

INTERNAL AUDIT SUMMARY OF ACTIVITIES

1. EXECUTIVE SUMMARY

- 1.1 The objective of the report is to provide a summary of Internal Audit activity and progress during Quarter 3 of 2019/20.
- 1.2 Core activities together with a progress update statement are shown below.
- **2019/20 Audit Plan progress:** The audit plan is currently on track.
 - **Individual Audits undertaken:** Five audits have been completed during the period. Of these audits, two are rated as high, two as substantial, and one as reasonable.
 - **Continuous Monitoring Programme Testing:** A number of auditable units are subject to continuous testing. Management have responded to previous quarter notifications and there are no outstanding issues.
 - **Performance indicators:** Current status is green / on track.

INTERNAL AUDIT SUMMARY OF ACTIVITIES

2. INTRODUCTION

2.1 The objective of the report is to provide an update on Internal Audit activity during Quarter 3 against the following areas:

- 2019/20 Audit Plan progress
- Additional audit team activity
- Continuous monitoring
- Internal Audit development plan
- Performance indicators

3. RECOMMENDATIONS

3.1 Members are requested to review and endorse this report.

4. DETAIL

4.1 Five audits have been completed since the previous Committee in September 2019. Six audits are currently in progress and these will be reported to a future Committee.

Audits Completed

- Care Home Provision
- Normal Operating Procedures/Emergency Action Procedures (Live Argyll)
- Building Standards
- Risk Management
- Following the Public Pound

Audits in Progress

- Pupil Equity Fund
- Grounds Maintenance
- Logical Access
- Fleet Management
- School Purchasing
- Information Asset Registers

4.2 In addition to those already in progress indicative audits planned for Quarter 4 2019/20 are:

- Cyber Security
- Contract Management (Social Care)
- Performance Management (Live Argyll)
- Legionella Improvement Plan
- Interfaces / Reconciliations

Changes to the 2019/20 Audit Plan

- 4.3 The Internal Audit Manual, last reviewed and approved by the Audit and Scrutiny Committee in March 2019 allows for the annual internal audit plan to include suitable flexibility to reflect the changing risks and priorities of the Council with this kept under review by the CIA during the year. If the CIA feels there is a need to change the plan it is a requirement of the Public Sector Internal Audit standards that this is brought to the attention of the Audit and Scrutiny Committee. During the past quarter the CIA has made three changes to the plan. These are set out in paragraphs 4.4-4.6.
- 4.4 The Council's new capital monitoring processes are not likely to be fully implemented until quarter 4 and therefore the Capital Monitoring audit originally scheduled for quarter 4 will be carried forward to the 2020/21 Internal Audit Plan. A replacement audit is not proposed as additional audit resource has already been used to deliver reviews not in the original audit plan and additional time has been spent working on the Council's BV3 submission.
- 4.5 A meeting was held with Head of Roads and Infrastructure which concluded there was limited value in conducting a Winter Maintenance audit at the current time as it is an area which is to be subject to a service review. However within the Fleet Management service potential concerns have been raised regarding driver licence checks, driver hours and the efficient use of pool cars. Consequently the CIA has decided to replace the Winter Maintenance audit with a Fleet Management audit. This audit is currently in progress and will be reported to the March Committee.
- 4.6 The CIA met with the Executive Director (Douglas Hendry), Head of Legal and Regulatory Support, Head of Commercial Services and Head of Financial Services to discuss the proposed audits for the 2020/21 internal audit plan. The CIA agreed to bring forward the audit of school procurement proposed for 2020/21 into the 2019/20 audit plan and reschedule the Welfare Rights audit from the 2019/20 into Q1 of the 2020/21 plan. This was to allow for any conclusions from the procurement audit around potential efficiencies to be considered as part of the budget setting process. This audit is currently being planned and will be reported to either the March or June Committee.

Creation of a New Counter Fraud Team (CFT)

- 4.7 The Council's Strategic Management Team has agreed to a spend to save proposal submitted by the CIA to reinstate the Council's CFT for a two year pilot period. The CFT will report directly to the CIA with the overall objective of reducing the Council's exposure to fraud, reinvigorating our commitment to tackling fraud and increasing revenue through taking robust recovery action. The team will consist of a corporate fraud team leader and a counter fraud investigator who will focus on investigating corporate fraud referrals, Revenues Fraud/Review work, raising fraud awareness and undertaking proactive fraud prevention work. This is a wider remit than the Council's previous fraud team which focused predominantly on revenue fraud.
- 4.8 The CFT will produce an annual fraud report which will be submitted to the Audit and Scrutiny Committee. This annual report, and other performance information, will ultimately be used to inform a later decision as to whether the two year pilot has been successful and whether the CFT should become a permanent part of the Council establishment.

