ITEM

Internal Audit Work 2015/16 to December 2015

Report by Chief Officer Audit and Risk

Audit and Risk Committee

18 January 2016

1   PURPOSE AND SUMMARY

1.1   The purpose of this report is to provide the Audit and Risk Committee with details of:

a)   the recent work carried out by Internal Audit and the recommended audit actions agreed by Management to improve internal controls and governance arrangements, and

b)   Internal Audit work currently in progress.

1.2   The work Internal Audit has carried out in the period from 1 November to 31 December 2015 to deliver the Internal Audit Annual Plan 2015/16 is detailed in this report. During this period a total of 7 final internal audit reports have been issued. There were 11 recommendations made (0 Priority 1 High Risk, 4 Priority 2 Medium Risk, and 7 Priority 3 Low Risk) specific to 4 of the reports. Management have agreed to implement the recommendations to improve internal controls and governance arrangements.

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) effective 1 April 2013 including the production of this report to communicate the results of the reviews.

2   RECOMMENDATIONS

2.1   I recommend that the Audit and Risk Committee:

a)   Notes the final reports issued in the period from 1 November to 31 December 2015 to deliver the Internal Audit Annual Plan 2015/16; and

b)   Acknowledges that it is satisfied with the recommended audit actions agreed by Management.

3 PROGRESS REPORT

3.1 The Internal Audit Annual Plan 2015/16 was approved by the Audit and Risk Committee on 23 March 2015. Internal Audit has carried out the following work in the period 1 November to 31 December 2015 to deliver the plan to meet its objective of providing an opinion on the efficacy of the Council's risk management, internal control and governance arrangements.

3.2 The SBC Internal Audit function conforms to the professional standards as set out in Public Sector Internal Audit Standards (PSIAS) effective 1 April 2013 including the production of this report to communicate the results of the reviews.

Audit Reports

3.3 Internal Audit issued final internal audit reports on the following subjects:

- Grants and Following The Public Pound
- Tweedbank Primary School
- Denholm Primary School
- St Ronan's Primary School
- Homelessness – Rent Accounting System
- Waste and Recycling Services – Trade Waste
- ICT Operational Processes

3.4 An Executive Summary of the final internal audit report 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.

The definitions for Internal Audit assurance categories, as outlined in the approved Internal Audit Charter, are as follows:

Level of Assurance	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 Work in Progress

3.5 Internal Audit work in progress to deliver the Internal Audit Annual Plan 2015/16 consists of the following:

Audit Area	Audit Stage
Creditors Payments	Fieldwork nearly completed
Salaries (including expenses)	Fieldwork nearly completed
Contract Management	Fieldwork underway
Capital Projects	Fieldwork underway
Corporate Transformation	Fieldwork underway
Information Governance	Fieldwork underway
Revenues (Council Tax and Non Domestic Rates)	Audit Assignment Issued

Other Productive Work

3.5 Internal Audit staff have been involved in the following to meet its aims and objectives, and its roles and responsibilities in accordance with the approved Internal Audit Charter:

3.5.1 Attending relevant seminars, development workshops and user groups, and feedback to colleagues as relevant, to ensure their skills and knowledge are kept up-to-date and to fulfil their Continuing Professional Development (CPD) requirements.

3.5.2 Offering advice on internal controls and governance to managers on request and a number of clients are proactively engaging internal audit in consultancy work as the Council's continues to transform its services, for example, the Welfare Reform Programme, the Information Governance Group, and the Serious Organised Crime Officer Working Group. This period included observations which have arisen during our Primary Schools internal audit work regarding the business support resources and processes. We have identified the impact, issues and opportunities relating to the area to assist the provision of Best Value services through improving the effectiveness, efficiency and sustainability of the business support arrangements. The report was issued to Management with the aim of providing an opportunity to establish a cluster / locality forum to enable Primary Schools' business administration staff to network with their peers, share ideas and best practice, and to disseminate information.

