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To: Councillor Malik, Convener; Councillor Houghton, Vice-Convener; and Councillors Alphonse, Bonsell, Bouse, McLellan, McRae, Nicoll and Massey.

Town House,
ABERDEEN 20 June 2024

AUDIT, RISK AND SCRUTINY COMMITTEE

The Members of the **AUDIT, RISK AND SCRUTINY COMMITTEE** are requested to meet in **Council Chamber - Town House** on **THURSDAY, 27 JUNE 2024 at 2.00 pm**. This is a hybrid meeting and Members may also attend remotely.

The meeting will be webcast and a live stream can be viewed on the Council's website. <https://aberdeen.public-i.tv/core/portal/home>

ALAN THOMSON
INTERIM CHIEF OFFICER – GOVERNANCE

B U S I N E S S

NOTIFICATION OF URGENT BUSINESS

1.1. There are no items of urgent business at this time

DETERMINATION OF EXEMPT BUSINESS

2.1. Members are requested to determine that any exempt business be considered with the Press and Public excluded

DECLARATIONS OF INTEREST

3.1. Members are requested to intimate any declarations of interest

DEPUTATIONS

4.1. There are no requests at this time

MINUTE OF PREVIOUS MEETING

- 5.1. Minute of Previous Meeting of 9 May 2024 (Pages 5 - 18)

COMMITTEE PLANNER

- 6.1. Committee Business Planner (Pages 19 - 22)

NOTICES OF MOTION

- 7.1. There are none at this time

REFERRALS FROM COUNCIL, COMMITTEES AND SUB COMMITTEES

- 8.1. There are no referrals at this time

COMMITTEE BUSINESS

Risk Management

- 9.1. ALEO Assurance Hub Update - CORS/24/198 (Pages 23 - 54)

Scrutiny

- 9.2. Scottish Public Services Ombudsman Decisions and Inspector of Cremations Complaint Decisions - CORS/24/199 (Pages 55 - 62)

Annual Reports and Accounts

- 9.3. External Audit - ISA 260 Report - EA/24/006 (Pages 63 - 90)

- 9.4. External Audit Annual Report 2023-24 - EA/24/005 - to follow

- 9.5. Audited Annual Accounts 2023-24 - CORS/24/200 - to follow

Internal Audit

- 9.6. Internal Audit Update Report - IA/24/009 (Pages 91 - 118)

- 9.7. Creditors System - AC2407 (Pages 119 - 132)

- 9.8. Private Sector Housing - AC2421 (Pages 133 - 148)
- 9.9. City Region Deal - AC2422 (Pages 149 - 172)
- 9.10. Internal Audit Annual Report 2023-24 - IA/24/010 (Pages 173 - 190)

EXEMPT/CONFIDENTIAL BUSINESS

- 10.1. Prevent AC2419 (Pages 191 - 204)

Integrated Impact Assessments related to reports on this agenda can be viewed [here](#)

To access the Service Updates for this Committee please click [here](#)

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Should you require any further information about this agenda, please contact Karen Finch, tel 01224 053945 or email kfinch@aberdeencity.gov.uk

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AUDIT, RISK AND SCRUTINY COMMITTEE

ABERDEEN, 9 May 2024. Minute of Meeting of the AUDIT, RISK AND SCRUTINY COMMITTEE. Present:- Councillor Malik, Convener; Councillor Houghton, Vice-Convener; and Councillors Allard (as substitute for Councillor Alphonse), Bonsell, Clark (as substitute for Councillor Nicoll for article 14 and Councillor Radley for article 26), McLellan, McRae, Nicoll, Radley (as substitute for Councillor Bouse) and Tissera (as substitute for Councillor Massey).

The agenda and reports associated with this minute can be found [here](#).

Please note that if any changes are made to this minute at the point of approval, these will be outlined in the subsequent minute and this document will not be retrospectively altered.

DETERMINATION OF EXEMPT BUSINESS

1. The Convener proposed that the Committee consider item 10.1 (Counter Fraud Activity – Exempt Appendix) item 10.2 (Cyber Crime), item 10.3 (Cyber Action Plan) and item 10.4 (Resident X – Briefing Note) with the press and public excluded from the meeting.

The Committee resolved:-

in terms of Section 50A(4) of the Local Government (Scotland) Act 1973, to exclude the press and public from the meeting during consideration of the above items so as to avoid disclosure of information of the classes described in the following paragraphs of Schedule 7(A) to the Act:- articles 23, 24 and 25 (paragraph 14) and article 26 (paragraph 6).

DECLARATIONS OF INTEREST OR TRANSPARENCY STATEMENTS

2. Members were requested to intimate any declarations of interest or transparency statements in respect of the items on today's agenda, thereafter the following was intimated:-

(1) Councillor Nicoll advised that he had a connection in relation to agenda item 9.1 (ALEO Assurance Hub Workplan and Terms of Reference) by virtue of him having a family member receiving care from one of the ALEO's, however having applied the objective test, he did not consider that he had an interest and would not be withdrawing from the meeting.

MINUTE OF PREVIOUS MEETING OF 12 FEBRUARY 2024

3. The Committee had before it the minute of its previous meeting of 12 February 2024.

The Committee resolved:-

to approve the minute as a correct record.

AUDIT, RISK AND SCRUTINY COMMITTEE

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COMMITTEE BUSINESS PLANNER

4. The Committee had before it the Committee Business Planner prepared by the Interim Chief Officer - Governance.

The Committee resolved:-

to note the content of the business planner.

ALEO ASSURANCE HUB WORKPLAN AND TERMS OF REFERENCE - COM/24/082

5. The Committee had before it a report by the Executive Director of Corporate Services which presented the ALEO Assurance Hub workplan for 2024 including the dates for reporting.

The report recommended:-

that the Committee -

- (a) note the workplan for the ALEO Assurance Hub in 2024 which had been consulted upon with the ALEOs and the relevant Conveners; and
- (b) note the Terms of Reference for the ALEO Assurance Hub which had been amended to reflect changes to role titles and to ensure assurance was sought in relation to compliance with the Public Sector Equality Duty.

In response to questions relating to the assurance that would be sought in relation to ALEO's complying with the Public Sector Equality Duty, the Interim Chief Officer – Governance advised that each ALEO were asked to provide information on specific areas as set out in the workplan which the Assurance Hub scrutinised. She further advised that the Assurance Hub would be looking for the same level of compliance from the ALEO's in line with the Council.

In response to a question relating to the workplans for the ALEO's and who received them, the Interim Chief Officer – Governance advised that the Convener and Vice Convener for the relevant Committees listed in the ALEO Assurance Hub Terms of Reference received the workplan and this Committee received it once per year.

In response to a question relating to the reason why the reporting of the accounts for one of the ALEO's was different to the others, the Chief Officer – Finance advised that the Sports Village end of year accounting period was 31 July of each year.

The Committee resolved:-

to approve the recommendations contained in the report.

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USE OF INVESTIGATORY POWERS QUARTER 1 REPORT - COM/24/078

6. With reference to article 10 of the minute of its previous meeting, the Committee had before it a report by the Executive Director of Corporate Services which was provided to ensure that Elected Members reviewed the Council's use of investigatory powers on a quarterly basis and had oversight that those powers were being used consistently in accordance with the Use of Investigatory Powers Policy.

The report recommended:-

that the Committee note the Council's use of covert surveillance activity during the reporting period.

The Committee resolved:-

to approve the recommendation contained in the report.

SCOTTISH PUBLIC SERVICES OMBUDSMAN DECISIONS AND INSPECTOR OF CREMATIONS COMPLAINTS - CUS/24/079

7. With reference to article 6 of the minute of its meeting of 23 November 2023, the Committee had before it a report by the Executive Director of Corporate Services which provided information on all Scottish Public Services Ombudsman (SPSO) and Inspector of Cremations decisions made in relation to Aberdeen City Council since the last reporting cycle, to provide assurance to Committee that complaints and Scottish Welfare Fund applications were being handled appropriately.

The report recommended:-

that the Committee note the details of the report.

The Committee resolved:-

to approve the recommendation contained in the report.

INSPECTION REPORT OF ABERDEEN CREMATORIUM BY THE SENIOR INSPECTOR OF BURIAL, CREMATION AND FUNERAL DIRECTORS (SCOTLAND) - CR&E/24/123

8. The Committee had before it a report by the Executive Director of City Regeneration and Environment which provided the Committee with the Inspection Report of Aberdeen Crematorium carried out by the Senior Inspector of Burial, Cremation and Funeral Directors on 6 December 2023.

The report recommended:-

that the Committee note the inspection report.

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The Committee resolved:-

- (i) to congratulate staff working in this area for the excellent report;
- (ii) to note that a report would be submitted on an annual basis to this Committee; and
- (iii) to otherwise approve the recommendation contained in the report.

BEST VALUE THEMATIC REPORT - EA/24/001

9. The Committee had before it a report by the External Auditor which presented the Best Value Thematic Review on leadership of the development of new local strategic priorities.

The report recommended:-

that the Committee review, discuss and comment on the issues raised within the report and the attached appendix.

In response to a question relating to improvements to cross party working and what could be done to evidence these, the External Audit Director advised that he would look at good practice observed at other local authorities and share these with members. The Senior Audit Manager advised that the scrutiny remit and terms of reference for this committee and the Powers Delegated to Officers merited review and that this provided good opportunities for collaborative cross-party working to develop improved governance structures.

In response to comments relating to councillors' right to access information and the recent briefing note from the Standards Commission, the Senior Audit Manager advised that whilst councillors may wish to see all information, they were entitled to information on a need to know basis and that this was reflected in the current Member Officer Relations Protocol (MORP). It was noted that at the recent Governance Reference Group (GRG) meeting, Officers had agreed to look at the MORP and make suggested amendments to a future meeting of the GRG.

The Committee resolved:-

- (i) to agree that the Interim Chief Officer – Governance, would submit initial proposals to the Governance Reference Group on (1) how to better address the scrutiny remit of the committee; and (2) revisions to the MORP and Powers Delegated to officers as described in the report in order to ensure that proposals were included in the Scheme of Governance review to be submitted to Council in July;
- (ii) to agree that training on the Best Value framework be provided to members; and
- (iii) to otherwise note the content of the report and the attached Best Value Thematic Review on leadership of the development of new local strategic priorities.

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HOUSING BENEFIT RISK ASSESSMENT - EA/24/002

10. The Committee had before it a report by the External Auditor which presented the Committee with Audit Scotland's Risk Assessment of the housing benefit service.

The report recommended:-

that the Committee review, discuss and comment on the issues raised within the report and the attached appendix.

In response to a question relating to action dates already passed and whether they had been completed, the Revenues and Benefits Manager advised that all actions had been completed.

The Committee resolved:-

to note the content of the report and the attached Housing Benefit Risk Assessment Report.

EXTERNAL AUDIT ANNUAL REPORT 2022-23 - EA/24/003

11. The Committee had before it a report by the External Auditor which presented the Committee with External Audit's Annual Audit Report on the 2022/23 audit.

The report recommended:-

That the Committee review, discuss and comment on the issues raised within the report and the attached appendix.

In response to a comment relating to how scrutiny could be improved, the External Audit Director advised that the theme was the same as in the Best Value report at article 9 above. It was noted that members discussed issues outwith Council and Committee meetings which required to be captured in future reports.

It was noted that this report is the External Auditor's Report on the 2022/23 audit and, as such, it captures the judgements and conclusions reached on all audit activity in the year. It therefore summarises the findings reported in the separate detailed Best Value management report considered at article 9 above.

It was noted that the full terms of reference for this committee had not been reported on during the reporting period and that there was an opportunity to review these to ensure the committee were discharging its function effectively in the future and that this would be done by using the Governance Reference Group to look at the framework ahead of the Scheme of Governance report to Council in July.

The Committee resolved:-

to note the content of the report and the attached External Audit Annual report for 2022-23 audit.

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ANNUAL AUDIT PLAN 2023-24 - EA/24/004

12. The Committee had before it a report by the External Auditor which presented the Committee with External Audit's Annual Audit Plan for the 2023/24 audit.

The report recommended:-

that the Committee review, discuss and comment on the issues raised within the report and the attached appendix.

In response to a question relating to the risks associated with the financial sustainability of Council services, the External Audit Director advised that financial sustainability is an audit risk that has been identified and is one that is experienced by all local authorities. Evidence of robust financial planning in the medium and long term would be sought as an area of assurance to mitigate this risk. The Chief Officer – Finance advised that the Council had Financial Sustainability as a corporate risk where a range of measures in place to mitigate the risks.

The Committee resolved:-

to note the content of the report and the attached External Audit Annual Audit Plan for the 2023/24 audit.

UNAUDITED ACCOUNTS 2023-24 - CORP/24/80

13. The Committee had before it a report by the Executive Director of Corporate Services which (1) provided Elected Members with an overview of the Council's 2023/24 unaudited Annual Accounts; (2) presented the Annual Governance Statement for scrutiny and approval; and (3) presented the unaudited Annual Accounts for those registered charities where the Council was the sole trustee and was subject to statutory requirements for separate accounts and audit opinions.

The report recommended:-

that the Committee -

- (a) approve the Annual Governance Statement as included in the Council's unaudited Annual Accounts for the financial year 2023/24;
- (b) consider the Council's unaudited Annual Accounts 2023/24;
- (c) consider the unaudited Annual Accounts 2023/24 of the Council's registered charities;
- (d) note that following this meeting the Council's and the registered charities' unaudited Annual Accounts would be finalised, signed by the Chief Officer - Finance and submitted to the Council's external auditors, Audit Scotland;
- (e) note that the Audit, Risk and Scrutiny Committee on 27 June 2024 would receive the Council's audited Annual Accounts for consideration and approval prior to their signature by the Chief Officer - Finance, Chief Executive and Council Co-Leaders;
- (f) note that the Audit, Risk and Scrutiny Committee on 27 June 2024 would also receive the external auditor's report on the annual accounts for debate and

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consideration and that this report would set out the auditor's findings and conclusions, highlight any significant issues arising from the audit of the Annual Accounts and inform Elected Members of the proposed audit opinion in advance of the accounts being approved; and

- (g) note that the Audit, Risk and Scrutiny Committee on 27 June 2024 would also receive the audited Annual Accounts for the registered charities for consideration and approval prior to their signature along with the associated external auditor's report.

In response to a question relating to whether the credit rating was due to the Bond and what the offer was at the time of setting up the Bond, the Chief Officer – Finance advised that the credit rating was in place due to the Bond which was reassessed annually. He further advised that the capital programme at the time was used to identify different ways to borrow funding.

In response to a question relating to the reason for the deficit in the Housing Revenue Account (HRA), the Chief Officer – Finance advised that there were various factors affecting the HRA including increased interest rates, low rent increases and lost income from void properties before bringing them back in to use. He further advised that the Council had approved for £3m to be allocated for RAAC which had impacted the accounts.

In response to a question relating to digital investment and whether this was capital and revenue funding, the Chief Officer – Finance advised that there was capital expenditure via the capital programme for ICT investment, in particular in education and that the transformation fund had helped to support the programme.

The Committee resolved:-

- (i) to agree to amend table 4 on page 42 of the annual accounts, to reflect that from 18 March 2024, Councillor Bouse was no longer Vice Convener of Planning Development Management Committee and was in receipt of senior remuneration for his role as Vice Convener of the Anti-Poverty and Inequality Committee; and
- (ii) to otherwise approve the recommendations contained in the report.

DECLARATION OF INTEREST

Following the moving of the Motion:-

Councillor Nicoll declared an interest due to the motion making reference to his previous role as Council Leader. He considered that the nature of his interest would require him to leave the meeting prior to consideration of the item. Councillor Clark joined the meeting as his substitute.

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PUBLIC SECTOR EQUALITY DUTY - COM/24/005

14. With reference to article 4, resolution (i) and article 8 of the minute of its previous meeting, the Committee had before it a report by the Executive Director of Corporate Services which provided management assurance on the Council's compliance with its statutory duties under the Equality Act 2010, specifically in relation to our Public Sector Equality Duty.

The report recommended:

that the Committee -

- (a) note the management assurance on the controls in place for managing the Council's compliance with the Public Sector Equality Duty; and
- (b) note that the Annual Governance Statement, reported to this Committee as part of the annual accounts audited by Audit Scotland, will assess the effectiveness of our controls in this area, any residual risk and how we manage it, and that this will be reported here in April.

The Convener, seconded by the Vice Convener, moved:-

that the Committee -

- (1) agree the recommendations contained within the report; and
- (2) agree that the report has not fully explained why the Council was forced to defend itself at the Court of session on library closures and the proposed closure of Bucksburn Pool. Notes that a joint press release went out from Sport Aberdeen and the Council in the name of the leader of Aberdeen City Council stating that Bucksburn Pool was required for an extension to Bucksburn School. This was untrue. All of these factors require to be investigated therefore agree to instruct the Chief Internal Auditor to report back within 2 cycles.

Councillor Allard, seconded by Councillor Radley, moved as an amendment:-

that the Committee approve the recommendations contained within the report.

On a division, there voted:- for the motion (4) – the Convener, the Vice Convener and Councillors Bonsell and Tissera; for the amendment (5) – Councillors Allard, Clark, McLellan, McRae and Radley.

The Committee resolved:-

to adopt the amendment.

In terms of Standing Order 34.1, Councillor Malik intimated that he would like this matter to be referred to full Council in order for a final decision to be taken. Councillor Malik was supported by Councillors Bonsell, Houghton and Tissera.

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COUNTER FRAUD ACTIVITY - RES/24/081

15. The Committee had before it a report by the Director of Corporate Services which provided the Committee with an account of the work undertaken by the Council's Counter Fraud Officers in 2023.

The report recommended:-

that the Committee -

- (a) note the important work of the Counter Fraud Officers detailed in the Appendix, and the need for continued vigilance in identifying, investigating and dealing with actions of the few that want to perpetrate fraud, bribery and corruption to their own benefit; and
- (b) agree to receive a report on counter-fraud activity for 2024 at it's meeting in May 2025.

The Committee resolved:-

to approve the recommendations contained in the report.

INTERNAL AUDIT PROGRESS REPORT - IA/24/006

16. With reference to article 12 of the minute of it's previous meeting, the Committee had before it a report by the Chief Internal Auditor which provided an update on the progress against the approved Internal Audit plans, audit recommendations follow up and other relevant matters for the Committee to be aware of.

The report recommended:

that the Committee -

- (a) note the progress of the Internal Audit Plan; and
- (b) note the progress that management had made with implementing recommendations agreed in Internal Audit reports;

The Committee resolved:-

to approve the recommendations contained in the report.

IJB HOSTED SERVICES - AC2415

17. The Committee had before it a report by the Chief Internal Auditor which presented an audit on Integrated Joint Board (IJB) Hosted Services which was undertaken to obtain assurance that the IJB had adequate arrangements in place to monitor the performance of services hosted on its behalf.

The report recommended:

that the Committee review, discuss and comment on the issues raised within the report and the attached appendix, and then endorse the recommendations made.

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The Committee resolved:-

to note the report and the attached internal audit report.

STORE STOCK CONTROL - AC2404

18. The Committee had before it a report by the Chief Internal Auditor which presented an audit on Stores Stock Control which was undertaken to obtain assurance that stock procedures were adequate and stock movements were adequately accounted for.

The report recommended:

that the Committee review, discuss and comment on the issues raised within the report and the attached appendix, and then endorse the recommendations made.

The Committee resolved:-

to note the report and the attached internal audit report.

SECONDARY SCHOOLS VISITS - AC2416

19. The Committee had before it a report by the Chief Internal Auditor which presented an audit on Secondary Schools Visits which was undertaken to provide assurance schools had adequate procedures in place to manage the financial aspects of the establishment and comply with the Council's Financial Regulations.

The report recommended:

that the Committee review, discuss and comment on the issues raised within the report and the attached appendix, and then endorse the recommendations made.

In response to a question regarding the overall risk rating of moderate and whether this was appropriate, the Chief Internal Auditor advised that the finding was based on a balanced report which he was able to take reasonable assurance from with some areas identified for improvement which management had accepted.

The Committee resolved:-

to note the report and the attached internal audit report.

BIODIVERSITY AND THE NATURAL ENVIRONMENT - AC2418

20. The Committee had before it a report by the Chief Internal Auditor which presented an audit on Biodiversity and the Natural Environment which was undertaken to obtain assurance over the monitoring and implementation of the Council's environmental action and any related plans, specifically in relation to biodiversity and the natural environment.

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The report recommended:

that the Committee review, discuss and comment on the issues raised within the report and the attached appendix, and then endorse the recommendations made.

The Committee resolved:-

to note the report and the attached internal audit report.

VOLUNTEER ARRANGEMENTS - AC2420

21. The Committee had before it a report by the Chief Internal Auditor which presented an audit on Volunteer Arrangements which was undertaken to review the area of volunteer arrangements to ensure the Council was operating an effective control framework regarding the engagement of volunteering services.

The report recommended:

that the Committee review, discuss and comment on the issues raised within the report and the attached appendix, and then endorse the recommendations made.

In response to a question relating to whether the actions identified in the audit report would be completed within the timescales, the Interim Chief Officer - People and Citizen Services advised that a report on Corporate Volunteering Policy would be submitted to Staff Governance Committee later in the year and that progress was on track to meet the timescales.

In response to a question relating to whether Disclosure/PVG checks were undertaken, the Interim Chief Officer - People and Citizen Services advised that volunteers were not carrying out regulated work with children or vulnerable adults therefore would not require a check to be undertaken.

In response to a question relating to the number of volunteers and where they were working, the Interim Chief Officer - People and Citizen Services advised that currently she did not have the total number of volunteers as this was something the Working Group were progressing and that the areas covered included museums and galleries, parks and gardens and tourism.

The Committee resolved:-

to note the report and the attached internal audit report.

REVENUE BUDGET SETTING - AC2408

22. The Committee had before it a report by the Chief Internal Auditor which presented an audit on Revenue Budget Setting which was undertaken to review the procedures used in setting the Council's revenue budget and the wider financial strategy.

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The report recommended:

that the Committee review, discuss and comment on the issues raised within the report and the attached appendix, and then endorse the recommendations made.

The Committee resolved:-

to note the report and the attached internal audit report.

In accordance with the decision taken at Article 1 of this minute, the following items were considered with the press and public excluded.

COUNTER FRAUD ACTIVITY - EXEMPT APPENDIX

23. The Committee had before it an exempt appendix relating to the Counter Fraud Activity report. (article 15 of this minute refers).

The Committee resolved:-

to note the information contained within the exempt appendix.

CYBER CRIME - CUS/24/083

24. With reference to article 4 of the minute of meeting of the Communities, Housing and Public Protection Committee of 14 November 2023, the Committee had before it a report by the Executive Director of Corporate Services which provided assurance on how the council was combatting cybercrime.

The report recommended:

that the Committee

- (a) note the content of the report;
- (b) note that the cyber security arrangements were the subject of assurance by National Cyber Security Centre (NCSC) and by both internal and external audit; and
- (c) recognise the council's accreditation to both Public Services Network and Cyber Essentials.

The Committee resolved:-

to approve the recommendations contained in the report.

CYBER ACTION PLAN - AC2417

25. The Committee had before it a report by the Chief Internal Auditor which presented an audit in relation to Cyber Action Plan which was undertaken to obtain assurance over the implemented control framework in relation to the Council's cyber

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resilience, specifically in relation to the governance arrangements over the IT Health Check (ITHC) action plan development and delivery.

The report recommended:

that the Committee review, discuss and comment on the issues raised within this report and the attached appendix, and then endorse the recommendations made.

The Committee resolved:-

to note the report and the attached internal audit report.

RESIDENT X - BRIEFING NOTE - IA/24/007

26. The Committee had before it a report by the Chief Internal Auditor which presented the outcome of the Internal Audit investigation into the Council's arrangements with Resident X.

The report recommended:

that the Committee review, discuss and comment on the issues raised within the report and the attached appendix, and then endorse the recommendations made.

That the Committee:-

to note the content of the report and the attached briefing note.

- **COUNCILLOR M.TAUQEER MALIK, Convener**

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	A	B	C	D	E	F	G	H	I
1	AUDIT, RISK AND SCRUTINY COMMITTEE BUSINESS PLANNER The Business Planner details the reports which have been instructed by the Committee as well as reports which the Functions expect to be submitting for the calendar year.								
2	Report Title	Minute Reference/Committee Decision or Purpose of Report	Update	Report Author	Chief Officer	Directorate	Terms of Reference	Delayed or Recommended for removal or transfer, enter either D, R, or T	Explanation if delayed, removed or transferred
3	27 June 2024								
4	Use of Investigatory Powers Quarter 2 Report	to present the use of investigatory powers during Q2		Jessica Anderson	Governance	Corporate Services	5.2	R	This report is a standing report for the Committee. There is nothing to report since the previous meeting. This item is on the planner at item 16 for the September meeting.
5	SPSO Decisions, Inspector of Crematoria Complaint Decisions CORS/24/199	In order to provide assurance to Committee that complaints and Scottish Welfare Fund applications are being handled appropriately, this report provides information on all Scottish Public Services Ombudsman (SPSO) and Inspector of Crematoria decisions made in relation to Aberdeen City Council since the last reporting cycle.	Agenda Item 9.2	Lucy McKenzie	People and Citizens	Corporate Services	6.4		
6	Internal Audit Update Report IA/24/009	To provide an update on progress of the Internal Audit Plan, Audit Recommendations Follow Up and other relevant information for the Committee.	Agenda Item 9.6	Jamie Dale	Governance	Corporate Services	2.2		
7	Internal Audit - Creditors System AC2407	The objective of this audit was to ensure that appropriate control is being exercised over the Creditors System, including contingency planning and disaster recovery, and that interfaces to and from other systems are accurate and properly controlled.	Agenda Item 9.7	Jamie Dale	Governance	Corporate Services	2.2		
8	Internal Audit - Private Sector Housing AC2421	The objective of this audit is to ensure adequate control is exercised over private sector housing income and expenditure.	Agenda Item 9.8	Jamie Dale	Governance	Corporate Services	2.2		
9	Internal Audit - City Region Deal AC2422	The objective of this audit is to provide assurance over the governance and financial spend of the City Region Deal	Agenda Item 9.9	Jamie Dale	Governance	Corporate Services	2.2		
10	Internal Audit - Prevent AC2419	The objective of this audit is to ensure the Council has adequate arrangements in place to deliver requirements under the Prevent duty.	Agenda Item 10.1	Jamie Dale	Governance	Corporate Services	2.2		
11	Internal Audit Annual Report 2023-24 IA/24/010	To present the Internal Audit Annual Report for 2023-2024	Agenda Item 9.10	Jamie Dale	Governance	Corporate Services	2.1		

	A	B	C	D	E	F	G	H	I
1	AUDIT, RISK AND SCRUTINY COMMITTEE BUSINESS PLANNER The Business Planner details the reports which have been instructed by the Committee as well as reports which the Functions expect to be submitting for the calendar year.								
2	Report Title	Minute Reference/Committee Decision or Purpose of Report	Update	Report Author	Chief Officer	Directorate	Terms of Reference	Delayed or Recommended for removal or transfer, enter either D, R, or T	Explanation if delayed, removed or transferred
12	External Audit Annual Report on the 2023-24 Accounts EA/24/005	To present the External Audit Annual Report on the accounts for 2023-23.	Agenda Item 9.4 - to follow	Anne MacDonald	Governance	Corporate Services	3.1		
13	External Audit ISA 260 Report EA/24/006	to present the ISA 260 report to those charged with governance which covers the audits of the 2023/24 council's financial statements and those of its charitable trusts.	Agenda Item 9.3	Anne MacDonald	Governance	Corporate Services	3.1		
14	Audited Annual Accounts 2023-24 CORS/24/200	To present the audited Accounts for 2023-24 and the Charities Accounts 23-24	Agenda Item 9.5 - to follow	Lesley Fullerton	Finance	Corporate Services	4.1		
15	ALEO Assurance Hub Update CORS/24/198	To provide an update of risk and financial management and governance arrangements in accordance with Hub TOR and annual workplan.	Agenda Item 9.1	Vikki Cuthbert	Governance	Corporate Services	1.3		
16	26 September 2024								
17	Use of Investigatory Powers Quarter 3 Report	to present the use of investigatory powers during Q3		Jessica Anderson	Governance	Corporate Services	5.2		
18	SPSO Decisions, Inspector of Crematoria Complaint Decisions	In order to provide assurance to Committee that complaints and Scottish Welfare Fund applications are being handled appropriately, this report provides information on all Scottish Public Services Ombudsman (SPSO) and Inspector of Crematoria decisions made in relation to Aberdeen City Council since the last reporting cycle.		Lucy McKenzie	People and Citizens	Corporate Services	6.4		
19	Internal Audit Update Report	To provide an update on progress of the Internal Audit Plan, Audit Recommendations Follow Up and other relevant information for the Committee.		Jamie Dale	Governance	Corporate Services	2.2		
20	Internal Audit Reports	Reports which have been finalised will be presented to the Committee.		Jamie Dale	Governance	Corporate Services	2.2		
21	Information Governance Management Annual Report 2023-24	to present the annual report for the Council's Information Governance		Martin Murchie	Data Insights	Corporate Services	1.4		

	A	B	C	D	E	F	G	H	I
1	AUDIT, RISK AND SCRUTINY COMMITTEE BUSINESS PLANNER The Business Planner details the reports which have been instructed by the Committee as well as reports which the Functions expect to be submitting for the calendar year.								
2	Report Title	Minute Reference/Committee Decision or Purpose of Report	Update	Report Author	Chief Officer	Directorate	Terms of Reference	Delayed or Recommended for removal or transfer, enter either D, R, or T	Explanation if delayed, removed or transferred
22	28 November 2024								
23	Use of Investigatory Powers Quarter 4 Report	to present the use of investigatory powers during Q4		Jessica Anderson	Governance	Corporate Services	5.2		
23	SPSO Decisions, Inspector of Crematoria Complaint Decisions	In order to provide assurance to Committee that complaints and Scottish Welfare Fund applications are being handled appropriately, this report provides information on all Scottish Public Services Ombudsman (SPSO) and Inspector of Crematoria decisions made in relation to Aberdeen City Council since the last reporting cycle.		Lucy McKenzie	People and Citizens	Corporate Services	6.4		
24	Internal Audit Update Report	To provide an update on progress of the Internal Audit Plan, Audit Recommendations Follow Up and other relevant information for the Committee.		Jamie Dale	Governance	Corporate Services	2.2		
26	Internal Audit Reports	Reports which have been finalised will be presented to the Committee.		Jamie Dale	Governance	Corporate Services	2.2		
27	Annual Committee Effectiveness Report	To report on the annual effectiveness of the committee		Karen Finch	Governance	Corporate Services	GD 8.5		
28	ALEO Assurance Hub Update	To provide an update of risk and financial management and governance arrangements in accordance with Hub TOR and annual workplan.		Vikki Cuthbert	Governance	Corporate Services	1.3		
29	Annual Accounts 2024-25 - Key Dates	to provide Elected Members with high level information and key dates in relation to the 2024/25 Annual Accounts including linkages to the plans and timetables of the Council's External Auditors		Lesley Fullerton	Finance	Corporate Services	4.1		
30	Date to be Confirmed								

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ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	27 June 2024
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	ALEO Assurance Hub Update
REPORT NUMBER	CORS/24/198
DIRECTOR	Andy Macdonald
CHIEF OFFICER	Vikki Cuthbert, Interim Chief Officer – Governance
REPORT AUTHOR	Vikki Cuthbert, Assurance Manager
TERMS OF REFERENCE	Remit 1.3

1. PURPOSE OF REPORT

- 1.1 To provide assurance on the governance arrangements, risk management, and financial management of Arm’s Length External Organisations (ALEOs) as detailed within the ALEO Assurance Hub’s terms of reference.

