

THE MORAY COUNCIL
FINANCE AND I.C.T. SERVICES

INTERNAL AUDIT
ANNUAL REPORT

1 APRIL 2009 to 31 MARCH 2010

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INTRODUCTION

Internal Audit's remit is contained within a formal terms of reference document which defines the service as 'an assurance function that primarily provides an independent and objective opinion to the Council on the control environment by evaluating its effectiveness in achieving the organisation's objectives.'

The terms of reference specify the audit objectives, the authority given to the service and the responsibilities with which it must comply. It also provides a framework of accountability for the audit team and outlines the role of the Audit and Performance Review Committee in dealing with audit matters.

The Team Leader (Audit) manages the service on a day-to-day basis and is accountable to the Chief Financial Officer, who has statutory responsibility for securing the Council's financial affairs.

An Audit and Performance Review Committee has been established and has a key role in monitoring audit output and performance. The Committee comprises eleven elected Members and meets six times a year to consider matters in relation to audit work and on performance management.

In the period under review, in respect of audit matters, the Committee received reports on

- The Internal Audit annual plan, determined by reference to the Council's risk management processes and the Team Leader's knowledge of the internal control environment;
- The work undertaken by internal audit during each quarter of the year including Executive Summaries of audit reports and, where appropriate, audit action plans for projects completed;
- The performance of internal audit in relation to progress achieved against the agreed annual audit plan.

The Committee also considered reports submitted by the Council's External Auditor, Audit Scotland, whose work complements that of the Internal Audit team.

SERVICE PLANNING

Service planning is designed to assist in the effective application of resources and, in line with other services within Finance and I.C.T., Internal Audit carried out a range of planning activities during the year. These included the development of a Service Improvement Plan and the preparation of an Audit Plan prioritising how audit resources are used.

The Service Improvement Plan for the year focused on both audit and risk management issues.

Internal Audit

On internal audit, the key focus of the work undertaken was on main financial systems. This work is completed annually to inform the internal audit opinion on the control environment and the external audit opinion on the annual accounts. Working closely with the external auditor ensures the necessary coverage is undertaken to meet the needs of both parties, minimises duplication, makes the best use of available resources, and generates a reduction in the external audit fee. Audit coverage is based predominantly on materiality, as the main financial systems are of such significance that controls are well established and generally effective.

Alongside the work on main financial systems other audit projects are selected based on risk. These are of lower significance in terms of materiality and coverage in any one year is dependent on the overall demands on the service and the level of staff resources. The team lost a member of staff during the year who was not replaced in anticipation of the financial strictures the Council now faces. This can be viewed as a prudent as the Council faces the need for cost reductions although clearly a reduction in staff has an impact in terms of the level of assurance internal audit can provide. This position has been reported to the Audit and Performance Review Committee and will continue to be monitored in the context of change and the need to make savings across Council services.

In terms of service planning, the team participated in the Public Sector Improvement Framework, a self evaluation tool designed to support continuous improvement in service delivery. It was a reflective process which resulted in an action plan for use in optimising delivery of the internal audit service going forward.

Risk Management

The process of embedding risk management continued during the year with the updating of the Corporate Risk Register following a critical evaluation of the principal risks faced by the Council, and consideration of the means by which these can be controlled. The task of updating departmental risk registers and linking these to service improvement plans was commenced. This is a substantial piece of work and will continue in future years. Briefing sessions were also provided for Head Teachers thereby completing the delivery of initial training on risk management for all senior managers.

The process of taking forward risk management and business continuity as related disciplines was also strengthened. Whilst these are delivered under separate statutory duties the desire for greater efficiencies in supporting front line managers was recognised. This practice seeks to increase the resilience of services by both anticipating what might happen (the risk) and how it might be addressed if it does happen (the business continuity), and has been endorsed by the Corporate Management Team.

Internal Audit also supported the Community Planning Partnership to develop a Community Risk Register aligned to the Single Outcome Agreement. This was essentially a 'first pass' document for consideration by the partners and will support the work being undertaken to refine the governance processes which underpin joint working arrangements.

INTERNAL AUDIT PERFORMANCE

Internal Audit performance focused on the delivery of the agreed audit plan, the coverage being designed to provide reasonable assurance on the control environment. Commentary on the individual elements of the planned audit coverage is given below.

Core Systems

Core systems are fundamental to the Council and primarily relate to the main financial systems. These systems are of key significance to the Council's External Auditor given the reliance placed on them when certifying the Council's annual accounts and are also the systems that receive the greatest focus in terms of management control.

For 2009/10, Internal Audit coverage on core systems was in line with the audit plan and included

- Payroll testing of salaries and wages including payments to new and leaving employees and of deductions remitted to other agencies including income tax, national insurance and pension contributions.
- Quarterly reviews of randomly selected non-payroll payments processed by the Council using computer assisted techniques to generate samples, test for duplicate payments and review payments to associates of employees.
- Cash and bank testing of procedures in place to ensure a proper accounting for income receipts due and payable to the Council.
- Benefits testing of a sample of claims received to validate entitlement to housing benefits (both rent rebates and rent allowances) and council tax benefits, including, for those cases selected, a review of any changes of circumstances occurring during the year and verification of consequential changes in the amount of benefits payable.
- An audit of council tax billing and collection arrangements to ensure a proper accounting for revenues generated from council tax charges.
- Testing of Council Tax valuation systems to confirm that accurate and up-to-date banding information is used as a basis for determining Council Tax charges.
- Similar reviews to those described above for council tax but applicable to non domestic rates levied by and payable to the Council and the validation of rateable values determined for selected properties.
- An audit of stocks and stores held at various locations including for roads, vehicle maintenance, housing and fuels for year end accounting purposes.

