



REPORT TO: AUDIT AND SCRUTINY COMMITTEE ON 4 DECEMBER 2018

SUBJECT: REPORT ON THE WORK OF THE INTERNAL AUDIT SECTION IN THE PERIOD FROM 1 APRIL 2018 TO 30 SEPTEMBER 2018

BY: CORPORATE DIRECTOR (CORPORATE SERVICES)

1. REASON FOR REPORT

- 1.1 The report advises Committee on the work of the Internal Audit Section for the period from 1 April 2018 to 30 September 2018.
- 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 **That Committee consider the contents of this report; seeks clarification on any points noted and otherwise notes the report.**

3. BACKGROUND

- 3.1 The report for the first six months of the financial year straddles the period which involves a mix of projects that supports the closure of the annual accounts, including work to finalise the annual governance statement, and the progression of audit projects contained within the agreed audit plan for 2018/19.
- 3.2 **Annual Governance Statement**
 - 3.2.1 The statement is prepared based on good practice guidance published by CIPFA (the Chartered Institute of Public Finance and Accountancy) and SOLACE (the Society of Local Authority Chief Executives). The guidance was updated in 2016 and the council now prepares its statement in accordance with that guidance. There is further work to be done to update the local code of governance. There is also a need for more formal evidencing of the contribution of Heads of Service to good governance by having them 'sign off' assurance statements at the year-end confirming their roles in the governance process. This work is being taken forward by the Head of Financial Services and the Internal Audit Manager with Corporate Management Team/Senior

Management Team to ensure the planned enhancements to evidencing of governance processes are in place by 31 March 2019.

3.3 Main Financial Systems – Stocks and Stores

- 3.3.1 The report to this committee on 22 August 2018 noted that Internal Audit had attended year end stocktaking at various council depots at the year end to confirm that adequacy of the stocktaking arrangements and ensure all materials in scope had been correctly counted. (para 6 of the draft Minute refers) Thereafter on receipt of the completed stock sheets, prices used were test checked to supplier invoices to assess the reasonableness of the stock valuations reported. No issues were identified from this work.
- 3.3.2 A separate exercise was carried out covering Occupational Therapy stocks of aids and adaptations for use by individuals with disabilities. This service has recently installed a new stores system for controlling these stocks. The Executive Summary and Action Plan for the review are provided as **Appendix 1**.
- 3.3.3 Management consideration is now being given to consolidation of the stores activity within Direct Services and the Housing Service to secure further efficiencies. Internal Audit has been asked to participate in this review. Work is at an early stage to assess what is feasible, with the key consideration the ability for any replacement stores system to meet the operational requirements of the services and suitably link to the council's main financial systems.

3.4 Main Financial Systems – Housing Benefits Subsidy Claim

- 3.4.1 An annual input on the grounds of materiality alone is a review of the Housing Benefits subsidy. The council pays out upwards of £17 million annually the bulk of which is funded by the Department of Work and Pensions. Certification is required as to the accuracy of the amount claimed and this requires detailed testing of a sample of claims. The external auditor undertakes the certification but relies in large part on Internal Audit to complete this work. Accuracy of claims processing is high and there are no recommendations arising for the review. A copy of the Executive Summary detailing the work completed is given as **Appendix 2**.

3.5 Departmental Systems - Elgin Academy

- 3.5.1 In continuing the cyclical coverage of secondary schools, an audit was completed at Elgin Academy. The review has found Elgin Academy to be well managed with clear financial management processes. In terms of issues arising in the course of this audit, these were few in number and not categorised as high risk. The Executive Summary and audit action plan showing recommendations made and management responses is provided as **Appendix 3**.

3.6 Departmental Systems – Primary School Funds

- 3.6.1 The council has developed school fund regulations to guide Head Teachers and school administrative staff in the administration of school funds. These funds are voluntary funds defined in the financial regulations as “any fund

other than an official fund of the Council, which is controlled wholly, or in part, by an Officer of the Council by reason of his or her employment”.

3.6.2 With all 46 schools maintaining a fund, the regulations provide that each school should make its own audit arrangements, with annual statements being prepared, audited by a suitable independent person and made available within each school community. A copy of each statement is also provided to Educational Services, which monitors returns to ensure a statement is received from all schools. Compliance with the Regulations was found to be good with only minor improvements identified for application at a small number of schools. These improvements related to:

- providing more detail on annual summary statement;
- avoiding, so far as is practicable, describing income or expenditure as ‘miscellaneous’;
- noting the name and designation of the auditor on the statement in addition to a signature.

