
Internal Audit Work 2015/16 to February 2016

Report by Chief Officer Audit and Risk

Audit and Risk Committee

29 March 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 January to 29 February 2016 to deliver the Internal Audit Annual Plan 2015/16 is detailed in this report. During this period a total of 6 final internal audit reports have been issued. There were 4 recommendations made (0 Priority 1 High Risk, 3 Priority 2 Medium Risk, and 1 Priority 3 Low Risk) specific to 2 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 January to 29 February 2016 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 January to 29 February 2016 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:
- Creditors Payments
 - Capital Investment
 - Corporate Transformation
 - Information Governance
 - Risk Management
 - Counter Fraud
- 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 complete the delivery of the Internal Audit Annual Plan 2015/16 consists of the following:

Audit Area	Audit Stage
Salaries (including expenses)	Fieldwork nearly completed
Income Charging, Billing & Collection	Fieldwork nearly completed
Revenues (Council Tax and Non Domestic Rates)	Fieldwork underway
Asset Registers	Fieldwork underway
Contract Management	Part completed though remaining audit scope will be deferred until 2017/18

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 in respect of the latter Internal Audit has carried out an independent and objective validation of the self-assessment against the Local Authority Readiness – Serious Organised Crime and Corruption Risk Checklist to confirm the content of the Council's Contest and Prevention Action Plan 2016/18.
- 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.
- 3.5.5 Significant work has been undertaken involving the Chief Officer Audit & Risk as a member of the Integration & Governance working group to develop the governance arrangements for the Scottish Borders Health and Social Care Partnership. The Integration Joint Board's (IJB) Audit Committee was established and the Chief Officer Audit & Risk appointed as the IJB's Chief Internal Auditor in February 2016 with agreement that the Internal Audit services for the IJB will be provided by the Council's Internal Audit team for review of the adequacy of the arrangements for risk management, governance

and control of the delegated resources. The integration authority's Risk Management Strategy and Local Code of Corporate Governance were approved by the IJB in March 2016 following involvement of the Chief Officer Audit & Risk. The Scottish Government and Scottish Parliament approved the Scheme of Integration, which enabled the formal establishment of the IJB in March 2016 along with the formal appointment of the Chief Officer Health and Social Care Integration and the interim Chief Financial Officer. Consultation on the draft Strategic Plan was completed in December 2015; and the Strategic Plan was approved by the IJB in March 2016.

3.5.6 Various members of the Internal Audit team are carrying out audit work to provide annual assurance and audit opinion for SB Cares, the Council's arms-length external organisation (ALEO) providing Adult Social Care services, in the first year of its operation under a service level agreement. The internal audit work has been determined and agreed with the SB Cares Management and Board.

3.5.7 Attendance at Scottish Borders Pension Fund Committee and Board meetings to assess new governance arrangements.

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	3
Priority 3	1
Sub-total reported this period	4
Previously reported	16
Total	20
Recommendations agreed with action plan	20
Not agreed; risk accepted	0
Total	20

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 have been 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

