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## **INTERNAL AUDIT WORK TO FEBRUARY 2022**

**Report by Chief Officer Audit and Risk**

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### **AUDIT AND SCRUTINY COMMITTEE**

**14 March 2022**

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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 to 28 February 2022 associated with the delivery of the approved Internal Audit Annual Plan 2021/22 is detailed in this report. A total of 2 final Internal Audit reports have been issued. There were 4 recommendations made associated with the 2 reports (1 High-rated, 1 Medium-rated and 2 Low-rated).
- 1.3 An Executive Summary of the final Internal Audit assurance 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 to 28 February 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 1 to 28 February 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:
- Grants incorporating Following the Public Pound
  - Schools Financial and Business Administration Processes
- 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:

<b>Audit Area</b>	<b>Audit Stage</b>
Sustainable Environment (b/f from 2020/21)	Drafting the report
Capital Investment	Testing underway
IT Asset Management	Testing underway
Business World Key Controls	Testing underway
Information Governance	Testing underway
Economic Development Industrial Property	Testing underway
Roads Asset Management (b/f from 2020/21)	Testing underway

### **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) Provided '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, Homelessness Compliance Review Group).
- b) Carried out background research and engagement associated with the planning and implementation of the Corporate Transformation Programme - Fit for 2024, and updates on programmes and projects via the Fit for 2024 Board. Internal Audit will include an assurance audit in its Annual Plan 2022/23 to perform an in-depth review of one of the Fit for 2024 projects to critically evaluate its delivery against plans, achievement of savings, and realisation of business benefits.
- c) Learning and development is progressed for all Internal Audit team members during the research stage of new audit areas. A specific training workshop has been held for all Internal Audit team members on the Council's new Contract Management System, as part of the internal rollout of this system across the Council's services to those involved in contract management.
- d) The Chief Officer Audit & Risk and Principal Internal Auditor have joined 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; and Scottish Local Authority Chief Internal Auditors Group). Topics have included: Risk Appetite and the Annual Audit Opinion; Fraud Risk Assessment; and Challenge the Audit Plan.

## 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:

<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.

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

	2021/22 Number of Recs
High	1
Medium	1
Low	2
<b>Sub-total reported this period</b>	<b>4</b>
Previously reported	12
<b>Total</b>	<b>16</b>
Recommendations agreed with action plan	16
Not agreed; risk accepted	0
<b>Total</b>	<b>16</b>

## 5 IMPLICATIONS

### 5.1 Financial

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

### 5.2 Risk and Mitigations

- 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.
- 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

- 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 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)**

Name	Designation and Contact Number
Jill Stacey	Chief Officer Audit and Risk Tel 01835 825036
Sue Holmes	Principal Internal Auditor Tel 01835 825556