Other audit work

Within Departments, a number of projects were concluded in 2009/10 including reviews of aspects of the external report on child protection services and of a contaminated land project in Elgin. The service also conducted an investigation into a financial irregularity within Educational Services. This was an extensive in-depth review and with the support of colleagues in Legal Services a favourable outcome for the Council was secured. The matter was also the subject of a concurrent police enquiry and as such remains *sub judice* at the time of drafting this report. In addition, work was completed on the home care payroll within Community Services and on staff travel and subsistence expenditure, - reports on these projects are currently being prepared. An audit of ICT Hardware and Software licences was also finalised.

The team provided Internal Audit services to the Grampian Valuation Joint Board throughout the year and reports on that work separately to the Assessor and to the Joint Board.

Performance audit work focused on the statutory performance information required under the Direction issued annually by the Accounts Commission. This year included an assessment of significant changes to the Direction for 2009/10 which will require the Council to publish information more in line with its own performance management framework and less in accord with the prescriptive requirements of the published Direction.

For the first time in 2009/10, Internal Audit reported to the Audit and Performance Review Committee on work undertaken to follow up audit recommendations arising from previously issued audit reports. This process is designed to provide Committee with additional assurance that agreed audit recommendations are implemented in a timely manner.

Complaints

A feature of the unplanned works this year involved internal audit in reviewing two complaints where it was suggested there had been a breakdown in control procedures which had been to the detriment of service users. A brief synopsis of each complaint is provided below.

A complainant alleged that a social work financial assessment to determine care charges was flawed and asked for an independent review. Internal audit undertook a review and found that the initial assessment had been incorrect but that incomplete information had initially been made available to the Council. An alternative assessment was produced which was eventually considered at a Social Work Complaints Review Committee. The complainant has paid the care charges levied and referred the case to the Ombudsman.

A contractor alleged that a competitor had been unfairly awarded a contract for services funded by the council. The audit established a number of procedural errors in relation to the letting of the contract (which by this stage

had been delivered and was at an end) but overall concluded that best value for the Council had been secured by awarding the contract to the successful contractor. The procurement team, which was not consulted when the contract was let, has provided advice and support to address the procedural errors noted.

Ad-Hoc Projects

A number of smaller projects were undertaken under this heading, mostly small projects of one or two days duration, for example, certification of grant claims for bus service fuel duty rebates, audit of accounts for the North East Arts Touring and Arts Council, provision of advice on administration of school funds etc. The team also controls the floats and petty cash funds operated across all Council establishments by maintaining lists of holders and authorising any changes in custodians or in amounts held. These activities add a further dimension to audit work and contribute to the level of assurance that Internal Audit can provide.

GOOD GOVERNANCE

Good governance equates to good management and the Council has developed a good governance framework in line with the CIPFA/SOLACE guidance 'Delivering Good Governance in Local Government'. The guidance notes that 'the system of internal control is a significant part of that framework and is designed to manage risk to an acceptable level, and provide reasonable but not absolute assurance that policies, aims and objectives can be delivered'.

Governance now features as a key element of the Moray Performs agenda and, with responsibility for supporting risk management arrangements and reviewing the system of internal control, internal audit has supported the Chief Legal Officer in the preparation of an annual governance statement published with the annual accounts. Internal audit's input into preparation of the statement reflects audit and risk work carried out during the year.

CONCLUSIONS

The report illustrates the broad remit of the internal audit function and describes a wide range of projects the team legitimately gets involved in for various reasons, all with the underlying objective of testing the effectiveness of controls the Council has in place across its many and varied services.

The Internal Audit team has delivered on a range of topics designed to assist the organisation to maintain its control environment by supporting a range of initiatives relating to sound governance, securing effective risk management arrangements, and conducting selected audit projects. Recommendations

made to management to address control weaknesses and secure service improvement have been accepted and corrective action taken where necessary.

In preparing this report, the Team Leader (Audit) has had the opportunity to reflect not only on the work that has been completed by his team but also on what has not, and to do this in anticipation of impending significant reductions in Council funding and consequential changes in service delivery. Such changes will have the potential to impact adversely on the control environment and on the level of assurance internal audit can provide. Although this does not directly affect the audit opinion for the 2009/10 year, it is considered appropriate to draw this to the attention of the Committee now as a possible precursor to any future discussion that might need to be had on risk appetite and the nature of audit assurance work going forward.

OPINION

The system of internal control is a significant part of the governance framework, and is designed to manage risk to an acceptable level and provide reasonable but not absolute assurance that policies, aims and objectives can be delivered. No system of control can provide absolute assurance on the adequacy of the control environment and internal audit is unable to give such an assurance, but based on work carried out, it is my opinion that reasonable assurance can be given on the adequacy and effectiveness of the Council's control environment during the year to 31st March 2010.

Atholl Scott
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10 June 2010

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