3.5.3 Reviewing outstanding and overdue audit recommendations to ensure Internal Audit are satisfied that progress has been made to implement the previous internal audit recommendations and management actions, that actions taken have had the desired effect in improving internal controls and governance, and are reflected in the corporate performance systems for reporting purposes. There are no specific matters that Internal Audit requires to bring to the attention of Management and the Audit and Risk Committee relating to areas reviewed this period.

3.5.4 Offering advice on improvements to fraud prevention controls and detection processes put in place by Management. Internal Audit resources have also been deployed on corporate process reviews, for example, the Corporate Fraud Working Group.

Recommendations

3.6 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:

Priority 1: 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.

Priority 2: 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.

Priority 3: 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 the attention of senior management. The action plans in audit reports address only recommendations rated Priority 1, 2 or 3. Outwith the report, Internal Audit informs operational managers about other matters as part of continuous improvement.

3.7 The table below summarises the number of internal audit recommendations made during 2015/16:

	2015/16 Number of Recommendations
Priority 1	0
Priority 2	4
Priority 3	7
Sub-total reported this period	**11**
Previously reported	5
Total	**16**

Recommendations agreed with action plan	16
Not agreed; risk accepted	0
Total	**16**

4 IMPLICATIONS

4.1 Financial

It is anticipated that cost efficiencies will arise as a direct result of Management implementing the recommendations made by Internal Audit.

4.2 Risk and Mitigations

(a) The Objectives of Internal Audit are set out in its Charter. "As part of Scottish Borders Council's system of corporate governance, Internal Audit's purpose is to support the Council in its activities designed to achieve its declared objectives." Internal Audit provides assurance to Management and the Audit and Risk Committee on the effectiveness of internal controls and governance within the Council. Specifically as "a contribution to the Council's corporate management of risk" this includes responsibility in "Assisting management to improve the risk identification and management process in particular where there is exposure to significant financial, strategic, reputational and operational risk to the achievement of the Council's objectives."

(b) Key components of the audit planning process include a clear understanding of the Council's functions, associated risks, and potential range and breadth of audit areas for inclusion within the plan. During the development of the Internal Audit Annual Plan 2015/16, to capture potential areas of risk and uncertainty more fully, key stakeholders have been consulted and risk registers have been considered.

(c) If audit recommendations are not implemented, there is a greater risk of financial loss and/or reduced operational efficiency and effectiveness, and management may not be able to demonstrate improvement in internal control and governance arrangements.

4.3 Equalities

It is anticipated there will be no adverse impact due to race, disability, gender, age, sexual orientation or religious/belief arising from the work contained in this report.

4.4 Acting Sustainably

There are no direct economic, social or environmental issues in this report.

4.5 Carbon Management

No direct carbon emissions impacts arise as a result of this report.

4.6 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.

4.7 Changes to Scheme of Administration or Scheme of Delegation

No changes are required as a result of this report.

5 CONSULTATION

5.1 The Service Directors relevant to each of the internal audit reports have signed off the executive summaries within Appendix 1.

5.2 The Corporate Management Team has been consulted on this report and any comments received taken into account.

5.3 The Chief Financial Officer, the Monitoring Officer, the Chief Legal Officer, the Chief Officer HR, and the Clerk to the Council have been consulted on this report and any comments received have been incorporated into the report.

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 Risk Committee 23 March 2015

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. James Collin can also give information on other language translations as well as providing additional copies.

