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## **INTERNAL AUDIT WORK TO DECEMBER 2020**

**Report by Chief Officer Audit and Risk**

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### **AUDIT AND SCRUTINY COMMITTEE**

**15 February 2021**

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#### **1 PURPOSE AND SUMMARY**

- 1.1 The purpose of this report is to provide 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, and the conclusions of the External Quality Assessment of the Internal Audit service against the Public Sector Internal Audit Standards.**
- 1.2 The work Internal Audit has carried out in the period from 1 November to 31 December 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 a total of 5 recommendations made associated with 2 of the reports (4 Medium Risk; 1 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 assurance reports issued in the period from 1 November to 31 December 2020 associated with the delivery of the approved Internal Audit Annual Plan 2020/21;**
  - 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; and**
  - d) Notes the conclusions and improvement actions from the External Quality Assessment of the Internal Audit service against the Public Sector Internal Audit Standards.**

#### **3 PROGRESS REPORT**

- 3.1 The Internal Audit Annual Plan 2020/21 was approved by the Audit and Scrutiny Committee on 9 March 2020 and the re-assessed Plan approved on 23 November 2020. Internal Audit has carried out the following work in the period from 1 November to 31 December 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:
- Schools Financial and Business Administration Processes
  - Foster and Kinship Carer Payments
  - Education Maintenance Allowances (EMA) Process
- 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
ICT Operational Computer Systems	Drafting the report
Integrated People, Financial and Business Planning	Testing underway
Adults and Children with Physical Disabilities	Testing underway
Revenues (Council Tax and NDR)	Testing underway
Information Governance	Continuous audit
Corporate Transformation Programme - Fit for 2024	Continuous audit

### Internal Audit Consultancy and Other Work

- 3.6 Internal Audit staff have been involved in the following for the Council to meet its aims and objectives, and its roles and responsibilities in accordance with the approved Internal Audit Charter:
- a) Provide 'critical friend' internal challenge and quality assurance through engagement in meetings of programmes and projects involving major change (Fit for 2024, Information Governance Group) and attendance at the Contract and Supplier Management Implementation Group and Social Work Performance Board.
  - b) 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. The Chief Officer Audit & Risk accessed IIA and CIPFA webinars on "Head of Internal Audit Annual Opinion 2020/21" which provided insights to adapting to internal auditing in a new environment and signposted additional reference resources.

### Recommendations

- 3.7 Recommendations in reports are suggested changes to existing procedures or processes to improve the controls or to introduce controls where none exist. The grading of each recommendation reflects the risk assessment of non-implementation, being the product of the likelihood of the risk materialising and its impact:

<b>High:</b> Significant weaknesses in existing controls, leaving the Council or Service open to error, fraud, financial loss or reputational damage, where the risk is sufficiently high to require immediate action within one month of formally raising the issue. Added to the relevant Risk Register and included in the relevant Assurance Statement.
<b>Medium:</b> Substantial weaknesses in existing controls, leaving the Council or Service open to medium risk of error, fraud, financial loss or reputational damage requiring reasonably urgent action within three months of formally raising the issue.
<b>Low:</b> Moderate weaknesses in existing controls, leaving the Council or Service open to low risk of error, fraud, financial loss or reputational damage requiring action within six months of formally raising the issue to improve efficiency, effectiveness and economy of operations or which otherwise require to be brought to attention of senior management.
Outwith the report, Internal Audit informs operational managers about other matters as part of continuous improvement.

- 3.8 The table below summarises the number of Internal Audit recommendations made during 2020/21:

	2020/21 Number of Recs
High	0
Medium	4
Low	1
<b>Sub-total reported this period</b>	<b>5</b>
Previously reported	2
<b>Total</b>	<b>7</b>
Recommendations agreed with action plan	7
Not agreed; risk accepted	0
<b>Total</b>	<b>7</b>

#### **4 PUBLIC SECTOR INTERNAL AUDIT STANDARDS (PSIAS), QUALITY ASSURANCE & IMPROVEMENT PLAN (QAIP) AND EXTERNAL QUALITY ASSESSMENT (EQA) OUTCOMES**

