Internal Audit Work 2015/16 to August 2015

Report by Chief Officer Audit and Risk

Audit and Risk Committee

28 September 2015

1   **PURPOSE AND SUMMARY**

    1.1   **The purpose of this report is to provide the Audit and Risk Committee with details of:**

        a) **the recent work carried out by Internal Audit and the recommended audit actions agreed by Management to improve internal controls and governance arrangements,**

        b) **Internal Audit work currently in progress, and**

        c) **the work of Scottish Local Authorities Chief Internal Auditors Group.**

    1.2   The work Internal Audit has carried out in the period from 4 April to 28 August 2015 to deliver the Internal Audit Annual Plan 2015/16 is detailed in this report. During this period a total of 5 final internal audit reports have been issued. There was 1 recommendation made (0 Priority 1 High Risk, 0 Priority 2 Medium Risk, and 1 Priority 3 Low Risk) specific to 1 of the reports. Management have agreed to implement the recommendation to improve internal controls and governance arrangements.

    1.3   An executive summary of the final internal audit reports issued, including audit objective, findings, good practice, recommendations 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   Further information on the work of Scottish Local Authorities Chief Internal Auditors Group (SLACIAG), which is the professional networking group for Heads of Internal Audit, is shown in Appendix 2 to this report.

2   **RECOMMENDATIONS**

    2.1   **I recommend that the Audit and Risk Committee:**

        a) **Notes the final reports issued in the period from 4 April to 28 August 2015 to deliver the Internal Audit Annual Plan 2015/16;**

        b) **Acknowledges that it is satisfied with the recommended audit actions agreed by Management; and**

        c) **Acknowledges the benefits to Scottish Borders Council Internal Audit function arising from its participation in the SLACIAG national forum for heads of internal audit.**

3 PROGRESS REPORT

3.1 The Internal Audit Annual Plan 2015/16 was approved by the Audit and Risk Committee on 23 March 2015. Internal Audit has carried out the following work in the period 4 April to 28 August 2015 to deliver the plan to meet its objective of providing an opinion on the efficacy of the Council's risk management, internal control and governance arrangements.

Audit Reports

3.2 Internal Audit issued final internal audit reports on the following subjects:

- Performance Management (Statutory Performance Indicators (SPIs) and Local Government Benchmarking Framework(LGBF))
- Carbon Reduction Programme
- Kelso Town Heritage Initiative (THI) and Conservation Area Regeneration (CARs) Scheme
- ICT Security Controls
- ICT Disaster Recovery

3.3 An executive summary of each final internal audit report including audit objective, findings, good practice, recommendations 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.

The definitions for Internal Audit assurance categories are as follows:

Level of Assurance	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.

Other Productive Work

3.4 Internal Audit have been involved in the following to meet its aims and objectives, and its roles and responsibilities in accordance with the approved Internal Audit Charter:

3.4.1 Internal Auditors are attending relevant seminars, development workshops and user groups, and feedback to colleagues as relevant, to ensure their skills and knowledge are kept up-to-date and to fulfil their Continuing Professional Development (CPD) requirements.

3.4.2 All Internal Auditors attended the Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) 2-day Conference 8 and 9 June 2015 in Dundee. Themes at the biennial Conference included Counter Fraud and Corruption, Transformation and Change, and Health & Social Care Integration (Risks, Challenges, Opportunities, and the role of Internal Audit). This provided cost effective learning and development for the Internal Audit team due to the top quality line up of presenters, the mix of presentations / workshop format and the themes / topics discussed.

3.4.3 Offering advice on internal controls and governance to managers on request and a number of clients are proactively engaging internal audit in consultancy work as the Council's continues to transform its services, for example, the Welfare Reform Programme, the Information Governance Group, and the Serious Organised Crime Officer Working Group.

