
INTERNAL AUDIT WORK TO JANUARY 2022

Report by Chief Officer Audit and Risk

AUDIT AND SCRUTINY COMMITTEE

14 February 2022

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 6 November 2021 to 31 January 2022 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 relating to assurance audits. There were 2 recommendations (1 Medium-rated; 1 Low-rated) made associated with 2 of the reports.
- 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 6 November 2021 to 31 January 2022 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 6 November 2021 to 31 January 2022 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.

Completed Internal Audit Assurance Reports

- 4.3 Internal Audit issued final assurance reports on the following subjects:
- Financial Policy Framework
 - Registration Service
 - Justice Services (b/f from 2020/21)
 - Waste and Recycling Services (b/f from 2020/21)
 - Digital Strategy (b/f from 2020/21)
- 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
Schools Financial and Business Administration Processes	Drafting the report
Grants and Following the Public Pound	Testing nearly completed
Economic Development Industrial Property	Testing underway
Sustainable Environment (b/f from 2020/21)	Testing underway
Corporate Transformation Programme - Fit for 2024	Continuous audit
Information Governance	Continuous audit
Roads Asset Management (b/f from 2020/21)	Audit Assignment issued
Capital Investment	Audit Assignment issued
Business World System Key Controls	Audit Assignment issued
IT Asset Management	Drafting the assignment

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) Carried out background research and engagement associated with the ongoing review and enhancement of the Council's Performance Management Framework (PMF). Internal Audit will continue to have oversight on any changes to the PMF and will include an assurance audit in its Annual Plan 2022/23 to critically evaluate the revised PMF and test a sample of performance indicators in Service Plans 2022/23 to validate their relevance, completeness and accuracy.
- c) The planned Internal Controls assurance audit on Central Schools (Review the processes and procedures for the provision of non-contact Teacher time in Primary Schools, including peripatetic and supply staff, to ensure the efficient and effective use of resources) has been removed from the Internal Audit Annual Plan 2021/22 in agreement with the Director Education & Lifelong Learning. Due to its links to the Fit for 2024 transformation programme, this has been designated as an Internal Audit consultancy review in a 'critical friend' role.
- d) The planned Internal Controls assurance audit on Mental Health Services (Adults & Children) (Assess the governance arrangements in place to commission specialist mental health services to promote closer integration and partnership working to meet the needs of people with mental health needs. Ensure there is sound budgetary control in place.) has been removed from the Internal Audit Annual Plan 2021/22 in agreement with the Director Social Work & Practice, and will be carried out during 2022/23.

- e) The planned Internal Controls assurance audit on Assessors (There are adequate controls to ensure that responsibilities are discharged appropriately to provide and maintain the valuation roll and to ensure timely and correct value assessment of properties to meet required standards and practices) has been removed from the Internal Audit Annual Plan 2021/22 due to late release of legislation, and will be carried out during 2022/23.
- f) 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 to keep knowledge of new Internal Audit developments up to date (Chartered Institute of Internal Auditors (CIIA) Local Authority Forum, CIIA Data Analytics Forum and Practitioners Forum, Scottish Local Authority Chief Internal Auditors Group, Computer Audit Sub Group). Topics have included: Organisational Change and Digital Transformation; Safeguarding; Cyber risks: resilience and incident management; and Risk appetite and the annual audit opinion.

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	1
Low	1
Sub-total reported this period	2
Previously reported	10
Total	12
Recommendations agreed with action plan	10
Not agreed; risk accepted	0
Total	12

