
Internal Audit Work 2015/16 to March 2016

Report by Chief Officer Audit and Risk

Audit and Risk Committee

9 May 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 to 31 March 2016 to deliver the Internal Audit Annual Plan 2015/16 is detailed in this report. During this period a total of 2 final internal audit reports have been issued. There was 1 recommendation made (0 Priority 1 High Risk, 0 Priority 2 Medium Risk, and 1 Priority 3 Low Risk) specific to 1 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 2013 (PSIAS) including the production of this report to communicate the results of the reviews.

1.5 Further information on the work of Scottish Local Authorities Chief Internal Auditors Group (SLACIAG), which is the professional networking group for Heads of Internal Audit, is shown in Appendix 2 to this report.

2 RECOMMENDATIONS

2.1 I recommend that the Audit and Risk Committee:

a) Notes the final reports issued in the period from 1 to 31 March 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 to 31 March 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:
- Salaries (including expenses)
 - Revenues (Council Tax and Non Domestic Rates)
- 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.

- 3.5 We have identified certain areas of improvements relating to existing systems for Income Charging, Billing & Collection. Rather than make recommendations to alter soon-to-be redundant systems, we have agreed with the Chief Financial Officer that the Business World ERP system project scope and work takes account of and addresses these when designing processes, controls, guidance notes and corporate policies.
- 3.6 In respect of work we have completed relating to Asset Registers and the reconciliations between the source computer-based systems and the Financial Information System (FIS), Management assurances have been received that the full reconciliation of physical to recorded Assets will be addressed as part of the Business World ERP system project.

Other Productive Work

- 3.6 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:
- 3.6.1 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.
- 3.6.2 Offering advice on improvements to fraud prevention controls and detection processes put in place by Management.
- 3.6.3 Undertaking further work in connection with Scottish Borders Health and Social Care Integration Joint Board and SB Cares.

Recommendations

- 3.7 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.

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

	2015/16 Number of Recommendations
Priority 1	0
Priority 2	0
Priority 3	1
Sub-total reported this period	1
Previously reported	20
Total	21
Recommendations agreed with action plan	21
Not agreed; risk accepted	0
Total	21

4. SCOTTISH LOCAL AUTHORITIES' CHIEF INTERNAL AUDITORS' GROUP (SLACIAG) ANNUAL REPORT 2015

- 4.1 The Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) is the professional networking group for Heads of Internal Audit from each Scottish Local Authority and Strathclyde Partnership for Transport. It is a Special Interest Group of CIPFA Scotland and therefore the Chair of SLACIAG is a member of the CIPFA Scotland Executive Committee.
- 4.2 The vision of the Group is to be the voice of Internal Audit across Scottish local authorities and a driving force for best practice in respect of Local Authority Internal Audit, governance, and operations. It achieves this by meeting to discuss issues of common concern, commissioning work to develop ideas, sharing good practice, and working in partnership with other professions/governing bodies.
- 4.3 Each year SLACIAG produces an Annual Report stating its Vision and Objectives, highlighting its Activity and Achievements, and outlining Future Developments. The 2015 report is attached at Appendix 2 for information.
- 4.4 There is active participation in this national forum by Council officers: the Chief Officer Audit & Risk has served a 2-year appointment as Chairman of SLACIAG to March 2016; the Internal Audit team members attended the SLACIAG Conference 2015; one of the Senior Internal Auditors is a member of the Computer Audit Sub-Group; and the Corporate Fraud & Compliance Officer has become a member of the Corporate Fraud Sub-Group (SLAIG) which became affiliated to SLACIAG during 2015. Scottish Borders Council will host the next SLACIAG meeting on 17 June 2016 at the Galashiels Transport Interchange.
- 4.5 In summary, SLACIAG acts as an effective forum for the dissemination of best practice within internal audit in local government. It is important that the Audit and Risk Committee acknowledges the benefits to Scottish Borders Council Internal Audit function arising from its participation in this national forum.

5 IMPLICATIONS

5.1 Financial

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

5.2 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.