- 4.1 The SBC Internal Audit function follows the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective April 2013 (updated April 2017) which includes:
- Definition of Internal Auditing;
  - Code of Ethics;
  - Attribute Standards (responsibility, independence, proficiency, quality);
  - Professional Standards (managing activity, nature of work, engagement planning, performing the engagement, communicating results, monitoring progress, risk management).
- 4.2 The remit of the Audit and Scrutiny Committee as stated in the Scheme of Administration approved by Council on 25 September 2020 includes "Monitor and review the performance of Internal Audit, conformance to the Public Sector Internal Audit Standards and code of ethics".
- 4.3 The PSIAS requires the self-assessment to be subject to an External Quality Assessment (EQA) each five years, by appropriately qualified and independent reviewers. The first EQA of SBC Internal Audit was carried out by Renfrewshire Council in October 2015, and the results were reported to the Audit and Risk Committee in November 2015. The schedule for the second cycle of EQAs has been affected by the Covid-19 response when activities for the EQA for SBC by North Lanarkshire Council and the EQA of Angus Council by SBC were paused in March 2020. The EQAs processes recommenced in September 2020 following the receipt of additional guidance from the Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) on conducting the EQAs in a virtual way.
- 4.4 The findings of the Angus Council EQA, concluded by Scottish Borders Council Internal Audit team in November 2020, were presented to the Angus Council Scrutiny and Audit Committee on 26 January 2021.
- 4.4 The findings of the SBC EQA concluded by North Lanarkshire Council in early January 2021 assessed the function as 'fully conforms' (in line with the SBC Internal Audit self-assessment 2019/20). A small number of recommendations have been raised by North Lanarkshire Council, based on areas for further improvement. These have been accepted for implementation and have been included in the Quality Assurance and Improvement Plan (QAIP). The main areas for improvement highlighted in the Final EQA Report are as follows:
- reviewing and amending the planning process to better comply with expected good practice including formally documenting the results of the annual risk assessment and including more information about other sources of assurance and/or undertaking and referencing assurance mapping work;
  - review the performance management arrangements with a view to ensuring a balanced suite of performance indicators are established, monitored and reported as appropriate. This should include consideration of seeking more formal feedback from clients / stakeholders as part of performance management arrangements; and
  - amending the Annual Internal Audit Assurance Report to include assurance/specific reference as to whether there had been no/any impairment during the year to the organisational independence of the function (including no/any scope or resource limitations).
- 4.5 The PSIAS requires the Chief Audit Executive (CAE), the Council's Chief Officer Audit & Risk, to carry out an annual internal self-assessment against

the PSIAS, develop a quality assurance and improvement plan (QAIP) based on the outcome, and report the results of the QAIP to senior management and elected members.

- 4.6 An annual internal self-assessment against the PSIAS of the Internal Audit function will be completed prior to the end of 2020/21. The results and any associated improvement actions will continue to be reported to Corporate Management and the Audit and Scrutiny Committee within the Internal Audit Annual Assurance Report scheduled for presentation to the Audit and Scrutiny Committee in May 2021. This will enable the Council to meet the requirements of the Local Authority Accounts (Scotland) Regulations 2014 to consider the findings of assessments as part of the consideration of the system of internal control required by regulation 5.

## **5 IMPLICATIONS**

### **5.1 Financial**

There are no costs attached to any of the recommendations in this report.

### **5.2 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.

### **5.3 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.

### **5.4 Acting Sustainably**

There are no direct economic, social or environmental issues in this report.

### **5.5 Carbon Management**

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

### **5.6 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.

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

No changes are required as a result of this report.

## 6 CONSULTATION

- 6.1 The Executive/Service Directors relevant to the Internal Audit reports issued have signed off the relevant Executive Summary within Appendix 1.
- 6.2 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.
- 6.3 The Executive Director Corporate Improvement & Economy and the Chair of the Audit and Scrutiny Committee have received a copy of the Final EQA Report, in addition to the Chief Officer Audit & Risk.

### 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
Sue Holmes	Principal Internal Auditor Tel 01835 825556

**Background Papers:** Appropriate Internal Audit files

**Previous Minute Reference:** Audit and Scrutiny Committee 23 November 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)

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Schools Financial and Business Administration Processes</p> <p>No: 127/033</p> <p>Date issued: 21 January 2021 Draft; 08 February 2021 Final</p> <p>Level of Assurance: Substantial (purchase cards, procurement policies, income collection and mandatory training) and Limited assurance (petty cash and school fund).</p>	<p>The purpose of the review was to ensure the internal financial controls and business administrative procedures are in place to ensure the efficient and effective use of resources in the school establishments.</p> <p>The school establishment comprises of 9 Secondary schools and 60 Primary schools. For this 2020/21 academic year, there are over 14,000 children and young people being educated at the school establishments.</p> <p>The school establishments operate a Petty Cash Imprest with a total value of £6k, which includes £1k for Home Economics in secondary schools. The Devolved School Management budget for 2020/21 is £54.8m (total devolved resources). There is a 96% uptake of ParentPay, which helps to reduce the financial risk within the school.</p> <p>The following good practice was found:</p> <ul style="list-style-type: none"> <li>• Mandatory training was being completed as required.</li> <li>• Business World is being used effectively for the ordering of goods and services.</li> </ul> <p>It is acknowledged that significant activity on business processes has been undertaken over the years since the creation of the schools business manager cluster model.</p> <p>Internal Audit are able to provide substantial assurance (largely satisfactory risk, control, and governance systems are in place for purchase cards, procurement policies, income collection and mandatory training) and limited assurance (risk, control and governance systems are not readily visible for petty cash and school fund which could leave them vulnerable to error or misuse).</p>	0	1	1	Management have accepted the factual accuracy of the report and its findings, and agreed to implement the recommendations within acceptable timescales to enhance the consistency and standardisation of business practices in schools using the new formats and guidelines for the new academic session.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Schools Financial and Business Administration Processes (cont'd)	<p>We made the following recommendations:</p> <ul style="list-style-type: none"> <li>• Petty cash amounts should be reviewed across the school establishments and reduced or removed as appropriate in tandem with the issue of purchase cards. The number of imprest holders should also be reviewed and reconciliations saved for those remaining. (Low)</li> <li>• The recording, reporting, monitoring and governance of the school fund should be improved: <ul style="list-style-type: none"> <li>- Develop a new School Fund electronic file to provide greater assurance, control, consistency and data analytics. Incorporate individual work sheets for the current guidance, Accountability statement, working process, running balance, categories, pivot table, reconciliations to provide similar assurance to a physical visit;</li> <li>- Monitoring/reviews of unspent balances should be recorded to provide greater transparency; and</li> <li>- All schools should be reminded of the standard procedures including the requirement for audited accounts to be completed and saved in the appropriate folders. (Medium)</li> </ul> </li> </ul>				



Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Foster and Kinship Carer Payments</p> <p>No: 170/004</p> <p>Date issued: 16 November 2020 Draft; 23 November 2020 Final</p> <p>Level of Assurance: Comprehensive</p>	<p>The purpose of the review was to assess the controls in place to ensure payments to foster and kinship carers are accurately and correctly calculated and acted upon.</p> <p>Scottish Borders Council Fostering Service provides a fostering and family placement service for children and young people aged from 0 to 21 years who are assessed as in need of alternative family care.</p> <p>The following good practice was found:</p> <ul style="list-style-type: none"> <li>• Improvements have been made in Mosaic prompting Social Workers to complete the Change in Circumstances notification when a placement ends to avoid overpayments and ensure statutory timescales and obligations are met.</li> <li>• Regular budget and service meetings are in place with a clear understanding of the service needs.</li> <li>• There is regular reporting to the Scottish Government.</li> </ul> <p>Within the service, there is a good awareness of the requirement to keep policies and procedures up to date and there is a formal plan in place to ensure policies are reviewed, updated and published in a timely manner.</p> <p>Our sample testing of payments for Foster Care and Kinship Care showed that they are accurate and correct and robust record keeping for all payments is in place. We have no areas of concern.</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.</p> <p>We have made no recommendations.</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 – Internal Controls</p> <p>Subject: Education Maintenance Allowances Process</p> <p>No: 239/999/002</p> <p>Date issued: 11 December 2020 Draft; 21 January 2021 Final</p> <p>Level of Assurance: Limited</p>	<p>This review was added to the Plan utilising Contingency days following a request by Management in response to the External Audit Annual Report 2019/20 by Audit Scotland.</p> <p>The purpose of the review was to ensure compliance with Education Maintenance Allowance (EMA) legislation, policies and procedures and that all required documentation and attendance records are fully maintained and updated in order that payments made are accurate and timely. This review focusses on the policies, procedures and processes required for the administration of the EMA.</p> <p>EMA is a financial allowance available for children, aged 16 to 19 years old, to encourage them to continue receiving education at various educational settings e.g. school, college, home schooling etc. It is targeting children who come from a low income family. The criteria for the payments of the allowance is determined by Scottish Government, and relies on the child agreeing to meet the set criteria that in turn releases the weekly payment to them. The current payment is £30 per week and is paid every 2 weeks.</p> <p>The following examples of good practice were found:</p> <ul style="list-style-type: none"> <li>• Information regarding EMA is made available in Schools to eligible Pupils and on the Council website.</li> <li>• The Education Service have reacted quickly to the new circumstances with the COVID pandemic, adapting an existing application process to make it online.</li> <li>• One of the High Schools had created a documented procedure for maintaining and processing the EMA payments.</li> </ul>	0	3	0	Management have accepted the factual accuracy of the report and its findings, and agreed to implement the recommendations within acceptable timescales.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Education Maintenance Allowances Process (cont'd)	<p>Over the last 3 years, Audit Scotland have noted in their external audit reports of inconsistencies they have observed between pupils attendance records and EMA payments being made to them. Whilst the Council have made considerable progress in response to the comments and improved their internal housekeeping processes, further improvements are required to ensure a consistent and sustainable procedure being applied across the High Schools.</p> <p>Internal Audit 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 an unacceptable risk of error or misuse. The weaknesses relate to the lack of a corporate process document for all High Schools to follow, the inconsistency of involvement from Guidance/Pastoral staff, and the disparity in which staff have the responsibility for the EMA process.</p> <p>We made the following recommendations:</p> <ul style="list-style-type: none"> <li>• A single set of guidance rules, which meets the Scottish Government’s EMA Guidance, should be written to provide the working processes for a consistent approach to the maintenance and paying of EMA by the Council. (Medium)</li> <li>• A structured process should be developed for greater engagement of the Guidance/Pastoral staff in Schools to contribute to the processing of the EMA payments. (Medium)</li> <li>• The responsibility for the maintenance and processing of payments for EMA should be consistent across the Schools. (Medium)</li> </ul>				