



REPORT TO: AUDIT AND SCRUTINY COMMITTEE ON 24 FEBRUARY 2021

SUBJECT: WORK OF THE INTERNAL AUDIT SECTION – UPDATE

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

1. REASON FOR REPORT

- 1.1 The report provides Committee with an update on the work of the Internal Audit Section.
- 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. RECOMMENDATION

- 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 Usual reporting practice has been suspended during the pandemic with internal audit having to alter the focus of its work given restrictions arising from working from home and services subject to audit having to adapt sometimes significantly to prioritise immediate and pressing service demands. While the audit approach may have changed, the emphasis has remained on seeking to provide assurances around the proper use of public funds, and this is consistent with Audit Scotland's view that audit quality cannot be compromised.
- 3.3 This report provides an update on audit activity and projects progressed since the last meeting of committee noting that some of the work has involved validating the adequacy and effectiveness of controls within systems established on a temporary basis, i.e. for particular government funding streams distributed by the council to support businesses and individuals within the Moray area.

Main Financial Systems – Creditor Payments

- 3.4 The team has continued the review of creditor payments and extended this work to look not only at payments processed during the pandemic but also whether it has been feasible to maintain established procurement practices. This work has covered supplies and services and costs incurred within social care so as to provide assurances for both the council and the Integration Joint Board.
- 3.5 The process has been protracted with invoices being extracted direct from the ledger and requests then been made by email to services and the procurement team in respect of any queries arising. In consequence progress has been much slower than would normally be the case and this work continues, however from samples reviewed thus far the integrity of the systems and the rationale for payments made has been confirmed. .

Main Financial Systems – Payroll

- 3.6 Payroll is the council's other main financial system relative to expenditure and for this audit a sample of new starts and leavers was examined to ensure appropriate documentation was available and that the correct initial and final salary payments had been made, as appropriate. The audit also validated pay and allowances for a sample of continuing employees including verifying their employment status with relevant service managers.
- 3.7 In addition to the above tests the audit also looked at the reconciliation processes between payroll and the ledger and at the computation of amounts remitted monthly for PAYE (income Tax) National Insurance, and Pension Contributions. The audit was concluded in satisfactory terms, affirming the accuracy of the payroll system.

Departmental Systems – Schools – Operational Phase

- 3.8 In the previous update to this committee it was reported that an audit had been completed which looked at the operational stages of the contracts in schools funded through the Public Private Partnership – Elgin Academy and Keith Primary and the Design, Build, Finance and Maintain contract at Elgin High School. The report has been with the service for consideration but as a consequence of delays in progressing Asset Management change management plans and manager vacancies remaining unfilled a formal response to the audit has yet to be received. It is hoped this will be addressed shortly and the situation will continue to be monitored.

Integration Joint Board: Adaptations

- 3.9 An audit completed recently within the remit of the Integration Joint Board was Housing Adaptations which last year had a budget of £850,000. This was available for use in adapting both private sector and council housing to enable residents with assessed needs to continue living at home. Audit issues arising covered both Property Services which co-ordinates the works, and Social Care in terms of the contributions the policy makes to delivering objectives

relating to optimising care at home and linking more recently to 'Home First', a policy designed to enable people to remain at home wherever possible.

- 3.10 While the audit recommendations have been considered by the service managers in both areas, the programme has been stalled by the pandemic; the waiting list for adaptations has grown substantially and the audit finding that adaptations can take many months to complete is recognised as a limiting factor where there are sudden changes in service user needs. The adaptations governance group has not met for some time and the audit recommendations are unlikely to be formally signed off until a meeting of this group takes place.

Pandemic issues - overview

- 3.11 With regular audit work curtailed within departments, attention has been given to looking at the controls in place to account for various strands of funding or other resources made available for the council to administer. For the most part these were provided along with guidance the council was required to adopt, subject to being able to exercise discretion in certain cases. It should be appreciated that some of the controls had to be designed in a manner that secured prompt distribution of the resources to those entitled to receive them while not overriding the basic principle of being required to demonstrate sound management of public funds. It should also be noted that each of the paragraphs 3.9 to 3.12 below describes what essentially relates to one-off arrangements applicable for defined periods of time during the emergency, and this is reflected in the audit approach.

