



Internal Audit

Audit, Risk and Scrutiny Committee Internal Audit Update Report September 2022

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1 Executive Summary

1.1 Introduction and background

Internal Audit's primary role is to provide independent and objective assurance on the Council's risk management, control, and governance processes. This requires a continuous rolling review and appraisal of the internal controls of the Council involving the examination and evaluation of the adequacy of systems of risk management, control, and governance, making recommendations for improvement where appropriate. Reports are produced relating to each audit assignment and these are provided to the Audit, Risk and Scrutiny (ARS) Committee. Along with other evidence, these reports are used in forming an annual opinion on the adequacy of risk management, control, and governance processes.

This report advises the ARS Committee of Internal Audit's work since the last update. Details are provided of the progress against the approved 2021-22 and 2022-23 Internal Audit plans, audit recommendations follow up, and other relevant matters for the Committee to be aware of.

1.2 Highlights

Full details are provided in the body of this report however Internal Audit would like to bring to the Committee's attention that since the last update:

- Seven reports have been finalised.
- Nine audits are currently in progress.
- 30 audit recommendations have been closed, with only nine currently outstanding.
- Over the coming months Internal Audit will begin the process of developing the 2023-26 Assurance Plan.
- At present Internal Audit is operating with a 11.6 FTE, 1.4 FTE under budget.

1.3 Action requested of the ARS Committee

The Committee is requested to note the contents of this report and the work of Internal Audit since the last update.

2 Internal Audit Progress

2.1 2020-21 Audits

Council Area	Audit Area	Position
Operations	Building Maintenance System	Final audit report issued
IJB	IJB Performance Management Reporting	Final audit report issued

2.2 2021-22 Audits

Council Area	Audit Area	Position
Cross Service	Commissioning	Review in progress
Cross Service	Payroll and HR system amendments	Final audit report issued
Cross Service	Staff Resourcing	Final audit report issued
Cross Service	Attendance Management	Review in progress
Customer	Debt Recovery	Final audit report issued
Customer	IT Infrastructure Resilience	Final audit report issued
Health and Social Care Partnership	Care Management	Final audit report issued
IJB	Transformational Programme	Review in progress
Operations	Children's Social Care	Review in progress

2.3 2022-23 Audits

Service	Audit Area	Position
Commissioning	Contract management	Not started – Review scheduled for Q3
Commissioning	Corporate Health and Safety	Review in progress
Commissioning	ALEOs - Performance and Payments	Not started – Review scheduled for Q4
Customer	Benefits	Not started – Review scheduled for Q3
Customer	Recruitment	Not started – Review scheduled for Q3
HSCP	Adults with Incapacity (Management of funds)	Not started – Review scheduled for Q4
Integration Joint Board	IJB Data Sharing	Review in progress
Operations	Out of Authority Child Placements	Review in progress
Operations	Heritage and Historical Assets	Review in progress
Operations	Following the Public Pound	Review in progress
Operations	Client transport	Not started – Review scheduled for Q3
Operations	Vehicle Maintenance Management	Not started – Review scheduled for Q4
Operations	Scottish Milk and Healthy Snack Scheme	Not started – Review scheduled for Q4
Pensions	Pension Fund Governance Arrangements Including Risk Management	Not started – Review scheduled for Q4

Service	Audit Area	Position
Resources	Corporate Asset Management	Not started – Review scheduled for Q3
Resources	Lease Financing	Not started – Review scheduled for Q3
Resources	PVG & Disclosure Checks	Not started – Review scheduled for Q4
Resources	Creditors System	Not started – Review scheduled for Q4

2.4 Audit reports presented to this Committee

Report Title	Assurance Year	Conclusion
AC2109 – IJB Performance Management Reporting	2020-21	Whilst data is generally accurate, available and being consolidated into reports and dashboards, which have been used to inform the IJB at regular intervals regarding the Partnership's response to the COVID-19 pandemic, this primary operational focus has meant there has been less oversight over other aspects of Strategic Plan delivery than planned.
AC2111 – Building Maintenance System	2020-21	In general there is assurance over system access and training, and there are business continuity and contingency plans in place. Risks have been highlighted in respect of application of best practice and Council policy in system access, use and security arrangements, which the Service will explore with the supplier as part of a planned upgrade project.
AC2201 – IT Infrastructure Resilience	2021-22	As part of our review, we identified issues and areas of enhancement across the IT Infrastructure Resilience control framework. Management has responded positively to our audit and agreed to a timebound action plan to further strengthen the controls in this area. This report is considered exempt under Schedule 7a(14) of the Local Government (Scotland) act 1973 (prevention of crime). The full conclusion of our work is detailed in the individual report.
N/A – Care Management	2021-22	Assurance has been obtained from Digital and Technology over the project implementation plans for the new Care Management System. There is a formal governance and programme management process in place, with regular reporting scheduled to provide updated on progress with delivery of the new system, and any exceptions being escalated to the appropriate level. The system is scheduled to go live in September 2022. System functionality has been clearly mapped out, building on existing practice. There are clear plans and practical steps in place for migrating data from the old system onto the new one and verifying its accuracy. This includes mapping of data from the old system to the new system, and validation of data format and content, to ensure it matches the appropriate rules built into the system which govern processing of transactions. An iterative testing programme is in progress, with exceptions being identified, addressed, and reduced with each test run. Complex cases and any errors are passed back to the HSCP for review prior to

