
INTERNAL AUDIT WORK TO JULY 2022

Report by Chief Officer Audit and Risk

AUDIT COMMITTEE

12 September 2022

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to provide members of the Audit 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 31 July 2022 associated with the delivery of the approved Internal Audit Annual Plan 2022/23 is detailed in this report. A total of 5 final Internal Audit reports have been issued. There were 7 recommendations made associated with 3 of the reports (2 Medium-rated; 5 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 Committee:**
 - a) Notes the Executive Summaries of the final Internal Audit assurance reports issued in the period from 1 April to 31 July 2022 associated with the delivery of the approved Internal Audit Annual Plan 2022/23;**
 - b) Notes the 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 2022/23 was approved by the Audit and Scrutiny Committee on 14 March 2022. 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 April to 31 July 2022 associated with the delivery of the Annual Plan 2022/23.
- 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:

- Contract Management - Strategic Contracts CGI and Live Borders
- Attendance Management
- Performance Management (Local Government Benchmarking Framework)
- Schools Budgets (Devolved Schools Management)
- Winter Service

- 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 2022/23 consists of the following:

Audit Area	Audit Stage
Assessors (b/f from 2021/22)	Testing underway
Business Planning, Budget Setting, Monitoring and Reporting (including Workforce Planning)	Testing underway
Public Protection	Testing underway
Economic Development Funded Programmes - UK Community Renewal Fund	Assignment Issued
Members Allowances	Assignment Issued
Passenger Transport	Assignment Issued
Self-Directed Support	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 Programme Board, Sustainability Board).
- b) Testing of project activity within the EU Funded Programme (LEADER) from 16 October 2021 to 31 December 2021 (the end of the extended programme): five claims of project costs totalling £280k; and two claims for the reimbursement of staff costs totalling £86k. The Annual Confirmation Certificate 2022 submitted to the Scottish Government stated satisfactory evidence to substantiate reimbursement of project and staff costs, that claims processing is well administered, and that the Council has complied with the requirements of the LEADER SLA.
- c) Engaged as a 'critical friend' in the pilot of People Planning & Succession Planning within Infrastructure & Environment. Provided observations, conclusions and further steps for consideration within the next phases of roll out across the Council. The intention is for Internal Audit to continue to follow progress with people planning and succession planning during the year. This will be achieved in part by combining two planned Internal Audit assurance audits of 'Business Planning, Budget Setting, Monitoring and Reporting' and 'Workforce Planning'.
- d) Learning and development plans and objectives have been agreed for the year for all Internal Audit team members in line with the Council's employee appraisal process. Learning and development is undertaken during the research stage of new audit areas, and through joining appropriate webinars and completing mandatory e-Learning courses.
- e) The Chief Officer Audit & Risk is a member of the CIIA Local Authority Forum whose virtual meetings provide the opportunity to share good practice and to keep knowledge of new Internal Audit developments up to date. She and the Principal Internal Auditor joined virtual webinars on the topics of 'Data Analytics – is not negotiable'; 'Scepticism – why this is important for Internal Auditors'; 'Cash Flow Management'; and 'Cyber Response Plans'. The Principal Internal Auditor is a member of CIIA

Practitioners Forum, CIIA Data Analytics Forum and CIIA Fraud Forum, whose virtual meetings 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 2022/23:

	2022/23 Number of Recs
High	0
Medium	2
Low	5
Sub-total reported this period	7
Previously reported	0
Total	7
Recommendations agreed with action plan	7
Not agreed; risk accepted	0
Total	7

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 2022/23 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 Acting Chief Financial Officer, 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 27 June 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

