
INTERNAL AUDIT WORK TO OCTOBER 2021

Report by Chief Officer Audit and Risk

AUDIT AND SCRUTINY COMMITTEE

22 November 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 28 August to 5 November 2021 associated with the delivery of the approved Internal Audit Annual Plan 2021/22 is detailed in this report. A total of 5 final Internal Audit reports have been issued. There were 4 recommendations made associated with 1 of the reports (4 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 28 August to 5 November 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; and**
 - c) Acknowledges the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work.**

3 BACKGROUND

- 3.1 The Internal Audit Annual Plan 2021/22 was approved by the Audit and Scrutiny Committee on 8 March 2021. To facilitate operational delivery an Internal Audit Programme of Work has been developed which provides an indication of when work is scheduled during the year, taking account of discussions with Management and availability of Internal Audit resources.
- 3.2 For each assurance audit: prior to commencement of the fieldwork, an Audit Assignment detailing the scope, objectives and timing is agreed with the relevant Service Management; and, at the conclusion of the fieldwork, a draft Report is issued to relevant Service Management for response on the factual accuracy and acceptance of the findings and recommendations, as appropriate, which is then issued as a final Report.

4 PROGRESS UPDATE

- 4.1 Internal Audit has carried out the following work in the period from 28 August to 5 November 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.
- 4.2 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

- 4.3 Internal Audit issued final assurance reports on the following subjects:
- HR Policy Framework
 - Business Continuity
 - Community Safety (Community Action Team)
 - EU Funded Programme (LEADER)
 - Homelessness
- 4.4 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.
- 4.5 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

4.6 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
Performance Management Framework	Testing underway
Digital Strategy (b/f from 2020/21)	Testing underway
Sustainable Environment	Testing underway
Grants incl. Following the Public Pound	Testing underway
Justice	Audit Assignment issued
Registration Service	Audit Assignment issued
Schools	Audit Assignment issued
Waste & Recycling Services	Audit Assignment issued

Internal Audit Consultancy and Other Work

4.7 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 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, Sustainable Development Core Group).
- b) Learning and development for all Internal Audit team members during the research stage of new audit areas and through joining virtual audit forums and meetings.
- c) The Chief Officer Audit & Risk joined CIIA Local Authority Forum and webinars on the topics of Counter Fraud, Risk in Focus 2022, Culture, and EDI to share good practice and to keep knowledge of new Internal Audit developments up to date.
- d) The Principal Internal Auditor accessed CIIA webinars on: Risk in Focus 2022; Internal Audit Planning; Assurance Mapping; Cyber Security; and joined the CIIA Data Analytics Forum and Practitioners Forum, which are providing valuable insights.

Recommendations

4.8 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.

4.9 The table below summarises the number of Internal Audit recommendations made during 2021/22:

	2021/22 Number of Recs
High	0
Medium	4
Low	0
Sub-total reported this period	4
Previously reported	6
Total	10
Recommendations agreed with action plan	10
Not agreed; risk accepted	0
Total	10

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 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.

5.3 Integrated Impact Assessment

- (a) There is no relevance to Equality Duty or the Fairer Scotland Duty for this report. 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).
- (b) The Internal Audit work is carried out in accordance with the appropriate legislation and professional standards. The latter includes compliance by those in the Internal Audit function with the Code of Ethics set out in the PSIAS which is appropriate for the profession of Internal Audit founded as it is on trust placed in its objective assurance about risk management, internal control and governance.

5.4 Sustainable Development Goals

The recommendations in this report will not directly impact any of the 17 UN Sustainable Development Goals, based on completion of the checklist.

5.5 Climate Change

This report does not relate to any proposal, plan or project and as a result the checklist on Climate Change is not an applicable consideration.

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 **Data Protection Impact Statement**

There are no personal data implications arising from the content of this report.

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

No changes are required to either the Scheme of Administration or the Scheme of Delegation as a result of the content in this report.

6 **CONSULTATION**

6.1 The Directors relevant to the Internal Audit reports issued have signed off the relevant Executive Summary within Appendix 1.

6.2 The Corporate Management Team, Director - Finance & Corporate Governance, Chief Legal Officer (and Monitoring Officer), Director – People Performance and Change, 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 20 September 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

