

**INTERNAL AUDIT ANNUAL REPORT  
1 APRIL 2023 to 31 MARCH 2024**



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## SECTION 1 – INTRODUCTION

- 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 effectively discharging 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.
- 1.3 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 the 2023/24 internal audit reviews were independent of operational processes and their objectivity was not compromised in any way.

## **SECTION 2- BASIS OF OPINION**

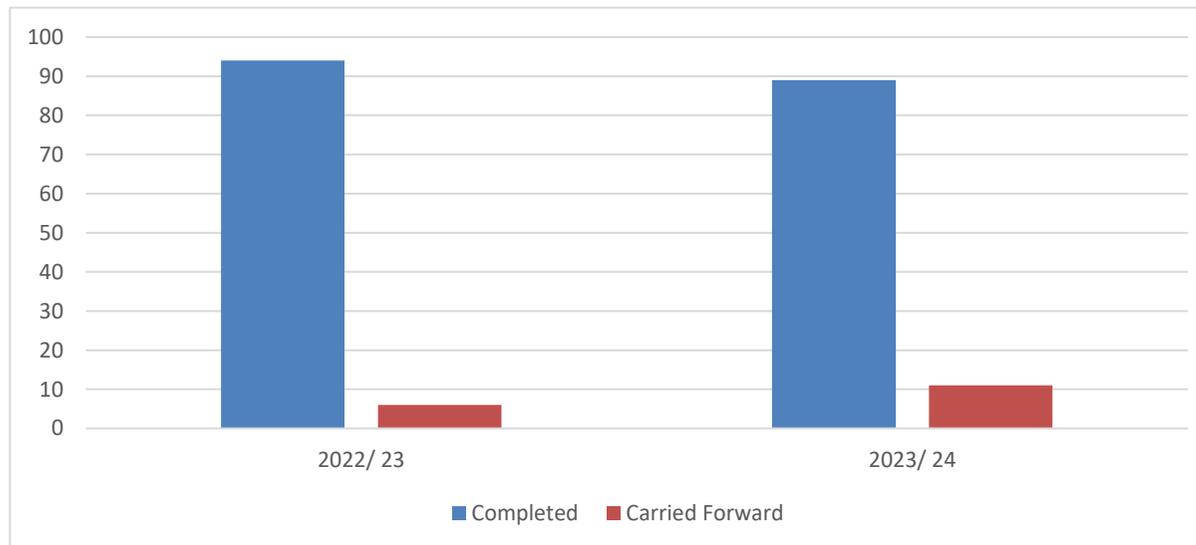
- 2.1 This opinion is based on my knowledge of the Council’s governance, risk and control processes and from the audit work completed during the period 1 April 2023 to 31 March 2024. There are limitations to the level of assurance that can be provided, dependent on the scope and coverage of the audit work completed. My evaluation is based on the following:



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

- 3.1 Internal audit operates independently within the Council. It helps the Council accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. 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 describes in some detail the framework around which audit work is developed. In addition, the selection of audit topics was selected with regard to corporate planning documents, budget data, and information drawn from the corporate risk register, and take into account input from senior management regarding possible areas for audit. The percentage of internal audit plans completed for 2023/2024, together with a comparison to the previous year, is summarised below, with a more detailed analysis also provided of the status of each audit project.

**Percentage of Internal Audit Plan Completed (%) - 2022/ 23 and 2023/ 24**



**Status of each project included within the Internal Audit Plan 2023/ 24**

<b>Audit Projects</b>	<b>Status</b>
Housing Benefits - Rent Rebates and Rent Allowances	External Audit now undertaking review as part of core audit fee
Payroll	Completed
Procurement and Creditor Payments	Completed
Debtors	Completed
Transformation Programme	Completed
Housing and Property- Reactive Maintenance Works	Audit Review to be carried forward to a future Audit Plan
Environmental & Commercial Services – Grant Claims	Awaiting re-submission of supporting evidence for certification

Pool Cars	Completed
E-Mail Security	Completed
Moray Growth Deal	Completed
Education – Secondary School	Completed
Purchasing Cards	Completed
ICT Disaster Recovery	Audit Review to be carried forward to a future Audit Plan
Food Standards Scotland Guidelines	Completed
Keith Sports and Community Centre	Completed
Burial Services	Completed
Refugee Integration Scheme	Completed
Early Learning and Childcare Premises Security	Completed
Children Services-Commissioning Service	Completed
Disabled Parking System	Completed
Occupational Therapy Services – Stores	Completed
Grampian Valuation Joint Board	Completed

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 approved Internal Audit Annual Audit Plan.

