INTERNAL AUDIT WORK TO DECEMBER 2022

Report by Chief Officer Audit and Risk

AUDIT COMMITTEE

13 February 2023

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 November to 31 December 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 9 recommendations made associated with 4 of the reports (3 Medium-rated; 6 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 November to 31 December 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 November to 31 December 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:
- Payroll
- Schools Financial and Business Administration Processes
- Housing Strategy
- Fleet Management
- Passenger Transport

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 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
Partnering Arrangements	Governance overview underway
Corporate Transformation Programme – Fit for 2024 (Digital)	Testing nearly completed
Performance Management - Framework	Continuous audit
Business Planning, Financial Planning, Budgeting & Monitoring, including Workforce Planning	Testing nearly completed
Procurement to Payment	Testing underway
Benefits Assessments	Testing underway
Jedburgh Conservation Area Regeneration Scheme (CARS)	Concluding Audit work; guidance received from funder Historic Environment Scotland
Economic Development Funded Programmes - UK Community Renewal Fund	Testing underway
Mental Health Services (Adults and Children) (b/f from 2021/22)	Testing underway
Sustainable Environment	Continuous audit

Changes to Internal Audit Planned Assurance Work

4.7 The planned Asset Management assurance audit on 'Property Asset Management' has been removed from the Internal Audit Annual Plan 2022/23 and deferred to 2023/24 in agreement with the Director Infrastructure and Environment. The associated Commentary in the Plan is

> "The Council has a structured asset management framework for buildings, other property and facilities to ensure they are fit for purpose, and accurate records to demonstrate efficient and effective use. Specific review of the controls over the consumption of utilities (energy and water consumption) ensuring usage is adequately controlled and represents value for money)".

This change to the timing of Internal Audit assurance work is to align with the determination of a resourcing model and the development of an implementation action plan associated with the Estates Strategy that is awaiting finalisation and approval by Council, and will not impair the Internal Audit assurance work required to inform the Chief Officer Audit & Risk's annual audit opinion.

Internal Audit Consultancy and Other Work

4.8 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) Initial discussions with the Director Strategic Commissioning and Partnerships and relevant Service Managers to define the Internal Audit consultancy review relating to Care Homes and Care at Home. This will be a significant consultancy review as a 'critical friend' in 4th Quarter 2022/23 to oversee process changes being designed and implemented and to augment risk management and quality assurance practices.

c) Initial discussions with the Director People, Performance & Change and the Interim Chief Officer Corporate Governance to inform the review of the sufficiency of the Council's Whistleblowing Policy. This is activity in response to a formal request by the Acting Chief Executive to undertake Internal Audit work to review the policy and make any recommendations for improvement.

d) Learning and development is undertaken by all Internal Audit team members during the research stage of audits, and through joining appropriate webinars and completing mandatory e-Learning courses.

e) The Chief Officer Audit & Risk is the Chair of the Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) and 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. The Chief Officer Audit & Risk and the Principal Internal Auditor joined virtual CIIA webinars on the topics of 'Effective Communication and Reports'; and 'Internal Audit and Risk as a similar function'.

Recommendations

4.9 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.

4.10 The table below summarises the number of Internal Audit recommendations made during 2022/23:

	2022/23 Number of Recs
High	0
Medium	3
Low	6
Sub-total reported this period	**9**
Previously reported	13
Total	**22**

Recommendations agreed with action plan	22
Not agreed; risk accepted	0
Total	**22**

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 Council Management Team, Acting Chief Financial Officer, Interim Chief Officer Corporate Governance (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 Committee 13 December 2022

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Contact us at Internal Audit intaudit@scotborders.gov.uk

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Audit Plan Category: Financial Governance Subject: Payroll No: 079/017 Date issued: 06 January 2023 Draft; 16 January 2023 Final Level of Assurance: Comprehensive	The purpose of the audit was to carry out compliance testing of controls at Service level, including assurance work on Payroll processes for Council, Pension, and Election payrolls, and key controls to prevent fraud and error. There has been a significant reduction in both the number and value of Payroll overpayments (£31k) since our previous audit in 2020/21 (£93k). The main reason for the overpayments is late notification from Line Managers of changes which would affect the salary payment. These instances account for £21k (67%) of the total overpayment (£31k). Pensions overpayments totalled 20 cases amounting to £3k. These can mainly be attributed to the timing issue of payments being prepared ahead of the payment date, and notification being received of a death and which would impact the payment. There is a successful process for recovery of these overpayments, which is managed sympathetically. The Council has a legal duty to ensure certain staff are enrolled into the workplace pension scheme. Procedures are in place to ensure that all relevant staff are automatically enrolled, and the re-enrolment and re-declaration takes place. The Council fully complies with the Pensions Act 2008. The election payment process is well documented and our testing confirmed accuracy in payments made. Internal Audit are able to provide 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 are being progressed by HRSS: drafting the formal Payroll Overpayment Policy to reflect existing processes; and further work with Line Managers to ensure timely notification of changes.	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	
Audit Plan Category: Internal Controls

Subject: Schools Financial and Business Administration Processes

No: 127/035

Date issued: 14 December 2022 Draft; 06 January 2023 Final

Level of Assurance: Substantial (Petty Cash, Inventories, ParentPay, Mandatory eLearning Training, Staffing, Purchase Cards, and Education Maintenance Allowances); and Limited (School Funds) | 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 school establishments.

