



INTERNAL AUDIT ANNUAL REPORT and OPINION

1 APRIL 2022 to 31 MARCH 2023

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SECTION 1 – INTRODUCTION

Purpose of this report

- 1.1 This report is issued in compliance with the Public Sector Internal Audit Standards (PSIAS), which requires the Audit and Risk 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’. This report constitutes the required statement.
- 1.2 It is management’s responsibility to maintain risk management systems, internal control and governance. Internal Audit is an element of the internal control framework established by management to examine, evaluate and report on accounting and other controls over operations. Internal Audit assists management in the effective discharge of its responsibilities and functions by examining and evaluating controls. Internal Audit cannot be held responsible for internal control failures.
- 1.3 Internal Audit’s role includes assessing the adequacy of the risk management, internal controls and governance arrangements put in place by management and performing testing on a sample of transactions to ensure those controls were operating for the period under review.
- 1.4 Public Sector Internal Audit Standards (PSIAS) require officers of the Internal Audit Section to communicate on a timely basis all facts and matters that may have a bearing on their independence. I can confirm that all staff members involved in 2022/23 internal audit reviews were independent of operational processes and their objectivity was not compromised in any way.

SECTION 2- BASIS OF OPINION

- 2.1 This opinion is based on my knowledge of the Council’s governance, risk and control processes and from audit work completed during the period to 31st March 2023. There are limitations to the level of assurance that can be provided dependent on the scope and coverage of the audit work completed. My evaluation is based on the following:
 - The audit work undertaken by Internal Audit during the year to 31st March 2023.
 - The assurance statements signed by Heads of Services on the operation of the internal financial controls for the services they were responsible for during the year to 31st March 2023.
 - The governance statement of the Council for the year ended 31st March 2023.
 - Reports issued by the Council’s External Auditor, Audit Scotland, and other external review agencies.

- My knowledge of the Council's governance, risk management and performance monitoring arrangements.

SECTION 3- SUMMARY AND LIMITATIONS OF WORK THAT SUPPORTS THE OPINION

- 3.1 Internal audit operates independently within the organisation. While there may have been limitations in the scope of the audit due to the pandemic, 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.
- 3.2 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. In addition, the selection of audit topics was selected having regard to corporate planning documents, budget data and information drawn from the corporate risk register, and takes into account input from senior management regarding possible areas for audit. The work undertaken by Internal Audit in 2022/2023 is summarised below.
- 3.3 The internal audit work has been conducted in accordance with an established methodology that promotes quality and conformance with the Public Sector Internal Audit Standards and the agreed Internal Audit Annual Audit Plan.

Planned audit coverage	Status
Housing Benefits - Rent Rebates and Rent Allowances	Completed
Procurement and Creditor Payments	Completed
Payroll	Completed
Capital Plan- Aberlour Early Years Learning & Childcare Scheme	Completed
Stocks and stores - year end valuations	Completed
Cyber security	Completed
Collection and accounting of planning fees	Completed
Housing and Property- Planned Maintenance Works	Completed
General Data Protection Regulation	Completed
Environmental & Commercial Services – Stores	Completed
Refuse Collection (Domestic)	Completed
Moray Growth Deal	Completed
Education – Secondary School	Completed
Emergency Planning	Completed
European Social Fund	Completed
Corporate Services - ICT Hardware Asset Management	Deferred to a future Audit Plan
Care First System	Completed
Self Directed Support	Completed
Information Management	Completed