APPENDIX 1

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Corporate Governance</p> <p>Subject: Contract Management – Strategic Contracts CGI & Live Borders</p> <p>No: 002/012</p> <p>Date issued: 17 August 2022 Draft; 05 September 2022 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the audit was to review the Council's Strategic Contract Management and Monitoring arrangements associated with the service provision agreement with the Integrated Sports and Culture Trust, Live Borders, and the IT contract with CGI, including roles and responsibilities, to ensure that there are adequate governance and effective internal controls in place.</p> <p>CGI were contracted by Scottish Borders Council to provide managed IT services on 1st October 2016 for an initial term of 13 years with a forecasted value of £94m. A £99m contract extension was agreed in September 2020 for a further 11 years.</p> <p>Live Borders was established in 2003 as a non-profit distributing company, to operate and manage sport and leisure facilities on behalf of Scottish Borders Council. In 2011, Live Borders (known at that point as Borders Sport and Leisure Trust) received the additional services of Active Schools and Sports Development from Scottish Borders Council into the BSLT family. On 1st April 2016, Cultural Services were transferred from Scottish Borders Council and the organisation was rebranded as Live Borders.</p> <p>Roles and responsibilities are clearly defined in both the CGI IT contract and the Live Borders Service Provision Agreement (SPA). Both the IT contract and the Live Borders SPA are managed by suitably experienced contract owners and managers. There are also clear processes for resolving disputes in both documents.</p> <p>Good governance arrangements are in place within the CGI IT contract. The change process is well defined and commercial changes are made on a regular basis. There are several regular meetings at different levels between CGI and Scottish Borders Council. Similarly, governance arrangements are clearly set out in the Live Borders SPA. However, the SPA is out of date and updates are required to reflect current service delivery.</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>Management Response: The SPA has been reviewed and updated by both parties and is currently going through governance routes. Performance Measures will be updated to reflect measuring the outcomes of the new Sports Strategy and Cultural Strategy.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Subject: Contract Management – Strategic Contracts CGI & Live Borders</p>	<p>Performance monitoring arrangements are well defined in the CGI IT contract. A monthly balanced scorecard which includes targets and RAG status is widely circulated. Key Performance Indicator (KPI) exceptions are highlighted together with any service credits due. A repeat KPI failure has been ‘end user satisfaction’ which has improved from a severe failure in March 2022 to a minor failure by May 2022. There is still scope for improvement but, as the ‘Happy Signals’ pilot was underway at the time of the audit, no recommendation has been made.</p> <p>Performance monitoring is also set out in the Live Borders SPA. Officers’ views are that the KPIs do not “tell the story” of what Live Borders does and what it is achieving. We also identified that the Statutory Performance Indicators are not included in the SPA.</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.</p> <p>Internal Audit have made the following recommendation:</p> <ul style="list-style-type: none"> • The performance monitoring arrangements in Section 13 of the Service Provision Agreement with Live Borders should be reviewed and updated, the suite of Key Performance Indicators therein should be revised to capture relevant aspects of performance to “tell the story” of Live Borders activity and outcomes, and all relevant Statutory Performance Indicators should be included therein. (Medium) 				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Corporate Governance</p> <p>Subject: Attendance Management</p> <p>No: 013/006</p> <p>Date issued: 16 August 2022 Draft; 02 September 2022 Final</p> <p>Level of Assurance: Substantial (policies and procedures, system triggers, reporting, and links to employees wellbeing); Limited (training and compliance)</p>	<p>The purpose of the audit was to ensure there are adequate controls in place to manage short- and long-term absences to minimise the impact on service delivery.</p> <p>The significant number of HR policies and procedures are easily accessible to all staff via the intranet. Specifically, the Attendance Management policy has very recently been revised and the latest version published on the intranet in June 2022.</p> <p>The System triggers, and reporting elements of Attendance Management are working effectively. Quarterly reporting is completed by HR Shared Services (HRSS) and data is passed to the HR Business Partners (HRBPs), who analyse the data and present the findings to their Service Management Teams. Any areas of concern regarding Attendance are highlighted for the Services to take appropriate action. The HR Case Management Team proactively liaise with Managers regarding absences.</p> <p>When considering the links to employees' wellbeing, there are examples of additional support services and policies including support with an employee's mental health, and Family Friendly policies. The Flexible Working policy has been reviewed to include information on Agile Working guidance.</p> <p>When assessing the compliance with policy, it was noted that there was an inconsistent approach to Attendance Management across the Council's services. It is imperative that Managers follow the absence processes timeously to ensure their staff are not underpaid (or overpaid). Business World is the system for recording all absence details and the system is used for the data analysis and reporting thereafter. It is vital that all Services use Business World, and those who are not directly using Business World should be encouraged and supported to do so. The compliance with policy relies heavily on Managers having completed their Attendance Management training, and both understanding and appreciating the process to be followed.</p>	0	1	1	<p>HR Management have accepted the factual accuracy of the report and its findings, and have agreed to implement the recommendations.</p> <p>HR will be the lead though improvement is required across Council services to demonstrate consistent application of the attendance management procedures.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Attendance Management (Cont'd)	<p>Internal Audit are able to provide: Substantial assurance for policies and procedures, system triggers, reporting, and links to employees' wellbeing (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 or leave them vulnerable to error or misuse.); and Limited assurance for training and compliance (Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses, which could undermine the achievement of objectives and leave them vulnerable to an unacceptable risk of error or misuse.).</p> <p>Internal Audit have made the following recommendations:</p> <ul style="list-style-type: none"> • HR should update the 'Managing Attendance' eLearning course, to ensure it reflects the current policy, with pathways to additional data, and to enable it to be utilised as a Refresher course on a regular pre-determined basis. (Low) • Directors and Senior Management Teams should liaise with HR to facilitate discussions within the services to ensure all Line Managers have completed the Attendance Management online training and MS Teams (Classroom) training and are accurately and timeously recording absences in the Business World system. (Medium) 				