The school estate has 69 establishments within the region. This is made up of 9 High schools and 60 Primary settings. The establishments have the responsibility for educating 14,414 young people (Primary pupils 7,827 and High school pupils 6,587. Data correct at 8 November 2022).

The following examples of good practice were found:
- Progress has been made with the School Fund template, enabling Internal Audit full scrutiny of files.
- Mandatory training for Business Support staff has maintained its excellent levels of compliance, and an increase in completion is acknowledged for Teaching staff.

Internal Audit are able to provide: Substantial assurance for most Schools Financial and Business Administration Processes (including Petty Cash, Inventories, ParentPay, Mandatory eLearning Training, Staffing, Purchase Cards, and Education Maintenance Allowances), with evidence of progress being made with the implementation of previous recommendations and improvement in the internal financial controls; and Limited assurance for School Funds, where focussed improvement is required to ensure consistency in data recording to provide accuracy on the amount available to spend.

Internal Audit have made the following recommendations:
- Controls and processes should be established to ensure the accuracy of the data and to make clear what is available to spend within the School Funds. (Medium)
- Reimbursement of ParentPay charges should be made in a timely manner and within the same academic year. (Low) | 0 | 1 | 1 | Management have confirmed the factual accuracy and accepted the findings of the audit report, and have agreed to implement the new recommendations in addition to continuing to implement those arising from the previous audit. |

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Audit Plan Category: Asset Management Subject: Housing Strategy No: 155/001 Date issued: 16 December 2022 Draft; 17 January 2023 Final Level of Assurance: Substantial	The purpose of the audit was to assess whether governance and controls are in place to ensure efficient and effective use of funding and other resources for the provision of affordable housing to ensure achievement of housing strategy with partners. The Housing (Scotland) Act 2001 places a statutory requirement on local authorities to produce a Local Housing Strategy (LHS), which sets out its strategy, priorities and plans for the delivery of housing and related services. The following examples of good practice were found: • The Scottish Government Peer Review praised the LHS as 'a comprehensive strategy that articulates well the large amount of work that has been put into developing such a document'. • The Strategic Housing Investment Plan (SHIP) annual report demonstrates that 313 affordable homes were delivered exceeding the annual target of 128 new affordable homes. The 2017-22 strategy has been extended by a year and work is already underway to prepare the next one. The strategy is well monitored and annual progress reports are published on the Council's website. The supporting annual SHIP is appropriately approved, published and monitored. As the Council is a housing stock transfer authority, there is no funding from the Housing Revenue Account for affordable housing. Nevertheless there are adequate funding and investment frameworks in place to ensure that affordable housing is delivered. Internal Audit are able to provide Substantial assurance, and have made the following recommendation: • The Housing Strategy Team should engage with the Corporate Risk Officer to establish which risks should be included in a risk register to comply with the Council's Risk Management Policy. (Low)	0	0	1	Management have accepted the factual accuracy of the report and its findings, and have agreed to implement the recommendation. The Lead Officer - Housing Strategy and Development has scheduled meetings with the Corporate Risk Officer to progress this activity as an area of improvement.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Audit Plan Category: Asset Management

Subject: Fleet Management

No: 204/005

Date issued: 13 January 2023 Draft; 30 January 2023 Final

Level of Assurance: Substantial | The purpose of the audit was to assess if adequate controls are in place to ensure fleet asset records are complete and accurate and fleet replacement decisions represent value for money.

The Council maintains an asset register in which vehicles and larger items of plant are recorded, subject to the de-minimus capitalisation limit. Fleet Assets are also recorded in the Tranman system, which records items of plant below de-minus level.

The replacement decision is based on a number of factors, the most important being the assessed end of life date at which point the asset's performance is reviewed in terms of utilisation, reliability, repairs history and continued suitability to the service. Fleet Management will advise the Service area on the best options but the decision rests with the Service area. Fleet Management service is increasingly looking to leasing as a better solution for replacement than outright purchase. The historical replacement deferral has impacted on the Council being able to demonstrate value for money, although there is no doubt that recent Fleet replacement decisions led by the new Fleet Manager are improving arrangements, bringing benefits to service delivery and resilience.

The procurement process is a multidisciplinary activity and overall appears to work well, increasing the likelihood of compliance with the Council's Procurement policies and procedures. Direct awards are common for the heavier vehicles justified on the benefits of standardisation in terms of existing experience, familiarity, and quality. This approach may well lead to lower whole of life costs notwithstanding a higher initial acquisition cost.