Progress on the 2022/2023 Internal Audit Plan

3.4 Progress against planned audit work for the year to 31 March 2023 can be summarised as follows:-

- Each year, an element of the plan covers work on core financial systems, which are of key significance to the Council in terms of good financial governance. These systems receive the most significant 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.
- Summaries of the issues arising in relation to each system or activity covered by internal audit work in 2022/2023 have been reported separately to the Audit and Scrutiny Committee. Appropriate responses to the recommendations are also included. When actioned, the recommendations made in the internal audit reports should provide management with additional comfort that the system of control operates as intended. It is therefore imperative that the agreed actions are implemented by management.
- The impact of the pandemic has resulted in changes in the working practices of services with officers working from home. This has required a change to established working practices, e.g., making greater use of audio, video, and screen-sharing software applications. These changes in working practices have brought challenges; however, using an Internal Audit Software Application has assisted in ensuring consistency in working practices.
- Despite these constraints, I am pleased to report that the majority of the Audit Plan for 2022/23 has been completed. In addition to the planned audit work, an investigation was undertaken within Building Services regarding an allegation of overtime paid to two officers. This resulted in a report to the Building Services Manager detailing variances between the overtime claimed and the actual hours worked. The scope of a planned review of planned maintenance works was subsequently increased to include an overview of the systems and practices for authorising overtime payments within Building Services.
- Additional testing was also required within a planned review of the payroll system due to an incident regarding the unauthorised access to an officer's Employee Self-Service account. This included a check of a sample of officers who had requested the Payroll Section to reset their passwords for access to their Employee Self-Service accounts. It is pleasing to note that no issues were noted, but the audit has included recommendations to improve controls within the payroll system.
- An audit was undertaken into the operational management arrangements for the refurbishment of Aberlour early years learning and childcare premises. The Deputy Chief Executive (Education, Communities & Organisational Development) requested the review after concerns were raised by elected members regarding the scheme. The scope of the review was to undertake an overview of the reporting arrangements and compliance with Financial Regulations, Procurement Guidelines for the refurbishment of the premises. A

number of recommendations were made to enhance future governance and administrative arrangements. All recommendations have been accepted.

- The Internal Audit Section coordinates the Council's participation in the National Fraud Initiative, a data-matching exercise involving a range of public sector bodies. This activity is viewed as complementary to other audit activities, and participation assists Internal Audit in assessing the potential for the occurrence of fraud and related fraud risk. The Corporate Investigations Officer provides support to services for matches needing investigation and also for undertaking an overview of the process. However, due to sickness, these duties had to be done by an Auditor, which has impacted the number of days available to complete the Annual Audit Plan.

3.5 The total number of recommendations made is set out in the following table:

Report	Risk Ratings for Recommendations			System/ Testing Assessment
	High	Medium	Low	
2021/22 Audit Plan				
Housing Benefits - Rent Rebates and Rent Allowances	0	0	0	Full
Procurement and Creditor Payments	0	0	0	Full
Procurement and Creditor Payments (MIJB)	2	2	0	Limited
Payroll	4	1	0	Substantial
Capital Plan - Aberlour Early Years Learning & Childcare Scheme	3	3	0	Limited
Cyber security	3	3	0	Substantial
Collection and accounting of planning fees	0	1	2	Full
Housing and Property- Planned Maintenance Works	0	7	2	Substantial
General Data Protection Regulation	5	2	1	Limited
Environmental & Commercial Services – Stores				Substantial
Refuse Collection (Domestic)	1	4	3	Substantial
Moray Growth Deal	2	3	0	Substantial
Education – Buckie High School	0	1	2	Full
Emergency Planning	1	6	0	Substantial
European Social Fund	0	0	0	Full
Care First System	0	9	1	Limited
Self Directed Support	7	3	0	Limited
Information Management	1	5	0	Limited

3.6 The following performance measures were in place for 2022/2023:

Measure	Description	Target	Actual
Final Report	Percentage of Auditee(s) responding within 20 days of receiving the draft report.	100%	69%
Final Report	Percentage of final audit reports issued within 10 days of agreeing the draft report	100%	100%
Audit Plan Delivery	Percentage of audits completed v planned.	85%	94%
Audit Budget	Percentage of audits completed within budgeted days.	80%	75%
Audit Recommendations	Percentage of audit recommendations agreed.	90%	100%
Customer Feedback	Percentage of respondents who rated that the audit added value and provided meaningful results.	100%	100%
Follow Up Reviews	Percentage of Follow Up Reviews completed v planned	100%	90%

It is pleasing to report the majority of planned projects within the Audit Plan for last year was completed. In addition, all reports were issued as “final” within 10 days of agreeing the draft report, and officers agreed to all recommendations. Completion of audit projects within individual budgets was below target; however further testing was required within the reviews of Planned Maintenance Works and the Payroll System. In addition, significant findings were found in the reviews administered by the Moray Integration Joint Board. Difficulties were experienced in obtaining replies to audit recommendations within 20 days of officers receiving the draft report. Heads of Services have been informed of the need to respond promptly to audit recommendations, but the demands on officers to meet service requirements are appreciated.