Contact us at James Collin, Audit and Risk jcollin@scotborders.gov.uk

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Audit Plan Category: Financial Governance Subject: Grants and Following the Public Pound No: 004/002 Date issued: 11 January 2016 Level of Assurance: Substantial	The purpose of the review was to provide an overview of the governance framework in place at the Council with regard to grants received and grants disbursed, including Following the Public Pound (FtPP), and to evaluate its adequacy. The governance and administration of grants is very important. Not only does SBC have a statutory duty to Best Value, under the Local Government (Scotland) Act 2003, it also has a statutory duty to comply with Following the Public Pound (Audit Scotland COSLA Code of Practice). The fundamental control for all Council income receivable and expenditure is the revenue and capital budget. The Scheme of Delegation (2015), Scheme of Administration (2015) and Financial Regulations (2012) govern authorisation of grants applied for or claimed and grants disbursed. Internal Audit considers that the level of assurance we are able to give in respect of the internal control and governance of grants and following the public pound is substantial. Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement. The Internal Audit recommendations made in this report are designed to ensure transparent and complete Management Information so that at any point in time it is possible to get a clear and accurate picture of all grants coming in and all grants going out of the Council, without further manipulation of data from other sources, and assurance from Management that they are being governed in the appropriate manner both by the Council and by the recipients. This will ensure that the Council is able to demonstrate within the forward planning process that there is alignment to its strategic priorities, to evidence compliance with Following the Public Pound, and to help with the identification of those communities that are not currently benefitting from grant funding in the Scottish Borders.	0	0	4	Management have accepted the report findings and agreed to implement the audit recommendations within appropriate timescales.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Subject: Grants and Following the Public Pound	We have made the following recommendations to enhance the control of receipt and payment of grants: • The master Grants Received Register should be fully consolidated and reconciled to FIS on a quarterly basis. The information contained therein should be complete, accurate, timely, reconcilable to FIS and able to facilitate audit and to evidence following the public pound. It should be centrally accessible to all services that require such Management Information to help coordinate applications based on SBC's strategic priorities. (P3) • A Grants Disbursed Register should be populated with all awards made on a monthly basis. The information contained therein should be complete, accurate, timely, reconcilable to FIS and able to facilitate audit and to evidence following the public pound. It should be centrally accessible to all services that require such Management Information to help coordinate disbursements based on SBC's strategic priorities. (P3) • The Following the Public Pound Code of Practice (FPP) (2006) and other Grants Received and Grants Disbursed related procedures and guidelines should be updated and published on the Intranet. As a minimum the FPP basic requirements should be extended to encompass all arrangements not just those that fit the criteria. Each grant approved for distribution should be allocated an appropriate governance stream i.e. be covered by clear, up-to-date procedures and guidelines. (P3) • Management should ensure that there are clear monitoring arrangements within the up-to-date procedures and guidelines and that there is sufficient review activity taking place to confirm that the monitoring is being done, which will also alert Management to any developing risks and issues. (P3) The Internal Audit recommendation made within our report on the LEADER Programme (issued 21 October 2015) relating to state aid assessment, recording and reporting mechanisms applies equally to grants.				

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Audit Plan Category: Internal Controls Subject: Tweedbank Primary School No: 128/014 Date issued: 11 December 2015 Level of Assurance: Comprehensive	The purpose of the review was to assess whether adequate internal financial controls and administrative procedures are in place to ensure the effective use of resources. The scope of this audit was to examine and evaluate the key controls in the following areas: Petty cash imprests; Inventories; Staffing establishment; School lets; Income Collection and Banking procedures; School Fund; Ordering/Invoice processing procedures; Data Protection/Confidential Waste Management. The business and administrative processes within the school are effective and comply with the Financial Regulations. Internal Audit considers that the level of assurance we are able to give is comprehensive. 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 have been agreed during the audit visit to the School on 3 November 2015.	0	0	0	Management have agreed the report findings.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Audit Plan Category: Internal Controls Subject: Denholm Primary School No: 128/015 Date issued: 15 December 2015 Level of Assurance: Comprehensive	The purpose of the review was to assess whether adequate internal financial controls and administrative procedures are in place to ensure the effective use of resources. The scope of this audit was to examine and evaluate the key controls in the following areas: Petty cash imprests; Inventories; Staffing establishment; School lets; Income Collection and Banking procedures; School Fund; Ordering/Invoice processing procedures; Data Protection/Confidential Waste Management. Denholm Primary is a shared headship school with Hobkirk Primary. However, in October 2015 it was agreed by Council that, due to falling numbers of pupils, Hobkirk Primary School would be mothballed. The timing of our visit to Denholm Primary (25 November 2015) was during the transitional period when not all the administrative functions from Hobkirk Primary had been finalised, therefore this report is solely based on Denholm Primary. The business and administrative processes within the school are effective and comply with the Financial Regulations. Internal Audit considers that the level of assurance we are able to give is comprehensive. Sound risk, control, and governance systems are in place. These should be effective in mitigating risks to the achievement of objectives.	0	0	0	Management have agreed the report findings.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Audit Plan Category: Internal Controls Subject: St Ronan's Primary School No: 128/016 Date issued: 17 December 2015 Level of Assurance: Comprehensive	The purpose of the review was to assess whether adequate internal financial controls and administrative procedures are in place to ensure the effective use of resources. The scope of this audit was to examine and evaluate the key controls in the following areas: Petty cash imprests; Inventories; Staffing establishment; School lets; Income Collection and Banking procedures; School Fund; Ordering/Invoice processing procedures; Data Protection/Confidential Waste Management. The business and administrative processes within the school are effective and comply with the Financial Regulations. The audit site visit to the School took place on 4 November 2015. The business administrator utilises internet banking for paying of invoices which is a more secure method of payment and has proved to be more efficient and effective than administering petty cash, therefore no petty cash imprest is held at the School. St Ronan's Primary is a Community School and any booking or lets within the building are managed by the Community Centre Committee therefore this aspect was outwith the scope of this audit. Internal Audit considers that the level of assurance we are able to give is comprehensive. Sound risk, control, and governance systems are in place. These should be effective in mitigating risks to the achievement of objectives.	0	0	0	Management have agreed the report findings.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Audit Plan Category: Internal Controls

