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## **INTERNAL AUDIT WORK TO MAY 2021**

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### **Report by Chief Officer Audit and Risk**

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## **AUDIT AND SCRUTINY COMMITTEE**

**29 June 2021**

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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 April to 11 June 2021 associated with the delivery of the approved Internal Audit Annual Plan 2021/22 is detailed in this report. A total of 4 final Internal Audit reports have been issued. There were 3 recommendations made associated with 1 of the reports (3 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 1 April to 11 June 2021 associated with the delivery of the approved Internal Audit Annual Plan 2021/22;**
  - 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**

### 3 PROGRESS REPORT

- 3.1 The Internal Audit Annual Plan 2021/22 was approved by the Audit and Scrutiny Committee on 8 March 2021. Internal Audit has carried out the following work in the period from 1 April to 11 June 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:
- Risk Management
  - Bereavement Services
  - Hawick Conservation Area Regeneration (CARs) Scheme
  - Jedburgh Conservation Area Regeneration (CARs) Scheme
- 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 2021/22 consists of the following:

Audit Area	Audit Stage
Scottish Government Support Grants	Testing underway
Performance Management (Framework)	Audit Assignment prepared
Homelessness	Audit Assignment prepared
Performance Management (LGBF)	Planning the Assignment
Waste and Recycling	Planning the Assignment
Capital Investment	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 Transformation Programme, Information Governance Group, Social Work Performance Board, Social Work Review Delivery Group, Commissioned Services Savings Delivery Group).
  - 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 joined a quarterly virtual meeting of the Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) and CIIA forums for Local Authorities and webinars on the topics of Environmental, Social and Corporate Governance (ESG) / Climate Change, and HIA/Audit Committee Chair Relationship to share good practice and to keep knowledge of new developments up to date.
  - The Principal Internal Auditor accessed CIIA webinars on Digital Services in the Public Sector, ESG/Climate Change, and Cyber Security, and has joined the CIIA Data Analytics Forum, which are providing valuable insights into these topics.
  - One of the Internal Auditors has successfully passed the first part of the CIIA Certified Internal Auditor qualification.

## 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 2021/22:

	2020/21 Number of Recs
High	0
Medium	3
Low	0
<b>Sub-total reported this period</b>	<b>3</b>
Previously reported	0
<b>Total</b>	<b>3</b>
Recommendations agreed with action plan	3
Not agreed; risk accepted	0
<b>Total</b>	<b>3</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 2021/22 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)

Name	Designation and Contact Number
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**Background Papers:** Appropriate Internal Audit files

**Previous Minute Reference:** Audit and Scrutiny Committee 10 May 2021

**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: Risk Management</p> <p>No: 008/005</p> <p>Date issued: 07 June 2021 Draft; 10 June 2021 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review was to assess progress on the implementation of corporate risk management improvement actions including policy, strategy, training and toolkits.</p> <p>The audit scope included:</p> <ul style="list-style-type: none"> <li>• Risk Management Framework, including the policy and strategy, roles and responsibilities, risk objectives, appetite, tolerance and capacity.</li> <li>• Provision of Risk Management Training</li> <li>• Alignment and integration with Business Planning and Performance Management processes</li> <li>• Risk Management Reporting to Senior Management and Elected Members</li> </ul> <p>The Council continues to make progress in embedding Risk Management and awareness ensuring that the risks to achieving corporate objectives are systematically identified, analysed, evaluated, controlled, monitored and reported regularly.</p> <p>The Council’s Risk Management Strategy and Policy were last reviewed in 2018, and are due for review and refresh to reflect current conditions and best practice in line with industry standards. We also feel that consideration should be given to a Risk Maturity Model; a Risk Management Working Group; and Corporate Membership to a Risk Management Organisation.</p> <p>Risk Management training was last reviewed in 2018 and will require review/refresh to bring it in line with the update to the Risk Management Strategy and Policy.</p> <p>Business planning and performance management processes are not fully aligned and integrated with the risk management cycle. It is also difficult to ascertain the degree to which Business Planning, Performance and Risk are aligned and integrated as there is little on risk in the Corporate Plan. We will review this as part of our forthcoming internal audit on the Performance Management Framework.</p>	0	3	0	<p>Management have accepted the factual accuracy of the report and its findings, and have agreed to implement the recommendations during 2021.</p> <p><i>As stated in the Internal Audit Charter, to ensure that Internal Audit independence and objectivity is maintained this audit engagement was carried out by Internal Audit with the CAE as the client and therefore with no involvement in the delivery and reporting of this Internal Audit review.</i></p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Risk Management (Cont'd )	<p>Risk management information and reporting to CMT and the Audit Committee in respect of strategic risks is sufficiently relevant, accurate and timely to enable them to fulfil their respective roles and responsibilities. Programmes and Projects have their own operational risk registers which are monitored by individual programme and project boards.</p> <p>The Chief Officer Audit &amp; Risk is a mandatory consultee for all Committee reports, providing the opportunity to check that full risk information is provided. The Corporate Risk Officer also comments on the Risk and Mitigations section of Committee reports to ensure that decision makers are cognisant of the risks associated with the proposals/decisions to be taken. This has proved to be very successful with positive feedback from report authors.</p> <p>Organisations who are contracted to deliver services on behalf of the Council and through partnership arrangements, such as the Health and Social Care Partnership Integration Joint Board and Live Borders, have Risk Management processes in place.</p> <p>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 and we have made three medium-rated recommendations which are designed to improve application of the Risk Management Framework across the Council.</p> <p>We have made the following recommendations:</p> <ul style="list-style-type: none"> <li>• Incorporate the elements highlighted during the audit within the review and update of the Risk Management Policy and Strategy to reflect best practice. (Medium)</li> <li>• Refresh and update training materials for Risk Management. (Medium)</li> <li>• Ensure Risk Management is a standing agenda item on Management Team Meetings. (Medium)</li> </ul>				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Legislative and Other Compliance</p> <p>Subject: Jedburgh Conservation Area Regeneration Scheme (CARS)</p> <p>No: 154/027</p> <p>Date issued: 17 June 2021 Draft; 21 June 2021 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review was to examine and evaluate compliance with the scheme rules and contract specifically: Historic Environment Scotland Clause 5 (Auditing Procedures) of the contract signed 10 May 2013.</p> <p>Jedburgh Conservation Area Regeneration Scheme (CARS) Partnership Project between Historic Environment Scotland and SBC started in 2017/18. Its purpose is to undertake heritage and conservation based regeneration activities within Jedburgh town centre over a five-year period from 2017 to 2022.</p> <p>This is being achieved through the award of grants to property owners for external fabric building repairs and complementary initiatives relating to upgrading the public realm, education and training opportunities.</p> <p>The revenue project budget is £1,016.5k jointly funded by HES (£866.5k) and SBC (£150k). In addition, £50k has been allocated from SBC's capital budget.</p> <p>Internal Audit reviewed all project files and performed a reconciliation between offers made and actual grant paid, and performed transaction testing on a sample taken from two years of the project.</p> <p>Internal Audit are able to provide assurance of substantial compliance with the scheme rules and the HES contract. We found that the Jedburgh CARS has been managed well and run substantially in accordance with the requirements of the contract, and appropriate controls exist around segregation of duties and authorisations were in operation.</p> <p>No Internal Audit recommendations were made.</p>	0	0	0	<p>Management have confirmed the factual accuracy and accepted the findings of the audit report.</p> <p>The submission to Historic Environment Scotland will include the findings from this Internal Audit report, an Accountant's Report and Audited Annual Accounts.</p>



Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Legislative and Other Compliance</p> <p>Subject: Hawick Conservation Area Regeneration Scheme (CARS)</p> <p>No: 154/028</p> <p>Date issued: 14 June 2021 Draft; 21 June 2021 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review was to examine and evaluate compliance with the scheme rules and contract specifically: Historic Environment Scotland Clause 5 (Auditing Procedures) of the contract signed 5 April 2019.</p> <p>Hawick Conservation Area Regeneration Scheme (CARS) Partnership Project between Historic Environment Scotland (HES), South of Scotland Economic Partnership (SOSEP), and Scottish Borders Council (SBC) started in 2019/20. Its purpose is to undertake heritage and conservation based regeneration activities within Hawick town centre over a six-year period from 2019 to 2025.</p> <p>This is being achieved through the award of grants to property owners for external fabric building repairs and complementary initiatives relating to upgrading the public realm, education and training opportunities.</p> <p>The revenue project budget is £1.575k jointly funded by HES (£1.315m), SOSEP (£60k) and SBC (£200k).</p> <p>Internal Audit reviewed all project files and performed a reconciliation between offers made and actual grant paid, and performed transaction testing on a sample taken from the first two years of the project.</p> <p>Internal Audit are able to provide assurance of substantial compliance with the scheme rules and the HES contract. We found that the Hawick CARS has been managed well and run substantially in accordance with the requirements of the contract, and appropriate controls exist around segregation of duties and authorisations were in operation.</p> <p>During the course of the audit we found an error in the calculation and under claim of the project management costs for managing the scheme, circa £20k. This has been notified to HES and will be rectified in a future claim to HES.</p> <p>No Internal Audit recommendations were made.</p>	0	0	0	<p>Management have confirmed the factual accuracy and accepted the findings of the audit report.</p> <p>The submission to Historic Environment Scotland will include the findings from this Internal Audit report, an Accountant's Report and Audited Annual Accounts.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Parks and Environment (Bereavement Services)</p> <p>No: 216/009</p> <p>Date issued: 11 June 2021 Draft; 21 June 2021 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review was to ensure procedures and controls are in place to provide for efficient and effective use of operational resources in Parks &amp; Environment pertaining to the Bereavement Services delivery.</p> <p>The Council's Bereavement Services Team: manage and maintain 154 cemeteries and churchyards; deal with the sale of lairs; deal with interments; issue permission to erect headstones; and can also make provision and arrangements for other religion burials. There is also a woodland burial site in Selkirk.</p> <p>The following examples of good practice were found:</p> <ul style="list-style-type: none"> <li>• There is sound compliance with the bereavement services policies and procedures ensuring that safe working practices are in place as well as specified standards and legislation being met.</li> <li>• A consistent approach has been adopted for fees and charges across the Scottish Borders area for services delivered by Parks and Environment. Fees and charges for 2021/22 have been agreed as part of the annual budget setting process, approved at Council in March 2021.</li> </ul> <p>Given emerging statutory changes, it is appropriate to review the current system, with the view to moving to a digital service. The Bereavement service would benefit by making the service more digitally available to staff and customers, and derive business efficiencies from improved system functionality. It was planned for the new digital system ClearSkies software - Burial and Cremation Administration System (BACAS) to go live in March 2021; however, this has been delayed until July 2021. The current system requires updating, to enable and improve the service and this not possible with the existing technology.</p> <p>Internal Audit are able to provide Substantial assurance.</p> <p>No Internal Audit recommendations were made as Management actions are underway to move to a digital service.</p>	0	0	0	Management have confirmed the factual accuracy and accepted the findings of the audit report.