3.4.4 Reviewing outstanding and overdue audit recommendations to ensure we are satisfied that progress has been made to implement the previous internal audit recommendations and management actions, that actions taken have had the desired effect in improving internal controls and governance, and are reflected in the corporate performance systems for reporting purposes. The standard follow-up process has a particular focus on Priority 1 and 2 recommendations and those audit recommendations arising from previous years that have not yet been implemented. Appendix 1 highlights any matters we require to bring to the attention of Management and the Audit and Risk Committee relating to the areas reviewed in this period.

3.4.5 Offering advice on improvements to fraud prevention controls and detection processes put in place by Management. Internal Audit resources have also been deployed on corporate process reviews to inform revised policy and strategy, for example, the Corporate Fraud Working Group.

Recommendations

3.5 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 set out in the Internal Audit Charter reflects our risk assessment of non-implementation, being the product of the likelihood of the risk materialising and its impact:

a) **Priority 1**: High risk, material observations requiring immediate action i.e. within one month of formally raising the issue. Added to the relevant Risk Register.

b) **Priority 2**: Medium risk, significant observations requiring reasonably urgent action i.e. within three months of formally raising the issue.

c) **Priority 3**: Low risk, minor observations which require action within six months of formally raising the issue to improve the efficiency, effectiveness

and economy of operations or which otherwise require to be brought to the attention of senior management.

The action plans in audit reports address only recommendations rated Priority 1, 2 or 3. Outwith the audit report, we inform operational managers about other matters as part of continuous improvement.

3.6 The table below summarises the number of internal audit recommendations made during 2015/16:

	2015/16 Number of Recommendations
Reported this period	
Priority 1	0
Priority 2	0
Priority 3	1
Total reported this period	**1**
Previously reported	0
Total	**1**

Recommendations agreed with action plan	1
Not agreed; risk accepted	0
Total	**1**

4. SCOTTISH LOCAL AUTHORITIES' CHIEF INTERNAL AUDITORS' GROUP (SLACIAG) ANNUAL REPORT 2014/15

4.1 The Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) is the professional networking group for Heads of Internal Audit from each Scottish Local Authority and Strathclyde Partnership for Transport. It is a Special Interest Group of CIPFA Scotland and therefore the Chair of SLACIAG is a member of the CIPFA Scotland Executive Committee.

4.2 The vision of the Group is to be the voice of Internal Audit across Scottish local authorities and a driving force for best practice in respect of Local Authority Internal Audit, governance, and operations. It achieves this by meeting to discuss issues of common concern, commissioning work to develop ideas, sharing good practice, working in partnership with other professions/governing bodies and promoting SLACIAG as the representative body for internal audit in public authorities.

4.3 In support of that vision SLACIAG has four key objectives, namely:
- to raise its profile with key stakeholders and to be recognised as the logical, respected, and essential source of opinion on governance, risk, and control within Scottish Local Government;
- to identify areas of Internal Audit work where a pan-Scotland or inter-Authority approach will bring benefits to our people, clients, and stakeholders;
- to consider the development and training needs of our people; and
- to seek statutory recognition for the role of Internal Audit in Scotland.

4.4 Each year, SLACIAG produces an Annual Report highlighting achievements and ongoing workstreams and a copy of the report for 2014/15 is attached at Appendix 2 for information. As set out in the report, 2014/15 was a successful year for SLACIAG which is reflected in the excellent attendance at and contribution to meetings of the Group over the course of the year in the main due to the variety of relevant topics considered by the Group and the calibre of speakers who attended and presented.

4.5 In particular, the Audit and Risk Committee may wish to note that:

4.5.1 Probably the most significant development during 2014/15 was the achievement of the Group's objective to seek statutory recognition for internal audit in Scotland. The Local Authority Accounts (Scotland) Regulations 2014, which came into force on 10 October 2014, require a local authority to operate a professional and objective internal auditing service;

4.5.2 The Group considers learning and development needs and organises training for its members via the Training Sub-Group. Economies of scale make this a cost effective way of undertaking training;

4.5.3 Working groups are set up to consider matters of interest such as the development of a peer review approach for the periodic (at least 5 yearly) external quality assessment against the Public Sector Internal Audit Standards (PSIAS); and

4.5.4 Sub-groups are set up to deliver specific remits, for example, the Computer Audit Sub Group meets three times per annum and acts as a forum which has the aim of furthering the practice of technical ICT auditing across member Authorities.