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 Strategic Leadership Team (SLT), 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 22 November 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: Financial Governance</p> <p>Subject: Financial Policy Framework</p> <p>No: 076/009</p> <p>Date issued: 31 January 2022 Draft; 7 February 2022 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review was to assess the Financial Policy Framework, and evaluate whether there is a comprehensive programme in place to review, update and develop relevant Financial Regulations, Policies, Procedures, Guidelines, and any associated Codes of Practice, including the rollout to employees.</p> <p>The Financial Regulations is the overarching policy which governs all financial activity within the Council and was published in November 2018. The associated policies and procedures are the responsibility of three Services: Financial Services, Pensions & Investments, and Procurement & Commissioned Services. At the time of our audit we were advised that the current Financial Regulations are under review and a revised version is to be presented to Council for approval on 22 February 2022, including updates to reflect changes to the Strategic Leadership Team roles and responsibilities.</p> <p>The following examples of good practice were found:</p> <ul style="list-style-type: none"> All relevant policies and procedures relating to Pensions & Investments and Procurement & Commissioned Services were current, available on the Intranet, and had specified Review Timescales. <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: ensure Review Timetables are in place and all policies/procedures are available and published on the Intranet (Financial Services). During the audit we have discussed these improvements with the Financial Services Manager, and between draft and final report stage, a commitment has been made to progress these.</p>	0	0	0	<p>Management have accepted the factual accuracy of the report and its findings.</p> <p>The refreshed Financial Regulations will be updated to reflect the improvements.</p> <p>These Management Actions will be followed up by Internal Audit during 2022/23.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Registration Service</p> <p>No: 092/004</p> <p>Date issued: 13 December 2021 Draft; 21 December 2021 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review was to assess compliance with the relevant legislation and the adequacy of controls in place for registration fees and charges income.</p> <p>The Registration service within Scotland's 32 Local Authorities are legislated by 9 Main Acts, and the Registrars' work is overseen by National Records of Scotland. The Registrar General employs three examiners who inspect the work of the Registrars, to ensure compliance with legislation. Inspections were carried out on a twice yearly basis pre COVID and are now completed on a virtual basis. The last examination for Scottish Borders Council was in 2020 and a further examination is anticipated in early 2022.</p> <p>The service is following the legislation and the registers are subject to scrutiny by the Registrar General Examiners. Income collection utilises Webpay and was found to be effective. However, when the income is shown in Business World it is not categorised at a transactional level which would allow detailed reconciliation activity. Budget monitoring is carried out between the Operations Manager and Finance on a monthly basis.</p> <p>The following examples of good practice were found:</p> <ul style="list-style-type: none"> • Monthly Management reviews are completed on the Registrars activity to ensure completeness and accuracy. • The service has adapted well to revised processes necessary due to the COVID pandemic. <p>Internal Audit are able to provide Substantial assurance. Largely satisfactory risk, control, and governance systems are in place. Management have indicated that they will revisit whether there is a need for a detailed income reconciliation, given the Management reviews and scrutiny by Registrar General Examiners.</p> <p>Internal Audit 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: Internal Controls</p> <p>Subject: Justice Services</p> <p>No: 178/004</p> <p>Date issued: 27 January 2022 Draft; 01 February 2022 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review was to assess the adequacy of internal controls, administrative procedures and resources in place to meet statutory obligations.</p> <p>Community justice sits within a complex public services landscape. A review is to be carried out by the Chief Officer Children & Families of the governance and accountability arrangements at a local level between Community Justice and Justice Social Work, and the interface between them, to address known gaps.</p> <p>The Community Justice Board has responsibility for the implementation of the improvement actions contained within the Scottish Borders Community Justice Outcomes Improvement Plan 2020 – 2025 (approved March 2021).</p> <p>Service Managers receive information on a monthly basis, actively scrutinise budget monitoring reports, and contribute towards refinement of forecasts for the remainder of the year.</p> <p>Performance reporting is very fragmented reflecting the multi-agency collaborative nature of service delivery. Information is provided by and obtained from various sources and organisations and reported to various Committees, Boards and Agencies.</p> <p>Internal Audit are able to provide Substantial assurance. Largely satisfactory risk, control, and governance systems are in place to meet statutory obligations.</p> <p>Internal Audit have made no recommendations at this time as actions are underway to improve the efficacy of governance to achieve objectives. Improvement actions should also be considered following reviews carried out by Scottish Government (Justice Strategy), Community Justice Scotland (OPI Framework) and the Service.</p>	0	0	0	<p>Management have accepted the factual accuracy of the report and its findings.</p> <p>Internal Audit will monitor improvements and resulting action plans during 2022/23.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Waste and Recycling Services</p> <p>No: 205/011</p> <p>Date issued: 27 January 2022 Draft; 2 February 2022 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review was to ensure there are adequate operational and financial controls in place for the effective delivery of waste and recycling services.</p> <p>Adequate operational and financial controls in place and the delivery of waste and recycling services is generally effective.