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Corporate Governance</p> <p>Subject: Performance Management Local Government Benchmarking Framework (LGBF)</p> <p>No: 016/018</p> <p>Date issued: 19 August 2022 Draft; 05 September 2022 Final</p> <p>Level of Assurance: Substantial assurance on the data included within the 2021/22 LGBF Return, though there were limitations in the validation of two of the Culture & Leisure indicators due to insufficient supporting documentation being made available.</p>	<p>The purpose of the review was to provide independent validation of performance indicators which are reported on an annual basis to the Improvement Service as part of the Local Government Benchmarking Framework (LGBF).</p> <p>The LGBF brings together a wide range of information about how all Scottish Councils perform in delivering better services to local communities, including the cost of services and how satisfied citizens are with them. The data is from all Scottish Councils which represent very diverse communities in terms of geography, population, deprivation levels and community needs.</p> <p>Scottish Borders Council reports on 11 Performance Indicators which cover a range of services which the Council and partners provide. They fall under 4 headings: Corporate; Corporate Assets; Culture & Leisure; and Environment.</p> <p>Individual Services are responsible for providing the data to the Performance Team for the LGBF return. The gathering of data by the individual Services for 2021/22 generally followed much the same processes as used in previous years.</p> <p>Internal Audit validation testing found anomalies for 3 of the performance indicators. These have been resolved and amended figures included in the LGBF return prior to submission to the Improvement Service. Internal Audit has confirmed to the Performance Team its agreement of 9 of the performance indicators. The remaining 2 indicators have information provided from multiple sources, of which Internal Audit were unable to validate in its entirety (Use of Libraries and Museum Services).</p> <p>Internal Audit has made the following recommendation:</p> <ul style="list-style-type: none"> Processes for both producing verifying and the annual LGBF return within Live Borders should be improved to ensure accurate and timely data. (Low) 	0	0	1	<p>Management have accepted the factual accuracy of the report, its findings and recommendation.</p> <p>The LGBF return was submitted on 30 August 2022 to the Improvement Service to meet the deadline of 31 August 2022, and this was acknowledged by SLT on 31 August 2022.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Financial Governance</p> <p>Subject: Schools Budgets Devolved Schools Management (DSM)</p> <p>No: 124/006</p> <p>Date issued: 04 July 2022 Draft; 27 July 2022 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the audit was to review the implementation of the new Devolved Schools Management (DSM) scheme.</p> <p>The current DSM scheme is out of date, operating with changes, different practices and inconsistencies and the scheme had never been formally published. New guidelines for DSM were produced and published jointly by the Scottish Government and COSLA, where each Local Authority has to develop and publish their new DSM scheme by August 2022.</p> <p>The following examples of good practice were identified:</p> <ul style="list-style-type: none"> • All Head Teachers were involved in the consultation process through to the costing out of their staffing proposals. • All appropriate staff have received consistent messages ensuring they are aware of their responsibilities around the new scheme. <p>The new scheme will also assist in meeting Education financial savings for 2022/23 through agreed mechanisms put in place to enable flexible spending across allocated budgets. From a budget of £116.5k, there is a financial savings target of £937k to be met.</p> <p>Internal Audit work indicated that the new scheme meets the DSM guidance, reflecting principles such as: Support excellence and equity; Be fair; Be simple; and Deliver value for money.