4.6 During 2015 SLACIAG, as part of its role to share good practice across its members, will: continue to support its members to meet the mandatory requirements of the PSIAS, in particular through the roll out of its peer review External Quality Assessment arrangements to all Councils willing to participate; hold its biennial conference in Dundee; and host an inaugural joint meeting between Local Authority and Health Board Heads of Internal Audit to discuss Health & Social Care Integration risks, challenges, opportunities, and the role of Internal Audit.

4.7 Scottish Borders Council has a significant role in the work and success of the Group, as the Chief Officer Audit and Risk has been a member of the Group's Management Committee for a number of years and since March 2014 has been fulfilling the role of Chairman of SLACIAG (previously Vice Chairman since July 2011 and Secretary of the Group for four years prior), the Internal Audit Manager regularly attends events, and a Senior Internal Auditor is a member of the Computer Audit Sub-Group.

4.8 In summary, SLACIAG acts as an effective forum for the dissemination of best practice within internal audit in local government. It is important that the Audit and Risk Committee acknowledges the benefits to Scottish Borders Council Internal Audit function arising from its participation in this national forum.

5 IMPLICATIONS

5.1 **Financial**

(a) It is anticipated that cost efficiencies will arise as a direct result of Management implementing some of the recommendations made by Internal Audit.

5.2 **Risk and Mitigations**

(a) The Objectives of Internal Audit are set out in its Charter, including "As part of Scottish Borders Council's system of corporate governance, Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives and to do so: As a contribution to the Council's corporate management of risk." Internal Audit provides assurance to Management and the Audit and Risk Committee on the effectiveness of internal controls and governance within the Council.

(b) Key components of the audit planning process include a clear understanding of the Council's functions, associated risks, and potential range and breadth of audit areas for inclusion within the plan. During the development of the Internal Audit Annual Plan 2015/16, to capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted and risk registers have been considered.

(c) If audit recommendations are not implemented, there is a greater risk of financial loss and/or reduced operational efficiency and effectiveness, and management may not be able to demonstrate improvement in internal control and governance arrangements.

5.3 **Equalities**

(a) It is anticipated there will be no adverse impact due to race, disability, gender, age, sexual orientation or religious/belief arising from the work contained in this report.

5.4 **Acting Sustainably**

(a) There are no direct economic, social or environmental issues with this report.

5.5 **Carbon Management**

(a) No direct carbon emissions impacts arise as a result of this report.

5.6 **Rural Proofing**

(a) This report does not relate to new or amended policy or strategy and as a result rural proofing is not an applicable consideration.

5.7 **Changes to Scheme of Administration or Scheme of Delegation**

(a) No changes are required as a result of this report.

6 CONSULTATION

6.1 The Service Directors relevant to each of the internal audit reports have signed off the executive summaries within Appendix 1.

6.2 The Corporate Management Team has been consulted on this report and any comments received have been taken into account.

6.3 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Service Director Strategy and Policy, the Chief Officer HR, and the Clerk to the Council have been consulted on this report and any comments received have been incorporated into the report.

