



REPORT TO: AUDIT AND SCRUTINY COMMITTEE ON 13 NOVEMBER 2019

**SUBJECT: WORK OF THE INTERNAL AUDIT SECTION IN THE PERIOD 1
APRIL 2019 TO 30 SEPTEMBER 2019**

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

1. REASON FOR REPORT

- 1.1 The report advises Committee on the work of the Internal Audit Section for the period from 1 April 2019 to 30 September 2019.
- 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. RECOMMENDATIONS

- 2.1 **Committee is asked to consider the contents of this report; seek clarification on any points noted and otherwise note the report.**

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 In the first half of the year the work programme has been wide and varied covering corporate initiatives including governance and risk management, testing of controls in main financial systems, year-end verification work, audit work for the Moray Integration Joint Board (IJB) and the Grampian Valuation Joint Board and progressing projects contained within the annual audit plan.

Annual Governance Statement

- 3.3 A particular task this year was to widen the evidencing of the ownership of the annual governance statement. This statement is based around good governance principles promoted by CIPFA (the Chartered Institute of Public Finance and Accountancy) and SOLACE (the Society of Local Authority Chief Executives) and summarises how the council meets its obligations under each principle. The statement is published with the annual accounts and is certified

by the Council Leader and Chief Executive. In supporting the preparation of this statement, Internal Audit developed assurance statements that each Head of Service was required to complete and certify after assessing the adequacy of governance arrangements in their own service areas by reference to the principal risks identified in the corporate risk register.

Risk Management

- 3.4 Council managers are responsible for managing risk within their own service areas. Internal audit supports this process by assisting in development of the corporate risk register and in collating service risk register returns. Undertaking this work keeps the internal audit manager up to date with the principal risks facing the council and this assists when developing audit plans.
- 3.4.1 To ensure this work does not impact on audit independence, an offer by the council's insurers (Zurich Insurance Ltd) to review the effectiveness of risk management arrangements was accepted. A senior risk management consultant attended to carry out this review and spoke with the chair of Policy and Resources Committee and a number of senior officers. No additional costs were incurred, the work being covered within the contracted insurance premium. Feedback is awaited and will inform any further work required. Zurich has also indicated that there are other consultancy services they can provide on a similar basis to support the council's work in this area.

Main Financial Systems – Stocks and Stores

- 3.5 The council operates a number of stores that hold stock items, for example for use on repairs to Council Housing, for maintenance to vehicles and plant and for other requirements within Direct Services, and in Social Care of aids and equipment provided to social care service users. Internal audit attended the year end stocktaking and tested stock valuations by reference to both quantities and prices for year-end accounting purposes.
- 3.5.1 The procedures in use in social care are more complex given that the service not only controls the distribution of new items but also those that are returned for reconditioning and reissue. In addition, there is a crossover with NHS who purchase and issue similar items. A separate audit to assess the effectiveness of the controls in place was deferred last year because a new stores system had just been installed. A further review is currently being undertaken as part of the programme of work for the IJB. (see also 3.9 below)

Main Financial Systems - Payroll and Creditors

- 3.6 Payment of staff wages and salaries and of invoiced charges features annually in the audit plan. During the period, payroll testing focused on data matches returned through the national fraud initiative which reports matches where individuals have more than one employment, are in receipt of a public sector pension or are, or are connected to, an individual making supplies to the council. A full check of some 120 matches reported disclosed no irregularities. Scheduled audit work remaining will look at the flow of information between HR and Payroll, previously two departments that are now under a single Head of Service.

- 3.6.1 Likewise over 1600 data matches involving creditor payments were reviewed covering mainly potential duplicate payments and 'unusual' transactions i.e. VAT charges were not within usual parameters. The council has its own internal checking mechanism to mitigate the risk of duplicate payments such that only one was disclosed to a value of £1,050. Reasons as to why this was not picked up internally were established in this one case and the amount was recovered from the supplier involved.
- 3.6.2 Separately, procurement of a social care contract was examined following concerns raised by an elected member that due process had not been followed. The principal concern was that works had been awarded to a current service provider without any competitive process having taken place contrary to regulation. The audit established that, for the type of contract in question, issues such as continuity of service and the needs of people using the service can be taken into account. This then permits a direct non advertised contract award to take place. Recommendations have been made to update financial regulations and training to ensure there is better awareness of procedures applicable to procurement of care and support services.

Main Financial Systems – Housing Benefits Subsidy claim

- 3.7 An extensive piece of work is required annually to validate the benefits subsidy claim whereby the Department for Work and Pensions (DWP) makes payments to the local authority in respect of housing benefit paid to eligible claimants. The annual subsidy amount is material, exceeding £16 million, and detailed testing of sampled claims, including validation of payments and of the impact of any changes of circumstances during the year is required. Workbooks are provided by the DWP for completion to evidence the validation undertaken. Certification ultimately is by the external auditor who relies on internal audit to undertake the bulk of this work. Two minor errors were noted, neither of which were systemic, nonetheless, guidance requires extended testing to be undertaken when errors are disclosed and this is ongoing at the time of drafting this report. It is considered unlikely any further discrepancies of any consequence will be disclosed.

Grampian Valuation Joint Board

- 3.8 The administrative functions of the Grampian Assessor and Electoral Registration Officer are administered by Moray Council and each year audit work is required to provide an opinion on their systems. While reliance generally can be placed on these systems as they mirror those of the council, audit testing of payroll, creditors and income relating to transactions specific to the service was undertaken and reported to a meeting of the Board in June.

Moray Integration Joint Board

- 3.9 With the internal audit manager also undertaking the Chief Internal Auditor role for the Moray IJB, work was undertaken to provide an assurance opinion on the systems of internal control for 2018/19 and to formulate a plan of work to be undertaken in the current financial year. The plan included the Occupational Therapy stores review referred to above. In addition, to complement this audit, the systems and processes relative to the provision of

adaptations required to enable people to remain in their own homes for longer is currently being carried out.

Departmental Systems

- 3.10 Planned work on departmental systems has also been taken forward as outlined in **Appendix 1**. Good progress has been made at the half year albeit there are a number of projects at an advanced stage that have still to be reviewed by the Internal Audit Manager and cleared with service management. It is anticipated that all projects listed as currently ongoing will be formally concluded by the Christmas break allowing a focus on the remaining projects indicated as those for quarter 4.

Unplanned Work

- 3.11 Very little has impacted on the planned programme of work during the year apart from the provision of advice and guidance requested by service colleagues which is encouraged. One irregularity was noted involving misuse of a council mobile phone by a service user in social care with learning disabilities. Access controls were weak facilitating the misuse, but financial controls immediately disclosed the discrepancy when the invoice was received. Aspects of the incident were dealt with separately through the courts and restitution of the amount involved has been sought from the individual concerned. Audit Scotland has been advised in line with fraud reporting procedures.

Progress against Audit Plan

- 3.12 Details of the agreed audit plan are attached as **Appendix 1**, together with a commentary on likely phasing of the work for the remaining period of quarter 3 and the projects to be undertaken in quarter 4.

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 direct implications; there may be implications should an extensive programme of additional scrutiny be developed.

(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 overview of audit work completed during the six months to September 2019.

Author of Report: Atholl Scott

Background Papers:

Ref: AS /asc/131119