, and governance systems are in place. Some improvements are required, such as updating procurement standing orders, enhancing Management oversight and scrutiny of procurement activity, and completing staff training.</p> <p>The following Internal Audit recommendations were made:</p> <ul style="list-style-type: none"> • The Procurement and Contract Standing Orders should be reviewed and updated, and communicated across the Council to ensure compliance with Procurement rules. A review of the waiver process should be undertaken. (Low) • There should be Senior Management oversight of the use of the waiver process, supplier spend analysis, and expiration of contracts. Services should also ensure that their procurement forward planning processes are robust in order to reduce the number of waiver applications. (Medium) • Line Managers should ensure that staff with responsibility for procuring and purchasing goods, works and services undertake training regarding the Procurement framework to ensure they are aware of the processes and procedures when procuring goods, works and services. (Medium) 				

Report	Summary of key findings and recommendations	Recommendations			Status
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<p>Audit Plan Category: Financial Governance</p> <p>Subject: BW ERP System Key Internal Controls</p> <p>No: 073/003</p> <p>Date issued: 5 May 2020 Draft; 3 June 2020 Final</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 / HR – Comprehensive (with the exception of Expenses – Limited) • Record to Report – Substantial • System Roles / User Access – Limited • Systems Documentation and Training Materials – Substantial 	<p>This Business World ERP System Key Internal Controls review was an integration of 4 audits included within our Internal Audit Annual Plan 2019/20 relating to the workstreams (Record to Report; Procure to Pay; Payroll including Pension Payments & HR; Sales to Cash).</p> <p>The purpose of the review was to test the end to end processes and internal controls in place during the period April 2019 to February 2020 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>The scope of the audit included: a review of any changes to processes or controls in recognition of the ongoing Business World system work being delivered by CGI; other functionality that has been rolled out to staff during 2019/20, including those areas that are due to 'go live'; and specific testing of transactions relating to the reintegration of all SB Cares services into the Council from December 2019.</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. Our focus this year was on the Supplier Masterfile data and substantive testing of this indicated that amendments were processed by those authorised to undertake those tasks and those changes are generally supported by appropriate documentation (this is an external audit Key Control). We made some recommendations for some areas that can be improved.</p>	0	5	3	<p>Management have accepted the report findings and have agreed to implement the recommendations within reasonable timescales.</p> <p>Our work does not cover any additional enhancements or changes to the BW ERP system or workstream processes and procedures since March 2020.</p>

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Subject: BW ERP System Key Internal Controls (cont'd)	<p>The testing of P2P transactional processing evidenced that valid transactions are being accurately and correctly recorded. Our review of the VAT treatment on purchase orders and associated supplier invoices, to ensure the correct amounts of VAT are entered into the General Ledger, highlighted where a system improvement could be made to assist the AP Team.</p> <p>In respect of the continued use of the GL07 payment process for 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 and provide alternative solutions. Whilst this has not progressed as quickly as expected work is ongoing and we will continue to monitor progress with the action plan.</p> <p>Our testing of sales invoices and credit notes, which focused on the VAT treatment applied to charges, showed that in all but 1 case (sales invoice) VAT had been applied correctly. Our review of the monitoring and reporting of Aged Debt highlighted where an improvement could be made to the Aged Debt report to ensure it can distinguish between different debt types.</p> <p>The testing of Payroll key controls evidenced that employee validation, exception reporting and standing data showed no area of concern. Data analytics testing and matching of expense claims highlighted areas of improvement for line managers and employees to ensure their completeness and accuracy. New HR functionality rolled out to staff during 2019/20 included planned/unplanned absences, training and staff appraisal modules.</p> <p>We consider that sufficient functionality currently exists within the Record to Report module to assist Service Managers with budget monitoring and forecasting. The roll out of Financial Information Centre (FIC) will be delivered by the end of June 2020.</p>				

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Subject: BW ERP System Key Internal Controls (cont'd)	<p>Role separation within BW is designed to provide an appropriate separation of duties to ensure officers have appropriate and correct permissions to carry out their tasks. The role review is ongoing and whilst some changes have been made, until this role review is complete we can only give limited assurance in this area. We will continue to monitor progress with this.</p> <p>The Council's Financial Regulations were updated to reflect the implementation of BW system and were approved in November 2018. The associated Financial Policies and Procedures are currently being updated to ensure they reflect current practices thus enabling roles and responsibilities to be appropriately discharged: Anti-Money Laundering Policy is ready for approval; Income Management, Debt Recovery and External Charging policies and procedures are to be completed by end August 2020.</p> <p>A restructure of the Corporate Management Team took place in January 2020. The extent of work required to the Scheme of Delegation within BW system has been identified for later implementation. Some changes have already been made where this was affecting the routing of approvals or if there was any impact from an HR/Payroll perspective (e.g. Grade / Post Title). The full programme of changes is planned for implementation by the end of June 2020.</p> <p>Our testing of the data migration from SB Cares systems to the Council's BW system from 1 December 2019 (which included payroll/HR, procure to pay, and sales to cash) concluded that this was robustly undertaken and data was correctly migrated.</p> <p>There is one outstanding recommendation from our 2017/18 review relating to Audit Trails (All modules, medium risk), which is still work in progress and requires further input from BW consultants. We will continue to monitor and review progress with this. Other improvements from 2017/18 and 2018/19 have largely been completed.</p>				

