ITEM

INTERNAL AUDIT WORK TO MARCH 2021

Report by Chief Officer Audit and Risk

AUDIT AND SCRUTINY COMMITTEE

10 May 2021

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 20 February to 31 March 2021 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 was 1 recommendation made associated with 1 of the reports (1 Medium-rated).

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 20 February to 31 March 2021 associated with the delivery of the approved Internal Audit Annual Plan 2020/21;

b)   Acknowledges the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work; and

c)   Notes the Internal Audit Consultancy and Other Work carried out in accordance with the approved Internal Audit Charter.

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 20 February to 31 March 2021 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:

- Business World ERP System Key Controls
- Learning Disabilities Services Financial Management
- Information Governance

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.

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, Contract and Supplier Management Implementation Group, Social Work Performance Board, and Social Work Review Delivery Group).

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.

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	1
Low	0
Sub-total reported this period	**1**
Previously reported	7
Total	**8**

Recommendations agreed with action plan	8
Not agreed; risk accepted	0
Total	**8**

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 15 February 2021

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Contact us at Internal Audit intaudit@scotborders.gov.uk

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Audit Plan Category: Financial Governance Subject: Business World Key Controls No: 073/004 Date issued: 19 April 2021 Draft; 30 April 2021 Final Level of Assurance for the specific areas tested: • Procure to Pay – Substantial (with exception of GL07s – Limited) • Sales to Cash – Substantial • Payroll – Comprehensive / HR - Substantial • Record to Report – Substantial • System Roles / User Access – Limited • Systems Documentation and Training Materials – Substantial	This Business World ERP System Key Internal Controls review is an integration of 4 audits included within our Internal Audit Annual Plan 2020/21 relating to the work streams (Procure to Pay; Sales to Cash; HR & Payroll, including Pension Payments; and Record to Report). The purpose of the review was to test the end to end processes and internal controls in place during the period April 2020 to end January 2021 which are intended to: • 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. The scope of the audit included: • Test processes and internal controls in place in order to confirm that controls continue to operate as previously assessed; • Review any changes to processes or controls in recognition of the ongoing Business World system work delivered by CGI; • Review other functionality implemented during 2020/21; and • Follow up on previous Internal Audit recommendations. The Business World ERP System 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.	0	0	0	Management have confirmed acceptance of the factual accuracy of the report and its findings.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Business World Key Controls (Cont'd)	Substantive testing of the Supplier Masterfile data indicated that amendments were processed by those authorised to undertake those tasks and those changes are generally supported by appropriate documentation. Procedures have also been adapted for obtaining and verifying supplier details due to restrictions imposed during the Covid-19 pandemic. Since our previous year's audit there have been improvements in reviewing the number of inactive suppliers within the system.				
	The testing of Procure to Pay transactional processing evidenced that valid transactions are being accurately and correctly recorded. A recommendation made in our 2019/20 audit was that the report identifying retrospective orders should be actioned on a monthly basis. The Procurement Team now focus on order compliance as a whole and retrospective orders are now reported monthly as part of the bigger picture of order compliance. There has been a significant improvement in the level of retrospective orders from 14% of total orders in April 2020 to 7% in December 2020.				
	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 system exists, the Action Plan to provide alternative solutions is progressing. There were originally 10 areas using GL07s; 3 areas are no longer using GL07s and there are 7 areas where improvements and alternative solutions are still required. Work is underway and we will continue to monitor progress with the Action Plan and implementation of alternative solutions.				
	Our testing of Sales to Cash transactional processing focused on refunds and write offs and showed no areas of concern. The recommendation in our previous report that the aged debt report should be reviewed shows this action is complete and aged debt reporting is now live within the Business World system.				

