
INTERNAL AUDIT WORK TO OCTOBER 2023

Report by Chief Officer Audit and Risk

AUDIT COMMITTEE

13 November 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 August to 27 October 2023 associated with the delivery of the approved Internal Audit Annual Plan 2023/24 is detailed in this report. A total of 4 final Internal Audit reports have been issued. There were 2 recommendations made associated with 1 of the reports (0 High-rated; 2 Medium-rated; 0 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 August to 27 October 2023 (Appendix 1) associated with the delivery of the approved Internal Audit Annual Plan 2023/24;**
 - b) Notes the Internal Audit Consultancy and Other Work carried out in accordance with the approved Internal Audit Charter;**
 - c) Acknowledges the assurance provided on internal controls and governance arrangements in place for the areas covered by this Internal Audit work; and**
 - d) Approve the minor amendments to the Internal Audit Annual Plan 2023/24, as set out in paragraph 4.8.**

3 BACKGROUND

- 3.1 The Internal Audit Annual Plan 2023/24 was approved by the Audit Committee on 13 March 2023. 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, an Audit Assignment detailing the scope, objectives and timing is agreed with the relevant Director and Service Management; at the conclusion of the fieldwork, a Draft Report is issued to the relevant Director and Service Management for response on the factual accuracy and acceptance of the findings and recommendations, as appropriate; and a Final Report is then issued.

4 PROGRESS UPDATE

- 4.1 Internal Audit has carried out the following work in the period from 1 August to 27 October 2023 associated with the delivery of the Annual Plan 2023/24.
- 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:

- Revenues (Council Tax and NDR) – Self Catering
- Hawick Conservation Area Regeneration Scheme (CARS)
- Pupil Equity Fund (PEF) (*originally Benefits Assessments audit in Plan split into 2*)
- Refugee and Asylum Seekers Funding (*originally Homelessness in Plan*)

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
Full assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied, to support the achievement of objectives. Minor improvements might be required.
Substantial assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives.
Moderate assurance	Whilst there is a system of governance, risk management and control in place, there are weaknesses in the system that leaves some risks not addressed, and there is evidence of non-compliance with some of the controls.
Limited assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives.
No assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives.

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 2023/24 consists of the following:

Audit Area	Audit Stage
Cost of Living Crisis Support (<i>originally Benefits Assessments audit in Plan split into 2</i>)	Testing further information provided
Sales to Cash (S2C)	Testing nearly completed
Asset Management (Property) (<i>b/f from 2022/23</i>)	Specific utilities review nearly completed
Staff Retention (<i>originally Recruitment and Retention audit in Plan split into 2</i>)	Testing underway
Schools Financial and Business Administration	Testing underway
Scottish Government Community Led Local Development Fund (CLLD)	Testing underway
UK Government Shared Prosperity Fund	Testing underway
Capital Programme and Projects	Planning the Engagement

Changes to Internal Audit Planned Assurance Work

4.7 It was highlighted within the cover report for the Internal Audit Strategy and Annual Plan 2023/24 that "the Plan should be considered to be flexible and will be periodically reviewed, and amended as required, to reflect any new arrangement or changing risks and priorities. Any amendments relating to the Council will be brought to Council Management Team and the Audit Committee for approval."

4.8 The following minor amendments have been made to assurance audits in the Internal Audit Annual Plan 2023/24 to ensure each audit engagement reflects the specific risks and areas of assurance required by the relevant Directors and Service Managers consistent with the Council's objectives:

- UK Government Shared Prosperity Fund (*originally Economic Development Funded Programmes audit in Plan split into 2*)
- Scottish Government Community Led Local Development Fund (*originally Economic Development Funded Programmes audit in Plan split into 2*)

This demonstrates the increased emphasis on our agile approach to design risk-based audit engagements that determine the priorities of the Internal Audit activity in the Plan on a rolling basis throughout the year.

Internal Audit Consultancy and Other Work

4.9 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 / Digital Transformation Programme Boards, Information Governance Group, Social Work Programme Board, Sustainability Board, Digital Security Board).
- b) Continuous audit work as a 'critical friend' on the development of a revised Performance Management Framework for the Council led by the Corporate Performance & Improvement Team. Significant activity included the review of the service planning process and measures.

