



INTERNAL AUDIT

ANNUAL REPORT and OPINION

1 APRIL 2017 to 31 MARCH 2018

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 audit work completed during the period to 31st March 2018.

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.

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 and information drawn from the corporate risk register, and takes into account input from senior management regarding possible areas for audit.

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 sufficient 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 2017/18, these covered aspects of creditor payments and procurement; non domestic rates; and housing benefit payments. In addition, as well as considering internal audit's work on governance and risk management as outlined below the external auditor assessed Internal Audit's involvement in co-ordinating the council's participation in the National Fraud Initiative programme.

Aside from the main systems referred to above internal audit work was completed on housing rent accounting and stock control systems were reviewed and year end stock valuations confirmed. Payroll work was also undertaken on supply teacher costs and also featured in a number of other projects within service departments.

These other projects focusing on departmental systems included audits of waste management, fleet services, two secondary schools and a residential children's centre. Grant claims relative to town centre regeneration, 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.

On completion of audit fieldwork, individual audit reports are prepared together with action plans making recommendations for management consideration. An Executive Summary and completed action plan for each project are then presented to the Audit and Scrutiny Committee, and following on from an external audit recommendation full audit reports in future will be placed on the members' portal to further increase the transparency of the established reporting processes.

A separate programme of work was also undertaken in relation to social care; the outcomes and opinion in relation to these projects has been reported

separately to the Audit, Performance and Risk Committee of the Moray Integration Joint Board.

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 and three Corporate Directors) and Senior Managers have a good awareness of the challenges facing the council in the incoming period. The need to update the council's Local Code of Corporate Governance to reflect the new guidance has been recognised and further work is planned to obtain written formal assurances from senior managers acknowledging their role in securing good governance across all council services.
- 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 format of the corporate risk register was amended during the year to provide greater transparency around the principal risks facing the organisation and the Corporate Management Team carefully considered how these risks could be managed. Political and financial risks figured highly given the acute challenges the council has faced and continues to face going forward and the reporting of the register to Policy and Resources Committee, albeit after the year end, engendered considerable debate among elected members. Risk management at service levels continued to the extent driven by individual managers in the absence of any supporting risk management resource, however plans are to reinvigorate the process through training as part of the Moray Management Methods initiative and part time staff resource has been identified to support this work.
- Internal Control Environment – the internal control environment is evaluated through completion of a range of audit projects contained within an annual audit plan agreed by the Audit and Scrutiny Committee. Internal audit operates independently within the organisation and there were no limitations imposed by management on the scope of audit work performed during the year. The limitations if any were restricted to the level of available staff resource, the need for an additional post having been identified during the audit planning process at the start of the financial year but remaining vacant until March 2018. For this reason the audit plan for the year was not completed at the year end it being agreed by the Audit and Scrutiny Committee that pending projects should be carried into the first quarter

of 2018/19. To the extent that audit work on these projects has been completed at the time of drafting this report any control issues identified have been taken into consideration in informing the internal audit opinion.

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. The checklist comprises 4 sections with thirteen assessment areas; all but two of these were self assessed as fully or generally conforming to the Standards.

Two were assessed as partially conforming, work being required to update job descriptions, formalise training plans and have a consistent approach to recording training undertaken, and issuing customer feedback surveys to recipients of audit services. These have not been seen as a priority given workloads generally. As noted elsewhere in this report the service now has additional staff resource and an audit management software package to improve the efficiency of the service. This should enable progress towards addressing these areas to be made. The other outstanding matter is completion of an external quality assessment of internal audit based on the same checklist used internally; originally scheduled for 2017/18, this will now take place in September 2018 and will be led by a qualified auditor from another Scottish Council.

Quality Assurance and Improvement Programme

Work relative to quality assurance and improvement during 2017/18 mainly involved the internal assessment process completed and reported on above; as noted there are several issues that require further work to enhance compliance with the Standards and these will be worked on along with any further issues that may emerge from the external review.

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.

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 2018.

Atholl Scott
Internal Audit Manager
9 August 2018