APPENDIX 1

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Corporate Governance</p> <p>Subject: HR Policy Framework</p> <p>No: 019/001</p> <p>Date issued: 30 September 2021 Draft; 08 October 2021 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review was to assess the HR Policy Framework (including Gifts & Hospitality and Register of Interests) and evaluate whether there is a comprehensive programme in place to review, update and develop relevant policies, procedures and guidelines, including the rollout to employees.</p> <p>The following examples of good practice were found:</p> <ul style="list-style-type: none"> • The HR service has adapted and implemented new HR policies and procedures to suit the new circumstances with the Covid pandemic. • There is a comprehensive revision timetable for the updating of HR policies. • All new and revised HR policies now follow a House Style. <p>The timetable showed 48 listed policies with 15 of them overdue for revision / updating. Whilst the reason for some of the delays can be attributed to waiting on information and guidance from other organisations, other delays are due to a lack of dedicated resource and conflicting priorities.</p> <p>Internal Audit are able to provide Substantial assurance. Largely satisfactory risk, control, and governance systems are in place. There is some scope for improvement as current arrangements could undermine the achievement of objectives, such as: catch-up on the backlog of overdue reviews; exploring options for Gifts & Hospitality Registers and Registers of Interest being included in a future Business World system enhancement; and exploring the capabilities of the Intranet with regards to its search facility and updating of version control details. During the audit we have discussed these improvements with relevant Managers. At draft report stage, a commitment has been made by Management to progress these in due course to ensure continuous improvement.</p>	0	0	0	<p>Management have accepted the factual accuracy of the report and its findings.</p> <p>The Management Actions, associated with the improvements that have been discussed during the audit, will be followed up by Internal Audit by the end of March 2022.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Corporate Governance</p> <p>Subject: Business Continuity</p> <p>No: 030/004</p> <p>Date issued: 29 October 2021 Draft; 15 November 2021 Final</p> <p>Level of Assurance: Limited</p>	<p>The purpose of the review was to assess the process for setting, testing, reviewing and updating Business Continuity plans (including ICT disaster recovery strategies and plans) to ensure the delivery of business critical services across the Council, that they are aligned with needs, and that they are fit for purpose.</p> <p>The Covid pandemic has been pervasive, simultaneously impacting employees, suppliers and customers and for a duration previously not considered a possibility. The Covid pandemic responses, which exhibits elements of Business Continuity, has successfully navigated the Council through this very serious crisis and demonstrated the ability to adapt and innovate in extreme circumstances. Our audit is focussed on the Business Continuity Management System and not on responses to the Covid pandemic.</p> <p>The 'Business Continuity function' within Emergency Planning team presently lacks sufficient resource to support all Managers across Council Services to effectively manage and maintain up to date and robust Business Continuity Plans (BCPs) and prevent critical single points of failure.</p> <p>The response to the Covid pandemic has changed the ways of working beyond that which current BCPs could reasonably have envisaged. Some changes are likely to be permanent and most BCPs will require revision to reflect these changes. Managers responsible for the application of business continuity management in their Services lack the training and expertise to develop their BCPs. They have access to guidance on the Council's intranet site (from 2013) but presently cannot be supported beyond this.</p> <p>CGI produced a draft IT Disaster Recovery plan in 2018. In the case of systems operated under the contract with CGI, there has been no full blown Disaster Recovery testing during the term of their contract. Following conclusion of the ongoing Data Migration project the draft plan will be updated, finalised and tested.</p>	0	4	0	<p>Emergency Planning have accepted the factual accuracy of the report and its findings, and agreed actions on which they will lead on the Business Continuity Management Framework; work is underway to address staff resourcing. Full implementation of the improvements will require engagement by Service Managers who are responsible for the application of Business Continuity policy and practices.</p> <p>Internal Audit will be available as a critical friend to follow-up on these developments.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Business Continuity (cont'd)	<p>A programme of testing has not been developed to validate over time the effectiveness of Business Continuity Plans and solutions. There has been no testing exercises undertaken for at least the last five years and consequently any necessary changes and improvements to business continuity processes have not have been identified. Lessons learned from the Covid pandemic response provide some opportunity to make improvements.</p> <p>Internal Audit are able to provide limited assurance on the Business Continuity Management Framework. Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives.</p> <p>We have made the following recommendations which are designed to build resource capacity and capture the learning from the Covid pandemic response within the formal Business Continuity Management Framework:</p> <ul style="list-style-type: none"> • The Business Continuity Management Policy should be reviewed and updated. (Medium) • Continuity2 system should be upgraded or replaced with a modern alternative. (Medium) • The level of resources available for Business Continuity should be urgently reviewed in order to effectively manage and maintain up to date and robust BCPs and prevent critical single points of failure. Managers within Services, responsible for the application of business continuity management, should be provided with training and support to develop and maintain their Business Continuity Plans. (Medium) • A programme of testing should be developed to validate over time the effectiveness of Business Continuity Plans. Lessons learned from testing and the Covid responses should be fed back into business continuity processes and plans. (Medium) 				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Community Safety (Community Action Team)</p> <p>No: 050/006</p> <p>Date issued: 02 November 2021 Draft; 09 November 2021 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review was to assess the operational and financial controls in place for the effective delivery of services and use of resources within the Community Action Team (CAT) as part of the Community Safety Service.