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## **INTERNAL AUDIT WORK TO SEPTEMBER 2020**

**Report by Chief Officer Audit and Risk**

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### **AUDIT AND SCRUTINY COMMITTEE**

**22 October 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 1 to 30 September 2020 associated with the delivery of the approved Internal Audit Annual Plan 2020/21 is detailed in this report. A total of 5 final Internal Audit reports have been issued. There were a total of 2 recommendations made associated with 1 of the reports (2 Medium 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 assurance reports issued in the period from 1 to 30 September 2020 associated with the delivery of the approved Internal Audit Annual Plan 2020/21; 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 2020/21 was approved by the Audit and Scrutiny Committee on 9 March 2020. Internal Audit has carried out the following work in the period from 1 to 30 September 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:
- Contract Management Strategic Contracts
  - Performance Management Local Government Benchmarking Framework (LGBF)
  - Social Work Localities Payments
  - Business Support Grants
  - Benefits Assessment - Scottish Welfare Fund
- 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 2020/21 consists of the following:

Audit Area	Audit Stage
Treasury Management	Drafting the report
EU Funded Programmes LEADER and EMFF	Testing underway
Community Equipment Service	Testing underway
Integrated People, Financial and Business Planning	Testing underway
Foster and Kinship Carer Payments	Testing 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:
- Provide 'critical friend' internal challenge and quality assurance through engagement in meetings of programmes and projects involving major change (Fit for 2024, Information Governance Group) and attendance at the Contract and Supplier Management Implementation Group, and Social Work Performance Board.
  - Learning and development during the research stage of new audit areas for all Internal Audit team members and through joining virtual meetings of SLACIAG Chief Auditors Group meeting (Chief Officer Audit & Risk), CIIA Practitioners Forum (Principal Internal Auditor) and Computer Audit Sub-Group (Senior Auditor/Internal Auditor). The Chief Officer Audit & Risk and Principal Internal Auditor have also joined various virtual internal audit forums hosted by CIIA and EY.
  - Provision of Internal Audit service to the Pension Fund and to the Health and Social Care Integration Joint Board as part of the Council's contribution to partnership working.

## 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 2020/21:

	2020/21 Number of Recs
High	0
Medium	2
Low	0
<b>Sub-total reported this period</b>	<b>2</b>
Previously reported	0
<b>Total</b>	<b>2</b>
Recommendations agreed with action plan	2
Not agreed; risk accepted	0
<b>Total</b>	<b>2</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 2020/21 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). It does not relate to new/amended policy/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 direct result of this report, though one recommendation within one of the Internal Audit reports contained therein refers to the need for Management to make enhancements to the Scheme of Administration relating to Agreements and to Significant Contracts. It is anticipated that this will form part of a separate report relating to proposed revisions to the Scheme of Administration presented for approval to Council in due course.

## **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 & Communications, Clerk to the Council, and Communications team have been consulted 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
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**Background Papers:** Appropriate Internal Audit files

**Previous Minute Reference:** Audit and Scrutiny Committee 28 September 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](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: Contract Management – Strategic Contracts</p> <p>No: 002/011</p> <p>Date issued: 06 October 2020 Draft; 13 October 2020 Final</p> <p>Level of Assurance: Limited</p>	<p>The purpose of the audit was to review the Council's Contract Management Framework to ensure that there are adequate and effective controls in place over Contract Monitoring arrangements throughout the Council, including sports trusts and strategic arrangements with third parties.</p> <p>The Major Contracts Governance Group (MCGG) is tasked with having an oversight of any significant contracts and agreements with Trusts as defined in the Council's Scheme of Administration. In 2019 there has been one presentation each by CGI (June 2019) and Live Borders (September 2019) and in 2020 to date, though noting the Covid-19 emergency recess, one presentation by CGI (September 2020). The effectiveness of scrutiny of any significant contractual or agreement obligations could be enhanced by more regular presentations to Members.</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 unacceptable risk of not demonstrating best value.</p> <p>Internal Audit made the following recommendations:</p> <ul style="list-style-type: none"> <li>• A regular schedule of reports from Live Borders and CGI to the Major Contract Governance Group (MCGG) should be developed to enable MCGG to fulfil its oversight of Agreements and of Significant Contracts as defined in the Council's Scheme of Administration. (Medium)</li> <li>• The functions referred for MCGG within the Scheme of Administration relating to Agreements and to Significant Contracts should be expanded and be more explicit to set out the associated contract monitoring responsibilities for the committee, similar to those relating to SB Contracts rather than the current single function referred in each case. (Medium)</li> </ul>	0	2	0	<p>Management have accepted the factual accuracy of the report and its findings, and agreed to the implementation of the audit recommendations within reasonable timescales to enhance the oversight and scrutiny of these strategic contracts.</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>No: 016/014</p> <p>Date issued: 14 August 2020 Draft; 07 October 2020 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 2019/20 submission under 4 headings (Corporate; Corporate Assets; Culture &amp; 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. Queries raised associated with 4 of the indicators were subsequently corrected and the LGBF return was updated prior to submission to the Improvement Service by the 31 August 2020 deadline. The fifth anomaly required a slight amendment to the indicator which has subsequently been adjusted on the LGBF 2019/20 return.</p> <p>Internal Audit considers the final figures for the 11 performance indicators provided and reported in the LGBF return 2019/20 to be reasonable and accurate, after noted amendments, and is able to provide substantial assurance. The individual data collection methods applied by the Services are adequate though there is scope for improvement in the process and Management oversight (specifically implementation of the outstanding recommendation from the previous year) to ensure data is complete, accurate and provided on time.</p>	0	0	0	<p>Management have accepted the factual accuracy of the report and its findings.</p> <p>The draft Internal Audit Report findings and recommendations were discussed by Corporate Management Team on 19 August 2020 alongside the associated draft LGBF return prior to submission.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Social Work Locality Payments</p> <p>No: 076/008</p> <p>Date issued: 08 October 2020 Draft; 09 October 2020 Final</p> <p>Level of Assurance: Comprehensive</p>	<p>The specific scope of the audit changed from that originally planned following discussions with Senior Management to reflect the changes made to ways of working and provision of services in response to the COVID-19 pandemic.</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, including evaluation of the systems and processes.</p> <p>This review focused on the policies, procedures and processes required for the administration of allpay cards for Social Work (SW) Localities as a result of the COVID-19 pandemic.</p> <p>The following good practice was found:</p> <ul style="list-style-type: none"> <li>• The service have adapted an existing, and successful method of payment to suit their clients during the new circumstances with the COVID pandemic.</li> <li>• Staff reacted quickly to a unique fast changing situation in order to continue making payments to clients.</li> </ul> <p>Examination of a sample of payments within the Council for providing financial support to both Corporate Appointees and recipients of Section payments found no areas of concern; there is recognition of the shift from cash to electronic methods which is still progressing.</p> <p>Internal Audit are able to provide comprehensive assurance. Sound risk, control, and governance systems are in place. These should be effective in mitigating risks to the achievement of objectives. Some system enhancements in a few, relatively minor, areas had been identified and were being explored by Management. No recommendations were made.</p>	0	0	0	Management have accepted the factual accuracy of the report and its findings.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	