- c) Continuous audit work to assess the governance relating to organisations that constitute significant partnering arrangements from the Council's perspective. Preparing an Internal Audit Consultancy Report to outline findings and provide some suggestions for Management.
- d) Quarterly updates to Council Management Team on the status of in-progress Internal Audit recommendations to ensure senior management oversight of progress with their implementation as a way to demonstrate continuous improvement. The Follow-Up Review of In Progress Internal Audit Recommendations as at Q2 2023/24 is presented as a separate report to the Audit Committee this cycle.
- e) The Chief Officer Audit & Risk is the Chair of the Scottish Local Authorities Chief Internal Auditors Group (SLACIAG), a member of the Chartered Institute of Internal Auditors (CIIA) Local Authority Forum, and a member of the Heads of Internal Audit and Risk UK Forum, which provide the opportunity to share good practice and to keep knowledge of new Internal Audit developments up to date. The virtual CIIA webinars in recent months covered the topics of 'Audit Committee', 'Risk in Focus 2024' and 'Global Internal Audit Standards'. Others in the Internal Audit team are members of relevant specialist practitioners' forums, including Data Analytics, Counter Fraud, and Computer Audit.
- f) SLACIAG invited Chairs and Vice Chairs from Scottish Council's and IJB's Audit Committees to a virtual learning and development session on 8 September 2023 delivered by Diana Melville, CIPFA Governance Advisor, on the publication 'Untapped Potential: Internal Audit'.
- g) The Chief Officer Audit & Risk facilitated the Chairs of Audit Committees (Integration Joint Board, Scottish Borders Council, and NHS Borders) meeting on 21 August 2023; an improvement action in the Audit Committee Annual Report 2022/23.
- h) Audit Scotland provided a presentation on 29 August 2023 covering the 'Role of External Audit in the Public Sector' to members of the Audit Committee to assist their knowledge and understanding.

Recommendations

4.10 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:

<p>High: Significant weakness in existing controls, leaving the Council or Service open to a very high risk of not achieving its strategic objectives or evidencing best value, 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 Director Assurance Statement on Internal Control and Governance.</p>
<p>Medium: Substantial risk of not achieving its strategic objectives or evidencing best value, requiring reasonably urgent action within three months of formally raising the issue.</p>
<p>Low: Moderate risk of not achieving its strategic objectives or evidencing best value, 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.</p>
<p>Outwith the report, Internal Audit informs operational managers about other matters as part of continuous improvement.</p>

4.11 The table below summarises the number of Internal Audit recommendations made during 2023/24:

	2023/24 Number of Recs
High	0
Medium	2
Low	0
Sub-total reported this period	2
Previously reported	8
Total	10
Recommendations agreed with action plan	10
Not agreed; risk accepted	0
Total	10

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 2023/24 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 during discussions with the Corporate Risk Officer. The agreed Internal Audit recommendations are linked to relevant risks and risk registers in the Pentana system.
- 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.

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 has been consulted on this report at its meeting on 1 November 2023 to acknowledge its content, assurance and actions therein.

6.3 The Director of Finance & Procurement, Director of Corporate Governance (and Monitoring Officer), Director of People Performance and Change, Clerk to the Council, and Communications team have been consulted on this report by email as required practice.

Approved by

Jill Stacey, Chief Officer Audit and Risk Signature

Author(s)



Name	Designation and Contact Number
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Background Papers: Appropriate Internal Audit files

Previous Minute Reference: Audit Committee 25 September 2023

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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	
<p>Audit Plan Category: Financial Governance</p> <p>Corporate Risk: CMT 014 Legislative Compliance  and CMT 033 Financial Sustainability </p> <p>Subject: Revenues (Council Tax & NDR) – Self-Catering</p> <p>No: 084/014</p> <p>Date issued: 13 October 2023 Draft; 23 October 2023 Final</p> <p>Level of Assurance: Full</p>	<p>The purpose of the review was to assess the application and implementation of changes in legislation affecting Council Tax and Non-Domestic Rates (NDR). This specific review covers changes in self-catering legislation.</p> <p>The legislation in respect of Self-catering properties has changed from 1 April 2022. To be classed as a non-domestic property and liable for non-domestic rates instead of Council Tax, a Self-catering property is required to provide evidence of 70 days of letting as well as 140 days of intention to let from 2022/23 onwards. If the property is not considered to be Self-catering, it will enter the Council Tax valuation list at an appropriate valuation band and will be liable for Council Tax. The legislation requires that the Council tax valuation list entry be made retrospectively.</p> <p>The following example of good practice was found:</p> <ul style="list-style-type: none"> As a way of raising customer awareness a flyer was attached to prior year’s Non-Domestic Rates (NDR) bills advising the change to self-catering units from 1 April 2022 <p>The Assessors team advise Customer Services on a weekly basis of any self-catering units where changes required between Council Tax and Non-Domestic Rates. These changes form part of Customer Services normal change process, with any process changes advised via e-mail to ensure a consistent approach across the team and procedure notes updated to reflect this.</p> <p>There is effective governance in place to ensure the Council conforms with legislative and regulatory requirements. There are robust processes in place to ensure Customer Services records are updated in alignment with Assessors records.</p> <p>Internal Audit are able to provide Full assurance. A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied, to support the achievement of objectives. Minor improvements were implemented to address discrepancies arising from reconciliations and to respond to customer queries at the appropriate time.</p>	0	0	0	Management have confirmed the factual accuracy of the report and accepted its findings.