Report Title	Assurance Year	Conclusion
		corrections being applied. A read-only version of the old system will remain in place until March 2023 so data will not be lost and can be reviewed if any issues are identified at a later stage. Assurance over the new arrangements in practice will be obtained through a planned Internal Audit of the new Care Management System during 2023-24.
AC2214 – Payroll and HR System Amendments	2021-22	In general the payroll is being updated correctly following changes to the workforce. A small number of overpayments were identified, and these have been corrected. Recommendations for improvements to controls to reduce potential fraud risk, reputational risks, and to enhance efficiency and effectiveness have been made.
AC2215 – Staff Resourcing	2021-22	In general procedures are effective and are being adhered to. An end to end recruitment process review is being undertaken by the Service to further automate the process, which it is anticipated will address areas where improvements to controls and efficiency have been recommended as part of the audit.
AC2209 – Debt Recovery	2021-22	Whilst it is acknowledged that COVID-19 has had an impact on debt recovery solutions available to the Council, possible recovery action, including issuing of reminders to customers and referral of overdue debts to the Council's Sheriff Officers, was not being undertaken in line with procedure, based on a review of 30 overdue invoices. This is an area that would benefit from review to ensure the proper control framework is in place and in operation to ensure the appropriate recovery of debts. Reminders were not being issued at all for one (4%) out of 26 invoices not in dispute and were late at least for one of the reminders for 18 (69%) of these 26 invoices and there was no referral to the Sheriff Officers in 19 (73%) out of 26 invoices not in dispute that were reviewed. In addition, the four invoices in dispute reviewed had no record of dispute resolution and escalation as required by Council policy. Also, it was noted there is no central oversight to ensure non-statutory non-essential services are ceased for customers with overdue debts. Furthermore, a system of debt recovery performance reporting, which is target based is not being reported to relevant team leaders, service managers and Chief Officers as required, increasing the risk debt recovery actions will not take place where required

2.5 Follow up of audit recommendations

Public Sector Internal Audit Standards require that Internal Audit report the results of its activities to the Committee and establishes a follow-up process to monitor and ensure that management actions have been effectively implemented.

Recognising the implementation of audit recommendations as something that Internal Audit could support the Council with, over the past months Internal Audit has led an exercise aimed at supporting management on the closure of agreed actions. This did not move the tolerances but through engagement beyond the routine follow up

exercise, we worked with management to close out as many actions as possible and leave only those actions that were rightly ongoing for management to focus on.

As at 30 June 2022 (the baseline for our exercise), 39 audit recommendations were due and outstanding:

- 24 rated as Significant within Audited Area
- 15 rated as Important within Audited Area

As part of the audit recommendations follow up exercise, 30 audit recommendations were closed:

- 18 rated as Significant within Audited Area
- 12 rated as Important within Audit Area

The outstanding position going forward is that of nine audit recommendations¹:

- Six rated as Significant within Audited Area
- Three rated as Important within Audited Area

Of the nine outstanding recommendations:

- Six actions were discussed with management, updates provided and new implementation dates agreed.
- For the remaining three actions Internal Audit received no response from management with regards to the status of the recommendations.

Appendix 1 – Grading of Recommendations provides the definitions of each of the ratings used.

Appendix 2 – Audit Recommendations Follow Up – Outstanding Actions provides a detailed breakdown of the nine outstanding audit recommendations that will be taken forward and followed up as part of the next cycle.

2.6 2023-26 Audit Planning Process

Over the coming months Internal Audit will begin the process of developing the 2023-26 Assurance Plan. Appendix 3 – 2023-2026 Internal Audit Planning Process details the process that will be followed.

2.7 Staffing

Throughout the year Internal Audit has had several changes to staffing and resources, including the recruitment of a new Chief Internal Auditor.

At present Internal Audit is operating with a 11.6 FTE, 1.4 FTE under budget:

- 1 FTE because of recent staff attrition; recruitment is underway to fill this post.

¹ This is the position with regards to recommendations that were due as at 30 June 2022. Recommendations falling due past this date and those made as part of subsequent Internal Audit Reports will be followed up as part of the standard follow up cycle and reported to Committee session on session.

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- 0.4 FTE because of flexible working arrangements adopted by staff.

3 Appendix 1 – Grading of Recommendations

GRADE	DEFINITION
Major at a Corporate Level	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the Council.
Major at a Service Level / within audited area	<p>The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited.</p> <p>Financial Regulations have been consistently breached.</p>
Significant within audited area	<p>Addressing this issue will enhance internal controls.</p> <p>An element of control is missing or only partial in nature.</p> <p>The existence of the weakness identified has an impact on a system's adequacy and effectiveness.</p> <p>Financial Regulations have been breached.</p>
Important within audited area	Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control.