APPENDIX 1

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Internal Controls</p> <p>Subject: Capital Investment</p> <p>No: 007/015</p> <p>Date issued: 17 March 2016</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review was to scrutinise the management systems in place to ensure that capital projects are being managed efficiently and effectively from inception to completion including post project evaluation; and that the basis for capital planning process is the Council priorities and outcomes.</p> <p>The Capital Projects Director presented a paper to Corporate Management Team in October 2014 containing recommendations to address areas for improvement noted in the Internal Audit report on Capital Investment dated 3 April 2014. Implementation of the recommendations has been modest since then, and there have been several changes in the Service Director postholder.</p> <p>Processes and project documentation of the selected sample of projects were generally satisfactory, although project management would benefit from a more consistent approach to reporting and management of financial and other aspects of risk.</p> <p>An assessment of compliance with recommendations contained in the Accounts Commission report "Major Capital Investment in Councils" (March 2013) has been carried out by Internal Audit with assessment results either 'Good' or 'Satisfactory'.</p> <p>On 29 May 2014 the Council approved a recommendation from the Audit and Risk Committee that HM Treasury Green Book Checklist be used in selected projects within the Council. This checklist details a range of questions appropriate for key stage or milestone review of projects. From our audit work, we have not been able to identify evidence that the checklist is being used.</p> <p>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 are identified gaps in the Council's compliance with established good practice, though we are satisfied that proposals developed so far will provide an appropriate framework to address these gaps and, once completed, will allow demonstration of satisfactory compliance.</p>	0	0	0	<p>Management have accepted report findings.</p> <p>Internal Audit will seek regular updates from Management on progress in implementing these proposals.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Corporate Governance</p> <p>Subject: Risk Management</p> <p>No: 008/004</p> <p>Date issued: 17 March 2016</p> <p>Level of Assurance: Substantial</p> <p><i>As the Chief Officer Audit & Risk has managerial responsibility for the functions which develop, support and advise on the frameworks in place at the Council on Risk Management and Counter Fraud, then in order to ensure that internal audit independence and objectivity is maintained and demonstrated, the internal audit work on these areas has been carried out by Internal Audit with the Chief Officer Audit & Risk as the client and therefore with no involvement in the delivery and reporting of the internal audit review. The report has been submitted in the name of the Internal Audit Manager who reported directly to the Service Director Regulatory Services during the period in which he has fulfilled the HIA role.</i></p>	<p>The purpose of the review was to provide an assessment of the progress made on the implementation of the corporate risk management improvement actions arising from the Risk Management Review of 2014 including, policy, strategy, training and toolkits.</p> <p>Over a number of years senior management have been developing a risk management framework and this has been strongly encouraged by the Audit Committee.</p> <p>A report to the Audit & Risk Committee on 19 January 2015 concluded that although there were risk management arrangements in place they were not fully embedded within the business planning and decision making process. A number of recommendations and improvement actions came out of the review.</p> <p>As a result the Council now has a standard risk assessment process and training programme supported by senior management.</p> <p>The benefits of the risk management improvement actions will not be fully realised until the implementation of the upgraded business planning and performance management in Covalent, integrated with risk management, is up and running.</p> <p>Other areas where work needs to be done to confirm risk management arrangements include partnership arrangements, transformation and change, project and 3rd party delivery models</p> <p>Internal Audit considers that the level of assurance we are able to give towards implementing the improvement actions is substantial.</p> <p>Internal Audit has no recommendations to make.</p>	0	0	0	Management have accepted report findings.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Corporate Governance</p> <p>Subject: Corporate Transformation</p> <p>No: 010/009</p> <p>Date issued: 22 March 2016</p> <p>Level of Assurance: Comprehensive</p>	<p>The purpose of the review was to review the governance and accountability arrangements for the Corporate Transformation programme, including programme and project management. We performed walk-through testing and gathering evidence of controls within: Cultural Services Review; ICT Review; Borders Railway Programme; and Children & Young People Programme.</p> <p>The following examples of good practice were found:</p> <ul style="list-style-type: none"> • There is a thorough, consistent and transparent approach to the review and scrutiny of the Corporate Transformation Programme by senior managers and elected members; • Reporting to the Corporate Management Team, to the Executive Committee and to full Council, by way of the Corporate Transformation Tracker, and highlight reports on individual projects, is clear and allows for effective scrutiny and challenge by senior managers and members. <p>In each case of the four individual projects we examined, we identified evidence of appropriate and proportionate controls which allow management to gain assurance that anticipated outcomes of these projects will be achieved.</p> <p>We have no recommendations to make. However we have made the following observation: As the Council continues to review service delivery models to develop more cost effective service delivery models as part of its corporate transformation programme, there is an opportunity to continue to ensure that lessons are being learned and applied from previous and current projects, good practice prompts and checklists are being used and shared, and a consistent approach to assessing and managing impact on support services is being adopted.</p> <p>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 may be required.</p>	0	0	0	<p>Management have accepted report findings, acknowledged the observation made on sharing lessons learned across programmes and projects, and identified some continuous improvement actions.</p> <p>The most immediate opportunity is to share lessons learned, good practice and standard approaches with Senior Management and Project Management involved in the Roads Review Project and with the Alternative Service Delivery Models Programme Board.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Corporate Governance</p> <p>Subject: Counter Fraud</p> <p>No: 018-004</p> <p>Date issued: 17 March 2016</p> <p>Level of Assurance: Substantial</p> <p><i>As the Chief Officer Audit & Risk has managerial responsibility for the functions which develop, support and advise on the frameworks in place at the Council on Risk Management and Counter Fraud, then in order to ensure that internal audit independence and objectivity is maintained and demonstrated, the internal audit work on these areas has been carried out by Internal Audit with the Chief Officer Audit & Risk as the client and therefore with no involvement in the delivery and reporting of the internal audit review. The report has been submitted in the name of the Internal Audit Manager who reported directly to the Service Director Regulatory Services during the period in which he has fulfilled the HIA role.</i></p>	<p>The purpose of the review was to provide an assessment of the progress made on the implementation of the corporate counter fraud improvement actions arising from the Corporate Counter Fraud Review of 2014.</p> <p>The Corporate Counter Fraud Review 2014 concluded it was important to embed a strong counter fraud culture as fundamental to an effective response to fraud, and identified the vital part played by CMT and senior management in leading behavioural change within the organisation, its partners and customers.</p> <p>The review highlighted that policies and procedures were out of date, there was a lack of training and organisational changes had resulted in a lack of clarity of roles and responsibilities creating vulnerabilities to fraud. Generally the Council's fraud response was found to be reactive rather than proactive.</p> <p>A Corporate Fraud Working Group (CFWG) was established to review and update counter fraud policy documents, take recommendations to CMT to improve fraud arrangements, discharge duties and report to Members on agreed policies for approval.</p> <p>Updated guidance for Gifts and Hospitality, Register of Interests and Whistleblowing has been developed. Also ELearning Fraud Awareness and The Bribery Act 2010 training packages have been developed and are ready to be launched on SB Learn, the online self-study portal.</p> <p>Use of in-house dataset matching analytics is also under review.</p> <p>Internal Audit considers that the level of assurance we are able to give towards implementing the improvement actions is substantial.</p> <p>Internal Audit has no recommendations to make.</p>	0	0	0	Management have accepted report findings.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Financial Governance</p> <p>Subject: Creditors Payments</p> <p>No: 078/009</p> <p>Date issued: 22 March 2016</p> <p>Level of Assurance: Limited</p>	<p>The purpose of the review was to ensure payment processes at a Service level for Proactis, and non-Proactis source systems such as Servitor, Framework-i, Tranman, Routewise and Template payments are accurate, correct and authorised appropriately. Our review for 2015/16 focussed on authorised signatories and the levels of authorisation.</p> <p>During this audit Management had initiated a project to replace the existing core Financial and HR systems by 2017.</p> <p>In addition we issued an interim audit report in October 2015 noting lack of clarity and inconsistencies between financial systems around delegation and levels of authority for approval and payment of orders/invoices. A project established by Management will take forward improvements by 31 March 2016.</p> <p>We found certain control weaknesses within the existing systems but rather than make recommendations to alter soon-to-be redundant systems we are recommending that the project scope and work takes account of and addresses these, in co-ordination with the project, when designing processes, controls, guidance notes and corporate policies to support the new systems (P3).</p> <p>Although we did not find any cases of improper payments in our limited samples we consider that there will be a continuing risk of unauthorised payments until the new financial system is implemented and improved delegated authorities are consistently applied throughout the various services. Management need to risk assess whether any additional monitoring is required meanwhile.</p> <p>We made a further specific recommendation: SBc Contracts Management should ensure that an official order is in place before “call-offs” are made. (P2)</p>	0	1	1	<p>Management have accepted the report findings and agreed to implement the recommendations though have commented that the weaknesses cannot be resolved until two things change:</p> <ul style="list-style-type: none"> • the new system with improved controls is in place creating a better work flow; and • significant culture change around the recognition and application of the governance associated with ordering/invoicing /payment of goods and services is integrated right across the organisation.