</p> <p>A clear strategic direction has been established to achieve Waste and Recycling services' contribution towards the Council's obligations concerning sustainable environment. This has been achieved through the Council's Climate Change Route Map rather than its own documented strategy.</p> <p>Budget monitoring procedures are accurate, relevant and timely and meet the needs of service management who receive information on a monthly basis, actively scrutinise budget monitoring reports and contribute towards refinement of forecasts for the remainder of the year.</p> <p>Performance monitoring and benchmarking is undertaken to maintain and improve performance. There is an opportunity to further develop performance monitoring for the collection side of the service. Benchmarking is provided through the Local Government Benchmarking Framework (LGBF), which is available to the residents of Scottish Borders.</p> <p>Arrangements are in place which enable appropriate monitoring of contracts with third parties. Suppliers are required to provide specified data on a monthly basis and monthly contract meetings take place between the supplier and service management at which relevant issues are discussed.</p>	0	0	1	Management have accepted the factual accuracy of the report and its findings, and agreed to implement the recommendation by June 2022.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Waste and Recycling Services (cont'd)	<p>The replacement cycle for refuse collection vehicles is not currently optimised to deliver value for money. Fleet services are fully aware that the current replacement cycle has not resulted in the lowest total cost of ownership and will undertake trials in 2022/23 to evaluate the financial and operational benefits of earlier replacement.</p> <p>Internal Audit are able to provide Substantial assurance. Largely satisfactory risk, control, and governance systems are in place.</p> <p>Internal Audit has made the following low-rated recommendation, which is designed to improve the efficacy of governance to achieve objectives:</p> <ul style="list-style-type: none"> The benefits of having performance data on various aspects of the waste collection process should be considered and, if judged to be beneficial, performance targets set and performance against those target monitored through the use of appropriate performance indicators. (Low) 				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: ICT Governance</p> <p>Subject: Digital Strategy (b/f from 2020/21)</p> <p>No: 230/008</p> <p>Date issued: 13 January 2022 Draft; 4 February 2022 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review was to ensure at a high level that the Digital Strategy is aligned to Council priorities and business requirements. This included a review of the client relationship and contract management with CGI to assess compliance with Service Delivery and terms and conditions.</p> <p>In September 2020 the Council agreed to extend its strategic IT partnership with CGI and in doing so agreed to the development of a new Digital Strategy for the Council. Significant work ensued to develop the Digital Strategy and detailed analysis work had been undertaken to assess how the opportunities identified by the Strategy should be prioritised. In February 2021 the Council approved the Digital Strategy which was designed to realise the vision of Scottish Borders becoming a Smart Rural Region.</p> <p>The Digital Strategy has two main objectives: to use digital technology to improve SBC processes, improve the customer experience and improve operational efficiency; and to set out the Council's digital vision for the Borders. A range of environmental, social and economic benefits are expected to be achieved.</p> <p>The Digital Strategy sets out to support Council Priorities, Corporate Objectives and business requirements principally by establishing principles and providing a framework against which specific projects can be assessed. Provided the approach is faithfully followed, projects should be very clearly aligned to the Council priorities, objectives and business requirements.</p> <p>Overall the Digital Transformation Programme has not yet reached the stage where the Digital Strategy is translated into operational plans. The Digital Strategy is to be enabled and scrutinised through the Council's Fit for 2024 transformation programme and the FF2022 Board, although transformational and operational governance has yet to be confirmed (<i>Recommendation 5.1</i>).</p>	0	1	0	<p>Management have accepted the factual accuracy of the report and its findings, and have agreed to implement the recommendation.</p> <p>The Digital Strategy responded to the key recommendations set out in the Accounts Commission report Digital progress in local government Audit Scotland (audit-scotland.gov.uk) published in January 2021.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Digital Strategy (cont'd)	<p>Consultation has been focussed on the Corporate team for evaluation of imperatives, and Finance and related Business Partners for value considerations. At present existing projects are being evaluated in terms of their fit with the Digital Strategy's design principles. This will mean that some existing projects will continue, others will be consolidated, and some may not be progressed further.</p> <p>Senior officers involved with the development of the Digital Strategy have recognised that the staff and public are not presently well-served and that engagement needs to be enhanced. New members have been recruited to the Communications Team with the intention that some of this additional capacity will be used to ensure appropriate engagement of staff and wider stakeholders in the delivery of the Digital Strategy.</p> <p>The contribution of CGI has been critical to defining the Digital Strategy and shaping its delivery. CGI's role with regard to Digital Strategy will be treated as a separate work stream of the ongoing contract with CGI. No specific arrangements will be put in place.</p> <p>Internal Audit are able to provide Substantial assurance. Largely satisfactory risk, control, and governance systems are in place.</p> <p>Internal Audit have made the following recommendation to improve the efficacy of governance to achieve objectives:</p> <ul style="list-style-type: none"> Transformational and operational governance for the implementation of the Digital Strategy should be determined and put in place prior to the finalisation of the programme of work via the road map. This should be informed by risks, best practice and recommendations in report Digital progress in local government Audit Scotland (audit-scotland.gov.uk) (Medium) 				