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**REPORT TO: AUDIT AND SCRUTINY COMMITTEE ON 27 FEBRUARY 2019**

**SUBJECT: REPORT ON THE WORK OF THE INTERNAL AUDIT SECTION IN THE PERIOD FROM 1 OCTOBER 2018 TO 31 DECEMBER 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 October 2018 to 31 December 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. REPORT**

- 3.1 The third quarter of the year saw steady progress towards delivery of the audit plan notwithstanding workload pressures on service managers participating in the process of securing the savings necessary to balance the council's budget. At the time of drafting this report most planned projects for 2018/19 are well advanced with work on payroll access controls, routine creditor payments testing, and accounting for Scottish Landfill Tax the only projects remaining to be started prior to 31 March. A summary of the work concluded in the period is provided in the following paragraphs.
- 3.2 Main Financial Systems - Treasury Management
  - 3.2.1 Treasury Management arrangements are highly regulated through the adoption of a CIPFA Code of Practice and the development of related treasury management practices. The audit found appropriate internal checks had been developed to optimise cash flow and borrowing arrangements. Audit recommendations related to refinement of treasury management practices, clearer recording of the need for capital financing transactions, and a review of training requirement on this topic for elected members. The Executive Summary and audit action plan showing recommendations made and management responses are provided as **Appendix 1**.

### **3.3 Departmental Systems - Children's Services - Out of Area Placements**

- 3.3.1 This audit considered the controls over costs of residential childcare placements, a topic selected on the basis of recurring budget pressures in this area. The review found that comprehensive systems were in place to assess the care needs of young people in this service user group, involving multi-disciplinary teams with the expertise to determine the required care needs in individual cases presenting.
- 3.3.2 The audit testing noted that out of area packages are applied where there are no other suitable options available to meet care needs and that, in each case, a review process had been established to ensure the placements for individual service users are re - assessed and updated as appropriate to deal with any changes in circumstances that occur.
- 3.3.3 Recommendations in the main covered administrative processes around invoice checking, authorisation, and procurement, as well as ensuring that fuller details of emergency interventions are recorded retrospectively to provide an audit trail similar to that generated through the formal assessment process. The Executive Summary and audit action plan showing recommendations made and management responses are provided as **Appendix 2**.

### **3.4 Main Financial Systems – Payroll Costs - Supply Teachers**

- 3.4.1 An element of the audit plan included sample audit transaction testing within the payroll system and this audit looked at the costs of providing supply teacher cover and the processes to control and authorise expenditure. Around a quarter of the annual budget is held within the Devolved School Management scheme for head teachers to administer locally, the balance is retained centrally by Education Staffing and utilised to cover longer term absences that schools are unable to fund.
- 3.4.2 Expenditure in this area is demand led and budget setting reflects this in terms of being a best estimate of likely outlays, take up also being influenced in some instances by the availability of supply staff. The impact on the service of the timing of staff absences e.g. in periods leading up to the school holidays can also be a factor in determining requirement for supply cover. The Executive Summary and audit action plan showing recommendations made and management responses are provided as **Appendix 3**.

### **3.5 Departmental Systems – Energy Management**

- 3.5.1 Although not separately identified as a topic in the current year's audit plan the council has been required to make annual payments for each tonne of CO2 it emits from energy use in terms of a national Carbon Reduction Commitment scheme overseen by SEPA. Participants have been encouraged to regularly audit their processes and the council has done so. This is the final review as the scheme will end on 31 March 2019 with a climate change levy thereafter being payable as an addition to energy bills.

- 3.5.2 As well as confirming the computation of the payments under the scheme the report sampled expenditure in this area and considered the council's approach to carbon reduction. This noted the work of the energy team with services and establishments to use energy efficiently to reduce costs. Recommendations made ranged from the potential to align the council's strategic plans in this area with carbon reduction targets set nationally, to a number of operational controls for the energy team to take forward. The Executive Summary and audit action plan showing recommendations made and management responses are provided as **Appendix 4**.

### **3.6 Risk Management Support**

- 3.6.1 Internal audit has an interest in the management of risk, broadly as a means ensuring impediments to the delivery of objectives across all levels of the council are mitigated so far as is practicable. Internal audit considers risk from its own perspective when developing audit plans, otherwise it supports services to apply agreed policy, strategy and practice when considering their own risks. In the period internal audit provided a risk management session with the corporate training team under a programme for managers to reinforce consistency in the adoption of Moray Management Methods initiative. This work has continued into the current quarter involving a session on risk for representatives from partners supporting Children's Services in Moray and assisting the Corporate Management Team with the six monthly update of the Corporate Risk Register. Further engagement is planned ahead of the year end to support the update of strategic risk registers within services.

### **3.7 Public Sector Internal Audit Standards – External Quality Assessment**

- 3.7.1 Internal Audit is required to adopt public sector internal audit standards and to have an assessment of its compliance with these standards known as an External Quality Assessment once every five years. Through the Scottish Local Authorities Chief Internal Auditors' Group it was agreed that participating councils would undertake a peer review process, carrying out an assessment of one other council and receiving a similar assessment in return. The Audit and Risk Manager and an Auditor from Fife Council undertook the assessment in Moray. A portfolio of evidence in support of the assessment was prepared during the quarter and the assessment visit took place on 5 and 6 February. At the date of drafting this report, the outcome of the assessment is awaited.

## **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 the audit projects completed during the review period.**

Author of Report:	Atholl Scott
Background Papers:	Internal audit files
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