- 4.9 A recruitment process will commence shortly with an ambition to have staff in post for the CFT to commence on 1 April 2020.

Acting Up

- 4.10 In January Pippa Milne commenced her new post as the Council's Chief Executive. Whilst the Council carry out the process to recruit a new Executive Director, the Council's Head of Financial Services (Kirsty Flanagan) has agreed to act up to cover the role for an interim period. This created a need for the Head of Financial Services role to be covered. After consideration it has been agreed that Kirsty Flanagan will retain the Section 95 Officer responsibility with the rest of the Head of Financial Services duties to be led by the CIA with additional support provided by the Council's Finance Manager and the Revenue and Benefits Manager. During this interim period the CIA will continue to carry out the CIA role with measures to be put in place to manage any potential conflicts of interest. Options for backfilling the CIAs time will be considered if deemed necessary.

4.11 Additional updates from Quarter 3:

- The CIA has been working with colleagues in Strategic Finance to complete the Use of Resources BV3 theme submission which was submitted to Audit Scotland. Audit Scotland's BV3 fieldwork was carried out in November 2019 and continued in January 2020.
- Work has commenced on the 2019/20 scrutiny plan, with the briefings and panel meetings for both the Economic Strategy and Strategic Housing Fund scrutiny reviews having taken place. The Roads Maintenance Scrutiny report was presented to the Environment, Development and Infrastructure Committee on 5 December and was well received. An action plan is to be brought back to a future meeting of the committee.
- We support Audit Scotland in providing a summary of fraud activity identified within the Council. Senior officers were approached to advise of any activity that requires to be reported for the 30 November deadline, this resulted in a nil return.

- 4.12 Our continuous monitoring programme is generally focused on transactional type activity. Standard audit tests are applied which are relevant to each auditable unit. Control design tests look at whether the controls in place adequately address the potential risk event.

- 4.13 A follow up process is in place whereby management are advised of continuous monitoring findings and, where appropriate, requested to take remedial action. There are currently no outstanding follow-up points arising from previous testing. Due to the volume of continuous monitoring tests carried out the decision was made to report by exception only. Issues identified are detailed in table 1 below:

Table 1: Continuous Monitoring Findings

Auditable Area	Areas Tested	Issues Identified	Management comment / action
Debtors	10% review of new accounts by debtors	The 10% review of new accounts does not take place as accounts are set up at department level	Verbal response received indicating that the manual will be updated placing

	team	and they will not have the documentation to check against. Any obvious errors are amended as identified.	the responsibility with the issuing department, awaiting written response.
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- 4.14 A follow up process for national reports is in place whereby management are advised of national reports published and asked to confirm what, if any, action is planned as a result of the report. Table 2 below details the National Reports issued during Quarter 3.

Table 2: Issue of National Reports in Quarter 3:

National Report	Issued To	Detail	Management response/ Action taken
Scottish Borders Council Best Value Report	SMT and BV3 Working Group	Scottish Borders Council has made steady progress as it continues to transform the way it delivers services. Working with other organisation will be key to the Council achieving its ambitions for further changes.	Considered by SMT and BV3 Working Group

- 4.15 National Fraud Initiative (NFI). Data matching involves comparing computer records held by one body against other computer records held by the same or another body to identify potentially fraudulent claims and payments to be identified. Note though that the inclusion of personal data within a data matching exercise does not mean that any specific individual is under suspicion. Where a match is found it indicates that there may be an inconsistency which requires further investigation. No assumption can be made as to whether there is fraud, error or other explanation until an investigation is carried out. A reminder process is in place to ensure that matches are reviewed on a timely basis.

Table 3: National Fraud Initiative Progress at 02/12/2019:

Operational Area	Total Matches	Recommended / High Risk Matches	Matches Complete	WIP	Match Description
CT to Elect Register	791	791	791	0	CT records to Electoral Register/ other data sets to ensure discount awarded to only those living alone aged over 18, taking into account disregarded occupants. (CT to other Datasets will not be progressed further due to poor quality data)
CT rising 18s	144	144	144	0	
CT to other Datasets	1152	1152	5	0	
Housing Benefits	417	68	24	1	HB records to records in other authorities / other datasets including student loans, payroll and pensions to identify undeclared income and capital.
Payroll	583	2	0	1	Payroll records to other datasets including other payrolls and pensions to ensure employee is not receiving additional income.
Blue Badges	141	111	141	0	Blue badge records to DWP data to identify deceased claimant with valid badge.

