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**REPORT TO: AUDIT AND SCRUTINY COMMITTEE ON 14 OCTOBER 2020**

**SUBJECT: WORK OF THE INTERNAL AUDIT SECTION – UPDATE**

**BY: DEPUTE CHIEF EXECUTIVE (EDUCATION, COMMUNITIES AND ORGANISATIONAL DEVELOPMENT)**

**1. REASON FOR REPORT**

- 1.1 The report provides Committee with an update on the work of the Internal Audit Section.
- 1.2 This report is submitted to Committee in terms of Section III I (2) and (7) of the Council's Scheme of Administration relating to consideration of reports from the council's Internal Auditor and monitoring delivery of the audit service carried out by internal audit.

**2. RECOMMENDATION**

- 2.1 **It is recommended that Committee consider and note the contents of this report and seek clarification on any points noted.**

**3. BACKGROUND**

- 3.1 Public Sector Internal Audit Standards require the internal audit manager to prepare and present reports to committee on internal audit's activity, performance relative to its audit plan and on any other relevant matters.
- 3.2 Ordinarily such an update is provided on a quarterly basis; however suspension of the Committee timetable has resulted in reporting being deferred since March 2020. This report provides an update on projects completed in the interim, and copies of Executive Summaries and 'where applicable', the action plans containing audit recommendations made.

**Departmental Systems – Creditor Payments**

- 3.3 Part of the audit plan annually is devoted to main financial systems including creditor payments that cover non-payroll expenditure i.e. payment for works, goods and services to suppliers or contractors.

- 3.4 Aside from any work carried out on selected audit projects e.g. expenditure at a specific establishment or on a particular contract or service area, internal audit also uses audit software to extract a random sample of expenditure incurred across the council. It then looks at this sample to identify high value payments, credit notes, duplicate payment amounts, and any 'unusual' invoices to test and understand what these are for and ensure they are proper payments due by the council.
- 3.5 In the most recent audit testing of payments, specific reference was made to a recent Audit Scotland publication which describes 'red flags' in procurement and this guidance was used to consider whether any of the selected items warranted additional scrutiny. Examples related to 'off-contract' spend where a budget manager may have selected a local supplier based on expediency, market conditions, or immediate availability. The audit assessed these carefully looking at the decision making processes of managers involved and considering if, in the round, this achieved best value for the council.
- 3.6 The Audit Scotland publication pre-dated the pandemic but was timely in so far as subsequently, additional focus has been given to the increased likelihood of fraud and irregularity as unscrupulous parties look to exploit any system weaknesses at a time of crisis.

#### **Departmental Systems – Schools – Operational Phase**

- 3.7 This audit looked at the operational stages of the contracts in schools funded through the Public Private Partnership – Elgin Academy and Keith Primary and the Design, Build, Finance and Maintain contract at Elgin High School. The report is with the service for consideration and a response to the recommendations raised is awaited. Outcomes will be reported to the meeting of this committee in January 2021.

#### **Capital Works – Street Lighting**

- 3.8 A major capital investment was undertaken involving the replacement of more than 17,000 traditional sodium lanterns with more energy efficient LED street lighting. The programme of works undertaken over five years is nearing completion. The audit findings for this project have been issued and a management response received on recommendations made. These are provided in the Executive Summary and audit Action Plan provided as **Appendix 1**.

#### **Departmental Systems – Absence Management**

- 3.9 The management of staff absence is an area coordinated across the Council by the Human Resources (HR) service. HR supports departments with policies for managing long term and short term sickness absence and provides direct assistance to managers with more complex aspects of cases as required. This audit looked at a sample of absence cases and how they had been managed. A copy of the Executive Summary for this audit is provided as **Appendix 2**.

## **Departmental Systems – Foster Care and Kinship Care Payments**

- 3.10 The council makes payments to foster parents and for kinship care in line with an approved schedule of rates. An audit was carried out to assess how the annual budget of some £1.8 million is used, looking at calculation, authorisation and payment of applicable fees and allowances. The Executive Summary for this project, which concluded that sound control systems are in operation, is provided as **Appendix 3**.

## **Integration Joint Board: Aids and Adaptations**

- 3.11 Two complementary areas for audit have been taken forward that fall within the remit of the Integration Joint Board. One has looked at housing adaptations designed to enable individuals with an assessed need to stay independently in their own homes for longer. The other considered the operation of the occupational therapy (OT) store, which provides a range of aids to assist service users with disabilities, and operates an equipment decontamination service for items returned and suitable for reuse.
- 3.12 The report for the OT stores is complete and agreed with the audit Executive Summary and Action Plan given as **Appendix 4**, and for the housing adaptations work is with management for consideration of the audit findings and recommendations.

## **Financial Management System – IT Management and Access Controls**

- 3.13 The review considered data security and arrangements for controlling access to the council's main financial management system.
- 3.14 Good practice was evident with established procedures in place relative to system access and back-up arrangements in place for securing data. A number of recommendations have been made to further strengthen existing processes with the Executive Summary and Action Plan for this project provided as **Appendix 5**.

## **Other Projects**

- 3.15 Work was also progressed on audit projects looking at school fund returns for the academic year to summer 2019; grant funding claims for monies expended on rural public roads used for timber extraction, (part funded by the Scottish Government's Strategic Timber Transport Fund), and verification of amounts payable to the council from Transport Scotland grant funding payable to bus operators. Matters arising from the school fund review have still to be cleared with Educational Services; the grant claims have been submitted and paid for 2019/20.

## **Follow-up of Audit Recommendations**

- 3.16 It should be noted that the dates for implementation of the audit recommendations disclosed in the audit action plans forming a number of the

appendices in this report may have been delayed as a consequence of service disruption caused by the pandemic and internal audit likewise has been unable to conduct follow up work to measure progress achieved. The situation remains under review.

#### **4. SUMMARY OF IMPLICATIONS**

**(a) Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP))**

Internal audit work supports good governance and the delivery of efficient services.

**(b) Policy and Legal**

No implications directly arising from this report.

**(c) Financial Implications**

No implications directly arising from this report.

**(d) Risk Implications**

The independent review of selected systems and procedures mitigates the risk associated with inadequate or ineffective control procedures.

**(e) Staffing Implications**

No implications directly arising from this report.

**(f) Property**

No implications directly arising from this report.

**(g) Equalities/Socio Economic Impact**

No implications directly arising from this report

**(h) Consultations**

There have been no direct consultations during the preparation of this report.

#### **5. CONCLUSION**

**5.1 This report provides committee with an update on internal audit work completed.**

Author of Report: Atholl Scott  
Background Papers: Internal Audit files  
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