



INTERNAL AUDIT

ANNUAL REPORT and OPINION

1 APRIL 2020 to 31 MARCH 2021

1. Background

- 1.1 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'.
- 1.2 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
- 1.3 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.

2. Basis of Opinion

- 2.1 The opinion is based on my knowledge of the council's governance, risk and control processes and from internal audit activity completed during the period to 31st March 2021. The provision of the opinion is an important source of assurance and any 'limitations in the scope' as a consequence of the pandemic require to be disclosed.
- 2.2 Factors identified by the Chartered Institute of Public Finance and Accountancy as having the potential to impact on the availability of assurance from Internal Audit during the pandemic include:
- the changing risks and impacts on the organisation;
 - whether key governance, risk management and internal control arrangements have deteriorated or been maintained;
 - changes to the resource base of internal audit whether staff or budget related;
 - demands made on Internal Audit for any advisory or non-audit support activity that does not directly support the audit opinion;

- operational disruption that impacts on the access of internal audit to key staff, information or systems resulting in greater inefficiency and reduced outputs

3. Risk or Control framework informing the Opinion

3.1 Assessing each of the above factors in turn:

- There were significant risks and impacts arising as the council moved to respond to the emergency and lockdown. Internal audit assessed the mechanisms established to secure continuity of essential services. This was done through observation of minutes and action logs for an Incident Management Team, later a Recovery and Renewal Management Team which functioned until committee structures were reviewed and meetings restarted. Appropriate checks and balances were evidenced in comprehensive reports provided to council by senior management.
- Key governance, risk management 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 strategic priorities of the council. Internal audit noted progress made in a number of key priority areas while supporting development of the annual governance statement. Internal audit also worked with the Corporate Management Team to update the Corporate Risk Register summarising the principal risks facing the council going forward.
- The audit staff resource was maintained for the full year with all posts within Internal Audit's staffing establishment filled. Some of the resource was diverted to advisory or non-audit duties linked to the pandemic, including supporting the administration of COVID-19 Business Grant awards and dealing with appeals relating to eligibility for grant support made under various schemes. Participation in the process led to a fuller understanding of how the schemes were operating in terms of published guidance and of the controls in place; both important given that amounts disbursed in-year exceeded £20 million. At all times care was taken to maintain audit values of integrity and objectivity, and conflicts of interest, e.g. where a grant applicant was known to the auditor, were avoided by re-assigning appeal determinations to another audit team member.
- The operational efficiency of internal audit has not been impacted to the extent it might have been with staff having remote access to main financial systems. Audit work was successfully carried out on these systems it being noted that controls in place remained effective, with in some cases controls being successfully adapted to accommodate remote working. But there have been some

limitations on the scope of internal audit activity occasioned by delays in being able to access key staff who themselves were encountering significant workload demands; by being unable to access certain facilities due to homeworking restrictions, and by being unable to access systems that potentially could be subject to audit. The effect of these impacts was to reduce the outputs of the internal audit team and restrict the ability to provide audit assurance in these areas, although setting this in context, any restrictions applying were not considered to be material in terms of affecting the audit opinion, when considered alongside other available assurances referenced throughout this report.

4. Summary of Work that supports the Opinion

4.1 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, 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 notably referencing the crucial role ICT has in supporting services to maintain continuity of service delivery.
- Risk Management – procedures are well developed with a risk management policy and strategy in place and risk registers maintained at corporate and service levels and as part of project planning and control. The recently updated Corporate Risk Register summarises the principal risks facing the organisation under nine themes; these themes focus on critical risk areas including finance, environment and operational continuity, with a 'new' added theme relating to economic risks linked to the impact of the pandemic and to the UK's departure from the European Union. Not all service risk registers have been updated due to workload pressures, and aligning this to the need for strengthened business continuity arrangements drawing on experiences from the pandemic, additional capacity is being considered to undertake this work. The council has engaged with Zurich the council's insurers in the past for risk management support, and it is intended this will be resumed when new ways of working are progressed.
- Internal Control Environment – the internal control environment has been evaluated through completion of a range of audit projects.

Audit planning this year was more agile given the emerging situation, yet remained risk-based, with work undertaken throughout the year to provide assurances that the main payroll and payments systems continued to operate with suitable controls in place. The plan was also flexible so as to allow emerging control systems to be assessed e.g. for the distribution of funding streams linked to the pandemic.

- In completing the audit of payments, supporting information for a small number of sampled items was not available for review. These related to invoices from suppliers of commissioned services, and linked to findings from prior audit work that reported there was more work required to update service contracts to better align these with current policy and service user needs. It was noted that work on commissioning has been restricted during the period of the pandemic, and it is expected that some impetus will be given to reinvigorating the commissioning process when resources can be made available to undertake this task. This matter is being raised separately through the Moray Integration Joint Board responsible for Social Care services.
- Recurring annual tasks were also completed that provide assurances on the accuracy of a sample of Housing Benefit claims forming part of the annual Housing Benefit Subsidy Claim, and the year-end valuation of stocks held for accounting purposes was concluded under social distancing measures for physical visits. The council's participation in the National Fraud Initiative co-ordinated by Internal Audit also provided positive assurances on a range of datasets. Most of the matched data made available for review in this latest period has been linked to recent changes of circumstances or has signposted a need for data cleansing, as opposed to highlighting fraud or other irregularity involving public funds.
- Internal audit operates independently within the organisation and while there may have been limitations in the scope of the audit as a consequence of 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 and no reliance has been placed on any other assurance providers.

5. Statement on Conformance with the Public Sector Internal Audit Standards

- 5.1 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.

- 5.2 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.
- 5.3 During the year, the focus for internal audit has been to continue to progress the implementation of recommendations made following an external quality assessment of internal audit in 2019. This work is now largely completed with most recommendations implemented. Two remain outstanding, 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 the present time, and two in relation to the recommendation of having the internal audit manager 'signing-off' committee reports which does not align with council policy. This latter issue had been raised because of the need to demonstrate auditor independence from management.

6. Quality Assurance and Improvement Programme

- 6.1 The external inspection confirmed that the internal audit service generally conforms to the required Public Sector Internal Audit Standards, and this position has been strengthened with the application of the recommendations given in the inspection report. Internal monitoring of performance against the Standards will continue until the next External Quality Assessment, scheduled for 2023, is completed.

7. Opinion

- 7.1 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 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.
- 7.2 The provision of this annual assessment has been more challenging as consequence of the pandemic, and necessarily this opinion must be caveated by a 'limitation of scope' given that the breadth of audit coverage has been restricted by service disruption and audit staff working from home. Nonetheless, the council has had to adapt quickly to maintain the delivery of essential services and similarly internal audit has adapted its approach to provide audit assurances on governance,

risk management and internal control to the extent that this was possible.

- 7.3 Subject then to the 'limitation of scope' described above, and in respect of the audit coverage internal audit was able to undertake as outlined in this report, it is my opinion, as the Internal Audit Manager, that reasonable assurance can be placed on the adequacy and effectiveness of the council's internal control system for the year to 31 March 2021.

Atholl Scott, CMIIA
Internal Audit Manager
2 June 2021