2. RECOMMENDATION(S)

That the Committee:-

- 2.1 Notes the level of assurance provided by each ALEO on governance arrangements, risk management and financial management respectively and the risk ratings applied by the ALEO Assurance Hub, as detailed in appendices B-H; and
- 2.2 Notes that the ALEO Assurance Hub will discuss any outstanding issues specified in the appendices with ALEO representatives, with a view to maintaining low/very low risk ratings and improving any medium risk ratings to low/very low.

3. CURRENT SITUATION

- 3.1 The report provides an overview of the ALEO Assurance Hub’s most recent cycle of scrutiny following the Committee’s endorsement of an oversight approach which balances the Council’s need for assurance with an ALEO’s right to govern itself as an independent entity.
- 3.2 The Hub continues to adopt a proportionate and risk-based approach and receives assurance from ALEOs through exception reporting which allows it to assess the level of ALEO risk to the Council. The reporting is based on the degree of assurance provided on each ALEO’s governance arrangements, risk management and financial management. The ALEO Assurance Hub provide high level, strategic oversight of ALEOs but does not undertake quality checks on the operation of ALEOs.

- 3.3 The Hub met in May and identified the following key assurance areas, in accordance with the workplan previously reported to the Committee. Specific follow-ups were sought from each ALEO in furtherance of gaps in assurance from the previous cycle, and these are referenced specifically in the appendices.

Governance Arrangements

1. A tracker of employment policies including dates for renewal, in which areas you use ACC policies and which are localised and confirm (for the latter) where there have been changes to employment law in the last 12 months, have policies been updated ie changes to flexible working employment rights as of 1st April and planning for further 2024 changes.
2. Evidence that due regard is given to protected characteristics as part of decisions being made by the Board when proposals are being considered. What mechanisms are in place and to what extent are these available at the point of decision making

Risk & Resilience Management

1. A short written summary of your current risk environment, including any risks added to your register, escalated, de-escalated or closed, since the last update to the Hub.
2. Assurance that ALEOs have risk-based internal audit plans in place and a process to address and close out audit recommendations to completion. Assurance that there have been no internal control failures or that any failures have been addressed and/or notified if they are of significance to the Council.
3. Whether there have been any BCP activations since the last reporting cycle and whether BCPs have been updated this year. ALEOs asked to advise if they have an escalation process for notifying the Council in the event of an BCP activation or incident.

Financial Management

1. Assurance that accounts are being managed within budget, that the level of financial risk to the Council is low and that there is compliance with the Following the Public Pound Code of Practice.
 2. Assurance that ALEOs undertake medium-term financial planning or have incorporated medium term planning into a Business Plan to provide assurance that ALEOs are prepared for core funding pressures. Again this ensures compliance with the Following the Public Pound Code of Practice.
 3. Assurance that accounts are being managed within budget, are in line with statutory requirements and Following the Public Pound Code of Practice, and that the level of financial risk to the Council is low.
- 3.4 The Assurance Standards and Risk Ratings are set out at Appendix A. The Hub's overall assessment of each ALEO, based on the information returned, has been attached within the summary report at Appendix B. Appendices C-H provide a summary of requests to and responses from, each ALEO, along with a breakdown of risk ratings. These have been agreed with the ALEOs.

- 3.5 This is the first time the Council has sought assurance on ALEOs' duties under the Equality Act and it is appropriate that we do so given the improvements we have made to our own governance in the last year. Medium ratings reflect that there is a further maturity needed for ALEOs to understand the requirements of the legislation and to provide service users who have protected characteristics with the consideration required by law. Council officers have scheduled training with all ALEOs using our own learning in this area. The Hub will seek further assurance from ALEOs later in the year on the extent to which their governance in this area has improved as a result of this training.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from the recommendations in this report.
- 4.2 The role of the Hub is to ensure that ALEOs provide assurance that risks, including financial ones are identified and managed. One of the Hub's primary functions is to ensure that the Council is able to follow the public pound as outlined in Accounts Commission guidance.

5. LEGAL IMPLICATIONS

- 5.1 Legal officers within Commercial and Procurement Services have reviewed ALEO Service Level Agreements which aim, amongst other things, to facilitate the ALEO Assurance Framework. These have been modified to recognise the requirements of the Assurance Hub to receive assurance regarding systems of governance, company outcomes and risk management and mitigation.
- 5.2 The ALEO Assurance Hub will help identify any projects and/or initiatives that could influence investment decisions of Bond holders or the Council's credit rating and ensure that the appropriate governance is put in place. This adds a further layer of assurance to the Council's existing Bond governance arrangements.

6. ENVIRONMENTAL IMPLICATIONS

- 6.1 There are no direct environmental implications arising from the recommendations of this report.

7. RISK

- 7.1 The assessment of risk contained within the table below is considered to be consistent with the Council's Risk Appetite Statement.

Category	Risks	Primary Controls/Control Actions to achieve Target Risk Level	*Target Risk Level (L, M or H) *taking into account controls/control actions	*Does Target Risk Level Match Appetite Set?
Strategic Risk	Ability of ALEOs to support the Council in meeting its strategic outcomes.	<p>The Assurance Hub process mitigates against this risk by monitoring ALEO contribution to ACC strategic outcomes. This includes review of ALEO risk registers.</p> <p>Council's remit includes oversight of ALEO business plans and performance, which would support achievement of the target risk score in this category.</p>	M	Yes
Compliance	<p>ALEO service level agreements are not up to date and ALEOs are not delivering on Council outcomes.</p> <p>Non-compliance against GDPR, Health and Safety and other statutory responsibilities.</p>	<p>Commercial and Procurement Services has reviewed ALEO service level agreements to ensure they remain robust and fit for purpose.</p> <p>The Council has oversight of how ALEOs are achieving Council outcomes and complying with the terms of their service level agreements.</p> <p>The Hub will continue its oversight of ALEOs' approach to embedding strong governance, including audits, policies, procedures and systems to ensure that these are being reviewed and staff</p>	L	Yes

Category	Risks	Primary Controls/Control Actions to achieve Target Risk Level	*Target Risk Level (L, M or H) *taking into account controls/control actions	*Does Target Risk Level Match Appetite Set?
		<p>training is being delivered to mitigate the risk of governance failure.</p> <p>The Legal Regulatory and Compliance Team provide support and advice to the Hub on the steps ALEOs are taking on GDPR compliance in order for the Hub to provide assurance to Committee on ALEOs' management of this risk.</p>		
Operational	Failure of ALEOs to deliver services according to agreed Service Level Agreements	Monitored by Strategic Commissioning Committee which has oversight of ALEO strategic business plans.	L	Yes
Financial	Financial failure of ALEOs impacting on the Council and its credit rating.	<p>ALEOs report financial performance and governance to their boards and present their annual accounts for scrutiny by an external auditor.</p> <p>One of the Hub's key functions is to provide assurance to Committee on the financial management of Council ALEOs.</p> <p>City Growth and Resources Committee monitors financial</p>	L	Yes

Category	Risks	Primary Controls/Control Actions to achieve Target Risk Level	*Target Risk Level (L, M or H) *taking into account controls/control actions	*Does Target Risk Level Match Appetite Set?
		performance and viability, including business planning.		
Reputational	Impact of performance or financial risk on reputation of ACC.	Regular reporting to this Committee from the Hub provides adequate control.	L	Yes
Environment / Climate	Service delivery or operations impacting negatively on City net zero targets.	Regular reporting to this Committee from the Hub provides adequate control.	L	Yes

8. OUTCOMES

- 8.1 The recommendations within this report have no direct impact on the Council Delivery Plan.

9. IMPACT ASSESSMENTS

Assessment	Outcome
Integrated Impact Assessment	The Interim Chief Officer – Governance has confirmed that this is not required.
Data Protection Impact Assessment	Not required.

10. BACKGROUND PAPERS

None

11. APPENDICES

- 11.1 **Appendix A** – Assurance Standards and Risk Ratings
Appendix B – Summary of ALEO Risk Ratings
Appendix C – Aberdeen Heat and Power

- Appendix D** – Aberdeen Performing Arts
- Appendix E** – Aberdeen Sports Village
- Appendix F** – Bon Accord Care
- Appendix G** – bp Aberdeen Hydrogen Energy Limited
- Appendix H** – Sport Aberdeen

12. REPORT AUTHOR CONTACT DETAILS

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Appendix A

Assurance Standard	Risk Rating
Unambiguous responses demonstrating clear understanding and comprehensive ability to fulfil ACC requirements, giving full detail as how these are achieved.	Very Low
Responses provide evidence of good understanding and compliance although limited detail provided for some areas.	Low
Responses provide some indication of understanding and compliance	Medium
Minimal or poor responses providing little evidence of understanding or compliance.	High
Nil or inadequate responses with little or no understanding of requirement or evidence of compliance.	Very High

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	B	M	N	O	P	Q	R	S	T	U	V	W	X	Y	Z	AA	AB
1	Appendix B																
2																	
3	Overall Risk Rating																
4		Oct-20		May-21		Sept-21		June-22		Dec-22		June-23		Nov-23		June-24	
6	Aberdeen Heat and Power	Low/ Medium	Very Low/ Low	Very Low/ Low	Low/ Medium	Medium	Low/ Medium	Low/ Medium	Low/ Medium	Low/ Medium	Low/ Medium	Low/ Medium	Low/ Medium	Low/ Medium	Low/ Medium	Low/ Medium	Low/ Medium
7	Aberdeen Performing Arts	High	Medium	Medium	Low/ Medium	Low/ Medium	Low/ Medium	Low/ Medium	Low/ Medium	Low/ Medium	Low/ Medium	Low/ Medium	Low/ Medium	Low/ Medium	Low/ Medium	Low/ Medium	Low/ Medium
8	Aberdeen Sport Village	Low/ Medium	Very Low/ Low	Very Low/ Low	Low/ Medium	Low/ Medium	Low/ Medium	Low/ Medium	Low/ Medium	Low/ Medium	Low/ Medium	Low/ Medium	Low/ Medium	Very Low/ Low	Low/ Medium	Low/ Medium	Low/ Medium
9	Bon Accord Care	Low/ Medium	Low/ Medium	Very Low/ Low	Very Low/ Low	Very Low/ Low	Low/ Medium	Low/ Medium	Low/ Medium	Low/ Medium	Low/ Medium	Low/ Medium	Low/ Medium	Medium/ High	Low/ Medium	Low/ Medium	Low/ Medium
10	Sport Aberdeen	Medium	Very Low/ Low	Very Low/ Low	Low/ Medium	Low/ Medium	Low/ Medium	Low/ Medium	Low/ Medium	Low/ Medium	Low/ Medium	Low/ Medium	Low/ Medium	Low/ Medium	Low/ Medium	Low/ Medium	Low/ Medium
11	bp Aberdeen Hydrogen Energy	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	Low/ Medium	Low/ Medium	Low/ Medium	Low/ Medium	Low/ Medium	Low/ Medium	Low/ Medium	Low
12																	

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	A	C	H	I
1	ABERDEEN HEAT AND POWER			
2	Area of Assurance	Assurance Request	ALEO Response and Hub Commentary	Hub Risk Rating
3	Governance	Assurance on the on-going training and development of Board members including any changes to Board structure, rationale for any structure changes, training plans for Board members, procedures around conflicts of interest.	The Hub noted that a full governance review had been undertaken, the purpose of which was to align the company with both future growth and the full impact of Teckal compliance with the business. The Hub was advised that the review outcome was due to be presented to the board at its Strategy Day on 15 May 2024 where the recommendations would be discussed. The Hub noted that the governance policies would then be updated and shared with the Hub thereafter. The Hub was reassured that work was in hand in this area and looked forward to a future update, along with the relevant policies.	Low
4		Assurance that all employment practices are in alignment with employment legislation, the ALEO's people policies and employment best practice.	The Hub noted that HR policies will be a priority for review when internal auditors are appointed in Q2 of 2024. The Hub agreed to revisit this in a future cycle.	Medium
5		Assurance that the Public Sector Equality Duty is being met and that decision making does provide evidence of due regard to people with protected characteristics.	The Hub was advised that AH&P have a vulnerable person policy which is utilised when decisions around billing and repairs are made. This policy is due to be reviewed by internal auditors in Q2. All ALEOs will be invited to attend a training session with Council officers to share the improvements made in relation to our Public Sector Equality Duty. This will focus on areas within each ALEO which require to be improved.	Medium
6	Risk Management	Assurance that risks are being regularly reviewed in accordance with the organisation's agreed risk management policy. The assurance will be provided through a short written summary of ALEOs current risk environment, including risks that been added, escalated or de-escalated rather than through provision of the risk register. This will also include an overview of activity and controls in place across the three lines of defence.	The Hub was advised that AH&P current risk management activity is focused on the decarbonisation of its networks whilst mitigating where possible the risks and impacts around fuel poverty. Recent risk management sessions have focused on the potential for single points of failure within AH&P's energy centres. As a result of this activity, a new risk assessment has been created which is used to inform and update the risk register. AH&P continues to review and update risk registers at both the Board and Sub Group meetings.	Very Low

	A	C	H	I
2	Area of Assurance	Assurance Request	ALEO Response and Hub Commentary	Hub Risk Rating
7		<p>Assurance that ALEOs have risk-based internal and external audit plans in place and a process to address and close out audit recommendations to completion.</p> <p>Assurance that there have been no internal control failures or that any failures have been addressed and/or notified if they are of significance to the Council.</p>	<p>AH&P are currently in the process of appointing new auditors and expect to award a three year contract by the end of Q2 2024. The Hub will follow up on this area in the next reporting cycle.</p>	Low
8		<p>Assurance that emergency plans/major incident plans and processes and appropriate business continuity arrangements are in place.</p> <p>Assurance that testing and exercising arrangements or schedules are in place which recognise the evolving risk environment for the Place; in particular that provision is made within plans and exercising to ensure resilience around critical service delivery; that each organisation has an awareness of the Council's responsibilities as a Cat 1 responder under the Civil Contingencies Act and has agreed mechanisms in place to support these; and that each organisation is fully conversant with the implications for their operations of the CONTEST Strategy (UK Govt strategy for counter-terrorism), in particular in respect of the Prevent and Protect duties.</p>	<p>The Hub was advised that two instances of gas failure at two energy centres had occurred and the actions and activities required to respond to these events have been used to update existing plans and arrangements. Agreed to seek confirmation of when and how AH&P would escalate within ACC.</p> <p>The Hub previously agreed to follow up on progress resulting from the CONTEST training which was provided to AH&P staff. AH&P have confirmed progress in this area which has included enhancement of existing security protocols including, upgrades to door entry systems, introduction of third party security controls.</p> <p>The Hub suggests that ACT Elearning is rolled out to frontline staff and that the Protect UK app is also downloaded to staff devices. In addition, that AH&P attends training session being held on 25th July by ACC to cover Risk and Resilience matters.</p>	Low
9	Finance - Tina	<p>Assurance that accounts are being managed within budget, that the level of financial risk to the Council is low and that there is compliance with the Following the Public Pound Code of Practice.</p>	<p>The Hub noted that extensive budget monitoring and budget analysis papers continue to be submitted to and reviewed by the AH&P Board. This includes additional analysis in respect of Debtors, Creditors and the Balance Sheet.</p>	Very Low

	A	C	H	I
2	Area of Assurance	Assurance Request	ALEO Response and Hub Commentary	Hub Risk Rating
10		Assurance that ALEOs undertake medium-term financial planning or have incorporated medium term planning into a Business Plan to provide assurance that ALEOs are prepared for core funding pressures. Again this ensures compliance with the Following the Public Pound Code of Practice.	<p>The Hub noted that both Board papers and the draft 2023-24 financial results indicate that the Energy Supply contract processes now in place are providing stability with regard to the organisations financial planning and results.</p> <p>The Hub has reviewed the updated Business Plan (BP) for 2024-25 to 2027-28 which was submitted to the AH&P Board in February 2024.</p> <p>The BP reflects both the expected financial results for 2023-24, and changes in market conditions for external energy. The AH&P Board also recognises the aim of the organisation in respect of alleviating fuel poverty and this has been factored into the Business Plan when setting prices.</p>	Very Low
11		Assurance that accounts are being managed within budget, are in line with statutory requirements and Following the Public Pound Code of Practice, and that the level of financial risk to the Council is low.	The Hub confirmed that the 2022-23 annual accounts were submitted to Companies House by the required deadline and in accordance with the appropriate regulations. The auditors' report identified no matters of concern and concluded that the organisations use of the Going Concern basis of accounting was appropriate. The 2023-24 accounts are still subject to audit and will be reviewed when that is complete.	Very Low

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	A	C	N	O
1	ABERDEEN PERFORMING ARTS			
2	Area of Assurance	Assurance Request	ALEO Response and Hub Commentary	Hub Risk Rating
3	Governance	Assurance on the on-going training and development of Board members including any changes to Board structure, rationale for any structure changes, training plans for Board members, procedures around conflicts of interest.	The Hub noted that APA had successfully recruited a Chair Elect and 4 new board members, all of whom were formally elected onto the board at the February 2024 meeting. The Hub noted that the current Chair was due to step down at the May 2024 board meeting, with the Chair Elect taking over thereafter and a handover plan had been agreed. The Hub further noted that an induction had been held in February 2024 for all new board members and the Chair Elect would be undertaking 1:1s with all board members in due course, which would coincide with a review of board skills and a future training plan to be agreed.	Very Low
4		Assurance that all employment practices are in alignment with employment legislation, the ALEO's people polices and employment best practice.	The Hub noted that the APA policy tracker and the dated detail of the suite of policies plus the ongoing review program with their employment lawyer will cover the legislative changes occurring within 2024 and therefore provides the assurance required.	Low
5		Assurance that the Public Sector Equality Duty is being met and that decision making does provide evidence of due regard to people with protected characteristics.	The Hub noted that APA has a comprehensive Equality, Diversity and Inclusion policy and action plan, with EDI a regular agenda item as part of our Organisational Development sub committee and board meetings. One Board member is the nominated board EDI champion, and a further board member who is a retired employment lawyer has a specific interest in EDI and ensuring equality and protected characteristics are given due regards as part of the decision making process. APA also has a senior HR professional on our leadership team who attends all board and sub committee meetings who also provides advice and guidance in relation to equalities and protected characteristics as required.	Low
6		Assurance of on-going review of all governance documentation and policies. The assurance will be provided through a short written summary of planned and completed activities in this area and should include reference to information governance, health and safety governance, public liability and employer's liability insurance and cyber governance.	The Hub noted that APA have commenced our phased implementation of Asana, a project management and collaboration tool, and this started with the Leadership Team who have been actively using the tool to track meetings and actions, coordinate funding applications and reporting requirements. APA will continue to phase the rollout across our teams throughout 2024/25.	Very Low

	A	C	N	O
8	Risk Management	Assurance that risks are being regularly reviewed in accordance with the organisation's agreed risk management policy. The assurance will be provided through a short written summary of ALEOs current risk environment, including risks that been added, escalated or de-escalated rather than through provision of the risk register. This will also include an overview of activity and controls in place across the three lines of defence.	<p>APA confirmed that the risk register was reviewed at the Finance Audit and Property Board Sub-committee in May 2024. APA confirmed that there were no material changes to the risk environment or specific risks contained within the register.</p> <p>The APA risk register will be reviewed in full by the Hub in the next reporting cycle, particularly to understand more about the current risk environment in which APA are operating.</p>	Low
10		<p>Assurance that ALEOs have risk-based internal and external audit plans in place and a process to address and close out audit recommendations to completion.</p> <p>Assurance that there have been no internal control failures or that any failures have been addressed and/or notified if they are of significance to the Council.</p>	<p>APA confirmed that there were no control failures recorded and provided a copy of the internal audit plan and priorities for FY 24/25 that was presented to the Board. Priority areas include; programme data and financials, cyber security, supplier contract review and VAT compliance.</p> <p>The Hub will follow-up on plan progress in the next reporting cycle.</p>	Very Low
12		<p>Assurance that emergency plans/major incident plans and processes and appropriate business continuity arrangements are in place.</p> <p>Assurance that testing and exercising arrangements or schedules are in place which recognise the evolving risk environment for the Place; in particular that provision is made within plans and exercising to ensure resilience around critical service delivery; that each organisation has an awareness of the Council's responsibilities as a Cat 1 responder under the Civil Contingencies Act and has agreed mechanisms in place to support these; and that each organisation is fully conversant with the implications for their operations of the CONTEST Strategy (UK Govt strategy for counter-terrorism), in particular in respect of the Prevent and Protect duties.</p>	<p>APA confirmed there have been no activations of Business Continuity Plans since the last reporting cycle.</p> <p>APA Business Continuity plans and process include escalation prompts to the Council, depending on the nature and severity of the incident.</p> <p>The Hub suggests that ACT Elearning is rolled out to frontline staff and that the Protect UK app is also downloaded to staff devices. In addition, that APA attends training session being held on 25th July by ACC to cover Risk and Resilience matters.</p>	Low
13	Finance	Assurance that accounts are being managed within budget, that the level of financial risk to the Council is low and that there is compliance with the Following the Public Pound Code of Practice.	The Hub noted that Budget monitoring and updated cashflow reports continue as agenda items at each Board Meeting. The review of budgets and finance are supported by the organisations Finance, Audit and Property Sub Committee. The organisation continues to review customer behaviour and spending patterns to support Cash Flow and budget monitoring. There is a clear distinction between available funds and advance booking monies within Cash Flow and budget forecasts. Current year monitoring information and Board papers confirm that APA continue to operate within a challenging financial environment and continues to analyse its operations to identify opportunities for growth or cost mitigation..	Medium

	A	C	N	O
14		Assurance that ALEOs undertake medium-term financial planning or have incorporated medium term planning into a Business Plan to provide assurance that ALEOs are prepared for core funding pressures. Again this ensures compliance with the Following the Public Pound Code of Practice.	A detailed Business Plan covering 2024/25 to 2027/28 was presented at the February 2024 Board meeting for Board input/comment. This has been reviewed by the ALEO Hub. The Business Plan provides clear links to both the recent financial performance of the organisation as well as the assumptions upon which the BP is based and what actions are being carried out to support the achievement of the Business Plan. Reference has been made within the BP to potential funding changes, including the Cultural funding review being carried out by ACC.	Low
15		Assurance that accounts are being managed within budget, are in line with statutory requirements and Following the Public Pound Code of Practice, and that the level of financial risk to the Council is low.	The Hub confirmed that the 2022-23 annual accounts were submitted to Companies House and OSCR by the required deadline and in accordance with the appropriate regulations. The auditors' report identified no matters of concern and concluded that the organisations use of the Going Concern basis of accounting was appropriate. The 2023-24 accounts are still subject to audit and will be reviewed when that is complete.	Very Low

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	A	C	I	J
1	ABERDEEN SPORTS VILLAGE			
2	Area of Assurance	Assurance Request	ALEO Response and Hub Commentary	Hub Risk Rating
3	Governance	Assurance on the on-going training and development of Board members including any changes to Board structure, rationale for any structure changes, training plans for Board members, procedures around conflicts of interest.	The Hub noted the minute of the interim board meeting of 7 March 2024 and the Board report from 29 March 2024 and could not see any evidence of the 5 key recommendations from the Board Review having been considered. This will be followed up in the next cycle and if assurance is provided this risk rating will be adjusted to Very Low.	Low
4		Assurance that all employment practices are in alignment with employment legislation, the ALEO's people polices and employment best practice.	The Hub noted that the ASV policy tracker and the dated detail of the staff handbook ongoing review program would cover the legislative changes occurring within 2024 and therefore provides the assurance required.	Low
5		Assurance that the Public Sector Equality Duty is being met and that decision making does provide evidence of due regard to people with protected characteristics.	The Hub noted that ASV operates an Equality, Diversity and Inclusion Policy however this does not describe the extent to which protected characteristics are taken into account during decision making. All ALEOs will be invited to attend a training session with Council officers to share the improvements made in relation to our Public Sector Equality Duty. This will focus on areas within each ALEO which require to be improved.	Medium
6	Risk Management	Assurance that risks are being regularly reviewed in accordance with the organisation's agreed risk management policy. The assurance will be provided through a short written summary of ALEOs current risk environment, including risks that been added, escalated or de-escalated rather than through provision of the risk register. This will also include an overview of activity and controls in place across the three lines of defence.	ASV provided the Hub with the board pack from March 2024 which included the Risk Report for 23/24 and the Top 5 Business Risks faced by the organisation. The report provided an overall summary of the Top 5 risks which includes adjustment in risk score assessment appropriate along with a full copy of the ASV risk register. The preport provides assurance that ASV continues to monitor its current risk environment whilst continuing to manage existing risks. In the next cycle, the Hub will seek confirmation of actions within the Quest Improvement Action Planner since last reporting cycle.	Very Low

