
INTERNAL AUDIT WORK TO OCTOBER 2020

Report by Chief Officer Audit and Risk

AUDIT AND SCRUTINY COMMITTEE

23 November 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 October 2020 associated with the delivery of the approved Internal Audit Annual Plan 2020/21 is detailed in this report. A total of 3 final Internal Audit reports have been issued. There were no recommendations made.
- 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 31 October 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 31 October 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:
- Treasury Management
 - EU Funded Programmes LEADER and EMFF
 - Community Equipment 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 2020/21 consists of the following:

Audit Area	Audit Stage
Foster and Kinship Carer Payments	Drafting the report
Integrated People, Financial and Business Planning	Testing underway
Education Maintenance Allowances Process	Audit Assignment issued
Schools Financial and Business Administration Processes	Audit Assignment Issued
ICT Operational Computer Systems	Audit Assignment Issued

Revenues (Council Tax and NDR)	Planning the Assignment
Adults and Children with Physical Disabilities	Planning the Assignment

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); 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 audit forums and meetings.

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	0
Low	0
Sub-total reported this period	0
Previously reported	2
Total	2
Recommendations agreed with action plan	2
Not agreed; risk accepted	0
Total	2

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 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 & Communications, 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 22 October 2020

Audit and Scrutiny Committee – 23 November 2020

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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: Financial Governance</p> <p>Subject: Treasury Management</p> <p>No: 077/005</p> <p>Date issued: 28 October 2020 Draft; 29 October 2020 Final</p> <p>Level of Assurance: Comprehensive</p>	<p>The purpose of the review was to ensure the treasury functions are administered effectively and in compliance with policy, strategy, codes of practice and indicators.</p> <p>The following good practice was found:</p> <ul style="list-style-type: none"> Reporting, governance and performance measurement processes follow those set out in the CIPFA Prudential Code. The quality of reporting is very good. There was evidence of effective review controls over the calculation of prudential indicators, and the audit testing confirmed the completeness and accuracy of figures published in publically available documents. There was evidence of effective cash flow management, allowing excess funds to be invested while allowing liabilities to be met as planned. Compliance with the CIPFA Prudential Code is based on an understanding of risks relating to the Council’s investment strategy and plans, and an understanding of how these risks are managed. In addition, we noted that risks relating to treasury management are described in the finance risk registers. They are managed and reported in line with Council policy. Controls and mitigations are described to reduce residual risk to acceptable levels. <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.</p> <p>We made no recommendations.</p>	0	0	0	<p>Management have accepted the factual accuracy of the report and have welcomed its findings.</p> <p>Treasury management is one of the more complicated technical areas of financial management which requires a high level of specialist knowledge from officers.</p> <p>Likewise the effective scrutiny of the Treasury Function requires expertise to be held by those charged with governance.</p> <p>Officers will ensure the ongoing programme of training with the Audit and Scrutiny Committee is maintained to ensure members have the requisite knowledge, using specialist advisers where necessary.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Community Equipment Service</p> <p>No: 190/006</p> <p>Date issued: 29 October 2020 Draft; 13 November 2020 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review was to assess the adequacy of operational processes and practices in place to meet the needs of users to ensure the efficient and effective operation and delivery of the Community Equipment Service (CES).</p> <p>CES provides equipment for people aiming to maximise independence and mobility. Whilst not governed by legislation, this Service follows the guidance from Scottish Government, COSLA and National Association of Equipment Providers. Equipment is available on loan following an assessment from an NHS- or SBC-trained professional. Clients are supplied with equipment as a means of them being discharged from hospital and returning back into their own homes.</p> <p>The following good practice was found:</p> <ul style="list-style-type: none"> • Staff reacted quickly to a unique fast changing situation in order to continue the delivery of their service to support colleagues and service users. • Service currently have 65% of specific equipment items being recycled. This in part is due to the investment of a decontamination machine. <p>A recommendation arising from the previous audit of the Service to complete a review of the stock control processes throughout the satellite stores has been implemented.</p> <p>Internal Audit are able to provide substantial assurance. Largely satisfactory risk, control, and governance systems are in place. There is some scope for minor improvements in relation to the recycling of equipment, setting standards of service and performance measures which were discussed with Management during the audit. The previous recommendation remains outstanding relating to the signature of the SLA and agreement re the funding package for this Service to ensure its financial sustainability. No further recommendations were made.</p>	0	0	0	Management have accepted the factual accuracy of the report and its findings, and will follow up on the areas of note including review of recycling process and agreeing a SLA for the service with the commissioners.

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: 154/026</p> <p>Date issued: 05 November 2020 Draft; 16 November 2020 Final</p> <p>Level of Assurance: Substantial Assurance that SBC has complied with the LEADER SLA and the EMFF Framework Agreement</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 2019 and 15 October 2020: twelve LEADER claims of project costs totalling £747k; four LEADER claims for the reimbursement of staff costs totalling £180k; and five EMFF claims for staff and admin costs totalling £14k.</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 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 accepted the factual accuracy of the report and its findings.</p> <p>The annual submission to the Scottish Government will include the findings from this Internal Audit report.</p>