3.7 **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, 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. Written assurances from senior managers also considered governance practice within individual service areas.

3.8 Key governance and internal control arrangements have been maintained, albeit capacity issues called for resources to be prioritised for essential services and to take forward the Council's strategic priorities. Internal Audit noted progress made in several key priority areas while supporting the development of the annual governance statement. This has included the development of a Scrutiny Guide and further expanding the role of the Audit and Scrutiny Committee. The pandemic required committee meetings to be remotely, however the Council agreed in June 2022 to a

hybrid system, allowing officers and members to join meetings from within and outwith the chamber.

- 3.9 **Risk Management** – procedures have been developed with a risk management policy in place and risk registers maintained at corporate and service levels. It is pleasing to report that additional resources were provided with the appointment of a Risk Management and Business Continuity Officer. The Risk Management and Business Continuity Officer has assisted in facilitating further implementation and development of risk management arrangements within Services. This should ensure more effective service-level risk management to underpin the Corporate Risk Register.
- 3.10 The Corporate Risk Register is regularly reviewed by the senior management and was approved by the Corporate Committee in August 2022. Political and financial risks figure highly given the acute challenges the Council has faced and continue to face going forward. Successful implementation of the Improvement and Modernisation Programme will be vital to improving the future efficiency and sustainability of Council services.

Statement on Conformance with the Public Sector Internal Audit Standards

- 3.11 The Local Authority Accounts (Scotland) Regulations 2014 require that ‘a local authority must operate a professional and objective internal auditing service in accordance with recognised standards and practices in relation to internal auditing’. The recognised standards adopted by all Scottish Councils are the Public Sector Internal Audit Standards (PSIAS) developed by the Chartered Institute of Public Finance and Accountancy and the Chartered Institute of Internal Auditors. The standards include a requirement for an annual self-assessment.
- 3.12 Internal performance monitoring against PSIAS has been ongoing over the last few years. However, a more structured internal assessment has recently been completed in preparation for the next External Quality Assessment, scheduled for later in 2023. An Action Plan detailing recommendations required for compliance with PSIAS was reported to the February Audit and Scrutiny Committee. It is pleasing to report that all recommendations have been implemented. This included a change in the Committee reporting arrangements with reports now from the Audit and Risk Manager rather than the Depute Chief Executive (Education, Communities and Organisational Development). It was also agreed that the responsibility for preparation for the Council’s Annual Governance Report now lies outwith the Internal Audit Service. Implementation of both recommendations has enhanced the Council’s governance arrangements and the requirement for the opinion of the Audit and Risk Manager to be independent of management.
- 3.13 The Public Sector Internal Audit Standards require the Audit and Risk Manager to consider whether or not the audit staffing resources are sufficient to meet the audit needs of the organisation and where it is believed that the level of resources may adversely impact the provision of the annual internal audit opinion, and draw this to the attention of the Committee. Demands on the Internal Audit Service have increased over a number of years, and it is expected this will continue. After a review of the staffing establishment, the Council agreed to additional staff resources in the form of an Assistant Auditor. Unfortunately, due to the current financial pressures,

the decision to progress with this appointment has been deferred for a year. As the Audit and Risk Manager, I am concerned about whether available resources will be sufficient to meet the auditing needs of the Council, Moray Integration Joint Board and the Grampian Valuation Joint Board.

- 3.14 In considering the sufficiency of the audit coverage, Committee is reminded that the responsibility for developing and maintaining a sound control environment rests with management and not with Internal Audit.

SECTION 4- OPINION

- 4.1 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 sound system of internal control and monitor its effectiveness. It is the responsibility of the Audit and Risk Manager to provide an annual assessment of the robustness of the internal control system.
- 4.2 It is my opinion, based on the audit work completed and other sources of assurance, that reasonable assurance can be placed on the adequacy and effectiveness of the Council's internal control system for the year ending 31 March 2023.

Dafydd Lewis
Audit and Risk Manager
13 May 2023