	A	C	I	J
7		<p>Assurance that ALEOs have risk-based internal and external audit plans in place and a process to address and close out audit recommendations to completion.</p> <p>Assurance that there have been no internal control failures or that any failures have been addressed and/or notified if they are of significance to the Council.</p>	<p>ASV provided a copy of the internal audit planner for 2024/25. The plan is comprehensive and covers each area to be audited including HR, Finance, Operations, Facilities, H&S, Sports and Business Development and Environmental. Each areas to be audited is linked to strategic commitments and sets out when the audits shall take place.</p> <p>The Hub will follow up on plan progress in the next reporting cycle.</p> <p>ASV reported that there are no overdue audit recommendations and no internal control failures to report.</p>	Very Low
8		<p>Assurance that emergency plans/major incident plans and processes and appropriate business continuity arrangements are in place.</p> <p>Assurance that testing and exercising arrangements or schedules are in place which recognise the evolving risk environment for the Place; in particular that provision is made within plans and exercising to ensure resilience around critical service delivery; that each organisation has an awareness of the Council's responsibilities as a Cat 1 responder under the Civil Contingencies Act and has agreed mechanisms in place to support these; and that each organisation is fully conversant with the implications for their operations of the CONTEST Strategy (UK Govt strategy for counter-terrorism), in particular in respect of the Prevent and Protect duties.</p>	<p>ASV provided a copy of the BCP for loss of IT systems and the Emergency and BCP checklist.</p> <p>The Hub suggests that ACT Elearning is rolled out to frontline staff and that the Protect UK app is also downloaded to staff devices. In addition, that ASV attends training session being held on 25th July by ACC to cover Risk and Resilience matters. The Hub will also follow up in the next cycle on whether there have been any live activations of BCPs or incident plans.</p>	Low
9	Finance	<p>Assurance that accounts are being managed within budget, that the level of financial risk to the Council is low and that there is compliance with the Following the Public Pound Code of Practice.</p>	<p>The Hub noted that the ASV Board continue to be provided with detailed budget monitoring and forecasts, as well as updates on specific actions in relation to cost mitigation and Income Generation. Board minutes confirm members take the opportunity to raise questions and make suggestions in relation to Finance related matters.</p>	Very Low

	A	C	I	J
10		Assurance that ALEOs undertake medium-term financial planning or have incorporated medium term planning into a Business Plan to provide assurance that ALEOs are prepared for core funding pressures. Again this ensures compliance with the Following the Public Pound Code of Practice.	ASV are currently working on the latest version of their 3 Year Business Plan, taking into account changes in funding and scrutinising cost drivers. Board minutes indicate some discussion has already taken place at Officer and Board level around future funding levels. ASV continue to operate within a challenging financial environment. It should be noted that ASV provide regular monitoring reports to the Board alongside specific reports on various financial aspects, providing updated on progress on cost mitigation as well as benchmarking in relation to prices, attendance and Income generation.	Medium
11		Assurance that accounts are being managed within budget, are in line with statutory requirements and Following the Public Pound Code of Practice, and that the level of financial risk to the Council is low.	The Hub confirmed that the 2022-23 annual accounts were submitted to Companies House and OSCR by the required deadline and in accordance with the appropriate regulations. The auditors' report identified no matters of concern and concluded that the organisations use of the Going Concern basis of accounting was appropriate. ASV's financial year is to 31 July and the 2023/24 accounts will be reviewed by the Hub when the audit of these is complete.	Very Low

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	A	C	H	I
1	BON ACCORD CARE			
2	Area of Assurance	Assurance Request	ALEO Response and Hub Commentary	Hub Risk Rating
3	Governance	Assurance that all employment practices are in alignment with employment legislation, the ALEO's people policies and employment best practice.	The Hub noted that BAC utilise ACC policies which are regularly updated to reflect relevant legislation. Some further discussion on the extent of their use in BAC will be undertaken in the next round of meetings.	Low
4		Assurance that the Public Sector Equality Duty is being met and that decision making does provide evidence of due regard to people with protected characteristics.	BAC advised the Hub that all business cases which are considered will now include a specific impact assessment in relation to the requirements of the Public Sector Equality Duty. All ALEOs will be invited to attend a training session with Council officers to share the improvements made in relation to our Public Sector Equality Duty. This will focus on areas within each ALEO which require to be improved.	Medium
5	Risk Management	Assurance that risks are being regularly reviewed in accordance with the organisation's agreed risk management policy. The assurance will be provided through a short written summary of ALEOs current risk environment, including risks that been added, escalated or de-escalated rather than through provision of the risk register. This will also include an overview of activity and controls in place across the three lines of defence.	BAC continues to monitor and manage organisational risk via its individual service level risk registers as reported in the previous reporting cycle. The risks and risk evaluations are presented to the relevant committees for approval whilst the Corporate Risk Register is reviewed by the Audit and Assurance committee before it is presented to the board for approval. A copy of the BAC and Finance Risk register was reviewed and provided evidence of risk updates in April 2024. BAC's confirmed that the amendments were made to the Corporate Risk Register following a board development session in December 2023. BAC risk management arrangements continue to provide assurance that risks are identified, managed and monitored appropriately.	Very Low
6		Assurance that ALEOs have risk-based internal and external audit plans in place and a process to address and close out audit recommendations to completion. Assurance that there have been no internal control failures or that any failures have been addressed and/or notified if they are of significance to the Council.	BAC provided a copy of the internal audit plan which covers FY24/25, the content of the plan has been created in conjunction with BAC's internal auditors and was agreed by the Audit and Assurance Committee. Internal audits were undertaken during FY23/24 covering Facilities, Health and Safety and BAC/ACC Payroll and no internal control failures were recorded. It was noted that audits relating to Budgetary Control, Asset Management, Schedule/Salesforce Review and Care Rota Management originally planned for FY23/24 are now scheduled for FY24/25. The Hub will follow-up this area in the next reporting cycle in addition to progress on internal audit recommendations remaining open.	Very Low

	A	C	H	I
7		<p>Assurance that emergency plans/major incident plans and processes and appropriate business continuity arrangements are in place.</p> <p>Assurance that testing and exercising arrangements or schedules are in place which recognise the evolving risk environment for the Place; in particular that provision is made within plans and exercising to ensure resilience around critical service delivery; that each organisation has an awareness of the Council's responsibilities as a Cat 1 responder under the Civil Contingencies Act and has agreed mechanisms in place to support these; and that each organisation is fully conversant with the implications for their operations of the CONTEST Strategy (UK Govt strategy for counter-terrorism), in particular in respect of the Prevent and Protect duties.</p>	<p>Business Continuity plans have been reviewed within services. Table top exercises are being undertaken through Senior Leadership team meetings. BAC confirmed that there have no BCP activations since the last reporting cycle and that escalation processes are in place to inform ACC Duty Emergency Response Co-ordinator to provide situational awareness and/or to request support from the Council.</p> <p>The Hub will follow up on outputs from a joint table-top exercise conducted alongside ACHSCP in June 2024 in the next reporting cycle. This will exercise a response to a major incident.</p> <p>The Hub suggests that ACT Elearning is rolled out to frontline staff and that the Protect UK app is also downloaded to staff devices. In addition, that BAC attends training session being held on 25th July by ACC to cover Risk and Resilience matters.</p>	Low
8	Finance	<p>Assurance that accounts are being managed within budget, that the level of financial risk to the Council is low and that there is compliance with the Following the Public Pound Code of Practice.</p>	<p>The Hub noted that detailed budget monitoring, balance sheet and cashflow reports continue to be submitted to the BAC Board, Assurance Committee and individual Board members for review and comment. It was noted that target savings required to achieve a balanced budget are the subject of a specific agenda item at each Board meeting and progress in respect of the individual elements of those targets are submitted for review by the Board.</p>	Low
9		<p>Assurance that ALEOs undertake medium-term financial planning or have incorporated medium term planning into a Business Plan to provide assurance that ALEOs are prepared for core funding pressures. Again this ensures compliance with the Following the Public Pound Code of Practice.</p>	<p>Agreement has been reached between BAC and ACHP with respect to the range and level of services to be provided by BAC and the Service Level Agreement is currently awaiting signature. The HUB has noted that BAC 's Corporate Risk Register recognises that the Business Plan/MTFP need to align with the Strategic Plan as they are key in providing sufficient resourcing to continue to support the organisation going forward. The BP/MTFP organisation is currently recognised as a high priority item and the target date for completion is September 2024, at which point it will be reviewed by the HUB.</p>	Medium
10		<p>Assurance that accounts are being managed within budget, are in line with statutory requirements and Following the Public Pound Code of Practice, and that the level of financial risk to the Council is low.</p>	<p>The Hub confirmed that the 2022-23 annual accounts were submitted to Companies House by the required deadline and in accordance with the appropriate regulations. The auditors' report identified no matters of concern and concluded that the organisations use of the Going Concern basis of accounting was appropriate. The 2023-24 accounts are still subject to audit and will be reviewed by the Hub when that is complete.</p>	Very Low

	A	C	M	N
1	bP			
2	Area of Assurance	Assurance Request	ALEO Response and Hub Commentary	Hub Risk Rating
3	Governance	Assurance on the on-going training and development of Board members including any changes to Board stucture, rationale for any structure changes, and training plans for Board members.	<p>The chair of the board rotated from Ian Hunter to Katie Butler at the April board meeting (energy partner). Director Steven Whyte stood down following his retirement and has been replaced by David Dunne (ACC partner) and training/handover provided. Overall the board remains with 2 ACC directors and 4 energy partner directors. Training for board members remains the responsibility of the shareholders. This provides sufficient assurance to the Hub that the required resilience is in place.</p> <p>Board meetings opening business include a request for any Conflicts of Interest and are minuted.</p>	Low
4		Assurance that the board has clear policies and procedures for its members to ensure that potential conflicts of interests are identified, declared and acted upon.	Conflicts of interest and declarations take part at the start of Board meetings in the opening business section. This is handled by the company secretary. Further assurance will be sought that Board members are very clear about these requirements in order to make active declarations.	Low
8		Assurance that arrangements are being made by the Joint Venture to put in place the required governance documentation, including information governance, health and safety governance and cyber governance.	The Hub noted that full Board meetings are currently used to review risks including data, cyber and HSE risks. Post-Financial Investment Decision (FID) two committees will be established; Safety, and an Audit & Risk committee. Information on the Terms of Reference for these committees will be sought in the November update. There is no progress on ISO certification at this point and it will be picked up in the next cycle also.	Low

	A	C	M	N
9	Risk Management	Assurance that risks are being regularly reviewed in accordance with the organisation's agreed risk management policy. The assurance will be provided through a short written summary of ALEOs current risk environment, including risks that been added, escalated or de-escalated rather than through provision of the risk register. This will also include an overview of activity and controls in place across the three lines of defence.	<p>The Hub noted the following update:</p> <p>The risk register was updated in a risk review session with the directors at the July Board followed by an update in September. Gross and net risks were assessed and ratings confirmed. This included escalation of a number of risks with relevant mitigations placed against them to manage the impact and likelihood.</p> <p>The organisational risk profile has not changed significantly but will be continually reassessed .</p> <p>The JV Risk Assessment was further updated as part of the Phase 1 business case adding detailed study of potential Major Accident Risk (MAR) associated with process safety. Detailed engineering design work will be undertaken post-FID to update assessments including proposed controls.</p> <p>The three lines of defence can be clearly seen in the financial area where the bp and JCCA teams work together as do-ers (first line), with review and approval helpers (second line) being the senior team members. Third line assurance is coming in the form of external audit. A full second line, including internal audit, will develop as the organisation grows in size.</p> <p>In the project area the first line is being performed by third parties, with bp performing second & third line assurance through the project team's work and peer review.</p> <p>There is no BCP at the current time. This will be addressed post FID to be ready for post commercial operation date.</p>	Low
12		Assurance that arrangements are in place for internal and external auditing.	The Hub took assurance that external audit is currently taking place by Hall Morris for the financial year ended 31.03.24. A clean report is expected. Internal audit will be considered post FID and more likely once trading commences. This will be followed up in future Hub cycles as per the workplan.	Low
14	Finance	Assurance that accounts are being managed within budget, that the level of financial risk to the Council is low and that there is compliance with the Following the Public Pound Code of Practice.	The Hub confirmed that regular monthly budget monitoring accounts are being issued to Board members and that there are no matters of concern arising within these reports. Board papers also indicate extensive discussions on particular aspects continue to be tabled as required.	Low
15		Assurance that ALEOs undertake medium-term financial planning or have incorporated medium term planning into a Business Plan to provide assurance that ALEOs are prepared for core funding pressures. Again this ensures compliance with the Following the Public Pound Code of Practice.	The Business Plan was taken to the Board in October 2023. Updates discussed at the June meeting on working capital requirements post FID and early years forecasting will be followed up in subsequent cycles.	Low
17		Assurance that accounts are being managed within budget, are in line with statutory requirements and Following the Public Pound Code of Practice, and that the level of financial risk to the Council is low.	The audited 2022-23 annual accounts formed part of the ALEO Hub committee report in November 2023. There were no matters arising and the auditors raised no matters of concern. The annual accounts for 2023-24 have still to be audited and will be covered in a future ALEO Hub report.	Very Low

	A	C	H	I
1	SPORT ABERDEEN			
2	Area of Assurance	Assurance Request	ALEO Response and Hub Commentary	Hub Risk Rating
3	Governance	Assurance on the on-going training and development of Board members including any changes to Board structure, rationale for any structure changes, training plans for Board members, procedures around conflicts of interest.	<p>The Hub noted that the appointment of 3 new trustees had been completed in January 2024, with their induction process and six month probationary period now underway.</p> <p>The Hub agreed that good evidence had been presented regarding the successful implementation of a voluntary trustee-led mentoring scheme for new directors in January 2024. This scheme buddied up new directors with an existing experienced director to ease their transition as a trustee. The Hub noted that 2 of the 3 new trustees were actively engaged with the scheme and that the third trustee had extensive experience from a previous appointment to a charitable board.</p> <p>The Hub was advised that trustees had received refresher governance training with ACVO in March 2024 and continued to receive relevant briefings on areas such as legislative change and sector change.</p> <p>The Hub noted that some board and governance areas were being reviewed and refreshed as part of the company's 2024 priorities following on from the new CEO having taken up post in January 2024, and these included the governance review session, trustee training development plan and a refresh of the board skills matrix.</p> <p>The Hub agreed that a good level of assurance had been provided in these areas.</p>	Very low
4		Assurance that all employment practices are in alignment with employment legislation, the ALEO's people polices and employment best practice.	The Hub noted that all HR polices are reviewed by the employment adviser compliance team annually , and include a schedule of policy with review dates. This provides the required assurance and in future cycles, there will be follow up on specific policies.	Low
5		Assurance that the Public Sector Equality Duty is being met and that decision making does provide evidence of due regard to people with protected characteristics.	<p>The Hub noted that a cross-company inclusion forum, led by the Director of Sport and Active Communities, has been well established for a number of years and this forum ensures that Sport Aberdeeb take an 'inclusion by design' approach to policy and service changes as well as facility developments. Board directors are involved throughout the change process and have opportunity to review and scrutinise service design and policy changes through board / committee discussion and reporting processes. Sport Aberdeen complete impact assessments where there is potential for significant impact to arise from a policy or service change . An example impact assessment produced in relation to the introduction of a new discounted access scheme in 2022 was provided.</p> <p>Sport Aberdeen intend to amend their report template before the start of the next meeting cycle to ensure that the Board's consideration/discussion of the impact of policy/service changes on protected characteristics is captured and documented appropriately.</p> <p>All ALEOs will be invited to attend a training session with Council officers to share the improvements made in relation to our Public Sector Equality Duty. This will focus on areas within each ALEO which require to be improved.</p>	Low

	A	C	H	I
6	Risk Management	Assurance that risks are being regularly reviewed in accordance with the organisation's agreed risk management policy. The assurance will be provided through a short written summary of ALEOs current risk environment, including risks that been added, escalated or de-escalated rather than through provision of the risk register. This will also include an overview of activity and controls in place across the three lines of defence.	Sport Aberdeen provided a copy of the Strategic Risk Register 6 monthly review report which was provided to the Corporate Governance Committee in May. The report confirmed formal review of the Top 12 Strategic Risks and confirmed that 4 new risks had been added to the risk register since the previous review, in addition, the report also confirms the update of existing risks and the removal/closure of one risk from the register. The report provides evidence that Sport Aberdeen has continued to manage existing risks whilst also considering the organisations wider risk environment.	Very low
7		Assurance that ALEOs have risk-based internal and external audit plans in place and a process to address and close out audit recommendations to completion. Assurance that there have been no internal control failures or that any failures have been addressed and/or notified if they are of significance to the Council.	Sport Aberdeen provided a copy of the Internal Audit update report which was provided to the Corporate Governance Committee in May. The report noted that the latest round of audits planned had been completed and that there are no overdue audit recommendations. A copy of the internal audit plan was also provided for review, the plan is a three-year rolling plan and provides assurance of long-term planning within this area.	Very low
8		Assurance that emergency plans/major incident plans and processes and appropriate business continuity arrangements are in place. Assurance that testing and exercising arrangements or schedules are in place which recognise the evolving risk environment for the Place; in particular that provision is made within plans and exercising to ensure resilience around critical service delivery; that each organisation has an awareness of the Council's responsibilities as a Cat 1 responder under the Civil Contingencies Act and has agreed mechanisms in place to support these; and that each organisation is fully conversant with the implications for their operations of the CONTEST Strategy (UK Govt strategy for counter-terrorism), in particular in respect of the Prevent and Protect duties.	Sport Aberdeen confirmed that the Business Continuity Plan had been activated during a severe weather event in January. During the activation a text communication to all staff asking them to remain at home worked successfully and contingency cover arrangements were successfully implemented. The Hub suggests that ACT Elearning is rolled out to frontline staff and that the Protect UK app is also downloaded to staff devices. In addition, that Sport Aberdeen attends training session being held on 25th July by ACC to cover Risk and Resilience matters. Sport Aberdeen's escalation processes includes Council involvement when appropriate. ACC officers will work with Sport Aberdeen to review the escalation criteria developed to understand where escalation is appropriate. Emergency Planning colleagues would like to take part in or review debrief documentation from this incident.	Low
9	Finance	Assurance that accounts are being managed within budget, that the level of financial risk to the Council is low and that there is compliance with the Following the Public Pound Code of Practice.	The Hub has reviewed the agendas and minutes of both the SA Board and its sub committees (Corporate Governance, Property and Assets and Health & Safety) and confirmed that Budget Monitoring and other finance related matters continue to be reported upon and discussed both within the organisation and by the Board.	Low

	A	C	H	I
10		Assurance that ALEOs undertake medium-term financial planning or have incorporated medium term planning into a Business Plan to provide assurance that ALEOs are prepared for core funding pressures. Again this ensures compliance with the Following the Public Pound Code of Practice.	<p>The Hub noted that a draft 2024-25 budget was tabled at the 20 March 2024 Board meeting for review and approval by members. This took into account confirmed ACC funding for 2024-25. The setting of a one year Business Plan rather than a 3 year rolling plan was agreed with Aberdeen City Council. Assumptions within the Business Plan have been reviewed and are in line with current activity levels.</p> <p>Sport Aberdeen has previously advised that the challenge of one year budget settlements does impact on the ability to prepare a 3 year business plan.</p>	Medium
11		Assurance that accounts are being managed within budget, are in line with statutory requirements and Following the Public Pound Code of Practice, and that the level of financial risk to the Council is low.	The Hub confirmed that audited copies of the 2022-23 annual accounts have been submitted to Companies House and OSCR within the deadline of 31 December 2023. The auditors' report identified no matters of concern and concluded that the organisation's use of the Going Concern basis of accounting was appropriate. The 2023-24 annual accounts are still subject to audit and will be reviewed by the Hub and reported to a future committee when this is complete.	Very low

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ABERDEEN CITY COUNCIL

COMMITTEE	Audit Risk and Scrutiny
DATE	27 June 2024
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Scottish Public Services Ombudsman Decisions and Inspector of Cremations Complaint Decisions
REPORT NUMBER	CORS/24/199
DIRECTOR	Andy MacDonald
CHIEF OFFICER	Isla Newcombe
REPORT AUTHOR	Lucy McKenzie
TERMS OF REFERENCE	6.4

1. PURPOSE OF REPORT

- 1.1 This report provides information on all Scottish Public Services Ombudsman (SPSO) and Inspector of Cremations decisions made in relation to Aberdeen City Council since the last reporting cycle, to provide assurance to Committee that complaints and Scottish Welfare Fund applications are being handled appropriately.

2. RECOMMENDATION(S)

- 2.1 It is recommended that Committee notes the details of the report.

3. CURRENT SITUATION

- 3.1 A report detailing all Scottish Public Services Ombudsman (SPSO) and/or Inspector of Cremations decisions relating to Aberdeen City Council is submitted to Audit Risk and Scrutiny Committee each reporting cycle. This is to provide assurance that complaints and Scottish Welfare Fund decisions are being handled appropriately.
- 3.2 The last report on this matter was submitted to the 9 May 2024 Committee.

Scottish Public Services Ombudsman (SPSO) Complaint Decisions

- 3.3 The Scottish Complaints Handling Procedure (CHP) followed by Aberdeen City Council is outlined by the SPSO. Details of the CHP can be accessed at www.aberdeencity.gov.uk/complaints
- 3.4 The SPSO publish all decision reports on their website at www.spsso.org.uk/decision-report-search
- 3.5 There are no SPSO decisions relating to Aberdeen City Council complaints to notify Committee of.

Scottish Public Services Ombudsman (SPSO) Scottish Welfare Fund Review Decisions

- 3.6 The Scottish Welfare Fund is delivered by Local Councils across Scotland and offers two types of grants – Crisis Grants and Community Care Grants. Further information is available at www.aberdeencity.gov.uk/services/benefits-and-advice/apply-scottish-welfare-fund
- 3.7 There has been one SPSO Second Tier Review in relation to Aberdeen City Council Scottish Welfare Fund application decisions since the last reporting period. The decision was upheld (changed). Further information is detailed in Appendix A.

Inspector of Cremations Decisions

- 3.8 The Inspector of Cremations responds to complaints or queries from the public about cremations. There have been no decisions by the Inspector of Cremations in relation to Aberdeen City Council cremations to date.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications arising from the recommendations of this report.

6. ENVIRONMENTAL IMPLICATIONS

- 6.1 There are no direct environmental implications arising from the recommendations of this report.

7. RISK

- 7.1 The assessment of risk contained within the table below is considered to be consistent with the Council's Risk Appetite Statement.

Category	Risks	Primary Controls/Control Actions to achieve Target Risk Level	Low (L) Medium (M) High (H) *taking into account controls/control actions	*Does Target Risk Level Match Appetite Set?
Strategic Risk	If we do not handle complaints or Scottish Welfare Fund (SWF) applications correctly then there is risk that we do not meet our strategic objectives.	Support in complaint handling is available to responding officers through a variety of methods and there is a centralised team in place to monitor compliance. The SWF team go through extensive training and ongoing guidance and support is available. Reviews are carried out by senior staff.	L	Yes
Compliance	The (SPSO) is the regulatory body for public services in Scotland. If we are non-compliant in our handling of a complaint or Scottish Welfare Fund application then there is risk that this is highlighted by the SPSO.	Support in complaint handling is available to responding officers through a variety of methods. In addition, all Stage 2 responses are also quality assured to ensure that responses are appropriate. Officers responsible for Scottish Welfare Fund applications receive full training to ensure	L	Yes

		they have the necessary knowledge to undertake assessments.		
Operational	Staff morale may be lowered as a result of a negative outcome of a SPSO decision.	Whilst it is not pleasant to receive a complaint, officers are encouraged to view complaints in a positive light, as a learning point going forwards.	L	Yes
Financial	Each time a complaint escalates it is more costly to the council than the previous stage due to the effort involved, therefore financially it is in the council's best interest to resolve complaints early in the process. There is also a risk that the council may be required to undertake additional actions as a result of an SPSO decision, including financial compensation.	The complaint handling procedure encourages frontline resolution whenever possible and there is guidance and training in place to support staff in effective complaint handling. The financial benefit of early resolution is highlighted to responding officers in training.	L	Yes
Reputational	Non-compliance carries reputational risk. Customer perception of the council could also be negatively impacted if complaints and Scottish Welfare Fund applications	There is a centralised Customer Feedback Team responsible for ensuring that complaints are being handled consistently and appropriately across the	L	Yes

	are not handled correctly.	council. Staff within the Scottish Welfare Fund Team receive comprehensive training to ensure applications are handled correctly and there is a robust procedure in place to review decision making when necessary.		
Environment / Climate	There are no environment / climate risks associated with this report.	N/A	N/A	Yes

7. OUTCOMES

<u>COUNCIL DELIVERY PLAN</u>	
Impact of Report	
Aberdeen City Council Policy Statement	Complaints are a vital part of organisational learning and improvement therefore enabling the Council to realise its aims across its policy statement. The report focuses on complaints outcomes which provide rich customer insight for the organisation to act upon to help transform service delivery.
Aberdeen City Local Outcome Improvement Plan	
Prosperous Place Stretch Outcomes	The Scottish Welfare Fund supports the delivery of the LOIP stretch outcome 1 as it can provide short term financial assistance to help with food costs which can relieve the pressure on use of food banks. It also works with partner agencies to identify citizens and signpost them for budget management, debt advice and benefit maximisation.

8. IMPACT ASSESSMENTS

Assessment	Outcome
Impact Assessment	Not required
Data Protection Impact Assessment	Not required

Other	Not required
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9. BACKGROUND PAPERS

N/A

10. APPENDICES (if applicable)

Appendix A – SPSO Scottish Welfare Fund Decisions

11. REPORT AUTHOR CONTACT DETAILS

Lucy McKenzie
Customer Services Manager
LucyMcKenzie@aberdeencity.gov.uk

Appendix A – SPSO Scottish Welfare Fund Decisions

Application Received Date	Application Type	Aberdeen City Council 1 st Tier Review Decision Date	SPSO 2 nd Tier Review Decision Date	SPSO Decision	SPSO Feedback
8 April 2024	Crisis Grant	8 April 2024	9 April 2024	Aberdeen City Council decision changed	<p>The SPSO provided feedback that the reason why the financial crisis has come about, even if the applicant may be judged to have caused it or be able to avoid it, is not relevant.</p> <p>We have asked the SPSO to provide further training around this aspect of the qualifying criteria.</p>

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ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	27 June 2024
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	External Audit Report – Annual Audit Report/ISA260 Report – 2023/24 Audit
REPORT NUMBER	EA/24/006
DIRECTOR	N/A
CHIEF OFFICER	Michael Oliphant, Audit Director Audit Scotland
REPORT AUTHOR	Anne MacDonald, Senior Audit Manager Audit Scotland
TERMS OF REFERENCE	3.1

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to present the Committee with External Audit's Annual Audit Report on the 2023/24 audit.

2. RECOMMENDATION

- 2.1 It is recommended that the Committee review, discuss and comment on the issues raised within this report and the attached appendix.

3. CURRENT SITUATION

- 1.1. External Audit has completed the undernoted reports which set out the auditor's judgements and conclusions in respect of the 2023/24 audit.
- 1.2. The auditor's covering letter to the Committee sets out the status of the audit and the work to be completed in advance of the meeting on 27 June 2024.
- 1.3. The ISA 260 report to those charged with governance covers the audits of the 2023/24 council's financial statements and those of its charitable trusts.
- 1.4. The Annual Audit Report (**to follow – part of a later circulation**) will cover the auditor's wider scope responsibilities under Audit Scotland's Code of Audit Practice.

4. FINANCIAL IMPLICATIONS

- 4.1 The audit fee for the 2023/24 audit was set out in the External Auditor's Annual Audit Plan. This was set at £536,810 including £10,000 in respect of the council's charities trusts.

5. LEGAL IMPLICATIONS

5.1 There are no direct legal implications arising from the recommendations of this report.

6. ENVIRONMENTAL IMPLICATIONS

6.1 There are no direct environmental implications arising from the recommendations of this report.

7. RISK

7.1 The External Audit process considers risks involved in the areas subject to review. Any risk implications identified through the External Audit process are detailed in the resultant External Audit reports. Recommendations are made to address the identified risks and External Audit follows up progress with implementing those that are agreed with management.

8. OUTCOMES

8.1 There are no direct impacts, as a result of this report, in relation to the Council Delivery Plan, or the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place.

8.2 However, External Audit plays a key role in providing assurance over, and helping to improve, the Council's framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

9. IMPACT ASSESSMENTS

Assessment	Outcome
Integrated Impact Assessment	An assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an external audit. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics.
Data Protection Impact Assessment	Not required.