</p> <p>Internal Audit are able to provide substantial assurance. Largely satisfactory risk, control, and governance systems are in place. At the time of the audit, the introduction of the new DSM scheme was on target to meet the August 2022 deadline, subject to endorsement by full Council (delayed from June to August 2022), with slight additions to be added at a later stage.</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: Winter Service</p> <p>No: 210/006</p> <p>Date issued: 10 August 2022 Draft; 19 August 2022 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the audit was at a high level to assess the economy, efficiency and effectiveness with which resources are deployed to deliver the Winter Service to ensure that operational practices are being carried out as planned and objectives are met.</p> <p>The Council has a formally approved and adopted policy in place for Winter Service which is included in the annual Winter Service Plan which, whilst comprehensive in its coverage, does not contain all of the information suggested in the "<i>Well-managed Highway Infrastructure A Code of Practice</i>".</p> <p>The Winter Service operates a dynamic and proactive process to plan the best possible treatment regime throughout the winter period. This relies upon obtaining and monitoring the best available forecasting and making real time decisions in advance of actual weather conditions. The service does not however undertake any lessons learned or performance assessment at the end of winter period.</p> <p>Whilst the unpredictability of winter weather can have a significant impact on communities and tests resilience, the Council's road service has generally coped well in previous winters. A key factor in this success has been a good level of preparedness.</p> <p>Limited performance reporting within the Service and benchmarking opportunities with SCOT and APSE make it very difficult to form an opinion as to whether resources including salt stocks are deployed in a manner which achieves the best balance of economy, with service objectives, efficiency and effectiveness. When resources are separately considered, it is clear that the Service is striving to deliver an economical and effective service. This is particularly evident in the Service's approach to salt management purchasing and usage, as well as the hire of new gritters for six months commencing in October 2022.</p>	0	0	3	Management have accepted the factual accuracy of the report and its findings, and have agreed to implement the recommendations within reasonable timescales.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Winter Service (cont'd)	<p>The adoption of a new model for salt spreading which has the potential to reduce the use of salt generally depending on prevailing weather conditions/forecast information is being considered for winter 2022 on half of the primary routes. The new model should result in lower costs and environmental impact. The application of the new model on the remainder of the primary routes will not be possible unless equipment used on these routes is updated to operate with the necessary level of precision.</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, such as: a review of best practice; lessons learned; and cost/benefit analysis of upgrading equipment.</p> <p>Internal Audit have made recommendations accordingly that are designed to enhance the efficiency, effectiveness and economy of operations and evidence best value:</p> <ul style="list-style-type: none"> • The Winter Service Policy should be re-evaluated against the best practice set out in the "<i>Well-managed Highway Infrastructure: A Code of Practice</i>". (Low) • Following the end of the winter period, the Service should undertake a lessons learned or performance assessment, and document the findings. (Low) • If justified by cost/benefits analysis, following the experience gained from Winter 2022, the Service should consider upgrading equipment to allow for the adoption of the new model for salt spreading on the fourteen primary routes where this is not currently possible. (Low) 				