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 Committee 23 March 2015

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Contact us at James Collin, Chief Executive's Department jcollin@scotborders.gov.uk

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Audit Plan Category: Corporate Governance Subject: Performance Management (Local Government Benchmarking Framework) No: 016/009 Date issued: 17 September 2015 Level of Assurance: Substantial	The purpose of the review was to validate the Council's Statutory Performance Indicators (SPIs) which are reported on an annual basis to the Improvement Service as part of the Local Government Benchmarking Framework (LGBF). We tested all the SPIs figures for the 2014/15 submission 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 management systems and reports. We found no significant areas of concern with the data collected and reported or the collection methods used. We identified one minor error in the draft SPIs 2014/15 which was corrected prior to submission, thus confirming the benefits of an independent review to prevent errors in SPIs going undetected. We consider that the figures for these SPIs, as detailed in the LGBF 2014/15 pro-forma, are reasonable and agree to the underlying records. The Council's LGBF Indicators 2014/15 return was submitted by the 28 August 2015 deadline. The SPIs are incorporated in performance reports, when the data is available, which are monitored and reported throughout the year to Corporate Management Team, Elected Members (Executive Committee) and the Public as per the timetable set out in the Council's Performance Management Framework. Internal Audit considers that the level of assurance we are able to give is substantial. Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvements which have been agreed with Management, including: Development of KPIs and monitoring performance of Sports Trusts (previous Internal Audit recommendations in reports dated 11 April 2013 and 16 September 2014); and Clarify with the Improvement Service any collection, monitoring and reporting of appropriate indicators 2015/16 as a result of organisation structure changes e.g. SB Cares.	0	0	0	Management have agreed the report findings. As part of their regular follow-up work Internal Audit will continue to monitor progress with implementation of previously agreed audit recommendations and will monitor progress with the implementation of improvement actions identified by Management during this audit.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Audit Plan Category: Legislative and Other Compliance Subject: Kelso Town Heritage Initiative (THI) and Conservation Area Regeneration (CARs) Scheme No: 154/012 Date issued: 23 July 2015 Level of Assurance: Substantial	The purpose of the review was to satisfy a requirement of both grants that the Council conducts an assurance exercise and produce a report to confirm that the terms and conditions under which the grant offers were made and accepted have been properly applied. The Kelso Town Heritage Initiative (THI) and Conservation Area Regeneration Scheme (CARs) is a Council led project designed to regenerate Kelso Historic Town Centre Conservation Area through the award of grants to property owners for external fabric building repairs and complimentary initiatives relating to upgrading the public realm, education and training opportunities. The total project budget was £1.4million, jointly funded by Heritage Lottery Fund (£700,000), Historic Scotland (£307,500) and Scottish Borders Council (£392,500). The audit work we performed to compare the procedures followed by Management against the detailed requirements set out by the funders has allowed Internal Audit to complete the assurance reports without qualification. The assurance reports, in the formats required by the funders, have now been issued to accompany the final project reports prepared by Management. During the course of our audit we noted a number of minor areas where processes were in need of improvement, specifically: documented procedures for the Approval process; segregation of duties for authorisation of orders and raising invoices; consistent application of financial limits for approving invoices for payment; and separate accounting of transactions. We were able to rely on other controls as evidence that no irregularity had occurred. In each case, Management were aware of these and have now taken appropriate action. We have been able to confirm that these improvements have been incorporated into the management of the Selkirk CARS now under way.	0	0	0	Management have agreed the report findings.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Audit Plan Category: Legislative and Other Compliance Subject: Carbon Management Programme No: 202/008 Date issued: 26 August 2015 Level of Assurance: Comprehensive	The purpose of the review was to fulfil the requirement under the Carbon Reduction Commitment Energy Efficiency Scheme (CRC) to carry out an annual audit prior to the Council's annual submission to Department of Energy and Climate Change (DECC) The Carbon Reduction Commitment Scheme is mandatory with the aim to reduce the amount of carbon dioxide (CO_2) emitted in the UK and improve energy efficiency. The Council is obliged to participate in CRC, which means it has to monitor its emissions and purchase allowances based upon each tonne of CO_2 emitted. The scope of this year's review included: Street Lighting including random checks on documents and evidence; Review of administrative procedures and processes, and updates to the evidence pack; Systemslink monitoring and reporting; and Collection arrangements and evidence collation relating to SB Cares to reflect changes in the Council's organisation structure. The sample testing of invoices for Electricity, Gas, Street Lighting and CCTV to ensure the correct consumption figures were recorded in Systemslink indicated no areas of concern. We note that the 2014/15 annual submission has been completed and reported to DECC by the end of July 2015 deadline. The annual Audit Certificate will be issued as necessary. An evidence pack, which collates data and records to justify the information submitted, is currently being updated to reflect both the organisational and administrative changes made during 2014/15. Reports are also produced from Systemslink detailing energy performance and are reported to senior management and elected members on a quarterly basis. Internal Audit considers that the level of assurance we are able to give is comprehensive. Sound risk, control, and governance systems are in place. These should be effective in mitigating risks to the achievement of objectives.	0	0	0	Management have agreed the report findings.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Audit Plan Category: IT Governance