10. BACKGROUND PAPERS

10.1 The scope of the audit was set out in an annual audit plan which was presented to the Audit, Risk and Scrutiny Committee in May 2024.
[External Audit Annual Audit Plan 2023-24](#)

10.2 The framework for public sector audit in Scotland is set out in Audit Scotland's Code of Audit Practice [Audit Scotland's Code of Audit Practice](#)

11. APPENDICES

11.1 Appendix A: External Audit – Covering letter to the Committee on the status of the audit

Appendix B: External Audit – 2023/24 Annual Accounts /ISA 260 Report to those charged with governance

Appendix C: External Audit – 2023/24 Annual Audit Report (**to follow – part of a later circulation**)

12. REPORT AUTHOR CONTACT DETAILS

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Aberdeen City Council

20 June 2024

Aberdeen City Council Audit, Risk and Scrutiny Committee

Town House
Broad Street
Aberdeen
AB10 1AB

ABERDEEN CITY COUNCIL Audit of 2023/24 annual accounts

Independent auditor's report

1. Our audit work on the 2023/24 annual accounts is now substantially complete. Subject to the satisfactory conclusion of the outstanding matters referred to in paragraph 8 of this letter and final review of both the council's and the charities' audited annual accounts, we anticipate being able to issue unqualified audit opinions in the respective independent auditors' reports on 27 June 2024.

2. Under International Standards on Auditing in the UK, we report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. We present for the Audit, Risk and Scrutiny Committee's consideration our report on the audit of the council's 2023/24 annual accounts and those of its charitable trusts. Our Annual Audit Report covering the wider scope aspects of the 2023/24 audit will follow next week.

Unadjusted misstatements

3. We also report to those charged with governance all unadjusted misstatements which we have identified during the course of our audit which are above our reporting threshold of £500,000 and request that these misstatements be corrected.

4. Appendix 1 on page 15 of the audit report sets out a schedule of unadjusted misstatements. Being less than the overall materiality level, the Chief Officer – Finance has opted not to adjust the accounts in respect of these matters. If corrected, they would reduce net expenditure by £2.444 million and increase net assets in the balance sheet by the same amount.

Fraud, subsequent events and compliance with laws and regulations

5. In presenting this report to the Audit, Risk and Scrutiny Committee, we seek confirmation from those charged with governance of any instances of any actual, suspected or alleged fraud; any subsequent events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.

Representations from S95 Officer

6. As part of the routine completion of our audit, we are seeking written representations from the Chief Officer – Finance as S95 Officer on aspects of the annual accounts, including the judgements and estimates made.

7. A draft letter of representation is attached at [Appendix A](#). This letter should be signed and returned to us by the Chief Officer - Finance with the signed annual accounts prior to the independent auditor's report being certified.

Outstanding matters

8. While the audit is substantially complete, we are currently concluding a number of matters in the following areas:

- As part of our consideration of systems, we are taking assurance from the work of internal audit in respect of the care management system and the revenue budget setting process. Our review of the chief internal auditor's working papers for these areas and a substantive sample of social care invoices is in progress.
- In considering the work of the property valuers, a sample of valuations undertaken in the year is being confirmed with underlying source data.
- In concluding our work on pension estimates and verification of source data provided to the actuary, some points of clarification are being checked with the actuary.
- We are taking assurance from the work of the council's treasury advisor in respect of service concessions flexibilities. As such we are using the work of an expert which requires us to conclude an assessment. This work is being concluded.
- Awaiting outstanding evidence in respect of sampled debtors and creditors related to event and investment properties.
- Concluding our file reviews and peer review arrangements in line with our Quality Framework.
- Undertaking and concluding final subsequent event transaction testing. These are routine checks to cover the period right up until the date of the independent auditors' reports to ensure there are no post balance sheet event events which might materially affect the figures in the accounts at 31 March 2024.

Appendix A: Letter of Representation (ISA 580) - to be reproduced on client's letterhead

Michael Oliphant
Audit Director
Audit Scotland
4th Floor
102 West Port
Edinburgh

Dear Michael

Aberdeen City Council Annual Accounts 2023/24

1. This representation letter is provided about your audit of the annual accounts of Aberdeen City Council for the year ended 31 March 2024 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the financial reporting framework, and for expressing other opinions on the remuneration report, management commentary and annual governance statement.

2. I confirm to the best of my knowledge and belief and having made appropriate enquiries of the corporate management team, the following representations given to you in connection with your audit of Aberdeen City Council's annual accounts for the year ended 31 March 2024.

General

3. Aberdeen City Council and I have fulfilled our statutory responsibilities for the preparation of the 2023/24 annual accounts. All the accounting records, documentation and other matters which I am aware are relevant to the preparation of the annual accounts have been made available to you for the purposes of your audit. All transactions undertaken by Aberdeen City Council have been recorded in the accounting records and are properly reflected in the financial statements.

4. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those reported by you.

Financial Reporting Framework

5. The annual accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (2023/24 accounting code), and in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Government in Scotland Act 2003 and The Local Authority Accounts (Scotland) Regulations 2014.

6. In accordance with the 2014 regulations, I have ensured that the financial statements give a true and fair view of the financial position of the Aberdeen City Council and its Group at 31 March 2024 and the transactions for 2023/24.

Accounting Policies & Estimates

7. All significant accounting policies applied are as shown in the notes to the financial statements. The accounting policies are determined by the 2023/24 accounting code where applicable. Where the code does not specifically apply, I have used judgement in developing

and applying an accounting policy that results in information that is relevant and reliable. All accounting policies applied are appropriate to Aberdeen City Council's circumstances and have been consistently applied.

8. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. Judgements used in making estimates have been based on the latest available, reliable information. Estimates have been revised where there are changes in the circumstances on which the original estimate was based or as a result of new information or experience.

Going Concern Basis of Accounting

9. I have assessed Aberdeen City Council's ability to continue to use the going concern basis of accounting and have concluded that it is appropriate. I am not aware of any material uncertainties that may cast significant doubt on Aberdeen City Council's ability to continue as a going concern.

Assets

10. Where a rolling programme of asset valuations has been used, I have satisfied myself that the carrying amount of assets at 31 March 2024 does not differ materially from that which would be determined if a revaluation had been carried out at that date.

11. I carried out an assessment at 31 March 2024 as to whether there is any indication that an asset may be impaired and have recognised any impairment losses identified.

12. I have provided you with all information of which I am aware regarding any valuation exercises carried out after 31 March 2024.

13. There are no plans or intentions that are likely to affect the carrying value or classification of the assets recognised within the financial statements.

14. Owned assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

Liabilities

15. All liabilities at 31 March 2024 of which I am aware have been recognised in the annual accounts.

16. Provisions have been recognised in the financial statements for all liabilities of uncertain timing or amount at 31 March 2024 of which I am aware where the conditions specified in the 2023/24 accounting code have been met. The amount recognised as a provision is the best estimate of the expenditure likely to be required to settle the obligation at 31 March 2024. Where the effect of the time value of money is material, the amount of the provision has been discounted to the present value of the expected payments.

17. Provisions recognised in previous years have been reviewed and adjusted, where appropriate, to reflect the best estimate at 31 March 2024 or to reflect material changes in the assumptions underlying the calculations of the cash flows.

18. The accrual recognised in the financial statements for untaken leave at 31 March 2024 has been estimated on a reasonable basis.

19. The pension assumptions made by the actuary in the IAS 19 report for Aberdeen City Council have been considered and I confirm that they are consistent with management's own view.

20. There are no plans or intentions that are likely to affect the carrying value or classification of the liabilities recognised in the financial statements.

Contingent liabilities

21. There are no significant contingent liabilities, other than those disclosed in Note 36 to the financial statements, arising either under formal agreement or through formal undertakings requiring disclosure in the accounts. All known contingent liabilities have been fully and properly disclosed, including any outstanding legal claims which have not been provided under the 2022/23 accounting code and IAS 37.

Fraud

22. I have provided you with all information in relation to:

- my assessment of the risk that the financial statements may be materially misstated because of fraud
- any allegations of fraud or suspected fraud affecting the financial statements
- fraud or suspected fraud that I am aware of involving management, employees who have a significant role in internal control, or others that could have a material effect on the financial statements.

Laws and Regulations

23. I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

Related Party Transactions

24. All material transactions with related parties have been appropriately accounted for and disclosed in the financial statements in accordance with the 2023/24 accounting code. I have made available to you the identity of all the Aberdeen City Council's related parties and all the related party relationships and transactions of which I am aware.

Remuneration Report

25. The Remuneration Report has been prepared in accordance with the Local Authority Accounts (Scotland) Amendment Regulations 2014, and all required information of which I am aware has been provided to you.

Management commentary

26. I confirm that the Management Commentary has been prepared in accordance with the statutory guidance and the information is consistent with the financial statements.

Corporate Governance

27. I confirm that the Aberdeen City Council has undertaken a review of the system of internal control during 2023/24 to establish the extent to which it complies with proper practices set out in the Delivering Good Governance in Local Government: Framework 2016. I have disclosed to you all deficiencies in internal control identified from this review or of which I am otherwise aware.

28. I confirm that the Annual Governance Statement has been prepared in accordance with the Delivering Good Governance in Local Government: Framework 2016 and the information is consistent with the financial statements. Other than the changes already reflected in the annual

accounts, there have been no changes in the corporate governance arrangements or issues identified, since 31 March 2024, which require to be reflected.

Group Accounts

29. I have identified all the other entities in which Aberdeen City Council has a material interest and have classified and accounted for them in accordance with the 2023/24 accounting code. Any significant issues with the financial statements of group entities, including any qualified audit opinions, have been advised to you.

Common Good Fund

30. I confirm, to the best of my ability, that all material common good assets have been identified and correctly accounted for within the common good financial statements and where appropriate, common good assets in use by the Council have been assessed and accounted for in line with IAS 17.

Events Subsequent to the Date of the Balance Sheet

31. All events subsequent to 31 March 2024 for which the 2023/24 accounting code requires adjustment or disclosure have been adjusted or disclosed.

Yours sincerely

Jonathan Belford
Chief Officer - Finance

Aberdeen City Council

ISA 260 Report to those charged with governance -
2023/24 Annual Accounts Audit



 AUDIT SCOTLAND

Prepared for the Members of Aberdeen City Council
June 2024

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Key messages

2023/24 annual accounts

- 1** Subject to the satisfactory conclusion of the outstanding matters listed in our covering letter, we anticipate issuing unqualified audit opinions on the annual accounts of the council, its group and the section 106 charities administered by the council.
- 2** The annual governance statement and remuneration report were consistent with the financial statements and were properly prepared in accordance with the applicable guidance. A corporate approach between chief officers is required to ensure a robust overview of service performance is available for inclusion in the management commentary.
- 3** In response to our recommendations last year, we have observed improvements in the annual governance statement and the working papers provided for audit. There is scope for further improvement and discussions will continue with finance colleagues to streamline respective processes and minimise the pressure on the annual accounts period.

Introduction

1. This report summarises the significant matters arising from the 2023/24 audit of Aberdeen City Council's annual accounts. The scope of the audit was set out in an annual audit plan presented to the Audit, Risk and Scrutiny Committee in May 2024.

Responsibilities and reporting

2. The council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. The council is also responsible for compliance with legislation and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.

3. The responsibilities of the independent auditor are established by the Local Government (Scotland) Act 1973 and the [Code of Audit Practice 2021](#), and supplementary guidance and International Standards on Auditing in the UK.

4. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

5. This report contains an agreed action plan at [Appendix 2](#). It sets out specific recommendations, the responsible officers, and dates for implementation.

Auditor independence

6. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services. We are not aware of any relationships that could compromise our objectivity and independence.

Audit of 2023/24 annual accounts

The principal means of accounting for the stewardship of resources and performance

Main judgements

Subject to the satisfactory conclusion of the outstanding matters listed in our covering letter, we anticipate issuing unqualified audit opinions on the annual accounts of the council, its group and the section 106 charities administered by the council.

The annual governance statement and remuneration report were consistent with the financial statements and were properly prepared in accordance with the applicable guidance. A corporate approach between chief officers is required to ensure a robust overview of service performance is available for inclusion in the management commentary.

In response to our recommendations last year, we have observed improvements in the annual governance statement and the working papers provided for audit. There is scope for further improvement and discussions will continue with finance colleagues to streamline respective processes and minimise the pressure on the annual accounts period.

Our audit opinions on the annual accounts are expected to be unmodified

7. The accounts for the council and its group for the year ended 31 March 2024 are due to be approved by the Audit, Risk and Scrutiny Committee on 27 June 2024. Subject to a satisfactory conclusion on the outstanding matters listed in our covering letter, we anticipate issuing an unqualified independent auditor's report. This will confirm that:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the audited part of the remuneration report, management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the applicable guidance

- we have obtained audit assurances over the identified significant risks of material misstatement to the financial statements which were identified in our Annual Audit Plan.

Our audit opinions on Section 106 charities are also expected to be unmodified

8. Due to the interaction of section 106 of the Local Government (Scotland) Act 1973 with charities legislation, a separate independent auditor's report is required for the council's registered charities where members of Aberdeen City Council are sole trustees, irrespective of the size of the charity.

9. Regulation 7 of the charity regulations (as amended in 2010) permits a single set of accounts for connected charities. These include charities that have unity of administration. The definition is therefore met for section 106 charities administered by the same council.

10. For Aberdeen City Council, the seven applicable charities listed below are regarded as connected and have been combined within a single set of accounts:

- Guildry and Mortification Funds
- Bridges of Aberdeen Heritage Trust
- Alexander MacDonald's Bequest
- Aberdeen Art Gallery Trusts
- Lands of Skene
- Lands of Torry
- Education Endowment Investment Trusts.

11. We received the charities accounts in line with the agreed timetable. We noted that two of the seven charities held relatively small balances and would therefore suggest that consideration be given to the appropriate disbursement of the remaining funds from the Bridges of Aberdeen Heritage Trust and the Alexander MacDonald Bequest. This would enable these smaller charities to be wound up, thereby improving the overall housekeeping around the council's charities.

12. Our anticipated independent auditor's report for the charities should confirm that:

- the financial statements give a true and fair view of the charities' financial position and are properly prepared in accordance with charities' legislation
- the trustees' annual report is consistent with the financial statements and prepared in accordance with proper accounting practices.

Overall materiality was assessed as £22.5 million

13. We apply the concept of materiality in both planning and performing the audit and in evaluating the effect of identified misstatement on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. We identify a benchmark on which to base overall materiality, such as gross expenditure, and apply what we judge to be the most appropriate percentage level for calculating materiality values.

14. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit and reviewed on receipt of the unaudited annual accounts. Values for 2023/24 are summarised in [Exhibit 1](#).

Exhibit 1

Materiality values

Materiality level	Amount
Overall materiality - This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. For the year ended 31 March 2024, we set our materiality at 2% of gross expenditure.	£22.5 million
Performance materiality - This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 65% of planning materiality.	£14.5 million
Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£500,000

Source: Audit Scotland, Annual Audit Plan 2023/24

Our audit work responded to the risks of material misstatement we identified in the annual accounts

15. [Exhibit 2](#) provides a summary of the audit assurances we have obtained over the significant risks of material misstatement. It also sets out our audit assurances in respect of other areas of audit focus where we considered there to be risks of material misstatement to the financial statement.

Exhibit 2**2023/24 Risks of material misstatement to the financial statements**

Risks of material misstatement	Assurances, results and conclusions
<p>1. Significant Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Controls</p> <ul style="list-style-type: none"> Assessing the design and implementation of controls over journal entry processing. <p>Methodology and assumptions</p> <ul style="list-style-type: none"> Assessing any changes to the methods and underlying assumptions used by management to prepare accounting estimates compared to the prior year. <p>Testing</p> <ul style="list-style-type: none"> Making inquiries of relevant officers about inappropriate or unusual activity relating to the processing of journal entries and other adjustments and substantively testing journal entries throughout the year. Evaluating any significant transactions outside the normal course of business. Confirming through substantive testing that income and expenditure transactions around the year-end have been accounted for in the correct financial year. Testing samples of accruals and prepayments. <p>Results: Subject to the satisfactory conclusion of outstanding matters, we are satisfied that there is no material misstatement due to management override of controls.</p>
<p>2. Due to the rolling programme basis of property valuation, there is a risk that the carrying value of assets not revalued in the year do not reflect their current value.</p> <p>Where the differences in value are likely to be significant, this increases the risk of material misstatement in the financial statements</p>	<p>Controls</p> <ul style="list-style-type: none"> Evaluating the approach that the council adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach. <p>Management Experts</p> <ul style="list-style-type: none"> Evaluating the competence, capabilities and objectivity of the professional valuers. <p>Methodology and assumptions</p> <ul style="list-style-type: none"> Assessing the methodology used by the valuers by considering whether valuations were conducted in accordance with the RICS Valuation Professional Standards 'the Red Book'. Assessing the reasonableness of valuations conducted by the professional valuers, including the use of any assumptions. <p>Testing</p> <ul style="list-style-type: none"> Substantively testing the reconciliation between the financial ledger and the asset register, including a sample of land and building assets revalued in the year.

Risks of material misstatement	Assurances, results and conclusions
	<p>Disclosures</p> <ul style="list-style-type: none"> Assessing the adequacy of the council's disclosures regarding the assumptions in relation to the valuation of land and buildings. <p>Results: Subject to the satisfactory conclusion of outstanding matters, we are satisfied the current valuation of land and buildings is not materially misstated.</p>
<p>3. There is a risk that the assumptions and methodologies used in determining the pension position are unreasonable and/or any small change in the estimates used could result in material changes in the valuation</p>	<p>Controls</p> <ul style="list-style-type: none"> Assessing management's arrangements for the provision of membership data to the actuary, together with any assumptions to calculate the pension position. <p>Management Expert</p> <ul style="list-style-type: none"> Evaluating the competence, capabilities and objectivity of the actuary. <p>Benchmarking Assumptions</p> <ul style="list-style-type: none"> Through the work of an independent expert, challenging the key assumptions applied. <p>Testing</p> <ul style="list-style-type: none"> Agreeing the data provided by the council to North East Scotland Pension Fund for use within the calculation of the scheme valuation. Obtaining assurances from North East Scotland Pension Fund over the completeness and accuracy of data provided to the actuary. <p>Disclosures</p> <ul style="list-style-type: none"> Considering the adequacy of the disclosures regarding the value of the pension liabilities included in the financial statements and the sensitivity of the value to the assumptions. Assessing whether the disclosures are in accordance with the Code's requirements. <p>Results: Subject to the satisfactory conclusion of outstanding matters, we are satisfied the approach taken to determine the pension position is reasonable.</p>

Source: Audit Scotland

Misstatements of £88.443 million were adjusted in the audited accounts

16. There were a number of adjustments made to the financial statements since they were submitted for audit in May. The main ones relate to changes in the value of non-current assets, a change in the method for estimating the pension position and the elimination of internal charges. Overall, the total adjustments

had the effect of increasing the comprehensive income expenditure account and net assets by £88.443 million.

17. In addition, prior year figures were restated to increase pension liabilities and reduce unusable closing reserves by £28.001 million to correct the accounting treatment of unfunded liabilities which has been incorrectly netted against funded pension assets in the previous year.

18. Further information on the main adjustments is set out in [Exhibit 2](#).

19. Other misstatements were identified during the course of our audit and while it is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected, the final decision on this lies with those charged with governance, taking into account advice from senior officers and materiality.

20. Management opted not to adjust for the misstatements set out in [Appendix 1](#), as the amounts were not considered material in the context of the accounts. Had the accounts been adjusted, the net impact would have been to reduce net expenditure on the Comprehensive Income and Expenditure Statement by £2.444 million with a corresponding increase in Net Assets.

Significant findings from the audit in accordance with ISA 260

21. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures. There were no major issues identified in respect of the qualitative aspects of the annual accounts process.

22. The significant findings are summarised in [Exhibit 2](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 2](#) has been included.

Exhibit 2

Significant findings from the audit of the financial statements

Issue

1. Changes in the valuation of property, plant and equipment (PPE)

The Energy from Waste facility became operational in December 2023. Having been completed, it was transferred from assets under construction to PPE and therefore required to be formally valued. The facility is co-owned by Aberdeen City Council, Aberdeenshire Council and Moray Council with the project share percentages set out in an inter-authority agreement. The valuation included in the accounts incorrectly reflected the value of the entire facility when it should have been restricted to the council's share of 38.09%. This resulted in an overstatement in assets of £110.843 million.

Following the late receipt of final reports from valuers, a further net reduction in assets of £21.950 million was identified for adjustment. This reflected the impairment of the Beach Leisure Centre due to demolition and council houses affected by RAAC, a reduction in the

Issue

value of council car parks due to falling income levels and some additional depreciation. Included in the proposed adjustment, there was also an increase in the value of the 3R's secondary schools and it was noted that the Marischal Square hotel had been omitted from the valuer's initial report.

The value of council houses was overstated by £10.947 million due to the double counting of new housing completed in the year.

Overall, a reduction in PPE of £143.740 million has been identified.

Resolution

PPE will be reduced by £143.740 million and either the Revaluation Reserve or CIES reduced by the compensating entries. Additional charges in respect of downward revaluations require to be made to the CIES where there is no balance related to the relevant asset in the revaluation reserve.

2. Restricting the value of the pension asset

In 2022/23, for the first time, the actuary reported a pension asset rather than a liability. This amounted to £360 million but, in line with the pension accounting standard (IAS 19) and IFRIC 14, no asset was recognised in the council's accounts. This reflected the fact that the present value of the council's future employer contributions exceeded the present value of the future service cost.

Since last year, actuaries and auditors have had longer to consider to what extent an asset should be reflected in council balance sheets and this has led to a change in the approach this year. Previously the calculation focused on the present value of the total contribution. This year it distinguishes between the two elements of the total contribution differently. This reflects that the primary contribution is set to cover the cost of future benefits and the secondary rate is an adjustment to reflect any past service deficit or surplus.

Following the 2023 triennial valuation of North East Scotland Pension Fund, Aberdeen's primary contribution was set at 17.9%, a reduction from the previous rate of 21%. Although a reduction, the new rate still exceeds the estimated future service costs and therefore no asset is recognised in the balance sheet at 31 March 2024.

Resolution

Largely concluded but some points of clarification are being checked with the actuary.

3. Elimination of internal transactions

For budget monitoring purposes, the council's management accounts include a number of internal transactions between services. These include charges between services for building maintenance, fleet hire, staff secondments, use of IT etc. While such charges are important for budget monitoring purposes, they should be excluded from income and expenditure in the annual accounts. The council's statutory accounts are required to convey its consolidated position with external parties only.

This was identified as an audit issue last year and while officers took steps during the year to identify internal transactions, this continued to be an issue in the 2023/24 accounts. The council did not eliminate all internal transactions from income and expenditure. While there is no impact on net expenditure, gross income and gross expenditure were overstated by £55.159 million.

Issue**Resolution**

Gross income and gross expenditure in the Comprehensive Income and Expenditure Statement (CIES) have been reduced to reflect the elimination of internal transactions.

Appendix 2, Recommendation 1

4. Unspent grants

Work is ongoing to confirm the validity of a number of unspent grants carried forward within creditors. The audit trail provided does not always clarify the reason for the accrual or provide sufficient information for us to verify the amount. Our sample included the following unspent amounts carried forward:

- Ukrainian funding – approx. £5m
- Interreg funding – project closed in 2021- £803k
- AWPR related funding re footpaths and cycleway - £725k
- Care Experienced Children funding £605k

Resolution

Government funding provided for Ukrainian support has been difficult to manage due to the complex conditions attached. Officers recognise that a significant amount of the unspent balance is likely to require to be returned to the Government. A reconciliation needs to be undertaken in the interim to confirm the actual figure. With regard to the other amounts listed above, the amounts are not material but there is a need to maintain better audit trails so that evidence is available to support amounts carried forward especially where the relevant funding was received several years previously.

Appendix 2, Recommendation 1

5. Intangible assets

The council has been working in partnership with Microsoft to develop a digital platform which will provide joined up services for citizens. There is no physical asset and future operations will be Cloud based. Relevant expenditure has been included in Property, Plant and Equipment but given there will be no physical asset, these costs should be classified as intangible assets.

Resolution

The amounts involved are not material to the accounts and can therefore be accepted. Steps should however be taken to review recent years' expenditure and reclassify relevant amounts as intangible assets.

Appendix 2, Recommendation 2

Source: Audit Scotland

Management commentary

23. The Local Authority Accounts (Scotland) Regulations 2014 require the annual accounts to include a management commentary prepared in accordance with statutory guidance. While the guidance allows flexibility in terms of the level of performance information included, there is an expectation that the commentary gives an overview of service performance in the year and the inclusion of relevant indicators should enhance the service 'story'. While an attempt has been made to include some performance indicators, these provide a limited overview of service delivery and achievement.

24. This matter was also raised in respect of the 2022/23 accounts. We understand that steps taken by the finance team to obtain better information were unsuccessful.

25. The council aims to publish its audited annual accounts in advance of the statutory deadline in order to meet its reporting requirements to the London Stock Exchange. The management commentary is a statutory requirement within a council's annual accounts and therefore its preparation merits a corporate approach. Plans should be put in place to agree a timeline for the provision of core indicators by chief officers and their respective services to ensure that robust information is available for inclusion in the 2024/25 accounts submitted for audit.

Recommendation 3

Chief officers need to work together to provide a strong narrative on service performance for inclusion in the council's annual accounts. Plans should be put in place to agree a set of core indicators, both financial and non-financial, which will provide a balanced reflection of the performance of key council services.

Annual Governance Statement

26. The Local Authority Accounts (Scotland) Regulations 2014 require the annual accounts to include an annual governance statement that is consistent with the disclosures made in the financial statements and provide assurance on the operation of the governance arrangements for the financial year.

27. A governance statement is intended to be a meaningful but brief communication regarding the review of governance that has taken place during the year including the role of the governance structures involved (such as the authority; the audit and other committees) . It should be high level, strategic and focus on the effectiveness of governance during the year.

28. In our opinion, there has been significant improvement in the preparation of this year's statement. In the previous year, we felt there was scope to streamline the statement. It now provides that higher level overview which enables the reader to have a clearer understanding of the governance framework and the council's assessment of how effectively these arrangements have operated during the year.

Improvements in working paper package supporting the accounts

29. On conclusion of the audit of the 2022/23 accounts, we reported that a more comprehensive working paper package needed to be available when the accounts were submitted for audit.

30. We met with finance during the year to discuss the key issues and provided a working paper checklist. As a result, we can confirm that we have observed improvement in many of the highlighted areas. As stated in Exhibit 2, there continue to be areas where the audit trail is difficult to confirm and we are recommending that finance give consideration to further improvement. For example:

- The identification and elimination of internal balances
- Where unspent grants are carried forward, a reconciliation between the grant awarded and the amount carried forward.

31. We also continue to experience some difficulties confirming the audit trail between the financial ledger and the accounts.

Appendix 2, Recommendation 1

32. In addition, some account areas are time consuming because of the level of verification work required to support our audit opinion. With only seven weeks between the date the accounts were submitted for audit and the date the committee is due to approve the accounts, this is substantially less than the time available to other local government auditors. We obtained some working papers from officers in advance of the accounts this year which was helpful and we will have further discussions to determine if anything else can be brought forward to minimise the pressure on the May/June period.

Financial systems of internal control operated effectively

33. As part of our audit, we identify and assess the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that the body has systems for recording and processing transactions which provide a sound basis for the preparation of the financial statements. In 2023/24, we assessed the controls operating within the general ledger and payroll systems and with regard to other systems, we have largely taken assurance from the audit work we undertook in the previous year. Overall, we concluded that the controls in place were satisfactory.

Appendix 1. Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual accounts that are individually greater than our reporting threshold of £500,000.

The table below summarises uncorrected misstatements identified during our audit testing and have not been corrected by management. Cumulatively these errors are below our performance materiality level as explained in [Exhibit 1](#) and do not have a material impact on the financial statements.