<p>Audit Plan Category: Contingency</p> <p>Subject: Business Support Grants</p> <p>No: 084/999/001</p> <p>Date issued: 05 October 2020 Draft; 09 October 2020 Final</p> <p>Level of Assurance: Substantial</p>	<p>This review was added to the Plan to carry out assurance work on new risks associated with the COVID-19 emergency response.</p> <p>The Scottish Government Coronavirus Business Support Fund is administered by Scottish Borders Council to provide grant support to help businesses deal with the impact of COVID-19. The intention is to protect jobs, prevent business closure and promote economic recovery.</p> <p>The purpose of the review was to ensure that applications are made in accordance with current Scottish Government legislation and payments are made in a timely manner.</p> <p>The legislation surrounding these grants was very complex and intricate and introduced over a number of phases which brought about changes that had to be incorporated into processes quickly to allow payments to be made in a timely manner.</p> <p>The following examples of good practice were found:</p> <ul style="list-style-type: none"> <li>• Procedures and policies were documented and updated as legislation changed.</li> <li>• There were no issues with the handover from Business Gateway to Customer Services.</li> <li>• Staff reacted quickly to a unique, fast changing situation to allow payments to be made to businesses in need.</li> <li>• Community Councils were provided with funds to assist households in immediate need to buy food and essential items.</li> </ul> <p>Examination of a sample of payments and of the monitoring and reporting to Scottish Government found no areas of concern.</p> <p>Internal Audit are able to provide substantial assurance. Largely satisfactory risk, control, and governance systems are in place. Lessons learned from the business support grant process have been shared during the audit to show where improvements could be made around the consistency of decision-making and the completion of documentation to support these decisions.</p>	0	0	0	<p>Management have accepted the factual accuracy of the report and its findings including the lessons learned.</p>
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Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Benefits Assessment – Scottish Welfare Fund</p> <p>No: 085/010</p> <p>Date issued: 07 October 2020 Draft; 09 October 2020 Final</p> <p>Level of Assurance: Comprehensive</p>	<p>The purpose of the review was to assess the adequacy of operational processes in place to administer the payment of Crisis Grants and Community Care Grants for the Scottish Welfare Fund (SWF) and that they are effective, appropriate and consistent. Discretionary Housing Payment (DHP) policy, processes and payments were also reviewed as part of this audit.</p> <p>The following good practice was found:</p> <ul style="list-style-type: none"> <li>• Policies and procedures are well documented and complied with.</li> <li>• Payments made to applicants for SWF and DHP are timely and accurate.</li> <li>• Monitoring and reporting to Scottish Government is completed as required.</li> </ul> <p>The SWF is a national scheme, underpinned by law and delivered on behalf of the Scottish Government by local authorities. It aims to provide a safety net to people on low incomes through the provision of Crisis Grants and Community Care Grants. DHP provides existing housing benefit claimants with further financial assistance, in addition to other welfare benefits.</p> <p>Sample testing of claims and payments from 2019/20 and 2020/21 (to end July 2020) raised no areas of concern. Policies and procedures are followed in line with current guidance and legislation to ensure eligibility of claims, timeliness and accuracy of payment made.</p> <p>Internal Audit are able to provide comprehensive assurance. Sound risk, control, and governance systems are in place. These should be effective in mitigating risks to the achievement of objectives. Some improvements in a few, relatively minor, areas such as the consistent completion of system notes have been shared during the audit. No recommendations were made.</p>	0	0	0	Management have accepted the factual accuracy of the report and its findings.