Subject: ICT Security Controls

No: 230/003

Date issued: 21 September 2015

Level of Assurance: Substantial | The purpose of the review was to assess the adequacy of the physical access and environmental controls to the Council's IT equipment, software and data to prevent unauthorised access and damage including third party access agreements.

We were able to identify effective controls which ensure that:
- only software covered by a valid license agreement can be installed on a computer;
- only authorised devices may be used;
- contracts involving access to the Council's computer facilities by external third parties include an agreement to abide by the conditions of the Council's security standards;
- authorised third party access to the Council's network is appropriately controlled.

The IT Security Policy had been reviewed regularly by IT management and updated accordingly. Triggers for such reviews have included changes to corporate structure, in the regulatory environment and through the deployment of new technology.

Internal Audit considers that the level of assurance we are able to give is substantial. Largely satisfactory risk and control systems are in place. There is, however, some scope for improvement agreed by IT Management during the audit, including: redesign the format and content of the IT Security Policy to ensure that it is effective in informing staff of their responsibilities and making it easy for staff to exercise good practice; and scrutiny of the IT Security Policy by the Council's senior management i.e. the newly established ICT Board to ensure that the policy meets the Council's corporate objectives as a whole, that the requirements of individual services are met, and that there is a good understanding of any risk inherent in the present policy. | 0 | 0 | 0 | Management have agreed the report findings.

As part of their regular follow-up work Internal Audit will continue to monitor progress with implementation of the improvement actions agreed by Management during this audit. |

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Audit Plan Category: IT Governance Subject: ICT Disaster Recovery No: 231/015 Date issued: 21 September 2015 Level of Assurance: Substantial	The purpose of the review was to assess ICT disaster recovery strategies and plans to ensure they are aligned to business continuity requirements, are fit for purpose (i.e. no critical single points of failure) and are tested appropriately. The following examples of good practice were found: • The Council's ICT Disaster Recovery Plan includes: a clear statement of objectives; a description of processes and procedures deployed; a statement of the plan's scope; targets for recovery; and a prioritised list of key systems. • There is an ongoing programme of testing applications to ensure that the transition back to HQ is effective. Our view is that there should be a process for senior management to endorse the contents of the plan, and gain a good understanding of the how the plan reflects the Council's corporate objectives. IT management have agreed to submit a report annually on the ICT Disaster Recovery Plan to the newly established ICT Board which provides a good opportunity to exercise strategic oversight of activity in the service. An IT Management improvement action, that we noted in our Internal Audit report on ICT Disaster Recovery dated 12 September 2013, remains outstanding. We have made a recommendation accordingly: • There should be a more rigorous approach to dissemination of the ICT Disaster Recovery Plan outside the IT service to ensure a thorough understanding by all services' staff on the execution of the plan, to clarify roles and responsibilities, to manage customer expectations of the IT service, and to ensure its fit with services' business continuity plans including the workaround arrangements set out therein. (P3) Internal Audit considers that the level of assurance we are able to give is substantial. Largely satisfactory risk and control systems are in place. There is some scope for improvement.	0	0	1	Management have agreed the report findings and to implement the recommendation. As part of their regular follow-up work Internal Audit will monitor progress with implementation of the audit recommendation and the improvement action agreed by Management.