Account areas	Comprehensive income and expenditure statement		Balance sheet	
	Dr £000	Cr £000	Dr £000	Cr £000
Late invoices not accrued	1,388			(1,388)
Scottish Government Grant received re March 2024, posted 2024/25		(1,602)	1,602	
Early years funding payments double counted in accounts payable system		(2,230)	2,230	
Increase in value of 3Rs school following revised valuation.			750	(750)
Total	1,388	3,832	4,582	2,138
Net impact		2,444	2,444	

Appendix 2. Action plan 2023/24

2023/24 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1.Working paper package</p> <p>Further improvement is required in the following areas:</p> <ul style="list-style-type: none"> • The elimination of internal transactions • Evidencing reasons and amounts for unspent grants carried forward • Audit trail between the financial ledger and the annual accounts. 	<p>Year end arrangements should be revised to ensure there is improvement in these areas in future years.</p>	<p>Agreed.</p> <p>Responsible Officer: Finance Operations Manager</p> <p>Completion date: 31 March 2025</p>
<p>2.Intangible assets</p> <p>The council is developing a digital platform in partnership with Microsoft which will provide joined up services for citizens. There is no physical asset and future operations will be Cloud based. Related expenditure is currently in property, plant and equipment but should be reclassified as intangible assets.</p>	<p>Steps should be taken to review recent years' expenditure and reclassify relevant amounts as intangible assets.</p>	<p>Agreed.</p> <p>Responsible Officer: Finance Operations Manager</p> <p>Completion date: 31 March 2025</p>
<p>3.Management Commentary</p> <p>The management commentary submitted for audit had limited service</p>	<p>Chief officers need to work together to provide a strong narrative on service performance for inclusion in the council's annual accounts. Plans should be put in place to agree a set of</p>	<p>Agreed.</p> <p>Responsible Officer: Finance Operations Manager</p> <p>Completion date: 31 March 2025</p>

Issue/risk	Recommendation	Agreed management action/timing
financial and non-financial performance information.	core indicators, both financial and non-financial, which will provide a balanced reflection of the performance of key council services.	

Aberdeen City Council

ISA 260 Report - 2023/24 Annual Accounts Report

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ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	26 June 2024
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Internal Audit Update Report
REPORT NUMBER	IA/24/009
DIRECTOR	N/A
CHIEF OFFICER	Jamie Dale, Chief Internal Auditor
REPORT OFFICER	Jamie Dale, Chief Internal Auditor
TERMS OF REFERENCE	2.3

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to provide the Committee with an update on Internal Audit's work since the last update. Details are provided of the progress against the approved Internal Audit plans, audit recommendations follow up, and other relevant matters for the Committee to be aware of.

2. RECOMMENDATIONS

It is recommended that the Committee:

- 2.1 Note the progress of the Internal Audit Plan;
- 2.2 Note the progress that management has made with implementing recommendations agreed in Internal Audit reports;

3. CURRENT SITUATION

- 3.1 Internal Audit's primary role is to provide independent and objective assurance on the Council's risk management, control and governance processes. This requires a continuous rolling review and appraisal of the internal controls of the Council involving the examination and evaluation of the adequacy of systems of risk management, control and governance, making recommendations for improvement where appropriate. Reports are produced relating to

each audit assignment and summaries of these are provided to the Audit Committee.

4. FINANCIAL IMPLICATIONS

4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

5.1 There are no direct legal implications arising from the recommendations of this report.

6. ENVIRONMENTAL IMPLICATIONS

6.1 There are no direct environmental implications arising from the recommendations of this report.

7. RISK

7.1 The assessment of risk contained within the table below is to be consistent with the Council’s Risk Appetite Statement.

Category	Risks	Primary Controls/Control Actions to achieve Target Risk Level	*Target Risk Level (L, M or H) *taking into account controls/control actions	*Does Target Risk Level Match Appetite Set?
Strategic Risk	Ability of the Council to meet its strategic objectives	The Internal Audit process considers strategic risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are detailed in the resultant Internal Audit reports. Recommendations, consistent with the Council’s Risk Appetite Statement, are made to address the identified risks and Internal Audit follows up progress with implementing those	M	Yes

		that are agreed with management. Those not implemented by their agreed due date are detailed in the attached appendices.		
Compliance	Council does not comply with relevant internal policies and procedures and external guidance.	The Internal Audit process considers compliance risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are detailed in the resultant Internal Audit reports. Recommendations, consistent with the Council's Risk Appetite Statement, are made to address the identified risks and Internal Audit follows up progress with implementing those that are agreed with management. Those not implemented by their agreed due date are detailed in the attached appendices.	L	Yes
Operational	Failure of the Council to deliver agreed services.	The Internal Audit process considers operational risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are detailed in the resultant Internal Audit reports. Recommendations, consistent with the Council's Risk Appetite Statement, are made to address the identified risks and Internal Audit follows	L	Yes

		up progress with implementing those that are agreed with management. Those not implemented by their agreed due date are detailed in the attached appendices.		
Financial	Financial failure of the Council, with risks also to credit rating.	The Internal Audit process considers financial risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are detailed in the resultant Internal Audit reports. Recommendations, consistent with the Council's Risk Appetite Statement, are made to address the identified risks and Internal Audit follows up progress with implementing those that are agreed with management. Those not implemented by their agreed due date are detailed in the attached appendices.	L	Yes
Reputational	Impact of performance or financial risk on reputation of ACC.	The Internal Audit process considers reputational risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are detailed in the resultant Internal Audit reports. Recommendations, consistent with the Council's Risk Appetite Statement, are made to address the	L	Yes

		identified risks and Internal Audit follows up progress with implementing those that are agreed with management. Those not implemented by their agreed due date are detailed in the attached appendices.		
Environment / Climate	Service delivery impacting negatively on City net zero targets.	The Internal Audit process considers environmental/climate risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are detailed in the resultant Internal Audit reports. Recommendations, consistent with the Council's Risk Appetite Statement, are made to address the identified risks and Internal Audit follows up progress with implementing those that are agreed with management. Those not implemented by their agreed due date are detailed in the attached appendices.	L	Yes

8. OUTCOMES

- 8.1 The proposals in this report have no impact on the Council Delivery Plan.
- 8.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council's framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

9. IMPACT ASSESSMENTS

Assessment	Outcome
Impact Assessment	An assessment is not required because the reason for this report is to report Internal Audit's progress to Committee. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics.
Data Protection Impact Assessment	Not required

10. BACKGROUND PAPERS

10.1 There are no relevant background papers related directly to this report.

11. APPENDICES

11.1 Appendix A – Internal Audit Update Report

12. REPORT AUTHOR CONTACT DETAILS

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Internal Audit

Audit, Risk and Scrutiny Committee Internal Audit Update Report June 2024

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1 Executive Summary

1.1 Introduction and background

Internal Audit's primary role is to provide independent and objective assurance on the Council's risk management, control, and governance processes. This requires a continuous rolling review and appraisal of the internal controls of the Council involving the examination and evaluation of the adequacy of systems of risk management, control, and governance, making recommendations for improvement where appropriate. Reports are produced relating to each audit assignment and these are provided to the Audit, Risk and Scrutiny (ARS) Committee. Along with other evidence, these reports are used in forming an annual opinion on the adequacy of risk management, control, and governance processes.

This report advises the ARS Committee of Internal Audit's work since the last update. Details are provided of the progress against the approved 2023/24 Internal Audit Plan, audit recommendations follow up, and other relevant matters for the Committee to be aware of.

1.2 Highlights

Full details are provided in the body of this report however Internal Audit would like to bring to the Committee's attention that since the last update:

- Four reviews have been completed.
- Work is underway with regards to delivery of the 2023/24 Internal Audit Plan.
- 12 audit recommendations have been closed.

1.3 Action requested of the ARS Committee

The Committee is requested to note the contents of this report and the work of Internal Audit since the last update.

2 Internal Audit Progress

2.1 2023/24 Audits

Service	Audit Area	Position
Commissioning	Procurement Compliance	Review in progress
Commissioning	City Region Deal	Final Report Issued
Council Led HSCP Services	Social Care Financial Assessments	Review in progress
Customer	Recruitment	Review in progress
Customer	PREVENT	Final Report Issued
Resources	Creditors System	Final Report Issued
Resources	Private Sector Housing	Final Report Issued

2.2 Audit reports presented to this Committee

Report Title	Assurance Year	Conclusion
AC2422 – City Region Deal	2023/24	<p>Internal Audit has identified an overall net risk rating of MAJOR, with LIMITED assurance obtained over the governance and financial spend of the City Region Deal. The Deal planned to utilise in excess of £290m of public funds, leveraging over £530m from private sector and other contributions. This audit sought to determine whether suitable and proportionate controls, data, and checks, are in place to provide assurance over reported project delivery and grant disbursement. Partners to the arrangement are working together in the spirit of the agreement to deliver against the agreed aims and objectives. The level of progress with actions and spend are reported regularly, and this meets the current reporting requirements for the Councils, the UK, and Scottish Government. However, weaknesses have been identified in governance arrangements, review of the supporting audit trail for expenditure, and delivery of outcomes.</p> <p>It is noted that as an early adopter of the City Region Deal model, Aberdeenshire and Aberdeen City have had to continuously develop governance and reporting arrangements, and their work in this area has been recognised by the governments – which continue to develop their own requirements, reflected in variations to terms and conditions included in annual grant offer letters. Partners have adapted to meet changing demands, to meet funders' expectations.</p> <p>However, these changes have not been fully reflected throughout the Deal's governance arrangements (e.g. by updating funding agreements), and there is a need for more transparency and challenge in respect of financial and progress data provided by project delivery partners. Project status, expenditure claims, financial forecasts, and the realisation of benefits is declared, collated, and reported, but detailed supporting evidence is not always provided and reviewed in sufficient detail to confirm their accuracy. Data required for the measurement of benefits realised is being withheld due to partners' concerns over</p>

Report Title	Assurance Year	Conclusion
		<p>the release of commercially and personally sensitive information.</p> <p>Internal Audit requested project board minutes and transactional data, and where available this provided a level of assurance; however, full data was not provided in every case. If delivery partners are not comfortable sharing information, this limits the level of assurance that can be taken and drives up the level of risk. Explanations for variances, delays, and mitigating actions, are limited. There is limited scrutiny of financial and progress data provided from delivery partners by the councils as part of their programme management and financial accountable body roles, and where this takes place it is not well evidenced. It is important to demonstrate appropriate checks and challenge are being applied to provide assurance that the grant is only being paid out to cover eligible spend. Conditions and requirements of the UK and Scottish governments have varied over the life of the Deal. Partners and delivery of the programme and project outcomes may be at risk if required information cannot be obtained to satisfy changing funders' requirements.</p> <p>The delivery of benefits and conclusion of projects to date has been reported in summary or through selected highlights and case studies as part of the Deal Annual Report, rather than detailed comparisons of actual outcomes and costs against planned. It may be difficult to ensure this data is obtained, given requirements had not been determined and agreed in advance, and flexibility has not been incorporated into existing agreements. In the absence of this data, it may not be possible to fully determine the successful delivery of the intended Deal outcomes.</p> <p>An assumption is being made by project delivery partners that funds committed but not spent in the financial year can be rephased to future years, however few projects in this situation have submitted formal change requests to date. The governments have stated in grant offer letters that although the totality of funds remains available (within the Deal funding period – to 2027), requests to move funding between specific years may not be possible. It cannot therefore be assumed that all requests to rephase budgets will be agreed, or can be accommodated within the funding period.</p> <p>Approval of project changes is reserved to the City Region Deal Joint Committee. However, this has been delegated to an Officer on its behalf by one of the partners and there is no record of other partners having agreed this. It is essential that decision making on governance and controls is planned and transparent.</p> <p>Recommendations have been made to address the noted points, specifically around strengthening the governance, and reporting arrangements within the councils and from partners. These include updating and securing flexibility in</p>

Report Title	Assurance Year	Conclusion
		funding agreements, and reviewing delegations. Further work has been recommended to develop and expand the level of data obtained, and its critical appraisal, in respect of use of funding, performance against plans, and realisation of benefits, at a more detailed level proportionate with the level of funds being managed through the City Region Deal.
AC2419 – Prevent	2023/24	The level of net risk is assessed as MODERATE , with the control framework deemed to provide REASONABLE assurance over the Council's approach to its Prevent duty. Full details of this exempt report are included within the relevant paper.
AC2421 – Private Sector Housing	2023/24	The level of net risk is assessed as MINOR , with the control framework deemed to provide SUBSTANTIAL assurance over the Council's private sector housing ¹ . Substantial assurance was available over the following areas reviewed: Staff Costs, Following the Public Pound, Disabled Adaptation Grants, and Budget Setting and Reporting. However, the review identified some areas of weakness where enhancements could be made to strengthen the framework of control, specifically: Mandatory Staff Training, Procurement, Travel Costs, and Income. Recommendations have been made to update the Scheme of Assistance for disabled adaptation grants where necessary; formalise staff procedures cover administration of this area; update the Public Contracts Scotland website; monitor travel costs; and establish a system of reconciliation for private sector housing fee income.
AC2407 – Creditors System	2023/24	The level of risk is assessed as MODERATE , with the control framework deemed to provide REASONABLE assurance over the Council's approach to the Creditors System. The following governance, risk management and control measures were sufficiently robust and fit for purpose: Procurement, Duplicate Payments, Password Control, Payment Control, and Business Continuity and Disaster Recovery. However, the review identified some areas of weakness where enhancements could be made to strengthen the framework of control, specifically: Privileged Access, Interfaces, Supplier Standing Data, and Invoice Processing.

¹ Substantive testing for factoring was out with the scope of this review, as factoring is a relatively new Council operation and is under review; a property factoring action plan has been established covering relevant improvements for progression in 2024/25.

Report Title	Assurance Year	Conclusion
		Recommendations have been made to address the above risks including enhancing training, segregating, and monitoring privileged user activity, standardising requirements to verify payee identification and bank account details across Council payment systems, monitoring changes to supplier standing data, and formalising BACS transmission to Creditors system reconciliation procedures.

2.3 Follow up of audit recommendations

Public Sector Internal Audit Standards require that Internal Audit report the results of its activities to the Committee and establishes a follow-up process to monitor and ensure that management actions have been effectively implemented.

As at 30 April 2024 (the baseline for our exercise), 30 audit recommendations were due and outstanding:

- Three rated as Major
- 18 rated as Moderate
- Nine rated as Minor

As part of the audit recommendations follow up exercise, 12 recommendations were closed:

- Six rated as Moderate
- Six rated as Minor

Appendix 1 – Grading of Recommendations provides the definitions of each of the ratings used.

Appendix 2 – Audit Recommendations Follow Up – Outstanding Actions provides a detailed breakdown of the outstanding audit recommendations that will be taken forward and followed up as part of the next cycle, including instances where no update was provided by Management.

2.3.1 AC2314 - Assurance Review of Adults with Incapacity – Follow Up

At the September Audit, Risk and Scrutiny Committee, in response to a question relating to how the Committee would get assurance that the Service was on track with implementation of the recommendations of this Major risk report, it was agreed that progress updates would be presented to each Committee going forward. Internal Audit reached out on the recommendations in advance of Committee and the response from Management is included at Appendix 3 – Audit Recommendations Follow Up – AC2314 – Adults with Incapacity. Internal Audit has worked with Management and can confirm that only one action remains in progress.

3 Appendix 1 – Grading of Recommendations

Risk level	Definition
Corporate	This issue / risk level impacts the Council as a whole. Mitigating actions should be taken at the Senior Leadership level.
Function	This issue / risk level has implications at the functional level and the potential to impact across a range of services. They could be mitigated through the redeployment of resources or a change of policy within a given function.
Cluster	This issue / risk level impacts a particular Service or Cluster. Mitigating actions should be implemented by the responsible Chief Officer.
Programme and Project	This issue / risk level impacts the programme or project that has been reviewed. Mitigating actions should be taken at the level of the programme or project concerned.

Net risk rating	Description	Assurance assessment
Minor	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.	Substantial
Moderate	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified, which may put at risk the achievement of objectives in the area audited.	Reasonable
Major	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	Limited
Severe	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.	Minimal

Individual issue / risk	Definitions
Minor	Although the element of internal control is satisfactory there is scope for improvement. Addressing this issue is considered desirable and should result in enhanced control or better value for money. Action should be taken within a 12 month period.
Moderate	An element of control is missing or only partial in nature. The existence of the weakness identified has an impact on the audited area's adequacy and effectiveness. Action should be taken within a six month period.
Major	The absence of, or failure to comply with, an appropriate internal control, such as those described in the Council's Scheme of Governance. This could result in, for example, a material financial loss, a breach of legislative requirements or reputational damage to the Council. Action should be taken within three months.
Severe	This is an issue / risk that is likely to significantly affect the achievement of one or many of the Council's objectives or could impact the effectiveness or efficiency of the Council's activities or processes. Examples include a material recurring breach of legislative requirements or actions that will likely result in a material financial loss or significant reputational damage to the Council. Action is considered imperative to ensure that the Council is not exposed to severe risks and should be taken immediately.

4 Appendix 2 – Audit Recommendations Follow Up – Outstanding Actions

Report	Grading	Ref	Recommendation	Original Due Date	Current Due Date	Committee Update	Status
AC2313 – Corporate Asset Management	Moderate	1.4	Finance should review and ensure the finance asset register reconciles with relevant Service records supporting asset descriptions and values.	Mar-24	Jul-24	This is currently being worked on as part of the annual accounts process. Discussions will Internal Audit and provision of evidence to follow in the coming months.	In Progress
AC2406 – Data Protection	Minor	1.3	Council Data Sharing Agreement requirements should be formalised to ensure DSAs are made available to relevant staff.	Mar-24	Jun-24	we have prepared an abridged version of the Information Sharing Agreement Register, just showing the details which colleagues will need (along with contact details for further info) and this is being published on our IG webs pages. This should be completed in the coming weeks.	In Progress
AC2313 – Corporate Asset Management	Moderate	1.5	Governance and reporting structures should be clarified, with procedures and their application documented in an accessible format. Officers to consider the points made regarding process in the review of the Capital Board)	Apr-24	Dec-24	The proposed new team and staffing structure for Corporate Landlord, currently being drafted, will help to clarify governance and reporting structures, which will be documented and shared with all relevant staff once completed.	In Progress

Report	Grading	Ref	Recommendation	Original Due Date	Current Due Date	Committee Update	Status
						A review of the Capital Board's role will be included within the wider review of the asset management process, which will be completed following confirmation of the new structure. An initial report will go to the Capital Board on 25 July.	
AC2313 – Corporate Asset Management	Major	1.1a	The Council should develop a clear Asset Management approach. Further work is required to document the process around asset management and this will be reviewed as part of the asset transformation programme.	Apr-24	Dec-24	A review of the asset management process is under way, in conjunction with the work being undertaken on changes to team and staffing structures within Corporate Landlord. Formal documentation of the process will be completed following confirmation of the new structure.	In Progress
AC2313 – Corporate Asset Management	Major	1.2a	The Service should develop asset management plans, linked to the Council's asset management policy and strategic objectives, for all categories of assets. The Service should develop a strategy and plan to address the backlog of maintenance. Strengthen the governance around the development of implementation plans. This will be developed through the works being done on the Asset	Apr-24	Dec-24	As noted in the management response to the audit report and thereafter agreed by the committee, producing plans for all asset types is not consistent with other council reporting and in relation to resource availability. A review of all operational assets is underway as part	In Progress

Report	Grading	Ref	Recommendation	Original Due Date	Current Due Date	Committee Update	Status
			Transformation programme and will be reported through the capital and transformation boards.			<p>of the annual budget review process.</p> <p>A maintenance strategy is not a priority given the budget is not available to implement and instruction for essential spend. Management do not propose progressing with this recommendation as noted in the original audit report and agreed by committee.</p> <p>Work on strengthening the governance around the development of implementation plans is progressing alongside the review of the overall asset management process, and the development of a new team and staff structure for Corporate Landlord.</p> <p>These processes will be reported through the Capital and Transformation Boards following confirmation of the new structure.</p>	

Report	Grading	Ref	Recommendation	Original Due Date	Current Due Date	Committee Update	Status
AC2411 – Attendance Management	Moderate	1.1b	Management should review the Absence Improvement Project Charter and Draft Project Plan to ensure it is as accurate and complete as possible. The review should ensure that realistic timescales are in place for all workstreams and that these are monitored and reported throughout the lifecycle of the Project.	Apr-24	Jul-24	Improvement bootcamp training to allow follow up review to be completed - this is booked for end of May with full review of project charter and project plan to be completed by end of June.	In Progress
AC2411 – Attendance Management	Moderate	1.1a	Management should review the Supporting Attendance and Wellbeing Policy, either as a standalone task or as part of a dedicated workstream within the Absence Improvement Project.	Mar-24	Dec-24	Supporting Attendance and Wellbeing Policy is under review and scheduled in the committee planner to be presented at Staff Governance Committee on 18 November 2024	In Progress
AC2406 – Data Protection	Minor	1.1b	People and Organisational Development should formalise guidance for Service Managers on the use of the Managers Portal and implement the CR&D development on mandatory training self-declaration.	Mar-24	Sep-24	Self-declaration on mandatory training as part of CR&D End of Year Review is now implemented. Employees self-declare then manager confirms. As a result of this we have seen significant increase in mandatory training compliance from what we would normally expect to see at this time of year. A significant and atypical jump in compliance in March 2023 can also be seen - we have	In Progress

Report	Grading	Ref	Recommendation	Original Due Date	Current Due Date	Committee Update	Status
						<p>investigated to understand this and can attribute it to a DPO blog at this time. From this, we will commit to continue with mandatory training compliance as part of annual review meeting in CR&D - and also work with subject matter experts to deliver targeted comms campaigns on each of mandatory training topics.</p> <p>Guidance for Service Managers on the use of Managers Portal: D&I and Governance colleagues currently developing a short demo/training video.</p>	
AC2111 - Consilium System	Moderate	2.6.12	The Service should ensure system access is aligned with service requirements, and that use of generic users is limited and monitored. The technical reasons requiring such users will be raised with the software supplier as part of the system upgrade.	Mar-24	Dec-25	Total/Consilium system no longer technically viable. Business case in development to rationalise system and replace with existing housing platform.	In Progress

Report	Grading	Ref	Recommendation	Original Due Date	Current Due Date	Committee Update	Status
AC2111 - Consilium System	Moderate	2.6.4	The Service should explore options to lock users after a set period of inactivity with the software provider as part of the system upgrade. The Business & Systems Support Manager will raise this with the software provider to ascertain if this can be applied in the current system. It will also be looked to be addressed as part of the system upgrade.	Mar-24	Dec-25	Total/Consilium system no longer technically viable. Business case in development to rationalise system and replace with existing housing platform.	In Progress
AC2111 - Consilium System	Moderate	2.6.8	The System Team should ensure the system enforces compliance with the Councils password standard. Current system does not provide this functionality, but it will be raised as part of the system upgrade.	Mar-24	Dec-25	Total/Consilium system no longer technically viable. Business case in development to rationalise system and replace with existing housing platform.	In Progress
AC2111 - Consilium System	Moderate	2.6.6	The system team should raise the issue of transactional processes only being available under an administrator profile as part of the system upgrade.	Mar-24	Dec-25	Total/Consilium system no longer technically viable. Business case in development to rationalise system and replace with existing housing platform.	In Progress

Report	Grading	Ref	Recommendation	Original Due Date	Current Due Date	Committee Update	Status
AC2111 - Consilium System	Moderate	2.2.4a	The Service should ensure appropriate forward planning is undertaken so as not to require suspension of Procurement Regulations, and to ensure costs and approvals are accurate and fully transparent.	Mar-24	Dec-25	Total/Consilium system no longer technically viable. Business case in development to rationalise system and replace with existing housing platform.	In Progress
AC2111 - Consilium System	Moderate	2.3.14	Customer Experience should assess the data protection risks associated with the Building Maintenance system and use this process to ensure appropriate data processing agreements and data sharing agreements are in place. The system upgrade will incorporate works to ensure all measures are in place to fully comply with all risks associated with Data protection.	Mar-24	Dec-25	Total/Consilium system no longer technically viable. Business case in development to rationalise system and replace with existing housing platform.	In Progress
AC2417 – Cyber Action Plan	Moderate	1.2	Administrator access control arrangements should be reviewed and updated to ensure excessive access is removed and avoided in future.	Apr-24	Jun-24	Reviewed, last action to remove local admin access will be completed by June 2024.	In Progress

Report	Grading	Ref	Recommendation	Original Due Date	Current Due Date	Committee Update	Status
AC2417 – Cyber Action Plan	Moderate	1.3	Administrator password should be reviewed and checked for compliance as a matter of priority.	Mar-24	Jun-24	Currently in progress and should be implemented by June 2024.	In Progress
AC2201 – IT Infrastructure Resilience	Major	2.4.7 a	The Service should establish Cyber Essentials PLUS accreditation for the Council.	Mar-24	Jul-24	Assessment underway and actions being progressed.	In Progress
AC2405 – Care Management System	Minor	1.2	D&T should automate the interface between the care management system and the North East Child Protection Register.	Apr-24	Jul-24	Ongoing discussion with regards to implementation	In Progress

5 Appendix 3 – Audit Recommendations Follow Up – AC2314 – Adults with Incapacity

Report	Grading	Ref	Recommendation	Due Date	Management Update
AC2314 - Adults with Incapacity - management of funds	Major	1.1.a	The Service should document and implement procedures in respect of DWP appointeeship, Intervention Orders, Access to funds, guardianship and POA in dealing with Adults with Incapacity. The Service should ensure these are clear, efficient, provide practical guidance on day-to-day management of funds, and are subject to periodic recorded reviews. Staff required to apply the procedures should be adequately trained in their application.	Jan-24	Complete. This action has been implemented by Management.
AC2314 - Adults with Incapacity - management of funds	Major	1.1.b	The Service should develop AWI staff training and procedures for key systems, D365, the corporate appointee database, access to funds process, DWP website to provide adequate cover so that key information required can be accessed and audit trails completed for client information stored.	Jan-24	Complete. This action has been implemented by Management.

Report	Grading	Ref	Recommendation	Due Date	Management Update
AC2314 - Adults with Incapacity - management of funds	Major	1.2.a	The Service should implement processes and controls to ensure consistent and complete AWI records are held in line with the GDPR accuracy principle, and these are accessible to relevant officers to avoid the risk of duplication and misalignment.	Apr-24	Complete. This action has been implemented by Management.
AC2314 - Adults with Incapacity - management of funds	Major	1.2.b	A reconciliation of existing file records against new system records should be undertaken, and corrections applied where necessary.	Apr-24	Complete. This action has been implemented by Management.
AC2314 - Adults with Incapacity - management of funds	Major	1.2.c	A system of review should be developed and implemented to obtain regular periodic assurance over the content and accuracy of AWI funds management records	Apr-24	Complete. This action has been implemented by Management.

Report	Grading	Ref	Recommendation	Due Date	Management Update
AC2314 - Adults with Incapacity - management of funds	Major	1.3	The Service should review the appointeeship process to ensure it reflects the requirements of the scheme, and minimises intervention where possible. As part of the review the Service should ensure all interventions are subject to secondary review to ensure they are appropriate in line with policy and procedure in advance of their implementation.	Mar-24	Complete. This action has been implemented by Management.
AC2314 - Adults with Incapacity - management of funds	Major	1.4.a	All requests for funds and payments should have clearly documented review and approval before funds are released. Segregation of duties should be in place for each stage	May-24	Complete. This action has been implemented by Management.
AC2314 - Adults with Incapacity - management of funds	Major	1.4.b	The identity of funds recipients should be verified and documented. Variations should be subject to approval.	May-24	In Progress. Further discussions are required around D365/Share point to aid us meeting this recommendation. Clarity required around variations being subject to approval. Due to be discussed at next SLWG.

Report	Grading	Ref	Recommendation	Due Date	Management Update
AC2314 - Adults with Incapacity - management of funds	Major	1.4.c	All funds movements and transfers should be documented and countersigned at the point such movements take place, with such documentation held separately from the physical funds	May-24	Complete. This action has been implemented by Management.
AC2314 - Adults with Incapacity - management of funds	Major	1.4.d	Consideration should be given to whether collecting and distributing cash remains the most appropriate means of providing support to individuals.	May-24	Complete. This action has been implemented by Management.
AC2314 - Adults with Incapacity - management of funds	Major	1.4.e	The bank reconciliation to the corporate appointee database should be regularly completed, reviewed, and actions approved and monitored to conclusion.	May-24	Complete. This action has been implemented by Management.