Report	Summary of key findings and recommendations	Recommendations			Status
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Subject: Business World Key Controls (Cont'd)	The testing of Payroll evidenced that employee validation, exception reporting and standing data showed no areas of concern. Our review of 116 overpayments from April 2020 to March 2021 totalling £92k shows that £74k has been recovered to date. Whilst reminders have been regularly issued to Line Managers on the timely submission of payroll notifications, 47% of the total number of overpayments (54), equating to 68% of the total value (£63k), is due to late or no notifications. Further HR functionality rolled out during 2020/21 included Training and Staff Appraisal modules as well as HR Contracts and Letters and HR Forms. The options for an HR Dashboard have not yet been fully considered for this functionality. 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) is due to commence in April 2021 (delayed from last year). Our review of the processes undertaken for the change to the Council's main bank account indicate no areas of concern. System roles within BW are designed to provide an appropriate separation of duties to ensure officers have appropriate and correct permissions to carry out their tasks. Whilst some changes and improvements have been made, the role review is not yet complete. Our 2019/20 Internal Audit report on Business World ERP System Key Controls dated 3 June 2020 consisted of 8 recommendations (5 Medium Risk; 3 Low Risk). Follow up of these shows 7 are now completed and we have been able to see evidence of improvements made. The one remaining relates to the BW system calculation of VAT on invoices (P2P, low risk). We have made no further recommendations.				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Audit Plan Category: Contingency Subject: Learning Disabilities Services Financial Management No: 181/999/001 Date issued: 18 February 2021 Draft; 30 April 2021 Final Level of Assurance: Limited	This review was added to the Plan utilising Contingency days following a request by Corporate Management Team (CMT). The purpose was to assess the financial management, monitoring and reporting processes to provide assurance on budgetary control. The following examples of good practice were found: • A consistent and effective approach is taken regarding the monitoring of contracts. • There is good collaboration between LDS, the Contracts & Procurement team and Financial Services. LDS, by its nature, is reactive and demand led by service Users. There is an obvious requirement for financial forecasting to be completed to ensure adequate budget is available. The added complication within this financial year has been the reduced contracted provision of services, and additional costs incurred by the requirement to provide service Users with support within their homes. This all adds pressure to deliver service savings. The contract monitoring and reporting is consistent with Council policy, and there is additional work being completed by the LDS Manager to identify why SBC has higher contract costs than similar councils for the same provision of service. Internal Audit are able to provide limited assurance. Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses surrounding the content provided in financial reporting to CMT to demonstrate budgetary control, including the delivery of savings. We made the following recommendation: • The LDS Manager should have greater clarity of what client volume and complexity of needs can be afforded within the available budget, including the delivery of savings. A project plan timeline and measures for delivery of savings should be developed and implemented. (Medium)	0	1	0	Management have accepted the factual accuracy of the report and its findings, and the LDS Manager and Finance are already working together to improve planning and reporting to address the recommendation. Internal Audit will monitor the implementation of the recommendation during 2021/22 through the planned Internal Audit work on the Fit for 2024 Transformation Programme and follow-up activity, specifically on the preparation of Service Plans.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Audit Plan Category: Corporate Governance

Subject: Information Governance

No: 236/014

Date issued: 09 April 2021 Draft; 16 April 2021 Final

Level of Assurance: Substantial | The purpose of the review was to examine the Information Governance Framework including roles and responsibilities, review policy development and implementation, assess compliance with legislation, and provide annual assurance to the Senior Information Risk Owner and Data Protection Officer.

The Information Governance Group (IGG) continued to meet quarterly throughout the year with formal agendas and minutes scheduled around the 4 themes below, and risks are reviewed.

Information Governance: There has been some progress with improvement actions, which are monitored through a Tracker presented to the IGG quarterly (latest one February 2021).

Records Management: The updated Records Management Plan is expected to be submitted to the Keeper of Scotland's Records (the Keeper) in October 2021.

Information Security and Information Sharing: The PSN accreditation was approved in September 2020 by the Cabinet Office. The existence of data sharing agreements is recorded on the Information Asset Registers maintained within Services, which are reviewed by the Information Management team.

Data Protection and Information Access: Subject Access Requests (SARs) and Freedom of Information requests (FOIs) still pose a significant burden on resources due to tight timescales, though management of these requests has improved.

Internal Audit are able to provide 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, specifically to ensure that the mandatory training completion rate is achieved and refresh awareness of Information Management issues within the Council. There are Management actions underway, therefore no recommendations were made. | 0 | 0 | 0 | Management have accepted the factual accuracy of the report and its findings.

The intention is to present the Final Internal Audit Report on Information Governance to the next meeting of the Information Governance Group in May 2021. |