Maintenance and inspection is primarily managed via the Tranman system which is both out of date and expensive to operate and is not consistently accurate in its reporting resulting in excessive manual validation which is inefficient. The intention is to replace Tranman with an alternative system R2C, which is considered to suit better the needs of the Fleet Management service. | 0 | 2 | 0 | Management have agreed the factual accuracy of the report, and are in agreement with the findings and recommendations of this audit.

The Fleet Manager is committed to progressing several actions with support from Senior Management, HR, Performance Officers and Others to implement the recommendations during 2023. This will enable further improvement of fleet management practices and ensure compliance with all relevant laws and regulations within a very challenging operating environment. |

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Fleet Management (cont'd)	Sound budget monitoring is in place, with monthly reporting of the financial position. The Fleet Manager also has access to the Financial Information Centre (FIC). There is no up-to-date and comprehensive workforce or succession plans currently in place for the Fleet Management service although work is actively ongoing to develop these plans. There are no performance monitoring arrangements currently in place for Fleet Management. No Key Performance Indicators have been defined and therefore benchmarking is not possible. In part this is due to reporting limitations within the Tranman system.

Internal Audit are able to provide Substantial assurance. Largely satisfactory risk, control, and governance systems are in place, with evidence of recently improved approaches. There is some scope for further improvement as current arrangements could undermine the achievement of objectives. The Management plans to replace the Tranman system during 2023/24 with the R2C system is designed to ensure complete, accurate and validated fleet asset records and more efficient monitoring. The two Medium-rated Internal Audit recommendations are designed to assist with improved people management and performance management practices.

Internal Audit have made the following recommendations:

- The Fleet Management people and succession plans currently under development should be completed with haste as potential problems may exist in respect of single points of failure, suitable recruitment and retention, and an ageing workforce. (Medium)

- Relevant Key Performance Indicators should be defined and introduced for Fleet Management. Once established, benchmarking should be undertaken with similar organisations where it is practical to do so. (Medium) | | | | |

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Audit Plan Category: Asset Management Subject: Passenger Transport No: 211/009 Date issued: 21 December 2022 Draft; 30 January 2023 Final Level of Assurance: Substantial	The purpose of the audit was to analyse and assess current processes for the Passenger Transport Unit (PTU) to identify the approach which represents best value, and review the internal and client provider practices and consider options for improvement. A transport policy is in place and there is comprehensive guidance for parents and carers. Established procedure can be discerned from the policy and guidance. It is a requirement that internal transport should be booked via the PTU. The Procurement Service has a good grasp on the procurement of both emergency and regular ongoing transport. There have been limited number of occasions of attempts to organise transport bypassing the PTU, which the Procurement Team have prevented. Internal Audit considers existing arrangements to be essential due to the vetting processes undertaken and that the processes in place are workable and not unnecessarily restrictive. The Principal Transport Officer and both Team Leaders receive a budget monitoring report on a monthly basis. In conjunction with Finance Officers a full year forecast is updated as part of the monthly reporting process. Client departments receive monthly budget monitoring information regarding transport in the form of overall costs of transport/escorts, etc. as well as breakdown per client. A full year forecast is also provided. The PTU Risk Register primarily focuses on risks facing passenger transport from the perspective of the travelling general public. There is little reference to risks specifically related to transport of clients, particularly for those with identified additional needs. With the exception of mainstream Home to School transport, the client department will undertake a transport risk assessment for each transported client. The provision of transport can often be challenging. The PTU is working with client departments over the past months to brief them on the information required to be able to effectively procure transport in a safe and compliant manner.	0	0	4	Management have provided responses to ensure the factual accuracy of the report, have accepted the findings of the audit, and have agreed to implement the recommendations. The Principal Transport Officer has held initial discussions and set out actions that require support from Education/Social Work clients and Others to implement the recommendations during 2023 and into early 2024.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
Subject: Passenger Transport (cont'd)	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. Internal Audit have made the following recommendations, in addition to the Management Action to implement new contract management software, to assist with improvements in the efficiency and effectiveness of current practices: • Procedures, at least in the form of work flowcharts, should be put in place for both PTU staff and client departments to follow. (Low) • A formal written policy should be developed that explicitly requires all internal transport to be delivered via the PTU. Client departments' staff should be advised that under no circumstances should they ever contact transport providers and attempt to arrange transport directly. (Low) • Recharges by the PTU to client departments is fundamental to the budget monitoring process and should be undertaken promptly following the end of each month. The process is time consuming and inefficient and alternative methods for direct charging should be explored. (Low) • Risks specifically related to transport of clients, particularly for those with identified additional needs, should be further considered and formally documented in the PTU Risk Register to ensure full coverage. (Low)				