Operational Area	Total Matches	Recommended / High Risk Matches	Matches Complete	WIP	Match Description
Private Residential Care Homes	48	28	48	0	Care home records to DWP data to identify deceased claimant with ongoing payments.
Housing Waiting list	388	51	366	22	Housing waiting list records to other organisations HBCTR and tenant data to identify undisclosed changes in circs or false info.
Personal Budgets	26	3	26	0	Direct payment records to those in other authorities, DWP and pension records to identify individuals claiming from multiple authorities, undisclosed income or where the claimant has died and payments ongoing.
Council Tax Reduction	628	119	8	1	CTR records with records in other authorities / other datasets including; student loans, payroll and pensions to identify undeclared income and capital
Creditors	3572	179	94	0	Analyses Creditors data to identify possible duplicate vendors and payments, VAT errors or fraud and multiple vendors sharing a bank account.
Procurement	102	n/a	0	0	Payroll records to Companies House and Creditors data to identify employees who appear to have a personal interest in a company that the authority has traded with.

Overall Summary of Matches

Matches Complete	Work In Progress	Cleared	Frauds	Errors	Total Value	Recover ing	Recovering Value
1631	41	1541	0	90	£6,571	2	£3,285

4.16 The table below details progress against the actions points in our Internal Audit development plan. These include improvements identified as a result of our review against the Public Sector Internal Audit Standards. Additional actions have been added for fraud investigation training and updates to the terms of reference template and annual audit report.

Table 4: Internal Audit Development Key Actions:

Area For Improvement	Agreed Action	Progress Update	Timescale
Local benchmarking indicators	The CIA has established a working group with the CIAs of four other local authorities who meet to share ideas and resources. The group are establishing a suite of performance indicators which will be used for benchmarking. Once finalised these will be reported to the Audit and Scrutiny Committee.	Complete	December 2019

Area For Improvement	Agreed Action	Progress Update	Timescale
Fraud investigation training	CIA to consider options for fraud investigation training. Refer to paragraphs 4.7 to 4.9 above.	Complete	December 2019
Scrutiny lessons learnt	Prepare and submit a report to the Audit and Scrutiny Committee highlighting lessons learnt from early scrutiny reviews and areas for improvement for future reviews.	On Track	March 2020
Update Internal Audit Charter	The Internal Audit Charter will be updated to: 1. reflect change of title of the Council's S95 Officer and executive directors. 2. amend the CIA's role in relation to investigating alleged frauds. 3. reference IA's register of interest which was introduced in Summer 2019.	On Track	March 2020
Annual Audit Report Content	Ensure 2019/20 Annual Audit Report includes a section incorporating 2019/20 performance and feedback.	On Track	June 2020

4.17 Internal Audit scorecard data is available on pyramid. The indicators are currently showing as on track. The undernoted table is an extract of the key information.

Internal Audit Team Scorecard 2019– 20 – FQ2 19/20 (as at October 2019)			
TEAM RESOURCES			
PRDs IA Team G ➡	TARGET		Percentage of PRDs complete
	90%		100%
	Number of eligible employees FTE		Number of PRDs complete FTE
	4		4
Revenue Finance	BUDGET	ACTUAL	G
YTD Position	£148,437	£150,577	
Year End Outturn	£264,783	£264,783	
BO28 Our processes and business procedures are efficient, cost effective and compliant (SF)			
Annual Risk Assurance Statements completed by Services	Target	On Track	G ➡
	Status	On Track	
Risk Management Overview report approved	Status	On Track	G ➡
	Target	On Track	
Review of Strategic Risk register	Status	Complete	G ⬆
	Target	Complete	
Annual Audit Plan approved by 31 March	Status	On Track	G ➡
	Target	On Track	
Percentage of audit plan completed	Status	100%	G ➡
	Target	100%	

Percentage of audit recommendations accepted by management	Actual	100%	G ➡
	Target	100%	
% customer satisfaction with audit reports	Actual	100%	G ➡
	Target	80%	

5. CONCLUSION

- 5.1 The 2019/20 Audit Plan is on track. Continuous monitoring testing undertaken during the period has provided an overall effective level of assurance in respect of control effectiveness.

6. IMPLICATIONS

- 6.1 Policy - Internal Audit continues to adopt a risk based approach to activity
- 6.2 Financial -None
- 6.3 Legal -None
- 6.4 HR - None
- 6.5 Fairer Scotland Duty - None
- 6.5.1 Equalities – None
- 6.5.2 Socio-Economic Duty – None
- 6.5.3 Islands Duty - None
- 6.6 Risk – None
- 6.7 Customer Service - None

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24 January 2020

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