Subject: Homelessness – Rent Accounting System

No: 172/008

Date issued: 22 December 2015

Level of Assurance: Limited, with the exception of rental charges applied where assurance is substantial | The purpose of the review was to ensure that controls are in place to ensure efficient and effective use of social and private sector housing and B&B accommodation to ensure achievement of obligations for the homeless, specifically Rent Accounting processes and procedures, including collection and recovery of rents, training and guidance notes. This year's review has concentrated on the Northgate Rent Accounting System Phase 1.

The Northgate Rent Accounting System was procured in November 2013 and the Homelessness service is currently implementing Phase 1 which has been live since April 2014. This is to deal with the significant increase in the number of temporary accommodation units managed by the service since 2014 when the Council brought in-house the Private Sector Leasing (PSL) scheme. Housing rental income has an expected value of approximately £1.5m per annum.

An Action Plan was developed by Homelessness Management in July 2015 to address gaps and risks in the service's utilisation of the rent accounting system. This was updated in August 2015 and again in November 2015 to reflect the current position. There has been progress in some areas, but not all issues have yet been addressed.

Management information is limited and further performance information is yet to be developed. With the recent restructure within the Homelessness service and the recruitment to vacant posts it is expected that the implementation of the Action Plan will be further progressed to address areas of improvement.

Phase 2 implementation of the system will further enhance the management of temporary accommodation and includes modules for void management and repairs to properties. Project management resources for Phase 2 implementation should be identified and a project plan developed in due course. | 0 | 3 | 0 | Management have accepted the report findings and agreed to implement the recommendations within appropriate timescales.

Internal Audit follow-up work will include following-up on progress with the implementation of Management Actions within the Action Plan as well as the Audit Recommendations within this report. |

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Subject: Homelessness – Rent Accounting System (cont'd)	Internal Audit considers that the level of assurance we are able to give is limited, with the exception of rental charges applied where assurance is substantial. 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.				
	Homelessness Management have developed an Action Plan to address gaps and risks in the service's utilisation of the rent accounting system.				
	In addition to the identified areas of improvements set out in the Management Action Plan, Internal Audit have made the following recommendations:				
	• The Rent Setting Policy should be updated in line with the Council's Fees and Charges Policy and take account of welfare reform developments, and a project plan should be developed for the implementation of rent increases on 1 April 2016 to ensure lessons are learned from the previous year. (P2)				
	• A protocol should be developed for sharing information between Customer Services and Homelessness Services regarding any change in circumstances which involve a tenant in temporary accommodation to ensure tenants' accounts are accurate. (P2)				
	• Homelessness Management should ensure there is sufficient segregation of duties for the financial management and administration of rent accounts. (P2)				