Personal Protective Equipment (PPE)

- 3.12 This was selected as a topical subject in the early stages of the pandemic the audit interest being primarily around acquisition and procurement as opposed to distribution and use. The review identified two principal sourcing methods:
- Direct sourcing from National Services Scotland at no cost of items for use by social care staff and onward distribution to other care providers;
 - Purchase of PPE for use by staff in other council departments at relatively low levels initially before being augmented to meet demand from schools reopening post lockdown.
- 3.13 While not downplaying the challenges faced in securing PPE of sufficient quality and in volumes required in the initial stages of the pandemic, a team of staff was established involving representatives from a number of services to engage with NSS and co-ordinate the ordering, receipt and distribution of supplies from a dedicated base established in Moray. This practice continued during the initial phase of the pandemic and on-going requirements are now being met through the department's store that also deals with the provision of aids for service users with disabilities.
- 3.14 Meanwhile for other services, the council store at Ashgrove, which already secures a wide range of protective clothing for use by staff in Direct Services, used established procurement arrangements to secure PPE, and while costs of supplies were subject to market forces, off contract spend that may have

increased the risk of acquiring inferior quality products at inflated prices was avoided.

3. Flexible Food Fund

- 3.15 The Flexible Food Fund was made available by Scottish Government to provide payments to individuals and families experiencing difficulties in accessing income to pay for food during the pandemic. The Government provided local authorities with basic principles of how to manage the funds, with flexibility permitted for each council to determine how best funds should be distributed. In broad terms, Moray Council provided grant funding in two tranches with funding awards dependent on the size of a household, with some £420,000 being allocated to 1200 households.
- 3.16 Managing the scheme involved the Money Advice Team which has experience in supporting individuals with their finances. Audit testing of a sample of payments was made against documentation developed and held by the council. From this it was concluded that the scheme had been effectively managed, indeed it was noted that Moray Council scheme has been recognised nationally as an exemplar of good practice.

Supplier Relief Programme

- 3.17 This programme was established in terms of a Scottish Procurement Policy Note, which provided guidance on payments councils could make to its suppliers and contractors facing hardship given disruption to services and contracts as a consequence of the pandemic. These extended to both loss of income where services were suspended as well as contributions to meet additional costs incurred. To date in excess of £2 million has been allocated in the form of discretionary payments or advance payments. In line with guidance, Social Care and Public Transport providers were the main recipients of financial relief through this programme.
- 3.18 A panel of officers from procurement and relevant departments was created to review and assess the reasonableness of submissions made by suppliers and contractors, and while a degree of judgement was required in assessing each application:
- There was good audit evidence held for each application tested, showing a clear audit trail from application to authorisation;
 - The judgement applied in each case was considered appropriate relative to the circumstance presenting;
 - Ultimately, authorisation to pay was given by the Chief Financial Officer of either the Council or Integration Joint Board as appropriate.

Other Grant Schemes

- 3.19 In addition to the schemes outlined above, significant Scottish Government funding has been provided to councils for onward distribution to businesses, mainly in the form of business support grants during the lockdown and to various sectors including Retail, Hospitality, Leisure, and Taxi/Private Hire Operators.

- 3.20 These schemes have not been subject to detailed audit review, however, internal audit has participated by ensuring, for example, that application forms issued met Scottish Government requirements and by dealing with appeals submitted by unsuccessful applicants. This approach has enabled Internal Audit to gain an understanding of the scope of the schemes, how they were to be applied and how they were administered by council officers.
- 3.21 This process, it is considered, was proportionate in the circumstances and given the need for urgent distribution of the funds. Details of amounts paid and of the recipients of Business Grant Support are being submitted through the National Fraud Initiative process and this should provide further assurances on the level of control exercised over this category of funding.

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 implications directly arising from this report.

(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 Internal audit continues to work under the limitations of the pandemic and this report provides committee with an update on internal audit work completed in the latest review period.**

Author of Report:

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Background Papers:

Internal Audit files

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