#### **Progress on the 2023/2024 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 good financial governance of the Council. 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. Internal audit testing has noted examples of non-compliance with the Council's Financial Regulations, but generally, effective controls are operating in the management of financial systems.
- Summaries of the issues arising in relation to each system or activity covered by internal audit work in 2023/2024 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 changes in working practices within services of officers working from home have required changes in established working practices, e.g., making greater use of audio, video, and screen-sharing software applications. These changes have brought challenges to resolving audit queries and responding to audit report recommendations timeously. Despite these constraints, I am pleased to report that the majority of the audit plan for 2023/24 has been completed. However, it has been required to carry forward the Housing and Property- Reactive Maintenance Works and Information, Communication and Technology (ICT) Section Disaster Recovery reviews to a future audit plan. This is disappointing. The Internal Audit Section has been operating with a vacancy in the post of Corporate Investigations Officer, who was responsible for investigating fraud, supporting the audit team's work on the National Fraud Initiative, and performing other routine audit work. The duties of the post have been covered by other officers within the Section.
- The Internal Audit Section has introduced revised arrangements where follow-up reviews to evidence the implementation of recommendations are reported to the Audit and Scrutiny Committee. It is appreciated the demands on services, however the follow-up audits undertaken found recommendations that had yet to be implemented within the agreed timescales. The need to revisit audit reviews to evidence the implementation of recommendations has resulted in an additional workload commitment for the Internal Audit Section. Implementation of recommendations is a key determinant in assessing the adequacy and effectiveness of the Council's internal control system. If recommendations are not implemented in a timely manner, then weaknesses in control and governance frameworks will remain in place.
- The audit role for the Moray Integration Joint Board (MIJB) involves providing assurances that governance and financial arrangements have been developed and are operating in accordance with policies and that selected systems and processes are suitably controlled. The audits undertaken have noted significant findings, especially in the administration and management of adult social care. These audits and the follow-up reviews to evidence implementation of the recommendations have been a

particularly time-consuming commitment on the Internal Audit Section. It is anticipated this requirement will continue in 2024/25. In my role as the Chief Internal Auditor of the MIJB, I have highlighted concerns regarding the adequacy and effectiveness of their governance and control environment. It is appreciated that the MIJB is a separate statutory body; however, as the Audit and Risk Manager of the Council, I note the Council has a significant ongoing funding contribution in the delivery of services. I am of the opinion that the Council needs to develop further monitoring arrangements for MIJB delivered services by receiving regular assurance reports to confirm effective operating arrangements of internal control systems and governance arrangements. This should include receiving regular updates on progress in implementing improvements highlighted by regulatory bodies, including External and Internal Audit Services.

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	
<b>2023/24 Audit Plan</b>				
Payroll	1	2	0	Full
Procurement and Creditor Payments	0	0	0	Full
Debtors	1	4	0	Substantial
Transformation Programme	1	2	0	Full
Pool Cars	2	2	3	Substantial
E-Mail Security	5	2	0	Substantial
Moray Growth Deal	2	3	0	Substantial
Education – Secondary School	0	3	0	Substantial
Purchasing Cards	3	6	3	Substantial
Food Standards Scotland Guidelines	0	3	6	Substantial
Keith Sports and Community Centre	1	5	2	Substantial
Burial Services	0	2	2	Substantial
Refugee Integration Scheme	2	2	4	Substantial
Early Learning and Childcare Premises Security	2	6	0	Substantial
Children Services - Commissioning Service	0	3	0	Substantial
Disabled Parking System	2	2	1	Limited
Occupational Therapy Services – Stores	2	13	2	Limited

3.6 The following performance measures were in place for 2023/2024:

Measure	Description	Target	Actual 2022/23	Actual 2023/34
Final Report	Percentage of Auditee(s) responding within 20 days of receiving the draft report.	100%	69%	65%
Final Report	Percentage of final audit reports issued within 10 days of agreeing the draft report	100%	100%	100%
Audit Plan Delivery	Percentage of audits completed v planned.	85%	94%	89%
Audit Budget	Percentage of audits completed within budgeted days.	80%	75%	76%
Audit Recommendations	Percentage of audit recommendations agreed.	90%	100%	100%
Customer Feedback	Percentage of respondents who rated that the audit added value and provided meaningful results.	100%	100%	100%
Follow Up Reviews	Percentage of Follow Up Reviews completed v planned	100%	90%	92%

Analysis of the performance of the Internal Audit Section for 2023/24 details the majority of planned projects within the audit plan for last year were completed. A comparison to the previous year's percentage of audits completed against the audit plan has seen a reduction in performance. However, as detailed previously in this report, the Internal Audit Section has had staffing issues with the duties of the vacant Corporate Investigations Officer being undertaken by other officers within the Section. All reports were issued as "final" within 10 days of agreeing on the draft report, and officers agreed to all recommendations. Unfortunately, difficulties were again experienced in obtaining replies to audit recommendations within 20 days of officers receiving the draft report. In addition, delays were also found in obtaining the information requested or explanations to audit queries. Heads of Services have been informed of the need to respond promptly to audit questions and recommendations. The demands on officers to meet service requirements are appreciated, but delays in responding within agreed timescales will impact the Audit and Risk Manager's ability to deliver the audit plan to members of the Audit and Risk Committee.