Report	Grading	Ref	Recommendation	Due Date	Management Update
AC2314 - Adults with Incapacity - management of funds	Major	1.4.f	Accounts of deceased clients that are still active should be reviewed for necessary actions to close.	May-24	Complete. This action has been implemented by Management.
AC2314 - Adults with Incapacity - management of funds	Major	1.5	The Service should ensure there is a clear and consistent audit trail for all instances where funds are managed on behalf of service users. This should be subject to periodic reconciliation against other records (e.g. bank statements, cash balances, inventories, DWP data and other source documentation), and potential discrepancies escalated and the results and actions recorded.	Feb-24	Complete. This action has been implemented by Management.
AC2314 - Adults with Incapacity - management of funds	Moderate	1.6	The Service should ensure client accounts with balances in excess of specified thresholds are reviewed to ensure they are managed appropriately.	Jan-24	Complete. This action has been implemented by Management.

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ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	27 June 2024
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Internal Audit Report AC2407 – Creditors System
REPORT NUMBER	IA/AC2407
DIRECTOR	N/A
REPORT AUTHOR	Jamie Dale
TERMS OF REFERENCE	2.2

1. PURPOSE OF REPORT

1.1 The purpose of this report is to present the planned Internal Audit report on the Creditors System.

2. RECOMMENDATION

2.1 It is recommended that the Committee review, discuss and comment on the issues raised within this report and the attached appendix.

3. CURRENT SITUATION

3.1 Internal Audit has completed the attached report which relates to an audit of the Creditors System.

4. FINANCIAL IMPLICATIONS

4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

5.1 There are no direct legal implications arising from the recommendations of this report.

6. ENVIRONMENTAL IMPLICATIONS

6.1 There are no direct environmental implications arising from the recommendations of this report.

7. RISK

7.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are detailed in the resultant Internal Audit reports. Recommendations, consistent with the Council’s Risk Appetite Statement, are made to address the identified risks and Internal Audit follows up progress with implementing those that are agreed with management. Those not implemented by their agreed due date are detailed in the attached appendices.

8. OUTCOMES

8.1 There are no direct impacts, as a result of this report, in relation to the Council Delivery Plan, or the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place.

8.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council’s framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

9. IMPACT ASSESSMENTS

Assessment	Outcome
Impact Assessment	An assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics.
Privacy Impact Assessment	Not required

10. BACKGROUND PAPERS

10.1 There are no relevant background papers related directly to this report.

11. APPENDICES

11.1 Internal Audit report AC2407 – Creditors System

12. REPORT AUTHOR CONTACT DETAILS

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Internal Audit

Assurance Review of the Creditors System

Status: Final

Report No: AC2407

Date: 29 May 2024

Assurance Year: 2023/24

Risk Level: Programme and Project

Net Risk Rating	Description	Assurance Assessment
Moderate	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified, which may put at risk the achievement of objectives in the area audited.	Reasonable

Report Tracking	Planned Date	Actual Date
Scope issued	09-Nov-23	09-Nov-23
Scope agreed	24-Nov-23	23-Nov-23
Fieldwork commenced	27-Nov-23	27-Nov-23
Fieldwork completed	22-Dec-23	20-Mar-24
Draft report issued	19-Jan-24	26-Mar-24
Process owner response	09-Feb-24	22-May-24
Director response	16-Feb-24	29-May-24
Final report issued	23-Feb-24	29-May-24
AR&S Committee	27-Jun-24	

Distribution	
Document type	Assurance Report
Director	Andy MacDonald, Director – Corporate Services
Process Owner	Jonathan Belford, Chief Officer – Finance
Stakeholders	Angela Crawford, Finance Controls Manager
	Richard Burnett, Senior Accountant
	Neil Stewart, Accountant
	Steve Roud, Chief Officer – Digital & Technology
	Angela Doyle, Service Manager – Digital Service Delivery
	Ronnie McKean, Corporate Risk Lead
	Catriona Sim, Data Protection Officer
	Vikki Cuthbert, Interim Chief Officer – Governance*
Final Only	External Audit
Lead auditor	Lyndsay Jarvis, Auditor

1 Introduction

1.1 Area subject to review

The Council uses eFinancials, an integrated financial system, to manage payments to suppliers of goods and services. The system is hosted by the system supplier (Advanced Business Solutions Ltd), a specialist financial software provider to the public sector, and has been in place since 1998. Internally the system is administered by the Financial Systems team who control user access and offer first line system support.

During the year to 31 March 2023, the system was used to pay approximately 196,000 invoices with a total value of approximately £951.3 million.

1.2 Rationale for review

The objective of this audit was to ensure that appropriate control is being exercised over the Creditors System, including contingency planning and disaster recovery, and that interfaces to and from other systems are accurate and properly controlled.

This area was last audited in November 2015, report AC1606, and it was found that in general controls over the system operation were working well, the system was backed up regularly and disaster recovery testing was taking place. Recommendations were made to ensure that staff manuals are up to date and that all staff complete mandatory information security training courses. An audit on the Integrated Financial System (IFS) interfaces was carried out in November 2021, report AC2203, and it was found that in general the accuracy of financial information transferred into the IFS is well controlled, although recommendations were made to update procedures to include more information on the verification of interfaces.

1.3 How to use this report

This report has several sections and is designed for different stakeholders. The executive summary (section 2) is designed for senior staff and is cross referenced to the more detailed narrative in later sections (3 onwards) of the report should the reader require it. Section 3 contains the detailed narrative for risks and issues we identified in our work.

2 Executive Summary

2.1 Overall opinion

The full chart of net risk and assurance assessment definitions can be found in Appendix 1 – Assurance Scope and Terms. We have assessed the net risk (risk arising after controls and risk mitigation actions have been applied) as:

Net Risk Rating	Description	Assurance Assessment
Moderate	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified, which may put at risk the achievement of objectives in the area audited.	Reasonable

The organisational risk level at which this risk assessment applies is:

Risk Level	Definition
Programme and Project	This issue / risk level impacts the programme or project that has been reviewed. Mitigating actions should be taken at the level of the programme or project concerned.

2.2 Assurance assessment

The level of risk is assessed as **MODERATE**, with the control framework deemed to provide **REASONABLE** assurance over the Council's approach to the Creditors System.

The following governance, risk management and control measures were sufficiently robust and fit for purpose:

- **Procurement** – The Council's Financial Management System, which includes the Creditors System, has been in use since 1998. Procurement processes to renew the contract have been followed in accordance with the Council's Scheme of Governance.
- **Duplicate Payments** – The system has duplicate invoice detection and reporting functionality. In addition, Finance has engaged the service of a third-party provider who receive Council invoice files and report daily on whether or not there are any potential duplicate invoices requiring investigation.
- **Password Control** – The system requirements comply with the Council's Password Standard.
- **Payment Control** – For a sample of 15 transactions reviewed, Creditors system supplier standing data matched to details provided by suppliers and invoice data agreed to the Creditors system and BACS payment details. In addition, the BACS batch total according to the Creditors system agreed to the BACS transmission system and the Council's bank account.
- **Business Continuity and Disaster Recovery** – The Finance Business Continuity Plan was last tested in September 2022 and was reviewed in September 2023 and covers relevant procedures in the event of the loss of the Creditors system. In addition, Digital & Technology work with the Council's data centre to gain assurance over system backups for disaster recovery purposes.

However, the review identified some areas of weakness where enhancements could be made to strengthen the framework of control, specifically:

- **Privileged Access** – Adequate control over user access rights mitigates the risk of inappropriate changes to system data, such as invoice and supplier bank details, and helps to ensure compliance with data protection legislation, by ensuring users only having access to the data that they need to fulfil their role. However privileged accounts are not subject to monitoring and are being used for administrative as well as non-administrative purposes, in breach of the Council's ICT Access Control Policy.
- **Interfaces** – Adequate written procedures are in place covering the processing of creditors interfaces from feeder sub-systems and related reconciliation arrangements. These will be considered further as part of the agreed 2024/25 agreed Internal Audit on Creditors Sub-System Payments. However, whilst for a sample of 15 transactions reviewed, BACS totals in

the Creditors system agreed to the BACS transmission system, procedures are not in place covering the BACS transmission system to Creditors system reconciliation process and this reconciliation is not recorded, risking payment discrepancies.

- **Supplier Standing Data** – The process to create and amend supplier accounts, including banking details, is mostly controlled via an automatic “Virtual Worker” process helping to ensure that information is complete, and adequate segregation of duties exists between the teams processing invoices and inputting supplier data. In addition, in certain circumstances, supplier standing data is created or amended by the Financial Systems Team (FST). However, whilst at the time of the previous audit a report on amendments to supplier data was being regularly run and monitored, this is no longer being carried out. In addition, there is presently no reconciliation of new supplier / supplier amendments to requests by Services. Also, identification and bank account evidence requirements for new payees or payee bank account changes has not been standardised for Council systems that enable payments. These matters increase the risk of payee standing data errors and fraud.
- **Invoice Processing** – A sample of 20 transactions showed four (20%) payments made over 30 days after the receipt of the invoice, making the Council potentially liable for penalties under the Late Payment of Commercial Debts (Interest) Act 1998, and risking reputational damage.

Recommendations have been made to address the above risks including enhancing training, segregating and monitoring privileged user activity, standardising requirements to verify payee identification and bank account details across Council payment systems, monitoring changes to supplier standing data, and formalising BACS transmission to Creditors system reconciliation procedures.

2.3 Severe or major issues / risks

No severe or major issues/risk were identified as part of this review.

2.4 Management response

The audit is welcomed by management, identifying various robust and appropriate processes that are standing up to scrutiny.

It is acknowledged that improvements have been identified and these will assist with enhancing the financial control environment for the paying of suppliers. Work is in progress to ensure that the actions are implemented in line with the deadlines set out.

In respect of invoice processing, the Council has been on a journey of improvement to pay more invoices within 30 days and there has been improvement in each of the last three years, recently (for 2023/24) delivering over 90% of invoices being paid within the timescale set. There remains room for improvement and to mitigate the risks described in the findings.

3 Issues / Risks, Recommendations, and Management Response

3.1 Issues / Risks, recommendations, and management response

Ref	Description	Risk Rating	Minor
1.1	<p>Written Procedures, Guidance and Training – Comprehensive written procedures, guidance, and training, which are easily accessible by all members of staff can reduce the risk of errors and inconsistency. They provide management with assurance correct and consistent instructions are available, especially in the event of an experienced employee being absent or leaving.</p> <p>While there are clear and comprehensive procedures available to staff both on the intranet and held within an online database managed by the FST, there is no current training in the staff portal ACC Learn, since the historic OIL portal course was removed from use. At present new users learn on the job and get guidance from the FST if requested.</p> <p>Finance advised that the difficulty is because the Financial Management System encompasses many systems in one; training needs time and staff resource to develop.</p> <p>However, if training is not sufficient there is a risk that staff will be unable to carry out their duties correctly or efficiently.</p>		
IA Recommended Mitigating Actions			
The Service should create current training resources for staff on the use of the Financial Management System.			
Management Actions to Address Issues/Risks			
<i>Agreed. This will cover use of Creditors system and use of InfoSmart for processing invoice payments and managing invoice queries.</i>			
Risk Agreed		Person(s)	Due Date
Yes		Senior Accountant	Jul-24

Ref	Description	Risk Rating	Moderate
1.2	<p>Privileged User Access – Adequate control over user access rights mitigates the risk of inappropriate changes to system data, such as invoice and supplier bank details, and helps to ensure compliance with data protection legislation, by ensuring users only having access to the data that they need to fulfil their role.</p> <p>It was noted in the External Audit Annual Audit Report by KPMG reported to Audit, Risk and Scrutiny Committee in September 2022 that highly privileged or “superuser” access, required to perform user administration activities, was not always being adequately logged and monitored, creating a risk that administrator accounts could be used to inappropriately input or amend data without being recorded, and a recommendation was made to address this. The Council had responded by implementing an ICT Access Control Policy. However, the Service advised that superuser accounts were not currently monitored. In addition, it was confirmed that administrator accounts are also used for non-admin purposes e.g. Accountancy related tasks. This is a breach of the ICT Access Control Policy.</p>		
IA Recommended Mitigating Actions			

Ref	Description	Risk Rating	Moderate
	<p>a) Monitoring of users including system administrators should be reviewed and where possible established to evidence compliance with the ICT Access Control Policy. This should be undertaken by officers without administrative / superuser system access and should be done with a view to reduce the risk of fraud.</p> <p>b) In line with the Council's ICT Access Control Policy, administrator accounts should only be used to carry out administrative responsibilities and separate accounts should be maintained for day-to-day regular user responsibilities using a standard PoLP user account.</p>		
Management Actions to Address Issues/Risks			
<p>a) <i>Agreed.</i></p> <p>b) <i>Agreed.</i></p>			
Risk Agreed		Person(s)	Due Date
a) Yes		Chief Officer – Finance in consultation with Chief Officer – Digital & Tech	Jul-24
b) Yes		Senior Accountant	May-24

Ref	Description	Risk Rating	Moderate
1.3	<p>Supplier Standing Data – To mitigate the risk of fraud or error when creating and amending supplier standing data including bank account details, adequate control should be exercised over account creation and changes.</p> <p>Supplier standing data is either updated via the automated “Virtual Worker” process or manually by the Financial Systems Team (FST).</p> <p><u>Virtual Worker</u></p> <p>The Service recently introduced the "Virtual Worker" system to increase accuracy and efficiency when inputting / amending supplier data. This deals with supplier creations where the related payment does not require a purchase order (e.g. customer refunds and grant payments) and most amendments to existing suppliers in the creditors system e.g. changes to bank details. Requestors input information to an Excel template spreadsheet available from the Finance Share/Point page, then pass to their line manager for approval.</p> <p>Once submitted to AP-Development the request is then forwarded to the FinanceRPA3@aberdeencity.gov.uk inbox where it is picked up by the Virtual Worker for processing in eFinancials overnight. Forms without the required details are automatically rejected and reports detailing success or failure are received automatically daily for corrective action to be taken.</p> <p><u>Manual Standing Data Creation / Amendment</u></p> <p>In addition to updates processed by the Virtual Worker, manual creation / amendment of supplier standing data takes place in certain circumstances.</p> <p>Where a purchase order is required to be raised for a new supplier but the supplier is absent from the purchase ordering system (PECOS), the related request must first be approved by the Commercial and Procurement Shared Service (C&PSS) via an FST99 form. The details</p>		

of these suppliers, including bank details, must be provided by the supplier on the FST99 form, with an email submission from the supplier as supporting back-up. If approved, this form is sent to the Financial Systems Team (FST) in order for the supplier to be created in the creditors system.

Also, changes to bank details are occasionally processed manually by the FST directly on request. These requests are checked with the contact details held on the system and only completed once confirmation is received from the supplier via the contact made from details held on the system.

Supplier Standing Data Monitoring

However, it was noted that currently there is no system of reconciliation of changes made to standing data to Service requests, increasing the risk of inaccurate or potentially fraudulent creation or amendment of supplier standing data. This is relevant to changes by Council system administrators as well as to ensure no unauthorised changes to supplier details are made by the Virtual Worker delivery and support partner.

During the previous audit it was confirmed that a report was regularly run by an Accounts Payable team manager on supplier account amendments. The Service advised that this is no longer being carried out. Reinstating the amendments report and introducing a system of reconciliation would give assurance that any inappropriate or unauthorised changes are detected, reducing the possibility of fraud. Ideally this should be carried out by someone without access to make amendments.

Supplier Standing Data Evidence

In addition, it was noted on discussion with Finance that at present, regardless of the standing data update process, evidence required to prove identification of the payee and their bank details has not been standardised, meaning the identity of any individual providing new bank details is not being confirmed nor are the proposed bank details to be used, increasing the risk of fraud.

IA Recommended Mitigating Actions

a) Finance should standardise payee identification and bank account evidence requirements for the purposes of making payments generally and establish a verification process for ensuring this evidence is in place before the related Council system account can be used to make payments to the respective payee. This should be carried out for all systems that can be used to make payments with a view to reducing the risk of fraud. Any exceptional payments in the absence of adequate payee identification and bank statement evidence should be risk assessed, clearly defined and approved by the Chief Officer – Finance.

b) Finance should carry out regular monitoring of supplier standing data amendments. As well as covering superuser changes this should include a reconciliation of changes / new supplier standing data processed by the Virtual Worker as compared to related requests by Services.

Management Actions to Address Issues/Risks

a) Standardise process to include collation of Bank Statement (could accept screenshot of internet banking if no access to printer or unable to attend) This would be approved by the service if insufficient backup sent in and all necessary checks had been made.

b) Monthly checks to be implemented by Creditors team from report of all amends and a 10% check made, verified and returned to systems team by email with a note of items checked for filing by systems team as a means of record of the check being done. A reconciliation of

standing data changes in the creditors system processed by the Virtual Worker to the related email submission of these changes will also be undertaken.

Risk Agreed	Person(s)	Due Date
a) Yes	a) Finance Controls Manager	Dec-24
b) Yes	b) Finance Controls Manager	Jul-24

Ref	Description	Risk Rating	Moderate						
1.4	<p>Interfaces – Where payment data is transferred between two systems, a system of control is required to ensure the data transferred is accurate and complete and that no manual amendments have been made that would increase the risk of error and fraud.</p> <p>Adequate written procedures are in place covering the processing of creditors interfaces from feeder sub-systems and related reconciliation arrangements. These will be considered further as part of the agreed 2024/25 agreed Internal Audit on Creditors Sub-System Payments.</p> <p>However, whilst for a sample of 15 transactions reviewed, BACS totals in the Creditors system agreed to the BACS transmission system, procedures are not in place covering the BACS transmission system to Creditors system reconciliation process and this reconciliation is not recorded, risking payment discrepancies.</p> <p>IA Recommended Mitigating Actions</p> <p>The Service should establish written procedures for the Creditors System to BACS transmission system payment file transfer reconciliation and evidence of this reconciliation should be recorded.</p> <p>Management Actions to Address Issues/Risks</p> <p><i>Agree a procedure and record a check that the reconciliation has been done on a daily basis</i></p>								
	<table border="1"> <thead> <tr> <th>Risk Agreed</th> <th>Person(s)</th> <th>Due Date</th> </tr> </thead> <tbody> <tr> <td>Yes</td> <td>Finance Controls Manager</td> <td>Jul-24</td> </tr> </tbody> </table>	Risk Agreed	Person(s)	Due Date	Yes	Finance Controls Manager	Jul-24		
Risk Agreed	Person(s)	Due Date							
Yes	Finance Controls Manager	Jul-24							

Ref	Description	Risk Rating	Moderate
1.5	<p>Invoices: Late Payment – The Late Payment of Commercial Debts (Interest) Act 1998 requires public authority’s such as the Council to pay their debts within 30 days. If this is not achieved a supplier may seek compensation as a result of costs incurred recovering the debt and statutory interest may be applied. It is important that invoices are processed and paid timeously in order to avoid late penalties / interest, reputational damage and preserve good working relationships with suppliers.</p> <p>A sample of 20 transactions was selected at random from a transactions report drawn from the Creditors system and reviewed. In all cases all required information was present and the invoice once matched and authorised was paid promptly. However in four cases the payments were not made within 30 days of receipt of the invoice.</p>		

Ref	Description	Risk Rating	Moderate
	<p>For sample 1, which took 135 days to resolve, the invoice could not be automatically matched to the purchase order and the originating Service (E&CS) did not amend the order as required. When the supplier put a stop on the Council's account the Accounts Payable team amended the invoice category manually to remove the need for purchase order matching so that it could be processed; this was authorised by the Finance Controls Manager.</p> <p>For sample 3, which took 133 days to resolve, the invoice could not be automatically matched to the purchase order and the employee within the originating Service (CH&I) who had placed the order had left their role so was not available to amend the order. The responsibility was not taken on by another member of staff until the supplier put a stop on the Council's account.</p> <p>For sample 18, which took 46 days to resolve, the invoice was not imported into the system until after its due date. The Service responsible (E&CS) advised that the PO had been raised retrospectively after a booking had been made without a PO.</p> <p>For sample 19, which took 32 days to resolve, no purchase order was available for automatic matching and it took 24 days for the originating Service (E&CS) to identify an employee who could authorise the payment.</p> <p>Finance already remind users at least monthly of invoices which either require authorisation in the InfoSmart system or require goods / services to be receipted in PECOS to enable payment. However, the above examples indicate there is still an issue with Services delaying payment.</p> <p>Late payments can potentially make the Council liable for penalties under the Late Payment of Commercial Debts (Interest) Act 1998, and risk reputational damage and the withdrawal of supply of goods or services. Finance advised that when issues are identified they work with Services to resolve them, offering one-to-one coaching where relevant. However, a more proactive approach, such as comprehensive and accessible training and regular communication on this issue would help mitigate problems arising in the first place. A recommendation to improve training resources is made in 1.1.</p>		
IA Recommended Mitigating Actions			
Finance should establish a system of escalation for overdue invoices with a training requirement for staff where appropriate.			
Management Actions to Address Issues/Risks			
<i>1.1 refers to training guides – remind users of the availability of these guides. Build on our reporting that we have just now by checking report with previous month and escalate to Chief Officer any items that have not been addressed from previous month</i>			
Risk Agreed	Person(s)	Due Date	
Yes	Finance Controls Manager	Jul-24	

4 Appendix 1 – Assurance Terms and Rating Scales

4.1 Overall report level and net risk rating definitions

The following levels and ratings will be used to assess the risk in this report:

Risk level	Definition
Corporate	This issue / risk level impacts the Council as a whole. Mitigating actions should be taken at the Senior Leadership level.
Function	This issue / risk level has implications at the functional level and the potential to impact across a range of services. They could be mitigated through the redeployment of resources or a change of policy within a given function.
Cluster	This issue / risk level impacts a particular Service or Cluster. Mitigating actions should be implemented by the responsible Chief Officer.
Programme and Project	This issue / risk level impacts the programme or project that has been reviewed. Mitigating actions should be taken at the level of the programme or project concerned.

Net risk rating	Description	Assurance assessment
Minor	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.	Substantial
Moderate	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified, which may put at risk the achievement of objectives in the area audited.	Reasonable
Major	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	Limited
Severe	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.	Minimal

Individual issue / risk	Definitions
Minor	Although the element of internal control is satisfactory there is scope for improvement. Addressing this issue is considered desirable and should result in enhanced control or better value for money. Action should be taken within a 12 month period.
Moderate	An element of control is missing or only partial in nature. The existence of the weakness identified has an impact on the audited area's adequacy and effectiveness. Action should be taken within a six month period.
Major	The absence of, or failure to comply with, an appropriate internal control, such as those described in the Council's Scheme of Governance. This could result in, for example, a material financial loss, a breach of legislative requirements or reputational damage to the Council. Action should be taken within three months.
Severe	This is an issue / risk that is likely to significantly affect the achievement of one or many of the Council's objectives or could impact the effectiveness or efficiency of the Council's activities or processes. Examples include a material recurring breach of legislative requirements or actions that will likely result in a material financial loss or significant reputational damage to the Council. Action is considered imperative to ensure that the Council is not exposed to severe risks and should be taken immediately.

5 Appendix 2 – Assurance Scope and Terms of Reference

5.1 Area subject to review

The Council uses eFinancials, an integrated financial system, to manage payments to suppliers of goods and services. The system is hosted by the system supplier, a specialist financial software provider to the public sector, and has been in place since 1998. Internally the system is administered by the Financial Systems team who control user access and offer first line system support.

During the year to 31 March 2023, the system was used to pay approximately 196,000 invoices with a total value of approximately £951.3 million.

5.2 Rationale for review

The objective of this audit is to ensure that appropriate control is being exercised over the Creditors System, including contingency planning and disaster recovery, and that interfaces to and from other systems are accurate and properly controlled.

This area was last audited in November 2015, report AC1606, and it was found that in general controls over the system operation were working well, the system was backed up regularly and disaster recovery testing was taking place. Recommendations were made to ensure that staff manuals are up to date and that all staff complete mandatory information security training courses. An audit on the Integrated Financial System (IFS) interfaces was carried out in November 2021, report AC2203, and it was found that in general the accuracy of financial information transferred into the IFS is well controlled, although recommendations were made to update procedures to include more information on the verification of interfaces.

5.3 Scope and risk level of review

This review will offer the following judgements:

- An overall **net risk** rating at the **Programme and Project** level.
- Individual **net risk** ratings for findings.

5.3.1 Detailed scope areas

As a risk-based review this scope is not limited by the specific areas of activity listed below. Where related and other issues / risks are identified in the undertaking of this review these will be reported, as considered appropriate by IA, within the resulting report.

The specific areas to be covered by this review are:

- Policies and Procedures
- System Access
- Procurement and Contract Monitoring
- System Maintenance
- System Interfaces
- Supplier Data
- Invoice Processing and Payment
- BACS payment process
- Reporting and Reconciliations
- Business Continuity and Disaster Recovery

5.4 Methodology

This review will be undertaken through interviews with key staff involved in the process(es) under review and analysis and review of supporting data, documentation, and paperwork. To support our work, we will review relevant legislation, codes of practice, policies, procedures, guidance.

Due to hybrid working across the Council, this review will be undertaken primarily remotely.

5.5 IA outputs

The IA outputs from this review will be:

- A risk-based report with the results of the review, to be shared with the following:
 - Council Key Contacts (see 1.7 below)
 - Audit Committee (final only)
 - External Audit (final only)

5.6 IA staff

The IA staff assigned to this review are:

- Lyndsay Jarvis, **(audit lead)**
- Andrew Johnston, Audit Team Manager
- Jamie Dale, Chief Internal Auditor **(oversight only)**

5.7 Council key contacts

The key contacts for this review across the Council are:

- Steven Whyte, Director – Resources
- Jonathan Belford, Chief Officer – Finance **(process owner)**
- Craig Innes, Chief Officer – Commercial & Procurement Services
- Steve Roud, Chief Officer – Digital & Technology

5.8 Delivery plan and milestones

The key delivery plan and milestones are:

Milestone	Planned date
Scope issued	09-Nov-23
Scope agreed	24-Nov-23
Fieldwork commences	27-Nov-23
Fieldwork completed	22-Dec-23
Draft report issued	19-Jan-24
Process owner response	09-Feb-24
Director response	16-Feb-24
Final report issued	23-Feb-24

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	27 June 2024
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Internal Audit Report AC2421 – Private Sector Housing
REPORT NUMBER	IA/AC2421
DIRECTOR	N/A
REPORT AUTHOR	Jamie Dale
TERMS OF REFERENCE	2.2

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to present the planned Internal Audit report on the Private Sector Housing.

2. RECOMMENDATION

- 2.1 It is recommended that the Committee review, discuss and comment on the issues raised within this report and the attached appendix.

3. CURRENT SITUATION

- 3.1 Internal Audit has completed the attached report which relates to an audit of the Private Sector Housing.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications arising from the recommendations of this report.

6. ENVIRONMENTAL IMPLICATIONS

- 6.1 There are no direct environmental implications arising from the recommendations of this report.

7. RISK

7.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are detailed in the resultant Internal Audit reports. Recommendations, consistent with the Council's Risk Appetite Statement, are made to address the identified risks and Internal Audit follows up progress with implementing those that are agreed with management. Those not implemented by their agreed due date are detailed in the attached appendices.

8. OUTCOMES

8.1 There are no direct impacts, as a result of this report, in relation to the Council Delivery Plan, or the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place.

8.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council's framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

9. IMPACT ASSESSMENTS

Assessment	Outcome
Impact Assessment	An assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics.
Privacy Impact Assessment	Not required

10. BACKGROUND PAPERS

10.1 There are no relevant background papers related directly to this report.

11. APPENDICES

11.1 Internal Audit report AC2421 – Private Sector Housing

12. REPORT AUTHOR CONTACT DETAILS

Name	Jamie Dale
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Internal Audit

Assurance Review of Private Sector Housing

Status: Final

Date: 29 May 2024

Risk Level: Cluster

Report No: AC2421

Assurance Year: 2023/24

Net Risk Rating	Description	Assurance Assessment
Minor	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.	Substantial

Report Tracking	Planned Date	Actual Date
Scope issued	19-Jan-24	19-Jan-24
Scope agreed	26-Jan-24	26-Jan-24
Fieldwork commenced	29-Feb-24	29-Feb-24
Fieldwork completed	29-Mar-24	29-Apr-24
Draft report issued	19-Apr-24	10-May-24
Process owner response	10-May-24	27-May-24
Director response	17-May-24	29-May-24
Final report issued	24-May-24	29-May-24
AR&S Committee	27-Jun-24	

Distribution	
Document type	Assurance Report
Director	Eleanor Sheppard, Executive Director – Families and Communities
Process Owner	Jacqui McKenzie, Chief Officer – Housing
Stakeholders	Rachel Harrison - Locality Inclusion Manager
	Jocelyn Janssen - Private Sector Manager
	Lindsay MacInnes, Interim Chief Officer – People & Organisation Development and Customer Experience
	Lesley Strachan, People & Organisational OD Manager - Talent
	Julie Esson, Operational Lead – HR Service Centre
	Helen Sherrit - Finance Partner
	Clare Davidson, Assistant Accountant
	Stephen Booth, Chief Officer – Corporate Landlord
	Mark Shaw, Senior Energy Officer
	Jonathan Belford, Chief Officer – Finance*
Final Only	Vikki Cuthbert, Chief Officer – Governance
	External Audit*
Lead auditor	Farai Magodo, Auditor

1 Introduction

1.1 Area subject to review

The Council has several statutory duties relating to private sector housing that have financial implications. These include maintaining a register of landlords operating in the local authority area; administering licenses for houses in multiple occupation (HMOs) and short term lets; complying with the property factors code of conduct for 38 multi-story buildings; and administering a Scheme of Assistance, including grants for adaptations for people with disabilities and for remedial work to private water supplies.