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Subject: BW ERP System Key Internal Controls (cont'd)	<p>The following Internal Audit recommendations were made:</p> <p>Procure to Pay Systems Based</p> <ul style="list-style-type: none"> VAT on invoices should be calculated by the BW system with the exceptions being dealt with by the AP team. (Low) <p>Operational Processes</p> <ul style="list-style-type: none"> The AP team should ensure that they follow the same practices to ensure consistency regarding supplier documentation. (Medium) A quarterly review of suppliers that have not been paid recently should be carried out by the AP Team to ensure the Supplier Masterfile is up to date. (Low) The report identifying retrospective orders should be actioned on a monthly basis in order that officers can be reminded that orders should be raised for goods and services via official BW orders and not retrospectively in order to facilitate goods receipting and supplier payment. (Medium) A quarterly review of outstanding purchase orders should be carried out in collaboration between Procurement and Finance in order that these can be closed and ensure that budget commitments are correct. (Medium) 				

Report	Summary of key findings and recommendations	Recommendations			Status
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Subject: BW ERP System Key Internal Controls (cont'd)	<p>Recommendations (Cont'd)</p> <p>Sales to Cash <u>Systems Based</u></p> <ul style="list-style-type: none"> The aged debt report within BW should be reviewed to consider how debt managed under payment by instalment and where recovery has been deferred can be reported. (Low) <p>Payroll and HR <u>Operational Processes</u></p> <ul style="list-style-type: none"> The Employee Travel and Mileage Policy should be updated to reflect current arrangements, and clarity provided regarding the correct process for supply and peripatetic officer mileage / expense claims. (Medium) Line managers should be reminded of their responsibilities to ensure accurate information is recorded in BW system, namely: <ul style="list-style-type: none"> ➤ Greater scrutiny when authorising expense claims to ensure that staff are claiming expenses only when at work and not when shown to be absent. ➤ Ensure staff are aware, and make use, of the Employee Travel and Mileage Policy and the Business Travel Decision Maker regarding business journeys, specifically the use of pool cars. ➤ Licence, Insurance and MOT information should be recorded in BW to enable staff to use their own vehicles when a pool car is not available, and reviewed annually. (Medium) 				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: SB Contracts</p> <p>No: 209/004</p> <p>Date issued: 25 March 2020 Draft; 22 April 2020 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review was to ensure that adequate financial and operational controls are in place over externally sourced income and operations to ensure sustainability.</p> <p>SB Contracts is the Council's only Significant Trading Organisation (STO) and performs a range of roads maintenance and civil engineering/construction work for the Roads and Infrastructure Service, other Council Directorates, other public sector bodies and a range of third parties including external companies and private individuals. SB Contracts continues to actively tender for a range of contracts; however, the external market remains competitive which in turn creates a challenging environment in which to operate.</p> <p>Under the Council's Scheme of Administration the performance of SB Contracts is scrutinised by the Major Contracts Governance Group. Due to the commercial aspects of the business, reports are considered in private. Minutes of these meetings are reviewed by the Council.</p> <p>A Service Review is underway through the Fit for 2024 transformation programme, and discussions are ongoing with HR and Finance in terms of workforce planning to support the commercial operations of the Service.</p> <p>Monthly budget monitoring meetings are held with Managers to discuss Budget Forecast reports and updates. SB Contracts' budget information is compiled from two systems (Servitor and Business World) as one system alone cannot provide the information required. Maintaining these spreadsheets is time-consuming, duplicating information, and open to error. There might be an opportunity to streamline or automate this process.</p> <p>Financial and operational controls and procedures are in place for contract processes to ensure income for SB Contracts is received and accounted for.</p>	0	3	0	<p>Management have accepted the report findings and have agreed to implement the recommendations within realistic timescales.</p> <p>Progress with the Service Review underway through the Fit for 2024 transformation programme will be reviewed as part of Internal Audit's planned work for 2020/21 on Roads Asset Management.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: SB Contracts (cont'd)	<p>There is general compliance with procurement policies and procedures. Sub-contractors, whilst they are on the BW system supplier Masterfile, are not on a framework for the procurement of works and services i.e. potential for process efficiency.</p> <p>Overtime justification is considered prior to overtime hours worked. Authorisation of overtime and claims is transparent and easily evidenced with appropriate segregation of duties.</p> <p>The SB Contracts service risk register was reviewed during November 2019, with the next review due May 2020. Risk assessment is also carried out as part of any internal or external works undertaken by SB Contracts.</p> <p>Internal Audit are able to provide Substantial assurance. Largely satisfactory risk, control, and governance systems are in place. There is, however, scope for improvement, such as procurement practices and staff training, as current arrangements could undermine the achievement of objectives.</p> <p>The following Internal Audit recommendations were made:</p> <ul style="list-style-type: none"> • A process should be developed and introduced for the scrutiny of purchase orders from the Servitor system by Procurement staff. (Medium) • SB Contracts Management should engage with Procurement Business Partners to ascertain if Framework Agreements can be put in place for sub-contractors. (Medium) • SB Contracts Management should assess and identify staff who require training regarding the Procurement/Purchasing framework to ensure they are aware of the processes and procedures when procuring goods, works and services. (Medium) 				<p>Discussions have been held between Internal Audit and the Procurement Team to outline a practicable approach that can be taken to ensure the recommended improvements are undertaken whilst minimising resource implications.</p> <p>Progress on implementation of the recommendations and other improvements will be reviewed as part of Internal Audit's follow up work for 2020/21.</p>