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Internal Controls</p> <p>Corporate Risk: none (Management Request)</p> <p>Subject: Pupil Equity Fund</p> <p>No: 127/037</p> <p>Date issued: 29 September 2023 Draft; 13 October 2023 Final</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review was to assess the arrangements in place to administer the Pupil Equity Fund (PEF) and ensure that it is being utilised in line with the National Operational Guidance issued by the Scottish Government.</p> <p>Pupil Equity Funding (PEF) is additional funding allocated directly to schools to use education to improve outcomes for children and young people impacted by poverty. The Scottish Government has committed to this funding as part of the Scottish Attainment Challenge (SAC) programme up until 2025/26.</p> <p>Head Teachers have been provided with appropriate local guidance which supplements the Scottish Government's national guidance and have been given relevant training to effectively use PEF funding for correct purposes.</p> <p>Schools adhere to the Council's recruitment and procurement policies and procedures when recruiting staff or purchasing goods or services through PEF.</p> <p>Budgetary and financial controls are in place over PEF are robust with monthly budget monitoring reporting in place.</p> <p>Internal Audit are able to provide Substantial assurance. There is a generally sound system of governance. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives.</p> <p>In addition to the Management actions that are underway, Internal Audit have made the following recommendations:</p> <ul style="list-style-type: none"> • All schools should be reminded to deliver their plans and publish their School Improvement reports within the agreed timescales, and non-compliance escalated as required to the Chief Education Officer for monitoring purposes. (Medium) • Top slicing of PEF funding to cover the costs associated with management, monitoring and reporting should cease for the academic year 2023/24 in accordance with PEF guidance issued by Scottish Government. (Medium) 	0	2	0	Management have confirmed the factual accuracy of the report, accepted its findings, and agreed to implement the recommendations

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Legislative and Other Compliance</p> <p>Corporate Risk: none (HES Funder's audit requirement)</p> <p>Subject: Hawick Conservation Area Regeneration Scheme (CARS)</p> <p>No: 154/033</p> <p>Date issued: 27 September 2023 Draft; 04 October 2023 Final</p> <p>Level of Assurance: Substantial compliance with the scheme rules and the HES contract</p>	<p>The purpose of the review was to examine and evaluate compliance with the scheme rules and contract, including auditing requirements, specifically: Historic Environment Scotland Clause 5 (Auditing Procedures) of the contract signed 5 April 2019.</p> <p>Hawick Conservation Area Regeneration Scheme (CARS) Partnership Project between Historic Environment Scotland (HES), South of Scotland Enterprise (SOSE) and Scottish Borders Council (SBC) started in 2019/20. Its purpose is to undertake heritage and conservation based regeneration activities within Hawick town centre over a six year period from 2019 to 2025 (extended from original five year period in agreement with funding partners, due to the delays arising from the Covid pandemic and a slow post-launch take up of grants).</p> <p>This is achieved through the award of grants to property owners for external fabric building repairs and complementary initiatives relating to upgrading the public realm, education and training.</p> <p>The revenue project budget is £1.575m jointly funded by HES (£1.315m), SOSE (£60k) and SBC (£200k).</p> <p>Robust documented processes are in place which cover the key stages starting with an enquiry through to payment of the grant based upon evidence of completed work to payment. The management of the scheme is fundamentally sound and run substantially in accordance with the requirements of the contract, appropriate controls exist around segregation of duties, and authorisations were in operation.</p> <p>Budget monitoring reports are produced monthly which includes Hawick CARS. The Project Officer maintains a separate financial spreadsheet that records expenditure for grants on the basis of offers made to overcome the timing differences between grant offer and claim by the Grantees.</p> <p>Internal Audit are able to provide assurance of substantial compliance with the scheme rules and the HES contract.</p>	0	0	0	<p>Management have confirmed the factual accuracy and accepted the findings of the audit report.</p> <p>The submission to Historic Environment Scotland to meet the reporting requirements, included the assurance conclusions from this Internal Audit report within an Accountant's Report and the Abstract Accounts 2022/23 for Hawick CARS.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		H	M	L	
<p>Audit Plan Category: Internal Controls</p> <p>Corporate Risk: none (Management Request for assurance on external funding)</p> <p>Subject: Refugee and Asylum Seekers Funding (originally Homelessness in Plan)</p> <p>No: 172/012</p> <p>Date issued: 12 October 2023 Draft; 18 October 2023 Final</p> <p>Level of Assurance: Full</p>	<p>The purpose of the audit was to review the controls in place to ensure efficient and effective use of Home Office Refugee Money and Asylum Distribution Money.</p> <p>The UK Government made available a tariff to local authorities in providing wrap around support to individuals and families helping rebuild their lives and fully integrate into communities. The funding was specifically for refugees and asylum seekers from Syria and Afghanistan, and the displaced people from Ukraine.</p> <p>Much work has been completed by various Services in the Council to welcome these people and their children, to the Scottish Borders. The support provided was both financial and assistance with housing, education, health care, banking, etc.</p> <p>The following examples of good practice were found:</p> <ul style="list-style-type: none"> • Staff reacted well to the changing eligibility criteria, ensuring payments could be made to those identified. • There was close dialogue with Scottish Government and Home Office colleagues. <p>Internal Audit are able to provide Full assurance. A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied, to support the achievement of objectives. Minor improvements were implemented to ensure data accuracy and 2nd line monitoring relating to the Ukrainian funding stream.</p>	0	0	0	Management have confirmed the factual accuracy of the report and accepted its findings.