The Council's Private Sector Housing unit (19 FTE) undertakes these duties, administering the various fees and charges and offering support and advice to private sector tenants, landlords and homeowners.

The 2023/24 outturn for private sector housing was net expenditure of £90k (gross expenditure £2.041m, gross income £1.951m) compared to a budget of £124k (gross expenditure £1.907m, gross income £1.783m), with the within budget position related to over-recovery of income.

1.2 Rationale for review

The objective of this audit is to ensure adequate control is exercised over private sector housing income and expenditure.

This audit has not been carried out before and has been included in the agreed Internal Audit plan for 2023/24 since income and expenditure is material in value and there is a risk of reputational damage should the Council inadequately administer financial matters whilst undertaking statutory duties relating to this area.

Factoring income and expenditure will be out of scope for this internal audit since a Service led review of factoring was under way in February 2024; assurance over the outcome of this review will be sought.

1.3 How to use this report

This report has several sections and is designed for different stakeholders. The executive summary (section 2) is designed for senior staff and is cross referenced to the more detailed narrative in later sections (3 onwards) of the report should the reader require it. Section 3 contains the detailed narrative for risks and issues we identified in our work.

2 Executive Summary

2.1 Overall opinion

The full chart of net risk and assurance assessment definitions can be found in Appendix 2 – Assurance Scope and Terms. We have assessed the net risk (risk arising after controls and risk mitigation actions have been applied) as:

Net Risk Rating	Description	Assurance Assessment
Minor	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.	Substantial

The organisational risk level at which this risk assessment applies is:

Risk Level	Definition
Cluster	This issue/ risk level impacts a particular Service or Cluster. Mitigating actions should be implemented by the responsible Chief Officer.

2.2 Assurance assessment

The level of net risk is assessed as **MINOR**, with the control framework deemed to provide **SUBSTANTIAL** assurance over the Council's private sector housing¹.

Substantial assurance was available over the following areas reviewed:

- **Staff Costs** – A sample of five staff charged to the private sector housing budgets in 2023/24 were reviewed and Council employment contracts were in place in all cases for posts relevant to private sector housing. In addition, three (33%) of the nine overtime payments made to Private Sector Housing staff were reviewed and these agreed to related timesheets which had been appropriately approved and hours were paid at the correct rate.
- **Following the Public Pound** – The Private Sector Housing team awarded a small grant of £6k to a tenement housing charity; this complied with the Council's Following the Public Pound Policy.
- **Disabled Adaptation Grants** – In accordance with s71 of the Housing (Scotland) 2006, the Council has a Scheme of Assistance for the adaptation of disabled persons homes to make them suitable for the accommodation, welfare, or employment of the applicant. 144 such grant payments were made in financial year 2023/24 totalling £752k. A sample of five of these totalling £50k was reviewed and all were supported by an assessed need from an Occupational Therapist (OT) countersigned by a senior OT, applications by the applicant signed to agree to the Scheme's terms and conditions; architectural specifications; and a minimum of two estimates from prospective contractors undertaking the work on the homeowner's behalf to help ensure Best Value. A grant covering 100% of costs reviewed was paid to an eligible applicant in receipt of relevant benefits (80% of costs paid otherwise as expected). In addition, payments were only made following inspection of completed works by a Private Sector Housing Officer, to ensure the work was satisfactory.
- **Budget Setting and Reporting** – Relevant officers receive monthly BOXI Private Sector Housing budget monitoring reports. These are clearly laid out and broken down by relevant areas (e.g. HMO, Short Term Lets, Factoring, Private Registered Landlords, Housing Improvement Grants) and by the subjective nature of transactions (e.g. staff costs, premises costs etc). Overspends and underspends were clearly identified where applicable and the outturn to budget position is discussed with Finance, with the 2023/24 outturn coming in within budget. In addition, the Council's 2024/25 budget approved by Council in March 2024

¹ Substantive testing for factoring was out with the scope of this review, as factoring is a relatively new Council operation and is under review; a property factoring action plan has been established covering relevant improvements for progression in 2024/25.

considered HMO fee setting with a view to covering related Private Sector Housing team administration costs.

However, the review identified some areas of weakness where enhancements could be made to strengthen the framework of control, specifically:

- **Mandatory Staff Training** – Mandatory training covers a range of topics primarily concerned with ensuring staff adhere to statutory requirements and Council policy. However, seven (36%) of 19 staff charged to the private sector housing budgets in 2023/24 had not completed all mandatory training as required at the time of review. This included two (11%) Prevent; five (26%) Information Governance; three (16%) Fire Safety; and three (16%) Essential Child Protection, risking failure to comply with related statutory requirements and Council policies. A recommendation has already been made to improve mandatory training completion generally in Internal Audit AC2406 Data Protection.
- **Procurement** – Excluding factoring for reasons described above, only two procurements exceeded £10k and all were included on the Council's Contracts Register as required by the Council's procurement regulations. One of these was a regulated procurement totalling £750k; this had been procured in accordance with Council's Scheme of Governance for the most part. However, it was noted a contract award notice was not posted on the Public Contract Scotland website by Corporate Landlord as required by procurement legislation.
- **Travel Costs** – One (20%) of a sample of five mileage claims was overpaid by £100 to a member of the Private Sector Housing for car mileage due to it being incorrectly punched for payment by People and Citizen Services. Whilst it is an employee's responsibility to check their payslip for anomalies budget monitoring should identify such overpayments. Risks related to Essential Car User allowance payments outwith Housing's control are highlighted separately in Appendix 1 for People and Citizen Services.
- **Income** – Fee income had been received for 15 applications reviewed covering HMO licenses, short term let licenses and private sector landlord registration and procedures are in place to respond to complaints of unlicensed / unregistered operators. However, whilst payment is required in advance of applications being considered, a system of reconciliation between the license systems / related registers and the cash receipting system is not in place risking fee income not being received as expected.

Recommendations have been made to update the Scheme of Assistance for disabled adaptation grants where necessary; formalise staff procedures cover administration of this area; update the Public Contracts Scotland website; monitor travel costs; and establish a system of reconciliation for private sector housing fee income.

2.3 Severe or major issues / risks

No severe or major issues/risk were identified as part of this review.

2.4 Management response

We welcome the report, and the overall outcome of this review. Reflecting a substantial level of assurance regarding the activity carried out across the Private Sector Housing remit. A response to each of the individual recommendations has been provided below, with a recognition these recommendations and associated actions are shared across Housing, Corporate Landlord and People & Citizen Services.

3 Issues / Risks, Recommendations, and Management Response

3.1 Issues / Risks, recommendations, and management response

Ref	Description	Risk Rating	Minor
1.1	<p>Written Policies and Procedures – Comprehensive written policies and procedures, and their effective communication are an essential element in any system of control. They are beneficial for the training of current and new employees and provide management with assurance correct and consistent instructions are available, especially in the event of an experienced employee being absent or leaving.</p> <p>Written policies, procedures and guidance are in place for staff and the general public covering relevant private housing matters.</p> <p><u>Private Landlords, HMOs, and Short Term Lets</u></p> <p>The Council's website is clearly laid out, covering Houses in Multiple Occupation (HMO), and Short Term Let (STL) license application and landlord registration requirements, as well as the legislation, relevant statutory guidance, fees and links to the related online application processes and registers.</p> <p><u>Scheme of Assistance – Disabled Adaptation Grants</u></p> <p>However, whilst there is a detailed Scheme of Assistance for disabled adaptation grants covering what is eligible for grant assistance generally, it is not clear what is not eligible, risking applicant confusion and potential reputational damage for the Council.</p> <p>This was evident on reviewing one (20%) of a sample of five grant applications for funding towards an elevator, where a smoke alarm deemed necessary by Building Control was disqualified from grant funding on the basis that home smoke alarms are now a legal requirement generally, which was not expected by the architect acting for the applicant.</p> <p>In addition, grant application processing written guidance covering assessment of applications, and determination of what is and is not eligible, is not in place. Since these applications are processed by a single knowledgeable member of the Private Sector Unit this presents training and business continuity risks.</p> <p>IA Recommended Mitigating Actions</p> <p>a) The Service should review and where necessary/reasonable, update the Scheme of Assistance to cover what is not eligible for grant assistance. Where relevant consideration should be given to any instances where former applicants or their representatives expressed surprise / dissatisfaction by a decision to disqualify costs from grant funding.</p> <p>b) The Service should formalise staff procedures for processing private sector housing grant applications.</p> <p>Management Actions to Address Issues/Risks</p> <p>a) <i>The Council's Scheme of Assistance Policy is currently under review by ACC and other relevant stakeholders including Bon Accord Care and the Health & Social Care Partnership. The review is currently ongoing. The above points will be taken into consideration throughout the review.</i></p> <p>b) <i>Scheme of Assistance procedures are in place for processing Grant applications, however require updating. Procedure updates will be actioned upon completion of the Policy review in case of any internal process changes.</i></p>		

Ref	Description		Risk Rating	Minor
	Risk Agreed	Person(s)	Due Date	
	a) Yes	Senior Housing Strategy Officer, Housing	a) April 2025	
	b) Yes	Private Sector Housing Manager, Housing	b) April 2025	

Ref	Description		Risk Rating	Minor
1.2	<p>Procurement – To ensure Best Value it is essential goods and services are procured in accordance with the Council's procurement regulations and procurement legislation.</p> <p>Excluding factoring for reasons described above only two procurements exceeded £10k and all were included on the Council's Contracts Register as required by the Council's procurement regulations. One of these was a regulated procurement undertaken by Corporate Landlord relating to energy efficiency advice services (<i>Scarf</i>) totalling £750k and had been procured in accordance with Council's Scheme of Governance for the most part.</p> <p>However, the Procurement Reform (Scotland) Act 2014 requires a contracting authority to publicise the award of a contract under a regulated procurement on the Public Contracts Scotland website and this did not take place for the regulated contract reviewed, which is a breach of procurement legislation.</p>			
	IA Recommended Mitigating Actions			
	Corporate Landlord should publish the award notice on the Public Contracts Scotland website for the energy efficiency services regulated contract.			
	Management Actions to Address Issues/Risks			
	<i>Agreed.</i>			
	Risk Agreed	Person(s)	Due Date	
	Yes	Senior Energy Officer, Corporate Landlord	June 2024	

Ref	Description		Risk Rating	Minor
1.3	<p>Travel Costs – The Council's Staff Travel Policy permits car business mileage claims via a travel and subsistence form where private car is the most effective method of ground transport.</p> <p>A sample of five car mileage claims made by the Private Sector Housing team were adequately supported by an appropriately approved travel and subsistence claim. However, due to manual input error by People and Citizen's Services when processing one (20%) of these claims, 249 miles was paid at 45p per mile to an employee instead of 24.8 miles resulting in an overpayment of £100.89.</p> <p>Council payslips state:</p>			

Ref	Description	Risk Rating	Minor
	<p><i>"You are expected to check your payslip to ensure the payment is correct. Unusual amounts should be reported without delay to the payroll section for clarification. We may use / share your data to prevent / detect fraud."</i></p> <p>Whilst this places an onus on employees to report overpayments budget monitoring should also be used to identify such overpayments.</p> <p>People and Citizen Services has advised action will be taken to recover the overpayment; a recommendation is included for tracking purposes.</p>		
IA Recommended Mitigating Actions			
<p>a) The mileage claim overpayment identified should be recovered by People and Citizen Services.</p> <p>b) The Private Sector Housing team should monitor travel costs to ensure these are in line with approved claims.</p>			
Management Actions to Address Issues/Risks			
<p>a) <i>In respect of the specific case identified during the audit sample, this error has been rectified. In terms of future assurance, work is underway to explore options to automate our claims process, which would reduce the requirement for manual input and potential human error. This will be done in conjunction with our colleagues in Digital & Technology.</i></p> <p>b) <i>The budget holder will continue to monitor the budget to identify any significant discrepancies.</i></p>			
Risk Agreed		Person(s)	Due Date
a) Yes		a) People & Organisational OD Manager - Talent	a) Implemented
b) Yes		b) Private Sector Housing Team	b) Implemented

Ref	Description	Risk Rating	Minor
1.4	<p>Fee Income Reconciliations – An adequate system of reconciliation is necessary to ensure fee income is received where services are delivered.</p> <p>A sample of five private landlords, five HMO license holders and five short term let license holders was selected from the respective registers and related license and landlord registration fees had been received as required in all cases. Furthermore, procedures are in place covering unlicensed / unregistered operators identified following a complaint; this helps ensure enforcement action is taken where necessary and if appropriate to do so, relevant applications are progressed, and fees recovered.</p> <p>However, whilst the Service advised payment is required in advance of applications being considered, a system of reconciliation between the license systems / related registers and the cash receipting system is not in place risking fee income not being received as expected.</p>		
IA Recommended Mitigating Actions			
<p>The Service should liaise with Finance and Digital and Technology to ensure an adequate system of reconciliation over fee income to application records is established.</p>			
Management Actions to Address Issues/Risks			

Ref	Description	Risk Rating	Minor
	<p><i>The systems that are in place to allow applications for landlord registration, HMOs and Short term lets are designed to prevent an application progressing without payment. We will engage with colleagues in finance and digital and technology to identify if there is any additional assurance that can be built into the system.</i></p>		
	<p>Risk Agreed Yes</p>	<p>Person(s) Private Sector Housing Manager</p>	<p>Due Date September 2024</p>

4 Appendix 1 – Essential Car Users

Ref	Description	Risk Rating	Moderate										
2.1	<p>Essential Car Users – The Council operates an Essential Car User (ECU) scheme whereby annual ECU allowances are paid to members of staff in posts with ECU status. The list of ECU posts should be held by the Chief Officer – People and Citizen Services, with ECU status requiring a post to meet one of the following criteria:</p> <ul style="list-style-type: none"> • Emergency response. • Carriage of equipment to undertake the role. • Mobile and remote working inherent virtually all day every day. <p>The lump sum ECU allowance (see below) are assessed on the mileage of the employee over the preceding 12-month period (April – March) with all lump sum allowances reviewed in April each year. New starters with an ECU will have mileage estimated based on usage of the previous post-holder or if a new post will start on the lowest annual allowance.</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="background-color: #003366; color: white;">Actual Annual Business Mileage</th> <th style="background-color: #003366; color: white;">Annual ECU Allowance</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">Under 1,200 miles</td> <td style="text-align: center;">£120</td> </tr> <tr> <td style="text-align: center;">1,200 to 5,000 miles</td> <td style="text-align: center;">£250</td> </tr> <tr> <td style="text-align: center;">5,001 – 7,500 miles</td> <td style="text-align: center;">£500</td> </tr> <tr> <td style="text-align: center;">Over 7,501 miles</td> <td style="text-align: center;">£800</td> </tr> </tbody> </table> <p>ECU payments were made to Private Sector Housing Officers; a Senior Private Sector Housing Officer and Team Leader however it was not possible to determine if this was appropriate since ECU eligibility is not recorded against posts in the payroll system and People and Citizen Services do not maintain an approved list of ECU posts.</p> <p>In addition, whilst the majority of ECU payments were made correctly in 2023/24 based on 2022/23, assuming the posts were eligible for ECU payments, one officer in receipt of £250 when they were actually only entitled to £120 based on mileage travelled in 2022/23 (920 miles), meaning an overpayment of £130 was made. Also, on reviewing ECU payments across the Council in 2023/24 22 employees were overpaid ECU allowances by £130 each and 18 staff were underpaid (3 allowances underpaid by £250, 15 underpaid by £130).</p> <p>People and Citizen Services have advised that the annual review of prior year mileage claims, which forms the basis of ECU rates applied in the payroll system, was on pause following the pandemic due to abnormally low mileage and that rate reviews have been resumed since April 2024 to ensure accuracy.</p> <p>However, it was also noted 80 employees were paid ECU allowance payments totalling £10k in 2023/24 when no mileage was undertaken at all in 2022/23 or 2023/24 meaning employees in the related posts do not meet the ECU definition.</p> <p>Whilst amounts involved are not material to the Council in the short term, inaccurate and inequitable payments risks reputational damage and potentially an equal pay dispute were they to persist in the long term.</p>	Actual Annual Business Mileage	Annual ECU Allowance	Under 1,200 miles	£120	1,200 to 5,000 miles	£250	5,001 – 7,500 miles	£500	Over 7,501 miles	£800		
Actual Annual Business Mileage	Annual ECU Allowance												
Under 1,200 miles	£120												
1,200 to 5,000 miles	£250												
5,001 – 7,500 miles	£500												
Over 7,501 miles	£800												
IA Recommended Mitigating Actions													
<p>a) People and Citizen Services should review the Essential Car User scheme and formalise posts eligible for an ECU payment with relevant Chief Officers.</p> <p>b) People and Citizen Services should automate ECU payments within the payroll system and establish a system of reconciliation to ensure payment accuracy.</p> <p>c) People and Citizen Services should review payments to employees who received ECU payments where no mileage has been undertaken, determine if payments should be recovered and take action to do so if appropriate.</p>													

Ref	Description	Risk Rating	Moderate
	Management Actions to Address Issues/Risks		
	<p><i>a) People and Citizen Services will undertake a full review of the Essential Car User (ECU) scheme including eligibility criteria. This will include developing and agreeing a list of roles eligible for ECU on a Cluster basis, with the relevant Chief Officer, and this will be captured against the role within the HR / Payroll system (coreHR). The list of roles will then be reviewed and updated on a regular basis.</i></p> <p><i>b) There is currently no mechanism to automate mileage claims, which are manually entered, as per the travel and subsistence claim form completed by the employee and approved by line manager. In terms of future assurance, work is underway to explore options to automate the claims process, which will reduce manual input and human error. This will be done in conjunction with our colleagues in Digital & Technology.</i></p> <p><i>c) The ECU scheme review will also consider employees who made no mileage claims in the previous financial year as part of the annual rate review and will set out clear guidance on how this situation will be managed and any payments recovered (if appropriate).</i></p>		
	Risk Agreed	Person(s)	Due Date
	Yes	People & Organisational OD Manager - Talent	December 2024

5 Appendix 2 – Assurance Terms and Rating Scales

5.1 Overall report level and net risk rating definitions

The following levels and ratings will be used to assess the risk in this report:

Risk level	Definition
Corporate	This issue / risk level impacts the Council as a whole. Mitigating actions should be taken at the Senior Leadership level.
Function	This issue / risk level has implications at the functional level and the potential to impact across a range of services. They could be mitigated through the redeployment of resources or a change of Policy within a given function.
Cluster	This issue / risk level impacts a particular Service or Cluster. Mitigating actions should be implemented by the responsible Chief Officer.
Programme and Project	This issue / risk level impacts the programme or project that has been reviewed. Mitigating actions should be taken at the level of the programme or project concerned.

Net Risk Rating	Description	Assurance Assessment
Minor	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.	Substantial
Moderate	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified, which may put at risk the achievement of objectives in the area audited.	Reasonable
Major	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	Limited
Severe	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.	Minimal

Individual Issue / Risk Rating	Definitions
Minor	Although the element of internal control is satisfactory there is scope for improvement. Addressing this issue is considered desirable and should result in enhanced control or better value for money. Action should be taken within a 12 month period.
Moderate	An element of control is missing or only partial in nature. The existence of the weakness identified has an impact on the audited area's adequacy and effectiveness. Action should be taken within a six month period.
Major	The absence of, or failure to comply with, an appropriate internal control, which could result in, for example, a material financial loss. Action should be taken within three months.
Severe	This is an issue / risk that could significantly affect the achievement of one or many of the Council's objectives or could impact the effectiveness or efficiency of the Council's activities or processes. Action is considered imperative to ensure that the Council is not exposed to severe risks and should be taken immediately.

6 Appendix 3 – Assurance Scope and Terms of Reference

6.1 Area subject to review

The Council has several statutory duties relating to private sector housing that have financial implications. These include maintaining a register of landlords operating in the local authority area; administering licenses for houses in multiple occupation (HMOs) and short term lets; complying with the property factors code of conduct for 38 multi-story buildings; and administering a Scheme of Assistance, including grants for adaptations for people with disabilities and for remedial work to private water supplies.

The Council's Private Sector Housing unit (13 FTE) undertakes these duties, administering the various fees and charges and offering support and advice to private sector tenants, landlords and homeowners.

The 2023/24 outturn for private sector housing was net expenditure of £90k (gross expenditure £2.041m, gross income £1.951m) compared to a budget of £124k (gross expenditure £1.907m, gross income £1.783m), with the within budget position related to over-recovery of income.

6.2 Rationale for review

The objective of this audit is to ensure adequate control is exercised over private sector housing income and expenditure.

This audit has not been carried out before and has been included in the agreed Internal Audit plan for 2023/24 since income and expenditure is material in value and there is a risk of reputational damage should the Council inadequately administer financial matters whilst undertaking statutory duties relating to this area.

6.3 Scope and risk level of review

This review will offer the following judgements:

- An overall **net risk** rating at the **Cluster** level.
- Individual **net risk** ratings for findings.

6.3.1 Detailed scope areas

As a risk-based review this scope is not limited by the specific areas of activity listed below. Where related and other issues / risks are identified in the undertaking of this review these will be reported, as considered appropriate by IA, within the resulting report.

The specific areas to be covered by this review are:

- Written Policies, Procedures and Training
- Staff Costs
- Procurement
- Factoring Repairs and Maintenance
- Housing Improvement Grants
- Short Term Let Supplies and Services
- Income – HMOs, Short Term Lets, Factoring, and Private Sector Registration
- Budget Monitoring and Reporting

6.4 Methodology

This review will be undertaken through interviews with key staff involved in the process(es) under review and analysis and review of supporting data, documentation, and paperwork. To support our work, we will review relevant legislation, codes of practice, policies, procedures, guidance.

Due to hybrid working across the Council, this review will be undertaken primarily remotely.

6.5 IA outputs

The IA outputs from this review will be:

- A risk-based report with the results of the review, to be shared with the following:
 - Council Key Contacts (see 1.7 below)
 - Audit, Risk and Scrutiny Committee (final only)
 - External Audit (final only)

6.6 IA staff

The IA staff assigned to this review are:

- Farai Magodo, **(audit lead)**
- Andy Johnston, Audit Team Manager
- Jamie Dale, Chief Internal Auditor **(oversight only)**

6.7 Council key contacts

The key contacts for this review across the Council are:

- Andy MacDonald, Director – Corporate Services
- Jacqui McKenzie, Chief Officer – Housing **(process owner)**
- Rachel Harrison, Locality Inclusion Manager
- Jocelyn Janssen, Private Sector Manager
- Helen Sherrit, Finance Partner
- Clare Davidson, Assistant Accountant

6.8 Delivery plan and milestones

The key delivery plan and milestones are:

Milestone	Planned date
Scope issued	19-Jan-24
Scope agreed	26-Jan-24
Fieldwork commences	29-Feb-24
Fieldwork completed	29-Mar-24
Draft report issued	19-Apr-24
Process owner response	10-May-24
Director response	17-May-24
Final report issued	24-May-24

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ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	27 June 2024
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Internal Audit Report AC2422 – City Region Deal
REPORT NUMBER	IA/AC2422
DIRECTOR	N/A
REPORT AUTHOR	Jamie Dale
TERMS OF REFERENCE	2.2

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to present the planned Internal Audit report on the City Region Deal

2. RECOMMENDATION

- 2.1 It is recommended that the Committee review, discuss and comment on the issues raised within this report and the attached appendix.

3. CURRENT SITUATION

- 3.1 Internal Audit has completed the attached report which relates to an audit of the City Region Deal

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications arising from the recommendations of this report.

6. ENVIRONMENTAL IMPLICATIONS

- 6.1 There are no direct environmental implications arising from the recommendations of this report.

7. RISK

7.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are detailed in the resultant Internal Audit reports. Recommendations, consistent with the Council's Risk Appetite Statement, are made to address the identified risks and Internal Audit follows up progress with implementing those that are agreed with management. Those not implemented by their agreed due date are detailed in the attached appendices.

8. OUTCOMES

8.1 There are no direct impacts, as a result of this report, in relation to the Council Delivery Plan, or the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place.

8.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council's framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

9. IMPACT ASSESSMENTS

Assessment	Outcome
Impact Assessment	An assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics.
Privacy Impact Assessment	Not required

10. BACKGROUND PAPERS

10.1 There are no relevant background papers related directly to this report.

11. APPENDICES

11.1 Internal Audit report AC2422 – City Region Deal

12. REPORT AUTHOR CONTACT DETAILS

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Internal Audit

Assurance Review of City Region Deal

Status: Final

Date: 25 March 2024

Risk Level: Strategic

Report No: 2422

Assurance Year: 2023/24

Net Risk Rating	Description	Assurance Assessment
Major	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	Limited

Report Tracking	Planned Date	Actual Date
Scope issued	20-Jul-23	20-Jul-23
Scope agreed	27-Jul-23	26-Jul-23
Fieldwork commenced	4-Aug-23	9-Oct-23
Fieldwork completed	1-Dec-23	8-Dec-23
Draft report issued	15-Dec-23	21-Dec-23
Process owner response	12-Jan-24	15-Jan-24
Director response	19-Jan-24	25-Mar-24
Final report issued	26-Jan-24	25-Mar-24

Distribution	
Document type	Assurance Report
Director	Rob Simpson, Director of Business Services, Aberdeenshire Alan Wood, Director of Infrastructure and Environment, Aberdeenshire Gale Beattie, Director of Commissioning, Aberdeen City
Process Owners	Stuart Bews, Interim City Region Deal Programme Manager, Aberdeen City Karlyn Watt, Strategic Finance Manager, Aberdeenshire
Stakeholder	Paul Macari, Head of Planning and Economy, Aberdeenshire Mary Beattie, Head of Finance, Aberdeenshire Julie Wood, Interim Chief Officer – City Growth, Aberdeen City Jonathan Belford, Chief Officer – Finance, Aberdeen City
Final only	John Lovie, Accountant, Aberdeenshire Aigul Gray, Project Support, Aberdeen City Susan Donald, Corporate Finance Manager, Aberdeenshire Vikki Cuthbert, Interim Chief Officer – Governance, Aberdeen City*
Lead auditor	External Audit*
	Colin Harvey, Audit Team Manager

1 Introduction

1.1 Area subject to review

The Aberdeen City Region Deal (the Deal), agreed in November 2016, is a three-way, ten-year agreement between the UK Government, the Scottish Government and regional partners including Aberdeen City and Aberdeenshire councils, and other organisations including universities and Opportunity North East (ONE) - the private sector partner that leads on innovation projects within the Deal. The total allocations of funding for the capital projects is £826.2m.

The Deal's aim is to significantly advance economic and infrastructure development in the area, addressing the challenges that business and industry face in the North East of Scotland whilst grasping opportunities through projects that can enable Aberdeenshire and Aberdeen City to continue to be an attractive and productive area for organisations to locate and develop. Key projects include the Net Zero Technology Centre (formerly Oil and Gas Technology Centre), Food and Drink and Life Science Innovation Hubs, a Digital Infrastructure Fund, expansion of Aberdeen Harbour, and development of a Strategic Transport Appraisal (STAG).

The councils' jointly fund £20m of activity relating to the Digital (£7m), STAG (£2m) and Harbour Expansion (£11m) elements of the Programme. The Digital and Transport themes are led by Council based working groups whilst the other project themes, Innovation, and Internationalisation, are led by external project boards with which the Council has a Funding Agreement. The councils are responsible for ensuring projects are appropriately planned and managed and for monitoring their progress and finances. They also host the Aberdeen City Region Deal Joint Committee, which includes representation from each stakeholder.