</p> <p>The introduction of the Antisocial Behaviour etc. (Scotland) Act 2004 (the 2004 Act) placed a legal requirement upon local authorities and police to work in partnership to develop strategies specifically to tackle antisocial behaviour.</p> <p>The following examples of good practice were found:</p> <ul style="list-style-type: none"> • Good practices are in place to ensure all incidents are addressed and agreed tasks taken forward with the appropriate parties, developing close cooperation between the various bodies involved. <p>SLAs are in place outlining the agreements between Police Scotland and Scottish Borders Council on the operation of the CAT; our review found that the SLAs are operating as agreed.</p> <p>Performance is reported monthly to the Police CAT Strategic Oversight Group and quarterly to SBC's Corporate Management Team and the Executive Committee, where summary statistics highlight decisions made and the actions taken to address issues assisting in deterring crime and disorder. The Police also use this information for reporting to the Police, Fire and Safer Communities Scrutiny Board on a regular basis.</p> <p>Regular budget and service meetings are in place with a clear understanding of the service needs.</p> <p>Internal Audit are able to provide Substantial assurance. Largely satisfactory risk, control, and governance systems are in place. We have made no recommendations.</p>	0	0	0	<p>Management have accepted the factual accuracy of the report and its findings.</p> <p>The CAT team is an area of development and therefore improvements will arise as part of ongoing service evaluation.</p> <p>The wider governance arrangements will be covered within the Internal Audit review on Justice which is underway.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Legislative and Other Compliance</p> <p>Subject: EU Funded Programme LEADER</p> <p>No: 154/029</p> <p>Date issued: 26 October 2021 Draft; 01 November 2021 Final</p> <p>Level of Assurance: Substantial Assurance that the Council, as Accountable Body, has complied with the requirements of the LEADER SLA.</p>	<p>The purpose of the review was to perform the annual audit of EU grant-funded programme for 2014-2020, Liaison Entre Actions de Développement de l'Économie Rurale (LEADER), under the terms of the Service Level Agreement (SLA) to assess compliance with the requirements of the SLA and the relevant EC Regulations.</p> <p>Internal Audit tested all claims made during the period 16 October 2020 and 15 October 2021: four claims of project costs totalling £620k; and four claims for the reimbursement of staff costs totalling £170k. Testing in all cases confirmed satisfactory evidence to substantiate reimbursement of project and staff costs, and claims processing is well administered.</p> <p>Internal Audit provide Substantial Assurance that the Council, as Accountable Body, has complied with the requirements of the LEADER SLA.</p> <p>This is an area of ongoing high risk owing to the potential for disallowance of costs and significant fines levied by either the EU Auditors (as a result of their conformity audits) and / or Audit Scotland (in their capacity as certifiers of the EC accounts). Internal Audit cannot provide assurance that this level of compliance with the LEADER SLA will be enough to reduce the risk of disallowance and financial penalty. The risk of disallowance of costs for non-compliance with funding conditions and the subsequent fines or penalties that may be imposed on the Council, is no longer specifically noted on neither the current Economic Development Risk Register (currently under review) nor the current Financial Strategy Risk Register (March 2021). Further discussions on this has resulted in relevant Management agreeing that the risk of disallowance of costs for any future grant funding will be included within these Risk Registers.</p>	0	0	0	<p>Management have accepted the factual accuracy of the report and its findings.</p> <p>The annual submission to the Scottish Government on 8 November 2021 included the findings from this Internal Audit report.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Homelessness</p> <p>No: 172/011</p> <p>Date issued: 26 October 2021 Draft; 11 November 2021 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review was to review the progress with rent accounting processes and procedures in place, including collection and recovery of rents for temporary accommodation, including the provision, funding and costs associated with providing accommodation for homeless clients, and to review progress with the Self-Evaluation assessment.</p> <p>There has been considerable progress made on the Self-Evaluation assessment and Improvement Plan actions over the last 18 months. Some areas of this assessment are still in development and target dates may need to be revised to ensure the action plan remains achievable. There is currently no risk register for Homelessness Services, though Management agreed during the audit to develop this as part of the Self-Evaluation.</p> <p>Work is progressing with the implementation of Northgate Phase 2 which will become the primary case management database system for Homelessness Services, with a view to completion of the build of the system by end March 2022.</p> <p>The Crisis Intervention Fund (CIF) was launched as a pilot process in February 2021 to assist tenants that have rent arrears and are at risk of becoming homeless. The applications process, case review and progress, and expenditure are regularly monitored during the early stages of this programme. The CIF is part of the Scottish Borders Rapid Rehousing Transition Plan and funding for the CIF has been provided from the Scottish Government's Rapid Rehousing Transition Plan funding.</p> <p>Internal Audit are able to provide Substantial assurance. Largely satisfactory risk, control, and governance systems are in place. Management improvement actions are underway. We have made no recommendations.</p>	0	0	0	<p>Management have accepted the factual accuracy of the report and its findings.</p> <p>A further audit on Homelessness will be included within the Internal Audit plan for 2022/23 as an opportunity to continue to review progress with these service developments.</p>