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Corporate Governance</p> <p>Subject: Information Governance</p> <p>No: 236/009</p> <p>Date issued: 22 March 2016</p> <p>Level of Assurance: Limited</p>	<p>The purpose of the review was to examine the Information Governance framework including roles and responsibilities, policy development and implementation.</p> <p>Implementation of the Information Governance Improvement Plan (August 2013) and recommendations made in Internal Audit report Data Security and Information Management (April 2014) has been limited since then. The Information Governance Group (IGG) only met once early in 2014, our concern being that there is a risk that much of the insight gained in developing an effective policy and governance framework might be lost due to the IGG having been in abeyance for such a long period of time. The Service Director Regulatory Services has fulfilled the role of Senior Information Risk Owner (SIRO) since November 2014, and the IGG has met regularly since February 2015. An Interim Project Manager took up post in January 2016 to work alongside existing staff in the Information Management Team and the SIRO</p> <p>We are satisfied that the Information Management Project as detailed in the Business Case provides a suitable framework to address the outstanding actions shown in the Improvement Plan and the two outstanding audit recommendations shown below.</p> <p>Internal Audit considers that the level of assurance that we are able to give is limited. Risk, control, and governance systems have some satisfactory aspects. There are, however, some remaining weaknesses likely to undermine the achievement of objectives and leave them vulnerable to an unacceptable risk.</p> <p>By way of explanation and emphasis, we have been greatly encouraged by the significant progress which has been made in a short timescale within the past three months. We would anticipate a revised rating if the actions described in the Project Plan are taken, and if the Information Governance Group functions in line with the recently approved remit and policy.</p>	0	2	0	<p>Management have accepted report findings and agreed to implement the outstanding and additional recommendations within appropriate timescales as part of the Information Management project that has been initiated within the overall corporate transformation programme.</p> <p>Staff from Internal Audit will undertake a project assurance role on the Project Board to provide assurance to the project sponsor that its outcomes will be achieved.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
Subject: Information Governance (cont'd)	<p>Follow-up on Management's Progress with implementation of previous internal audit recommendations made in Internal Audit report Data Security and Information Management dated 4 April 2014 shows the following recommendations that are yet to be implemented:</p> <ul style="list-style-type: none"> • Management should design processes to confirm that records are weeded in line with retention schedules. (P2) • Management should design and introduce housekeeping processes which would provide assurance that all physical records containing personal data have been identified and are stored appropriately. (P2) <p>Internal Audit have made the additional recommendations as follows:</p> <ul style="list-style-type: none"> • (i) A central repository of Data Sharing agreements with government agencies should be established; (ii) Guidance should be developed on who can sign such agreements on behalf of the Council; (iii) Processes should be designed which allow management to gain assurance that undertakings contained in these agreements are being fulfilled; and (iv) Outstanding actions relating to data sharing should be reviewed as a matter of urgency. Management may want to consider establishing a dedicated, short life team to progress these actions. (P2) • The Information Policy and Strategy document should be reviewed by the Group and amended as appropriate. It should be used to prepare a structured programme of work for the Group in order to fulfil its remit in the development of policy and the promotion of good practice in the Council. This will include defining the membership of the Group and their roles and responsibilities. (P2) 				