



INTERNAL AUDIT

ANNUAL REPORT and OPINION

1 APRIL 2019 to 31 MARCH 2020

Background

This report is issued in compliance with the Public Sector Internal Audit Standards (PSIAS) which requires the Internal Audit Manager to deliver 'an annual internal audit opinion and report that can be used by the organisation to inform its governance statement', and which 'must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control'.

The annual report must incorporate:

- the scope, including the time period to which the opinion relates, and any scope limitations;
- consideration of all related requirements including reliance on other assurance providers
- a summary of the information that supports the opinion; and
- the risk or control framework or other criteria used as a basis for the overall opinion
- the overall opinion, judgement or conclusion reached

The annual report must also include a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

Basis of Opinion

The opinion takes the form of assurance, provided to the Audit and Scrutiny Committee, on the council's system of internal control. This opinion is based on my knowledge of the council's governance, risk and control processes and from internal audit activity completed during the period to 31st March 2020.

There are limitations to the level of assurance that can be provided dependent on the scope and coverage of the audit work completed. This is reflected in the opinion provided below. A particular feature this year has been the global pandemic towards the end of the financial year. This prevented the timely conclusion of a number of planned projects albeit most of these had been sufficiently well advanced, and to a stage where conclusions could be drawn on the effectiveness of established controls.

Risk or Control framework informing the Opinion

The annual audit plan presented to the Audit and Scrutiny Committee at the start of the year describes in some detail the framework around which audit work is developed. The selection of audit topics is informed having regard to

corporate planning documents; budget data, information drawn from the corporate risk register and internal audit's own audit system.

Committee agenda papers and minutes are also monitored to obtain an overview of policy developments across the council and to assess their potential impact on systems of control, and changes in key personnel and related risk impacts are also taken into account.

These processes take into account the strategies, objectives and risks of the organisation and meet the expectations of senior management and the Audit and Scrutiny Committee, thus creating a programme of work intended to inform the overall annual opinion.

An element of the plan each year covers work on main financial systems which are of key significance to the council in terms of good financial governance. These systems receive the greatest focus in terms of management control and are also reviewed on a cyclical basis by the external auditor to obtain assurances needed for the audit of the annual accounts. Internal audit takes account of planned external audit work to avoid duplication; and also undertakes work which external audit can use to inform its own work.

For 2019/20, main systems work covered aspects of payroll, including testing of controls for new starts and leavers and validating employee details and amounts paid to employees across a number of services.

Housing benefits payments were sample tested in detail to confirm the accuracy of the subsidy claim which the council submits to the Department for Work and Pensions, some £17 million annually.

Procurement and creditor payments work was completed through sampling of invoices, taking in large payments, routine payments and credit notes; reviews of payment invoices also featured in many of the audits completed within services and in validating year end stock valuations.

In addition to completing the year end stock valuations across council services, a more in-depth review was conducted of the joint equipment store operated by the Social Care Occupational Therapy Service. A number of recommendations were made to strengthen operational controls, and these should assist in the management of the store which has now been designated as the Social Care Hub with responsibility for distribution of staff personal protective equipment.

Arrangements for access to the council's main financial system were reviewed with the audit looking at the controls governing user access rights and the procedures for administration and monitoring of user activity. The audit found that officers within the Payments Section had a clear understanding of the systems architecture, with established processes for system updates and data security back-up in place.

Capital plan work was limited to a review of the multi-year programme for the upgrading of street lighting with LED units which had the dual objectives of reducing costs and improving energy efficiency. The project was well advanced by year end and was on track to deliver its stated objectives.

Aside from these works other projects focusing on departmental systems were taken forward covering topics. These covered school catering, absence management, corporate licensing, an audit of Milne's High School and payments to foster and kinship carers. An overview of school fund returns covering the 2018/19 school session was completed and an assessment carried out of the process for managing and accounting for income from the sale of brown bin permits.

Grant claims relative to the strategic timber funding for strengthening rural roads and the bus service operator's grant were also examined in confirmation that the funding obtained had been claimed in accordance with relevant grant conditions.