5.3 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.

5.4 Acting Sustainably

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

5.5 Carbon Management

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

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 Changes to Scheme of Administration or Scheme of Delegation

No changes are required as a result of this report.

6 CONSULTATION

- 6.1 The Service Directors relevant to each of the internal audit reports have signed off the executive summaries within Appendix 1.
- 6.2 The Corporate Management Team has been consulted on this report and any comments received have been taken into account.
- 6.3 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	
<p>Audit Plan Category: Financial Governance</p> <p>Subject: Salaries (including expenses)</p> <p>No: 079/010-1</p> <p>Date issued: 28 April 2016</p> <p>Level of Assurance: Substantial</p>	<p>The purpose of the review was to ensure that controls are in place at Service level to ensure that salaries paid (including expenses) are accurate, correct and authorised appropriately. For this year’s review the focus was on authorised signatories and follow-up on progress with implementation of recommendations made in the 2014/15 internal audit report regarding Overtime.</p> <p>During this audit Management had initiated a project to replace the existing core financial and HR system by 2017.</p> <p>We have made the following observation: There is an opportunity to check that the line manager training covers the responsibilities, procedures and practices of end to end employment of their staff from pre-employment to exit.</p> <p>In addition we issued an interim audit report in October 2015 regarding authorised signatories. We note good progress has been made by Management to take forward improvements to the management and maintenance of the authorised signatories and delegation of authority process.</p> <p>Since our audit review in 2014/15, Management teams are more aware of the levels of overtime being worked and will continue to scrutinise this to ensure that as a result of staffing reductions and savings unforeseen increases in overtime do not occur. However, business requirements may dictate otherwise regarding emergencies such as inclement weather or client welfare.</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 is, however, some scope for improvement relating to Leavers.</p> <p>We made the following recommendation:</p> <ul style="list-style-type: none"> Enhanced controls should be put in place to ensure the return of equipment and property when an employee leaves the Council’s employment. (P3) 	0	0	1	<p>Management have accepted the report findings and agreed to implement the recommendation within reasonable timescales.</p> <p>It is the responsibility of the line manager to recover all equipment from a member of staff exiting the organisation and use the Leaver forms supplied by HR on the Intranet. All service directors and managers have a shared responsibility in addressing the recommendation, facilitated by the HR service.</p>

Report	Summary of key findings and recommendations	Recommendations			Status
		1	2	3	
<p>Audit Plan Category: Financial Governance</p> <p>Subject: Revenues (Council Tax and Non Domestic Rates)</p> <p>No: 084/009</p> <p>Date issued: 21 April 2016</p> <p>Level of Assurance: Comprehensive</p>	<p>The purpose of the review was to assess the completeness and accuracy of Revenues (Council Tax (CT) and Non Domestic Rates (NDR)) income, including application of relevant reductions, discounts, reliefs and exemptions.</p> <p>The following examples of good practice were found:</p> <ul style="list-style-type: none"> • Further improvements in the completion of history sheets for CT and NDR accounts; • Reviews of accounts are currently underway for CT to be followed by NDR account reviews; and • Payment reconciliations are carried out on a daily basis to ensure all CT and NDR income is received and credited promptly. <p>Various payment methods such as online, direct debit, telephone, Post Office or PayPoint, by post and standing order are available to allow customers to pay CT and NDR accounts.</p> <p>Occupancy levels regarding Single Person Discounts are routinely checked against existing or new Housing Benefit claims, as appropriate, or when changes to circumstances are made.</p> <p>The review of CT and NDR policies, procedures and guidelines for Customer Services staff is work in progress, with improvements planned to link staff training records to the policy framework.</p> <p>The remainder of our work regarding the data collection and submission of Scottish Government Returns, the consistency in decision making for Blue Badge applications and appeals, and large payments to CT or NDR accounts will be completed during Quarter 1 of 2016/17. Findings will be reported at a later date.</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.</p> <p>We have made no recommendations.</p>	0	0	0	Management have accepted the report findings.