3.7 **Governance** – regarding the preparation of the Council's Annual Governance Statement, it is considered that sufficient information has been obtained 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 - Health and Social Care Moray) 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. Progress has been noted in several key priority areas. However, a review of findings detailed within the audit reports issued during the year has found that some Council Policies and Regulations are in need of review and if required, updating. Maintaining up to date policies and regulations is an important control element in the governance arrangements of the Council.
- 3.9 The Audit and Risk Manager facilitated a workshop with Members of the Audit and Scrutiny Committee to carry out self-assessments of Compliance with the Good Practice Principles Checklist and Evaluation of Effectiveness Toolkit from the CIPFA Publication – Audit Committees - Practical Guidance for Local Authorities and Police 2022 Edition. This CIPFA Publication sets out its guidance on the function and operation of audit committees in local authorities and police bodies and represents CIPFA's view of best practices for audit committees in local authorities throughout the UK. The outcome of the self-assessment and evaluation noted significant compliance with good practice principles and a high degree of effectiveness and was reported to the Audit and Scrutiny Committee on 14 February 2024 (para 9 of the minute refers).
- 3.10 **Counter Fraud** - While the prevention of fraud and error rests with management through the design and operation of suitable systems of control, the audit plan continues to provide time for Internal Audit to coordinate the Council's participation in the National Fraud Initiative (NFI), 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 findings of the NFI 2022/23 data matching exercise were reported to the Audit and Scrutiny Committee on 8 May 2024 (para 8 of the minute refers). No fraud was found, but the exercise generally noted information that is out of date or simply timing differences, e.g., if an individual changes jobs or address around the time the data for matching is submitted, the old and new information can appear as a match but on checking can be quickly discounted.
- 3.11 An element of the audit plan is devoted to core financial systems including both payroll expenditure and creditor payments, i.e., payment for works, goods and services to suppliers or contractors. Testing was undertaken using a data analysis software application to extract a random sample of transactions for review. The audit programme of testing undertaken was developed from the Chartered Institute of Public Finance and Accountancy Systems Based Auditing Control Matrices and consultation with the External Auditor. Findings found examples of non-compliance with Council Policies, Regulations and Procedures, but generally appropriate controls are operating effectively, and the integrity of systems had been maintained. Further use is planned

of the data analysis software application to ensure more focused audit testing can be undertaken to provide additional assurance in the prevention of fraud and error.

- 3.12 The Policy to Combat Fraud, Theft, Bribery and Corruption was reviewed and updated during the year. This involved consultations with the Human Resources Service and other consultative groups. The revised Policy was reported and agreed by the Corporate Committee on 30 January 2024 (para 13 of the minute refers).
- 3.13 **Risk Management** – procedures have been developed with a risk management policy in place and risk registers have been maintained at corporate and service levels. The Risk Management and Business Continuity Officer has assisted in facilitating further implementation and development of risk management arrangements. This has included updating policies covering risk management and business continuity. It was noted that the full Corporate Risk Register was reported to the Corporate Committee for review and consideration at its meeting on 23 April 2024. At this Committee, it was agreed there should be quarterly reporting to the Committee on risks that had a high-risk score to enable regular review of the risks and mitigating actions.
- 3.14 Financial, staffing, information, communication and technology risks remain acute challenges to the Council. These are prominent risks for the Council covering how it discharges its functions in terms of good governance, how it manages its financial affairs, the arrangements for managing and supporting its workforce, and the use of technology, which is key to delivering most, if not all services. It is appreciated these high-risk categories come not only from circumstances internal to the Council but also from challenges from the broader economic and social environment faced by all local authorities.

### **Statement on Conformance with the Public Sector Internal Audit Standards**

- 3.15 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.
- 3.16 Internal performance monitoring against PSIAS has been ongoing over the last few years. All Scottish local authorities are required to have an External Quality Assessment (EQA) every 5 years. As part of the Council's membership of the Scottish Local Authorities Chief Internal Auditors' Group, it was agreed that this EQA requirement would be met by each local authority internal audit service undertaking a review of another council and will thereafter receive a review in return. An EQA of the Internal Audit Section has recently been completed by Perth and Kinross Council. It is pleasing to report that the initial feedback provided has indicated full compliance with PSIAS. A separate report of the assessment will be provided to the Audit and Scrutiny Committee.

- 3.17 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.
- 3.18 Demands on the Internal Audit Section have increased over a number of years, and it is expected this will continue. Further to a Special Meeting of the Moray Council on 28 February 2024, it was agreed to reduce the Internal Audit Section staffing budget by replacing the Corporate Investigations Officer's post with a 0.5 full-time equivalent. This is in addition to deleting an Assistant Auditor post in 2022/23. However, further to the additional funding secured and the remaining budget from the reduction of the Corporate Investigations Officer post, it has provided a sufficient budget to seek the appointment of a full time Assistant Auditor. I hope that appointing an Assistant Auditor can mitigate the risks associated with reducing staff resources while still maintaining the delivery of an effective internal audit service. As the Audit and Risk Manager, I am concerned about whether available resources will be sufficient to meet the future auditing needs of the Council, Moray Integration Joint Board and the Grampian Valuation Joint Board.
- 3.19 In considering the sufficiency of the audit coverage, the 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 2024.

Dafydd Lewis  
Audit and Risk Manager  
13 May 2024