While the majority of planned audit projects have been completed, scheduled reviews of a number of topics were ongoing when lockdown took place. An audit of the funding of schools delivered under Public Private Partnership and the Design, Build, Finance, Maintain models had been completed to draft report stage and is with the service awaiting a response, the others covering debtors, ICT security and control of hardware, school transport, and pupil equity funds were at various stages of completion. It is intended that these projects will be carried forward and resurrected at the appropriate time, although it should be noted that the scope of the work as originally planned will need to be revisited to ensure it considers changes in operational practice as a consequence of the pandemic.

Summary of work that supports the Opinion

The audit assessment of the adequacy and effectiveness of the Council's system of internal control comprises the following elements:

- Governance – in supporting the preparation of the council's annual governance statement, sufficient information was obtained by Internal Audit to conclude that the council generally complies with the latest good governance practice issued by CIPFA / SOLACE during 2016/17, and that the Corporate Management Team (comprising the Chief Executive, two Depute Chief Executives and the Chief Officer - Moray Health and Social Care) and Senior Managers have a strong awareness of the challenges facing the council in the incoming period. Again for 2019/20, formal written assurances from senior managers were obtained to evidence their role in securing good governance across their respective services and any issues reported in these statements were considered for inclusion in the published annual statement. The need to update the council's Local Code of Corporate Governance to reflect the new guidance remains under consideration,

with the intent of developing a code which is both relevant and achievable in a local context.

- Risk Management – procedures are well developed with a risk management policy and strategy in place and risk registers maintained at corporate and service levels. The corporate risk register summarises the principal risks facing the organisation under eight themes; these themes focus on critical risk areas including finance, environment and operational continuity. At the outset of the pandemic, risk issues were also reflected in an incident management team ‘action log’ which was updated on a daily basis to provide a reference point for issues that emerged as potential risks and required management attention. During the year, the council’s insurers Zurich undertook an independent review of risk management practice which concluded that ‘there is clear evidence that the organisation recognises the need for and importance of a well embedded risk management framework’, and made a number of recommendations to support work in this area.
- Internal Control Environment – the internal control environment is evaluated through completion of a range of audit projects as described above and contained within an annual audit plan agreed by the Audit and Scrutiny Committee. External audit also assess aspects of the internal control framework in the course of their work. Internal audit operate independently within the organisation and there have been no limitations imposed by management on the scope of audit work performed. The internal audit opinion has been informed by the audit work completed during the year.

Statement on Conformance with the Public Sector Internal Audit Standards

The Local Authority Accounts (Scotland) Regulations 2014 require public bodies to operate a professional and objective internal auditing service in accordance with recognised standards and practices in relation to internal auditing. These standards are designated as ‘Public Sector Internal Audit Standards’.

The Scottish Local Authorities Chief Internal Auditors’ Group, comprising the audit managers or equivalent of all Scottish Councils, has developed a checklist for assessing conformance with the Standards. This supports the requirement for periodic self assessments and external assessments as part of Internal Audit’s Quality Assurance and Improvement Programme.

During the year, the focus for internal audit has been to progress the implementation of recommendations made following external quality assessment of internal audit completed by the Audit Manager and an Auditor from Fife Council. The main area that remains under consideration relates to strengthening processes that evidence audit planning arrangements, which

has been impacted by the pandemic, otherwise good progress has been made to implement the other recommendations made.

Quality Assurance and Improvement Programme

The external inspection was thorough and the resulting report provided a useful external perspective of how the service performs, confirming that the internal audit service generally conforms to the required public sector internal audit standards.

Opinion

Any system of control can only ever provide reasonable and not absolute assurances that control weaknesses or irregularities do not exist or that there is no risk of error, fraud, or breaches of laws or regulations. Furthermore, it is the responsibility of management to establish an appropriate and sound system of internal control and to monitor the effectiveness of that system, and it is the responsibility of the Internal Audit Manager to provide an annual assessment of the robustness of the internal control system.

An added dimension this year is the impact of the pandemic which has seen significant disruption, and substantial changes to the way in which services are delivered, including those services provided by internal audit. This will have the potential to impact on the audit opinion for the 2020/21 financial year, however it is my opinion, based on audit work completed, that reasonable assurance can be placed on the adequacy and effectiveness of the council's internal control system for the year to 31 March 2020.

Atholl Scott, CMIIA
Internal Audit Manager
22 September 2020