



INTERNAL AUDIT

ANNUAL REPORT and OPINION

1 APRIL 2018 to 31 MARCH 2019

Background

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'.

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

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.

Basis of Opinion

The opinion takes the form of assurance, provided to the Audit and Scrutiny Committee, on the council's system of internal control. This 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 2019.

There are limitations to the level of assurance that can be provided dependent on the scope and coverage of the audit work completed. This is reflected in the opinion provided below.

Risk or Control framework informing the Opinion

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. The selection of audit topics is informed having regard to corporate planning documents; budget data, information drawn from the corporate risk register and internal audit's own audit system and takes into account input from senior management regarding possible areas for audit.

Committee agenda papers and minutes are also monitored to obtain an overview of policy developments across the council and to assess their potential impact on systems of control, and changes in key personnel and related risk impacts are also taken into account.

These processes take into account the strategies, objectives and risks of the organisation and meet the expectations of senior management and the Audit and Scrutiny Committee, thus creating a programme of work sufficient to inform the overall annual opinion.

An element of the plan each year covers work on main financial systems which are of key significance to the council in terms of good financial governance. These systems receive the greatest 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 also undertakes work which external audit can use to inform its own work.

For 2018/19, main systems work covered aspects of payroll, including an assessment of access controls as well as sample testing of payroll transactions including pays for supply teachers, social care staff and staff employed by the valuation board who are paid through the council payroll system.

Housing benefits payments were sample tested in detail to validate the subsidy claim which the council submits to the Department for Work and Pensions, some £17 million annually.

Procurement and creditor payments work was completed through sampling of invoices, taking in large payments, routine payments and credit notes; reviews of payment invoices also featured in many of the audits completed within services and in validating year end stock valuations. A module from the national fraud initiative covering data matching for potential duplicate payments was also examined which affirmed the effectiveness of this element of payment system controls.

Treasury Management, which covers the council's borrowing, investments and cash flows, and its banking, money market and capital market transactions, was reviewed to assess compliance with the relevant code of practice and local treasury management practices.

Capital plan work was programmed with the intention of auditing the civil engineering contract for the planned refurbishment of the A941: Craigellachie Bridge. This project was deferred into 2019/20 and, as an alternative, two other bridge strengthening contracts in the Forres area were examined. These reviews took in all aspects of the contract from the basis for selection/justification for the works, through the procurement and tendering

stage, progressing the works and supervision thereof, and payment through to completion.

Aside from these works other projects focusing on departmental systems were taken forward covering topics including residential childcare placements, the introductory stages of the planned roll out of enhanced early year's provisions, the winter maintenance policy and the dial a bus service. Audits at Elgin Academy, of primary school funds, covering the waste baling plant and recyclable waste and of swimming pool income were concluded.

Grant claims relative to town centre regeneration, strategic timber funding for strengthening rural roads and the bus service operator's grant were also examined in confirmation that the funding obtained had been claimed in accordance with relevant grant conditions. An unscheduled review of the council's ongoing relationship with Moray Leisure Centre - its Arm's Length External Organisation was also prepared and reported to a meeting of the Council.

On completion of audit fieldwork, individual audit reports are prepared together with action plans making recommendations for management consideration. An Executive Summary and completed action plan for each project are then presented to the Audit and Scrutiny Committee, and following on from an external audit recommendation full audit reports are now placed on the members' portal to further increase the transparency of the established reporting processes.

A separate programme of work was also undertaken in relation to social care; taking in a review of learning disabilities commissioning, payroll work as referred to above, a review of the contributions policy, participation in the self-directed support working group, and contributing to the annual governance statement for the integration joint board. The audit findings in relation to the audit of learning disabilities noted that work was underway to 'modernise service provision in a manner which recognises changed expectations, for example, arising from personalisation, while managing cost pressures and seeking to secure optimal care solutions for users of learning disabilities services'. Progress will be monitored during 2019/20.

The outcomes in relation to the social care projects will also inform the annual audit opinion to be reported separately to the Audit, Performance and Risk Committee of the Moray Integration Joint Board.

Summary of work that supports the Opinion

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 during 2016/17,

and that the Corporate Management Team (comprising the Chief Executive, three Corporate Directors and the Moray Health and Social Care Chief Officer) and Senior Managers have a strong awareness of the challenges facing the council in the incoming period. For the first time in 2018/19, formal written assurances from senior managers were obtained to evidence their role in securing good governance across their respective services and any issues reported in these statements considered for inclusion in the published annual statement. The need to update the council's Local Code of Corporate Governance to reflect the new guidance remains under consideration, with the intent of developing a code which is both relevant and achievable in a local context.

- Risk Management – procedures are well developed with a risk management policy and strategy in place and risk registers maintained at corporate and service levels. The corporate risk register summarises the principal risks facing the organisation and the Corporate Management Team carefully considers the arrangements around how these risks can be managed. Political and financial risks continue to figure highly given the acute challenges the council faces going forward, and to provide transparency the register is submitted to Policy and Resources Committee twice yearly for consideration. Risk management at service levels continued to the extent driven by individual managers in the absence of any supporting risk management resource, however, internal audit supported training sessions delivered in conjunction with the organisational development training team as part of the Moray Management Methods initiative. The council's insurers have committed to undertaking an independent review of the council's risk management practice during 2019/20.
- Internal Control Environment – the internal control environment is evaluated through completion of a range of audit projects contained within an annual audit plan agreed by the Audit and Scrutiny Committee. External audit also assess aspects of the internal control framework in the course of their work. Internal audit operates independently within the organisation and there were 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.

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. These standards are designated as '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 periodic self assessments and external assessments as part of Internal Audit's Quality Assurance and Improvement Programme.

During the year, in line with the Programme, an external quality assessment of internal audit was completed by the Audit Manager and an Auditor from Fife Council. The assessment took place over two days and involved the review of a portfolio of evidence, interviews with the Chair of the Audit and Scrutiny Committee, the Chief Executive, and the Corporate Director (Corporate Services) responsible for internal audit. The Internal Audit Manager was also interviewed and discussions and file reviews involving all staff in the audit team were undertaken. The outcomes from the assessment were reported to the Audit and Scrutiny Committee, the review concluding that the service 'generally conforms' to the Standards.

Quality Assurance and Improvement Programme

The external inspection was thorough and the resulting report provided a useful external perspective of how the service performs as well as providing advice on areas where compliance with the standards could be strengthened. Of the thirteen assessment areas used to measure conformance with the standards, four were found to fully conform, seven to generally conform and two to partially conform. A plan of agreed improvement actions has been prepared for implementation during 2019/20.

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 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.

It is my opinion, based on audit work completed, that reasonable assurance can be placed on the adequacy and effectiveness of the council's internal control system for the year to 31 March 2019.

Atholl Scott, CMIIA
Internal Audit Manager
4 June 2019