**Background Papers:** Appropriate Internal Audit files

**Previous Minute Reference:** Audit and Scrutiny Committee 14 February 2022

**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: Internal Controls</p> <p>Subject: Schools Financial and Business Administration Processes</p> <p>No: 127/034</p> <p>Date issued: 23 February 2022 Draft; 4 March 2022 Final</p> <p>Level of Assurance: Substantial assurance (for most financial and business administration processes), and Limited (for Inventories and Mandatory eLearning Training Completion)</p>	<p>The purpose of the review was to ensure the internal financial controls and business administrative procedures are in place to ensure the efficient and effective use of resources in the schools.</p> <p>The Council's school estate comprises of 69 schools. Primary schools total 60 (including the specialist unit at Leader Valley) and there are 9 secondary schools. The Jedburgh Grammar campus caters for young people from nursery to secondary school and is included as both a Primary and Secondary school for continuity. As at 15 September 2021, the school roll was 7,909 in Primary, 6,713 in Secondary and 339 at Leader Valley. In total, there are 14,961 young people in SBC's school establishments.</p> <p>The following examples of good practice were found:</p> <ul style="list-style-type: none"> <li>• Improvements have been made to the School Fund and Education Maintenance Allowances (EMA) processes.</li> <li>• Purchase Cards are working well with a low error rate.</li> <li>• The percentage take up of ParentPay is high (96%), reducing the need for cash within schools.</li> </ul> <p>The Opening Balance for the School Fund as at the start of the academic year is considerably less than in previous years and can be attributed to there being less trips and activities planned as a result of the Covid-19 pandemic. Good progress has been made by Business Support (schools) in developing a new School Fund spreadsheet and guidance note, which is in line with our previous recommendation, though this is still work in progress.</p> <p>Parent Pay is an online service for schools and families, which provides a cost effective, secure and easy way to make online payments, reducing the amount of cash handled as well as reducing the financial risk within the school.</p>	1	1	1	Management have accepted the factual accuracy of the report and its findings, and agreed to implement the recommendations within the required timescales associated with the risk ratings. This has included immediate steps taken in respect of the high-rated recommendation.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Schools Financial and Business Administration Processes (cont'd)	<p>All staff should comply with the requirement to complete mandatory eLearning training. The completion of some mandatory eLearning training for teaching staff has improved since the 2020/21 audit, with the exception being Child Protection eLearning training. There are some teaching staff who have not completed any of the 4 mandatory eLearning training courses.</p> <p>Internal Audit are able to provide Substantial assurance (largely satisfactory risk, control, and governance systems are in place) for most Schools Financial and Business Administration Processes, and Limited assurance (Risk, control, and governance systems have some satisfactory aspects. There are some significant weaknesses) for Inventories and Mandatory eLearning Training Completion. Minor improvements which were discussed during the audit include a further review of petty cash, purchase cards rollout, and compliance with school fund procedures.</p> <p>Internal Audit have made the following recommendations:</p> <ul style="list-style-type: none"> <li>• An Inventory template should be developed with appropriate procedure notes and instructions to ensure Financial Regulations are adhered to in a consistent manner across the school estate. Monitoring of compliance with the process should also be made by Management. (Medium)</li> <li>• Staff who have not completed the mandatory eLearning training (particularly child protection) must be reminded of the importance of completion, and further monitoring by Management should take place to check compliance. This should be included in staff annual appraisals. (High)</li> <li>• Evidence to support the data quality checks in SEEMIS and Business World systems should be recorded. The outcomes and any actions taken should also be recorded. Monitoring of compliance with the process should also be made by Management. (Low)</li> </ul>				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Financial Governance</p> <p>Subject: Grants incorporating Following the Public Pound</p> <p>No: 027/001</p> <p>Date issued: 1 March 2022 Draft; 4 March 2022 2022 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the audit was to review the authorisation and monitoring procedures including criteria to evaluate grant applications and monitoring compliance with conditions of the grant. Assess the process against Following the Public Pound (FtPP) code of practice in support of securing best value.</p> <p>This audit focussed mainly on the community grants and in particular the Build Back a Better Borders (BBBB) grant.</p> <p>The Following the Public Pound code of practice (dated 16 March 2021) was published on the Council's intranet on 7 February 2022, and we are not aware of any staff communications bringing the revised policy to their attention. Additionally, the Following the Public Pound code of practice for community councils has been removed from the Council's website.</p> <p>The following examples of good practice were found:</p> <ul style="list-style-type: none"> <li>• The submission process is well documented, with older versions being stored in archive folders.</li> <li>• Award letters were issued on a timely basis and were returned signed by the applicant.</li> <li>• All grants awarded that we tested were paid at the correct rate and in a timely manner.</li> </ul> <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 around applicants that have not provided the requisite 3 quotes and some minor improvements in streamlining administrative procedures, and publishing guidance for staff. Management Action was already underway in respect of the latter arising from a Management Review.</p> <p>Internal Audit have made the following recommendation:</p> <ul style="list-style-type: none"> <li>• A waiver process should be considered for applications that are unable to supply the relevant 3 quotes.</li> </ul>	0	0	1	Management have accepted the factual accuracy of the report and its findings, and agreed to implement the recommendation as part of their wider ongoing Management review of the Community Grants process.