3.6.3 These points were raised with the Head of Schools and Curriculum Development who has provided all schools with a reminder to ensure these points are addressed in future school fund annual statements.

3.7 Departmental Systems- Bailing Plant and Recyclable Waste

3.7.1 The council processes much of the waste it collects in Moray through the bailing plant located at Tyock Industrial Estate in Elgin. This audit looked at the systems and procedures in place for receiving, sorting and onward transmission of waste to its destination along with associated charging arrangements. A copy of the Executive Summary and audit action plan for this project are provided as **Appendix 4**.

3.8 Departmental Systems - Swimming Pool Income

3.8.1 The council operates swimming pools and leisure facilities across Moray and this audit looked at the accounting arrangements for income collected across these sites and others under the direction of the Sports and Leisure Manager. This work included consideration of the controls around the use of the ‘Fit Life Membership’ system, which were found to be operating as intended. This is a positive given that this system has been introduced recently into the Moray Leisure Centre, which functions as an Arms’ Length External Organisation supported by the Council. This will hopefully incentivise membership take up and usage across the leisure estate. A copy of the Executive Summary and audit action plan for this project are provided as **Appendix 5**.

3.9 Departmental Systems - Education - Early Years Provision

3.9.1 Scottish Government is making available multi-year ring fenced funding to expand early learning and childcare provision across all local authority areas. The review has found comprehensive planning arrangements to be in place in this council for what will be a major transformation programme. This area is likely to be revisited by internal audit as the expansion progresses, but meantime the findings from the audit work completed to date are encouraging. A copy of the Executive Summary and audit action plan for this project are provided as **Appendix 6**.

3.10 Other Systems - Grant Claims - Elgin Conservation Area Regeneration (CARS) Scheme

3.10.1 The audit plan allows time for the audit of grant claims which require various types of certification. For the CARS scheme this takes the form of providing assurances to the council's accountancy team who in turn submit claims for grant to Historic Environment Scotland. In a prior year review, the audit highlighted a risk that not all the available grant funding would be spent by the end of the 5 year grant period as at 31 March 2018; however the amount of works and expenditure was much increased in 2017/18 compared with prior years with certain projects offered higher intervention rates. This enabled the full £750,000 made available by Historic Environment Scotland for the scheme to be claimed. The project is now complete.

3.11 Ad-hoc Works – Moray Leisure Centre

3.11.1 Following a request by Council an overview of the council's relationship with Moray Leisure Centre as an arms' length external organisation was carried out. The findings of the report were provided to the meeting of the council on 5 September 2018, (paragraph 11 of the minute refers) the main recommendation being that the wider leisure services review should be progressed to provide greater certainty around future provision in this area.

3.12 Regularity Review – Creditor Payments

3.12.1 At quarterly intervals internal audit samples payments made by the council stratified to include randomly selected items and higher value items. A check for duplicate payments is also carried out by extracting listings where more than one invoice from a single supplier has been paid for the same amount. The check is to assess the payments and any supporting documentation to confirm that it is a proper payment due and payable by the council. There are no issues to report from this work.

3.13 Progress against Audit Plan

3.13.1 Good progress has been made towards delivery of the audit plan agreed by this committee on 23 May 2018 (para 5 of the minute refers). Scheduled audit work on civil engineering projects within the capital plan has been revised given deferral of works on the A941 Craigellachie Bridge until future years with the audit of contracts for two other lower value bridge contracts being substituted; also planned work on learning disabilities whilst identifying and confirming how current budgets are being spent is being curtailed, while the service progresses a major review of its commissioning processes which is likely to impact on future service delivery arrangements.

4. SUMMARY OF IMPLICATIONS

(a) Corporate Plan and 10 Year Plan (Local Outcome Improvement Plan (LOIP))

Internal audit work supports good governance and the delivery of efficient services.

(b) Policy and Legal

No implications.

(c) Financial Implications

No implications directly arising from this report.

(d) Risk Implications

The independent review of selected systems and procedures mitigates the risks associated with inadequate or ineffective control procedures.

(e) Staffing Implications

No implications.

(f) Property

No implications.

(g) Equalities/ Socio Economic Impacts

No implications.

(h) Consultations

There have been no direct consultations during the preparation of this report.

5. CONCLUSION

5.1 This report provides Committee with a summary of findings arising from a broad range of audit projects completed during the review period.

Author of Report:	Atholl Scott
Background Papers:	Internal audit files
Ref:	AS/asc/041218