4 Appendix 2 – Audit Recommendations Follow Up – Outstanding Actions

Area	Report	Recommendation	Original Due Date	Current Due Date	Committee Update	Status
Operations – Integrated Children’s and Family Services	AC2028 – Fostering, Adoption & Kinship	2.1.6: The Service should review whether all payments can be controlled via the CareFirstsystem. (Significant within audited area)	August 2021	September 2022	While the Service had considered this option the current Carefirst / Carepay system is limited and cannot be adapted at present. A new system is being devised, to which the service will contribute to ensure that the payments system is streamlined. It was expected the new system would be available by now however further delays have been incurred and the new system is now not likely to be available until September 2022.	In progress
Resources – Corporate Landlord	AC2017 – Industrial & Commercial Properties	2.2.2: The Service should update the Property Estates Strategy. (Significant within audited area)	April 2021	February 2023	The Property Estates Strategy is still being developed and will be replaced by several individual reports by asset type will be brought forward over the next six months. The Learning Estate Plan will be brought to committee in September 2022, with the programme for other categories being developed following this.	In progress
Resources – Finance	AC2009 – Travel Policy	2.4.4b: Ensuring value for money with the Travel Partnering arrangements and other significant supplies will be incorporated into the procurement compliance review (Significant within audited area)	December 2020	December 2021	There are now more extensive checks and quotations in place through the updated process and with the commissioning intentions annual cycle this will be addressed as part of business as usual. The travel partnering review has been deferred due to Covid. It was considered that we should see what the travel footprint looked like post-Covid more closely before re-procuring travel arrangements. This will be completed by December 2021.	No update provided as part of current follow up. Previous update included
Resources – Finance	AC2009 – Travel Policy	2.4.6: The Council should ensure that action	December 2020	March 2022	There are now more extensive checks and quotations in place through the updated	No update provided

Area	Report	Recommendation	Original Due Date	Current Due Date	Committee Update	Status
		is taken to comply with its Procurement Regulations in respect of travel related expenditure (Significant within audited area)			process and with the commissioning intentions annual cycle this will be addressed as part of business as usual. The procurement compliance review has been deferred due to Covid. A revised date of July 2021 was proposed. After ongoing resource prioritisation to other activities and lower levels of travel the recommendation remains outstanding. Looking forward the Chief Officer confirms that the date for addressing this recommendation should be March 2022. The team has engaged with the Commercial & Procurement Service to ensure that the appropriate actions are taken to achieve this.	as part of current follow up. Previous update included
Resources – Finance	AC2104 – Financial Sustainability	2.2.24: The Service should ensure that progress with implementing Financial Sustainability risk control actions, and the extent to which each action contributes to reducing risk scores, is clearly supported. (Significant within audited area)	September 2021	March 2022	Service have progressed the process but ongoing budget setting priorities mean it will not be concluded before March 22.	No update provided as part of current follow up. Previous update included
Resources – Corporate Landlord	AC2017 – Industrial & Commercial Properties	2.2.14: The Service should consider whether different approaches to property management could be applied across parts of the Investment Portfolio which might increase Portfolio income and deliver Portfolio objectives more	April 2021	December 2022	An initial review has been conducted around the management of the commercial property income and several different approaches have been adopted including external agency support and valuation support, external property management of some assets and a contract management approach to others. Reports have also been taken to committee to sell some non-performing assets. This is being supported by a resources	In progress

Area	Report	Recommendation	Original Due Date	Current Due Date	Committee Update	Status
		efficiently and effectively. (Important within audited area)			business case within corporate landlord to fill positions to support delivery. This will continue to be reviewed when several vacant key posts within the team have been filled.	
Resources – Corporate Landlord	AC2017 – Industrial & Commercial Properties	2.3.11: The Service should review the efficiency of the leasing administration process. (Important within audited area)	December 2021	October 2022	Chief Officer has advised the recommendation requires input from both the Corporate Landlord, estates team and the Legal Property team, where there are currently have several vacancies within each team. Efforts will be made to combine the current Leasing Process Forms and establish one electronic form/ system which is available to all who are involved in the leasing process. This review is being delayed until key posts are filled.	In progress
Health and Social Care Partnership	AC2112 – Mental Health and Substance Abuse	2.1.2: The Service should review policies and procedures to ensure they are up to date. (Service to link with roll out of new D365 system) (Important within audited area)	June 2022	September 2022	The roll out of the new system has yet to be completed, therefore procedures have not yet been fully updated.	In progress
Operations and Protective Services	AC2108 – School Estate / Pupil Safety	2.3.8: The Service should include additional questions in the school suitability survey process which enable a more direct comparison of Schools' security which highlights both assurance and weakness in controls. (Significant within audited area)	June 2022	December 2022	Additional questions for the suitability survey have been drafted and will be shared with head teachers following their return after the school summer break. Suitability surveys (including the new security questions) for all schools are due to be completed by the end of December 2022.	In progress

5 Appendix 3 – 2023-2026 Internal Audit Planning Process