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Audit Plan Category: Internal Controls Subject: Waste and Recycling Services - Trade Waste No: 205/010 Date issued: 11 January 2016 Level of Assurance: Substantial with exception of stock control where limited	The purpose of the review was to ensure that operational and financial controls are in place for the effective delivery of waste and recycling services. The review for 2015/16 has focussed on Trade Waste income collection, debt recovery and streamlining of processes and systems to ensure income maximisation. The Council's Waste Services are highly regulated by various legislative requirements such as Waste (Scotland) Regulations 2012, indicating a high inherent risk assessment. Neighbourhood Services provides collection of approximately 74,500 tonnes of domestic and trade waste annually from around 57,000 households and 1,700 businesses across the region. Fees and charges are applied for a range of waste collection and disposal services. Trade Waste customers are invoiced annually in advance or pro rata for new customers requiring waste services part-way through the financial year, or if customers make changes to their contract covering recycling, bin servicing and trade waste sacks. Total trade waste income for 2014/15 was £451k. Effective controls were found in the following areas: • The Council meets all legislative requirements providing a Trade Waste Collection Service to businesses. • Appropriate processes and procedures are in place for the collection and recovery of income relating to the provision of Trade Waste Services. • Financial management information is reviewed and reported on a regular basis.	0	1	2	Management have accepted the report findings and agreed to implement the audit recommendations within appropriate timescales.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Subject: Waste and Recycling Services - Trade Waste	Internal Audit considers that the level of assurance we are able to give is substantial for Trade Waste legislative compliance, customer contracts, income collection and recovery, and budgetary control. 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.

However, we can only provide limited assurance for the stock control of Trade Waste assets and consumables. Risk, control, and governance systems have some satisfactory aspects. There are, however, some weaknesses likely to undermine the achievement of objectives and leave them vulnerable to an unacceptable risk of error or misuse.

We have made the following recommendations which are designed to assist with continuous improvement in service delivery and contribute to demonstrating best value:

- A review of the Trade Waste Management and Administration database system should be carried out to ensure that it is robust and fit for purpose to assist with future service delivery. (P3)

- Stock Control processes should be introduced at Contact Centres and at the Depots for Trade Waste Assets and Consumables in accordance with the Council's Financial Regulations and procedures. (P2)

- Regular performance reports should be provided for management review by the Trade Waste Team regarding contracts, numbers of customers, direct debit payees, debtors' limits, etc., to complement the financial management information regarding monitoring of budgets as part of future service delivery improvements. (P3) | | | | |

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Audit Plan Category: ICT Governance Subject: ICT Operational Processes No: 233/022 Date issued: 11 January 2016 Level of Assurance: Substantial	The purpose of the review was to examine controls over ICT change management and incident management to ensure they are appropriate and effective. Specifically with ICT change management, the review considered the management of change originating from existing business arrangements and those identified as part of a corporate transformation project, examining the review and scrutiny arrangements for both. The following examples of good practice were found: - Changes or augmentations to IT infrastructure from Corporate Transformation projects are identified in relevant project initiation and monitoring documentation, and that there is evidence of appropriate engagement with IT staff in the preparation of business cases. - There is an overall assessment of the implications of Corporate Transformation activity on the strategy for the IT service and meeting anticipated business needs in the future. We reviewed the Incident Management Policy and were able to confirm that it had been adhered to and that ICT Major Incident Review Reports are published on the Intranet to share lessons learned and communicate with users. Work is underway to improve oversight of the ICT strategy, its fit with corporate objectives and communication with stakeholders. Internal Audit considers that the level of assurance we are able to give is substantial. Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement. We have made the following recommendation: - A control needs to be introduced within the IT service to allow Management to gain assurance that the details of all Leavers, and other relevant changes, are recognised timeously in the IT systems e.g. a monthly reconciliation. (P2)	0	1	0	Management have accepted the report findings and agreed to implement the audit recommendation.