



INTERNAL AUDIT ANNUAL REPORT and OPINION

1 APRIL 2021 to 31 MARCH 2022

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SECTION 1 – INTRODUCTION

Purpose of this report

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.

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.

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.

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 2021/22 internal audit reviews were independent of operational processes and their objectivity was not compromised in any way.

SECTION 2- BASIS OF OPINION

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 2022. 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 2022.
- 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 2022.
- The governance statement signed by the Chief Executive for the overall Council for the year ended 31st March 2022.

- 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

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.

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 2021/2022 is summarised below.

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.

Progress on the 2020/2021 Internal Audit Plan

Progress against planned audit work for the year to 31 March 2022 can be summarised as follows:-

Planned audit coverage	Status
Housing Benefits - Rent Rebates and Rent Allowances	Completed
Procurement and Creditor Payments	Completed
Purchasing Cards	C/f to a future audit plan
Council Tax	Completed
Capital Plan	Completed
Stocks and stores - year end valuations	Completed
Cyber security	C/f to 22/23 audit plan
Environmental Services- Collection and accounting of planning fees	C/f to 22/23 audit plan

Environmental Services - Roads Maintenance (Planned)	Completed (capital plan projects included within audit testing)
Environmental Services - Business Continuity	Completed
Environmental Services - Housing and Property - Stores	Completed
Corporate Services- Social Media Accounts	Completed
Corporate Services- Petty Cash	Completed
Education- Primary and Early Years Security	Completed
Client Monies	Completed
Self Directed Support	Completed

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. Internal Audit takes account of planned external audit work to avoid duplication; and undertakes work that external audit can use to inform its own work.

Summaries of the issues arising in relation to each system or activity covered by internal audit work in 2021/2022 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 COVID-19 has affected the Internal Audit Service in that officers have been working from home that has required a change to established working practices e.g. make greater use of audio, video, and screen sharing software applications. These changes in working practices have brought challenges, however the use of an Internal Audit Software Application has assisted in ensuring consistency in working practices. The Service has also had several staff vacancies during the year. However, moving forward all positions have now been filled.

Despite these constraints, it has been possible to progress completion of the Audit Plan for 2021/22. Unfortunately, due to the limitations detailed and an unplanned audit project regarding a financial review concerning the Early Learning and Childcare Service, it has not been possible to fully complete the Audit Plan. However, the audit review of Cyber Security has been carried forward to the 2022/23 Internal Audit Plan. This is a particularly complex area, with recent high profile attacks on organisations highlighting the importance of ensuring controls are operating effectively. The impact of a successful cyber attack would immediately affect how the Council would be able to continue providing day to day services.

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
Council Tax	0	1	1	Substantial
Environmental Services - Roads Maintenance (Planned)	0	4	0	Limited
Environmental Services - Business Continuity	0	5	0	Limited
Environmental Services - Housing and Property - Stores	0	4	1	Substantial
Corporate Services- Social Media Accounts	0	5	0	Substantial
Corporate Services- Petty Cash	0	3	0	Substantial
Education- Primary and Early Years Security	1	5	0	Substantial
Client Monies	2	3	0	Substantial
Self Directed Support	6	4	2	Substantial
Early Learning and Childcare (Unplanned)	6	1	0	Limited

The following performance measures were in place for 2021/2022:

Measure	Description	Target	Actual
Final Report	Percentage of Auditee(s) responding within 20 days of receiving the draft report.	100%	77%
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%	81%
Audit Budget	Percentage of audits completed within budgeted days.	80%	88%
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%

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 Deputy 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.

Key governance and internal control arrangements have been maintained, albeit capacity issues called for resources to be prioritised, not only to essential services but also 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.

It was noted that the Council's management response to the COVID-19 pandemic included an amended to governance arrangements. Committee agreed in June 2021 to continue with the webcasting of meetings and the temporary change to the Scheme of Delegation in allowing the Chief Executive to discharge the Authority's functions without the need for homologation.

Risk Management – procedures have been developed with a risk management policy 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. Successful implementation of the Improvement and Modernisation programme will be vital to improving the future efficiency and sustainability of Council services.

Risk management at service levels continued to be driven by individual managers in the absence of any supporting risk management resource. A lack of progress has been noted within services regarding the development and updating of Risk Management Plans. Additional resources have now been provided to appoint an officer with specific responsibility to support all services to progress more effective risk management and business continuity arrangements.

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, the 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 self-assessment and external assessments as part of Internal Audit's Quality Assurance and Improvement Programme. Internal monitoring of performance against the Standards will continue on an ongoing basis until the next External Quality Assessment, scheduled for 2023, is completed. However, a more structured self-assessment quality review is planned to highlight any issues arising from changing working practices and service delivery due to the pandemic.

Two outstanding recommendations from the External Quality Assessment remain, one in respect of developing an 'assurance map' of all the assurances available to the Council, which on reflection and following further discussion with the assessor, has been agreed as low priority at present, and two in relation to the recommendation of having the Audit and Risk Manager 'signing-off' committee reports.

Assurance mapping is an issue that has been raised within the Scottish Local Authorities Chief Internal Auditors' Group, and it is hoped that a standardised approach could be developed. In regard to the Audit and Risk Manager "signing-off" committee reports, this does not align with Council Policy. The requirement for the Audit and Risk Manager to "sign-off" committee reports concerns the need to demonstrate and evidence the Auditor's independence from management.

SECTION 4- 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 sound system of internal control and to monitor the effectiveness of that system. It is the responsibility of the Audit and Risk Manager to provide an annual assessment of the robustness of the internal control system.

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 2022.

Dafydd Lewis
Audit and Risk Manager
26th of May 2022