Aberdeenshire Council acts as a conduit for Government and Council funding in accordance with the signed Deal Agreement and the terms of the Scottish Government's annual Aberdeen City Region Deal Grant Offer. Drawdowns and grant payments to projects are dependent on the Accountable Body receiving evidence of projects' spend and progress.

1.2 Rationale for the review

The objective of this audit is to provide assurance over the governance and financial spend of the City Region Deal¹. The Deal is managed on behalf of various partners; each stakeholder will have an interest in assurance over the governance arrangements. Aberdeen City Council supports programme management for delivery of the Deal's projects and outcomes. Aberdeenshire Council is the Accountable Body for project funding drawdowns and payments. They therefore have lead responsibility for programme delivery and stewardship of funds².

Since 2022-23 the UK and Scottish Governments' funding letter, setting out the terms of their annual grant offer, includes an expectation for the Deal to be included in the Internal Audit Plan at least every two years.

Governance of the Deal was last reviewed in 2020 (Internal Audit Report 2101). Whilst the main focus of the review was financial governance – over which positive assurance was obtained, areas of improvement were recommended relating to project change management controls, benefits measurement and associated action plans and reporting, and demonstrating project sustainability following the end of the funding period.

1.3 How to use this report

¹ This review has been undertaken by the Internal Audit Service of Aberdeenshire Council, who also provides such services to Aberdeen City Council. This report will be presented to both councils' respective audit committees (in whichever form they take) and will be made available to other stakeholders, such as the UK and Scottish governments, as appropriate. It should be noted that the primary reason for this review is to gain assurances for both councils and to satisfy the overall funding requirements. Any other assurances taken by stakeholders is based on their own judgement and does not place any responsibility or liability on the Internal Audit Service of Aberdeenshire Council.

² The audit methodology used across both councils is similar, with the only difference being slightly different assurance terms e.g. a Strategic review for Aberdeenshire is considered a Corporate Review for Aberdeen City. For ease of reporting and consistency, the Aberdeenshire terms have been used.

This report has several sections and is designed for different stakeholders. The executive summary (section 2) is designed for senior staff and is cross referenced to the more detailed narrative in later sections (3 onwards) of the report should the reader require it. Section 3 contains the detailed narrative for risks and issues we identified in our work.

2 Executive Summary

2.1 Overall opinion

The full chart of net risk and assurance assessment definitions can be found in Appendix 1 – Assurance Scope and Terms. We have assessed the net risk (risk arising after controls and risk mitigation actions have been applied) as:

Net Risk Rating	Description	Assurance Assessment
Major	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	Limited

The organisational risk level at which this risk assessment applies is:

Risk Level	Definition
Strategic	This issue / risk level impacts the Council as a whole. Mitigating actions should be taken at the Senior Leadership level.

2.2 Assurance assessment

Internal Audit has identified an overall net risk rating of **MAJOR**, with **LIMITED** assurance obtained over the governance and financial spend of the City Region Deal. The Deal planned to utilise in excess of £290m of public funds, leveraging over £530m from private sector and other contributions. This audit sought to determine whether suitable and proportionate controls, data, and checks, are in place to provide assurance over reported project delivery and grant disbursement. Partners to the arrangement are working together in the spirit of the agreement to deliver against the agreed aims and objectives. The level of progress with actions and spend are reported regularly, and this meets the current reporting requirements for the Councils, the UK, and Scottish Government. However, weaknesses have been identified in governance arrangements, review of the supporting audit trail for expenditure, and delivery of outcomes.

It is noted that as an early adopter of the City Region Deal model, Aberdeenshire and Aberdeen City have had to continuously develop governance and reporting arrangements, and their work in this area has been recognised by the governments – which continue to develop their own requirements, reflected in variations to terms and conditions included in annual grant offer letters. Partners have adapted to meet changing demands, to meet funders' expectations.

However, these changes have not been fully reflected throughout the Deal's governance arrangements (e.g. by updating funding agreements), and there is a need for more transparency and challenge in respect of financial and progress data provided by project delivery partners. Project status, expenditure claims, financial forecasts, and the realisation of benefits is declared, collated, and reported, but detailed supporting evidence is not always provided and reviewed in sufficient detail to confirm their accuracy. Data required for the measurement of benefits realised is being withheld due to partners' concerns over the release of commercially and personally sensitive information.

Internal Audit requested project board minutes and transactional data, and where available this provided a level of assurance; however, full data was not provided in every case. If delivery partners are not comfortable sharing information, this limits the level of assurance that can be taken and drives up the level of risk. Explanations for variances, delays, and mitigating actions, are limited. There is limited scrutiny of financial and progress data provided from delivery partners by the councils as part of their programme management and financial accountable body roles, and where this takes place it is not well evidenced. It is important to demonstrate appropriate checks and challenge are being applied to provide assurance that the grant is only being paid out to cover eligible spend. Conditions and requirements of the UK and Scottish governments have varied over the life of the Deal. Partners and delivery of the programme and project outcomes may be at risk if required information cannot be obtained to satisfy changing funders' requirements.

The delivery of benefits and conclusion of projects to date has been reported in summary or through selected highlights and case studies as part of the Deal Annual Report, rather than detailed comparisons of actual outcomes and costs against planned. It may be difficult to ensure this data is obtained, given requirements had not been determined and agreed in advance, and flexibility has not been incorporated into existing agreements. In the absence of this data, it may not be possible to fully determine the successful delivery of the intended Deal outcomes.

An assumption is being made by project delivery partners that funds committed but not spent in the financial year can be rephased to future years, however few projects in this situation have submitted formal change requests to date. The governments have stated in grant offer letters that although the totality of funds remains available (within the Deal funding period – to 2027), requests to move funding between specific years may not be possible. It cannot therefore be assumed that all requests to rephase budgets will be agreed, or can be accommodated within the funding period.

Approval of project changes is reserved to the City Region Deal Joint Committee. However, this has been delegated to an Officer on its behalf by one of the partners and there is no record of other partners having agreed this. It is essential that decision making on governance and controls is planned and transparent.

Recommendations have been made to address the noted points, specifically around strengthening the governance and reporting arrangements within the councils and from partners. These include updating and securing flexibility in funding agreements, and reviewing delegations. Further work has been recommended to develop and expand the level of data obtained, and its critical appraisal, in respect of use of funding, performance against plans, and realisation of benefits, at a more detailed level proportionate with the level of funds being managed through the City Region Deal.

2.3 Severe or major issues / risks

Issues and risks identified are categorised according to their impact on the Council. The following are summaries of higher rated issues / risks that have been identified as part of this review:

Ref	Severe or Major Issues / Risks	Risk Agreed	Risk Rating	Page No.
1.2	<p>Delegated Powers – Some project changes (e.g. the carry forward of £337k budget on a project) are being approved by the Aberdeen City Chief Officer - City Growth, in consultation with the Joint Programme Board, on the basis of authority delegated by Aberdeen City Council. Such changes are being subsequently reported in appendices to quarterly progress updates provided to the City Region Deal Joint Committee. The Committee is asked to note the document, and not the exercise of delegated powers. More substantial changes are being put to the Committee for a decision (e.g. a change of scope to extend another project for £2,671k), but there is currently no guidance on the level or type of change requiring Joint Committee approval.</p> <p>There are no requests for approval or ratification of these decisions, and the Joint Programme Board (which is being consulted as part of this delegation) does not have delegated powers from the Committee to approve changes. The Joint Committee is not directly controlled by a single partner - therefore whilst Aberdeen City Council has</p>	Yes	Major	12

Ref	Severe or Major Issues / Risks	Risk Agreed	Risk Rating	Page No.
	<p>the power to delegate a part of the Committee's powers to one of its officers, it would require formal agreement from the partners or the Joint Committee itself. There is no record of Aberdeenshire Council having agreed this delegation.</p>			
1.4	<p>Performance and Benefits Reporting – A Benefits Realisation Plan was agreed in February 2023, for the 2016-2026 programme, though performance and benefits reporting has been carried out annually with highlights and case studies presented in the annual report. To date there has been no formal reporting of a detailed comparison of actual compared with planned benefits.</p> <p>The majority of identified benefits do not have clear targets – there are measures of project level outputs, activities, or indicators used as proxies for the impact of project activity on the overall Deal outcomes, but only a small number of measures were set in project business cases (an average of 20% of measures across three workstreams reviewed by Internal Audit had specific targets).</p> <p>Benefits are tracked in a benefits tracker spreadsheet, which is updated annually and used to support reporting to the Joint Committee and governments. Elements of the tracker varied from the originally agreed targets set out in project business cases. Satisfactory explanations were provided, however improved tracking of revisions would provide greater assurance that outcomes are being compared and reported against agreed targets.</p> <p>Processes for data collection and reporting are still developing. Whilst some data is produced nationally, or by the PMO applying standardised calculations, generally delivery partners submit their own data into the tracker, and data is not typically subject to challenge or independent verification.</p> <p>Some of the data is not currently available, particularly where it is retrospective and baselines were not established, relates to 'personal data', or is considered 'commercially sensitive' by delivery partners. Selective presentation of data presents a risk in terms of completeness. It may be difficult to ensure this data is obtained, given</p>	No		15

Ref	Severe or Major Issues / Risks	Risk Agreed	Risk Rating	Page No.
	<p>requirements had not been determined and agreed in advance, and flexibility has not been incorporated into existing agreements. In the absence of this data, it may not be possible to fully determine the successful delivery of the intended Deal outcomes and benefits.</p>			
1.5	<p>Expenditure Records – Whilst there are records provided to Aberdeenshire Council Finance to support grant drawdowns by partners, there is currently insufficient detail to demonstrate that only grant eligible spend is included in each claim.</p> <p>Reliance is being placed on delivery partners' project leads to provide accurate figures on current spend and forecasts for use of funding. Aberdeenshire Council Finance collates this information from Project Status Reports and puts it into the relevant formats for reporting to the Joint Committee and UK/Scottish governments.</p> <p>Whilst Aberdeenshire Council Finance will challenge material variations and request explanations, which are then included within grant returns to the governments, they are not receiving or reviewing detailed supporting records of spend, or forecast calculations and assumptions, from each partner to obtain assurance they have a reasonable basis.</p> <p>Aberdeenshire Council Finance officers have confirmed they are able to request further information/review accounts on an 'open book' basis, and they have received satisfactory explanations, including viewing additional evidence on calls. However, they are not recording that they have done so, and there is limited documentary evidence held by the Council to support the claims (e.g. one project provides information covering only up to 50% of each claim, and certification required under the funding agreement is not on file). Arrangements for obtaining further supporting evidence have not been formally documented – therefore it is not clear if this is a conscious decision to restrict the level of review based on e.g. other sources of assurance.</p> <p>Transaction level data was sought by Internal Audit from delivery partners to confirm accuracy. Full supporting records were not provided in every case. For</p>	Yes		16

Ref	Severe or Major Issues / Risks	Risk Agreed	Risk Rating	Page No.
	<p>example, one project provided a selection of invoices supporting approximately 73% of a £1.2m claim, and there was not always sufficient information to demonstrate that the costs included related to a specific activity referenced in the business cases or funding agreements. In another case, amounts (£40k out of a £714k claim – 6%) were being claimed that were committed but had not yet been paid out (retentions), contrary to terms in the funding agreement. Recoverable VAT was also being claimed on the basis of an informal agreement that it would be repaid, following its recovery, at a later date. As this level of detail is not typically obtained by the Council, these potential anomalies had not been reviewed and addressed.</p> <p>The Deal utilises in excess of £290m of public funds, leveraging over £530m of private sector contributions. In the absence of appropriate and proportionate checks and challenge where necessary, there is limited assurance that grant funding is only being paid out to cover eligible spend. Conditions and requirements of the UK / Scottish Government have varied over the life of the Deal. Partners and delivery of the programme and project outcomes may be at risk if the required information cannot be obtained to satisfy changing funders' requirements.</p>			

2.4 Management response

Whilst we accept there are areas of improvement outlined in this report, we do not agree with the Net Risk Rating as - Major and the Assurance Assessment - Limited.

It should be noted that an audit was undertaken in 2020/21, where the same governance and procedures were in place, agreed by UK/SG and ACRD JC a positive assurance was obtained– all recommendations from that audit have been completed.

This audit report recognises that “the Deal has continuously developed reporting arrangements, in line with new requests from government and partners have adapted to meet the changing demands, to meet funders’ expectations”. It should be noted that formal Annual Reviews and 18 month Check point reviews between UK/SG and each project covering finances, milestones and benefits have taken place since inception and all actions from these reviews have been completed.

The audit recommends further checks and challenge is given to the information that projects submit to the PMO, UK/SG Government and Joint Committee, specifically Benefits and Finance information.

The management would like to highlight the controls that are in place:

Legal Agreement

Legal agreement exists between Aberdeenshire Council and projects, the terms and conditions of this agreement give the Council access to information, as well as the power to suspend payments where

appropriate. To date, projects have provided all information required of them in line with the grant agreement.

Progress Status Reports

These are provided monthly for review by the PMO. They report on actual monthly spend and provide a forecast for future months. Aberdeenshire Council reviews the costs claimed and can request for supporting information to support costs claimed.

Project Internal Governance

Each private company has its own Board, in which, a member of the Aberdeen City Region Deal Programme Board sits as an “observer”. This board is made up of private and public sector professionals which have a duty to monitor the financial reporting of the organisation. Part of the annual financial compliance of private organisations includes an external auditor’s examination of their accounts prior to reporting via Companies house which is accessible to the public. Annual Accounts are signed off by their own board and updated to ACRD Programme Board.

The CRD model was designed to be lighter touch supporting effective delivery. It is acknowledged that we are responding to an increasing level of scrutiny by Government(s) who have increased the resource in their Deal teams. We have responded to this changing approach to Government scrutiny and now have weekly meetings, as well as monthly, quarterly, and annual meetings. Individual projects have reviews, and checkpoints as well. The interaction between PMO and SG/UKG is significant and requires a lot of time to meet this demand. In general, we are compliant with UK/SG requirements, including reporting and change controls, and this has been confirmed through our regular reporting and meetings. There is no funding within the Deal for the Programme Management Office (PMO) to administer the Deal and therefore existing resources have been utilised which has been satisfactory to both Governments throughout the Deal period. There needs to be a balance between the resource we have, and the expectations we/others have from that resource – including the extent to which internal audit recommendations can be met.

We will undertake an annual review of funding agreements’ terms and conditions to ensure Deal programmes remain aligned with terms specified in the annual grant offer letter and will seek further documentary evidence in support of claims where this is required.

In February 2024, Aberdeen City Region Deal Joint Committee approved a governance framework document which further clarifies processes, definitions (e.g. material changes and material financial variances), delegations, and will promote even greater transparency in decision making.

Performance data is being obtained, however there remain challenges over ‘sensitive’ data, which will need to be obtained to demonstrate delivery of outcomes in line with the Benefits Realisation Plan. The Programme Board will be asked to identify mutually acceptable options for delivering assurance over these areas, to take forward to the Joint Committee for approval.

Revisions to the Quarterly reporting template, and project closure report template, are underway. A proposal will be taken to the Programme Board in respect of developing a dashboard style approach which will better set out progress against plan, in the context of expenditure against budgets. This would further improve the level of assurance provided to the Joint Committee and support further scrutiny of project delivery where required.

In summary, the financial management and scrutiny of all ACRD resources have been reported through ACRD Joint Committee and to both Governments on a regular basis as set out by Government. Improvements can be made and will be actioned in line with and adding to the current approach.

3 Issues / Risks, Recommendations, and Management Response

3.1 Issues / Risks, recommendations, and management response

Ref	Description	Risk Rating	Moderate
1.1	<p>Funding Agreements – Aberdeenshire Council, as Accountable Body, is responsible for ensuring appropriate stewardship and accountability over use of the City Region Deal’s funding. For two out of three workstreams reviewed, funding agreements were in place with the delivery partners: setting out terms and conditions for payment including e.g. what constitutes eligible expenditure, and the level of supporting information required before a grant claim will be paid.</p> <p>However, not all arrangements have signed agreements in place, and changes (including names, timing of payments, and requirements for supporting documentation) have not all been formally documented. In the absence of complete and up to date agreements covering every workstream there is a risk to progress and continued receipt of Deal funding in the event of any dispute over terms, or unanticipated variations in practice.</p> <p>The UK / Scottish Governments issue grant offer letters annually, which have included changes to previously agreed terms and conditions. There is currently limited flexibility in existing funding agreements (where these are in place) to incorporate such changes, though in practice partners are working together to address requirements for e.g. additional documentation, scrutiny, and changes to payment schedules. Without explicit commitment in writing there may be risks to the application of any further new requirements.</p> <p>Whilst the Governments can ultimately withhold payment until conditions are met, and this is reflected in existing agreements, there are risks to partners and project delivery if there is not mutual agreement. There needs to be both clarity over the need to fulfil funders’ expectations, and flexibility to adapt to future requirements.</p>		
IA Recommended Mitigating Actions			
The City Region Deal partners should ensure up to date agreements are in place with all delivery partners, and are maintained up to date to provide assurance over continued compliance with changes to UK/SG requirements.			
Management Actions to Address Issues/Risks			
<p><i>We recognise that the legal agreements created in 2016/17 are high level and that grant offer letters are agreed at Programme Board each year. We will undertake an annual review of agreements’ terms and conditions to ensure Deal programmes remain aligned with terms specified in the annual grant offer letter.</i></p> <p><i>We note that this will involve additional resource, and as such will require agreement by Joint Committee.</i></p>			
Risk Agreed		Person(s)	Due Date
Yes		Interim City Region Deal Programme Manager	July 2024 (and annually)

Ref	Description	Risk Rating	Major
1.2	<p>Delegated Powers – Some project changes (e.g. carry forward of £337k underspend against £1,361k budget (25%) on a project) are being approved by the Aberdeen City Chief Officer - City Growth, in consultation with the Joint Programme Board, on the basis of authority</p>		

Ref	Description	Risk Rating	Major
	<p>delegated by Aberdeen City Council in 2019. Such changes are being subsequently reported in appendices to quarterly progress updates provided to the City Region Deal Joint Committee. The Committee is asked to note the progress update document, and not the exercise of delegated powers. More substantial changes are being put to the Committee for a decision (e.g. a change of scope to extend another project utilising an underspend of £2,671k (53%)), but there is currently no guidance on the level or type of change requiring Joint Committee approval.</p> <p>There are no requests for approval or ratification of these decisions, and the Joint Programme Board (which is being consulted as part of this delegation) does not have delegated powers from the Committee to approve changes. The Joint Committee is not directly controlled by a single partner - therefore whilst Aberdeen City Council has the power to delegate a part of the Committee's powers to one of its officers, it would require formal agreement from the partners or the Joint Committee itself. There is no record of Aberdeenshire Council having agreed this delegation. The Councils' legal teams are working on proposals to confirm delegation from the Joint Committee.</p>		
	IA Recommended Mitigating Actions		
	Delegations should be reviewed and where appropriate confirmed by the Joint Committee and/or all partners. The scope of such delegations should be documented.		
	Management Actions to Address Issues/Risks		
	<p><i>The issue of delegation of power is now fully resolved.</i></p> <p><i>At February 2024 Joint Committee a report was unanimously approved that outlined the long-standing Change Request process and clarified delegated powers. While there was no minute of this delegation being explicitly agreed by Joint Committee previously, the change process was documented and in practice by projects with government, since inception, and reported to Joint Committee via the quarterly progress update. The Joint Committee are aware of the secondary control in place, which includes both governments agreeing change requests as part of the monthly reporting to government and follow-up meetings. The application of major risk rating appears to ignore all of the controls that were already in place.</i></p> <p><i>The recommended actions within the audit report have been concluded in full, and were underway at the time of the audit. During follow up conversations during the audit officers had informed of all other controls that were in place, whilst acknowledging that there was no evidence of a specific delegation of power from the Joint Committee to cover the approvals of variances and non material changes. The written procedure agreed by the Joint Committee largely formalises what was existing process relating to primarily operational matters. The major risk rating is accepted with some hesitation as evidence was provided of all other controls in place at the time of audit and a moderate risk rating had been expected on that basis.</i></p>		
	Risk Agreed	Person(s)	Due Date
	Yes	Interim City Region Deal Programme Manager	Implemented ³

³ Management provided evidence to confirm implementation of the action during the finalisation of the report after the risk had been highlighted by Internal Audit.

Ref	Description	Risk Rating	Moderate
1.3	<p>Progress Reporting – Project progress is updated regularly by project leads, using Project Status Reports (PSR's). These are in a standardised format, and updates are supported and consolidated centrally by the Aberdeen City Project Management Office (PMO).</p> <p>There is variation in the level of detail, and the future extent of milestones detailed in PSR's. Some projects are only tracking current year milestones. Milestones are detailed insufficiently to gauge progress or potential delays in project delivery. Whilst there is generally supporting narrative to explain progress, without SMART measures or additional milestones the degree of progress made, and the impact of any risks, may be difficult to interpret. There is also no status indicator (e.g. Red Amber Green (RAG)) included on the PSR's for tasks or projects to aid interpretation⁴.</p> <p>It is evident from board minutes (where provided) that some projects are reporting more detailed progress, risks, and issues to their own boards, but there is a risk this may not always be translated and escalated as necessary to provide assurance over progress or anticipated impacts. Project boards/working groups vary in the level of detail minuted. It was not possible to obtain assurance over some project board activity, as minutes were not all provided to Internal Audit for review. If delivery partners are not comfortable sharing information, this limits the level of assurance that can be taken and drives up the level of risk. Whilst partners are free to develop their own governance and reporting arrangements, it is important that there is overall assurance that progress, risks and issues, costs, and anticipated requirements for change, are being reviewed and escalated appropriately. Strong and consistent governance at project level would help provide this assurance, and needs to be evidenced.</p> <p>Whilst projects are reporting risks, the impact is not clearly measured. Timescale changes are not clearly attributed to crystallisation of risks. Similarly, although projects may include proposed mitigations, whether or not these are being applied is not recorded - limiting assurance that actions are being taken to avoid or reduce risks impacting on time or budget.</p> <p>Quarterly Joint Committee reports focus on current year spend and milestones without providing context and narrative demonstrating progress, commitment, and utilisation of funding against each project's full plan and for the Deal overall. This could limit opportunities for the Committee to effectively scrutinise progress and activity.</p>		
IA Recommended Mitigating Actions			
<p>Milestones should be sufficiently detailed and separated out for each project to gauge progress with delivery of project deliverables and outcomes, through to final delivery.</p> <p>Assurance should be obtained and reported on risks, their impact on delivery, finance and outcomes, and progress with actions to mitigate them.</p> <p>Progress on delivery of projects against plans, commitment, and utilisation of funding, should be reported to the Joint Committee regularly.</p>			
Management Actions to Address Issues/Risks			
<p><i>Revisions to the Quarterly reporting template are underway as this was a request made by Joint Committee in 2023. A proposal will be taken to the Programme Board in respect of developing a dashboard style approach which will set out progress against plan, in the context of expenditure against budgets. This level of assurance will complement the level of scrutiny currently being received at Joint Committee and support further scrutiny of project delivery if required.</i></p>			
Risk Agreed		Person(s)	Due Date

⁴ A RAG status is recorded for projects and associated risks in quarterly returns to the governments, and an indicator for overall project level status by exception is included in Joint Committee updates.

Ref	Description		Risk Rating	Moderate
	Yes	Interim City Region Deal Programme Manager	May 2024	

Ref	Description		Risk Rating	Major
1.4	<p>Performance and Benefits Reporting – A Benefits Realisation Plan was agreed in February 2023, for the 2016-2026 programme, though performance and benefits reporting has been conducted annually with highlights and case studies presented in the annual report. To date there has been no formal reporting of a detailed comparison of actual compared with planned benefits.</p> <p>The majority of identified benefits do not have clear targets – there are measures of project level outputs, activities, or indicators used as proxies for the impact of project activity on the overall Deal outcomes, but only a small number of measures were set in project business cases (an average of 20% of measures across three workstreams reviewed by Internal Audit had specific targets).</p> <p>Benefits are tracked in a benefits tracker spreadsheet, which is updated annually and used to support reporting to the Joint Committee and governments. Elements of the tracker varied from the originally agreed targets set out in project business cases. Satisfactory explanations were provided, however improved tracking of revisions would provide greater assurance that outcomes are being compared and reported against agreed targets.</p> <p>Processes for data collection and reporting are still developing. Whilst some data is produced nationally, or by the PMO applying standardised calculations, generally delivery partners submit their own data into the tracker, and data is not typically subject to challenge or independent verification.</p> <p>Some of the data is not currently available, particularly where it is retrospective and baselines were not established, relates to 'personal data', or is considered 'commercially sensitive' by delivery partners. Selective presentation of data presents a risk in terms of completeness. It may be difficult to ensure this data is obtained, given requirements had not been determined and agreed in advance, and flexibility has not been incorporated into existing agreements (see 1.1 above). In the absence of this data, it may not be possible to fully determine the successful delivery of the intended Deal outcomes and benefits.</p>			
IA Recommended Mitigating Actions				
<p>All agreed measures should be reflected in the benefits tracker promptly following project approval, with variations (e.g. following approved changes) clearly recorded.</p> <p>Performance and benefits data should be made available to the PMO in full, on a regular basis, to provide assurance over progress with delivery of the Deal outcomes. Decisions on sensitivity should be determined at the reporting stage rather than by individual delivery partners.</p> <p>Data provided by delivery partners should be reviewed, and challenged or independently verified where appropriate. The basis and level of assurance over figures included in returns should be clearly disclosed.</p> <p>Progress on delivery of benefits against those planned should be reported to the Joint Committee regularly.</p>				
Management Actions to Address Issues/Risks				
<p><i>It was always recognised that many of the Benefits would not be fully realised until after the completion of major projects, some of these projects are still being constructed. Benefits have been reported annually through the published Aberdeen City Region Deal Annual</i></p>				

Ref	Description	Risk Rating	Major
	<p><i>Report and include a mix of data and case studies outlining the benefits agreed at Business Case and additional social benefits.</i></p> <p><i>Since the inception of the Deal, governments have asked Deal projects to consider collation of additional data, including a breakdown of protected characteristics. Collation of this data is challenging across all Deals and doing so retrospectively in most cases will not be possible. The audit report cites “personal data” or “commercially sensitive”, we are still working through GDPR clauses, with legal colleagues on what can be shared. The ACRD PMO is part of a national Growth Deal Benefits sub group to share best practice and learn from each other as we develop processes for this.</i></p> <p><i>Projects are not due to report on the Benefits Realisation Plan until August 2024. The Programme Board has, for a number of years, planned an interim evaluation of the Deal which would be taken once most projects were complete and benefits still were to be realised. A Scope for this work is currently underway, with a view that this work would start in line with the 2024 Benefits Realisation Report.</i></p> <p><i>Independent verification of reported performance and benefits may not be possible or proportionate to the associated risk, however explanations will be sought for variations, and the source of data will be confirmed and subject to sample review.</i></p> <p><i>On the basis that the Benefits Realisation Plan is in place and was endorsed by both Governments, the risk rating of Major is not accepted by management. The ongoing reporting outlined elsewhere in the report at 2.4 provides a level of assurance that there are controls in place as required by Government which significantly mitigate any risk in this area.</i></p>		
	Risk Agreed	Person(s)	Due Date
	No	N/A	N/A

Ref	Description	Risk Rating	Major
1.5	<p>Expenditure Records – Whilst there are records provided to Aberdeenshire Council Finance to support grant drawdowns by partners, there is currently insufficient detail to demonstrate that only grant eligible spend is included in each claim.</p> <p>Reliance is being placed on delivery partners’ project leads to provide accurate figures on current spend and forecasts for use of funding. Aberdeenshire Council Finance collates this information from Project Status Reports and puts it into the relevant formats for reporting to the Joint Committee and UK/Scottish governments.</p> <p>Whilst Aberdeenshire Council Finance will challenge material variations and request explanations, which are then included within grant returns to the governments, they are not receiving or reviewing detailed supporting records of spend, or forecast calculations and assumptions, from each partner to obtain assurance they have a reasonable basis.</p> <p>Aberdeenshire Council Finance officers have confirmed they are able to request further information/review accounts on an 'open book' basis, and they have received satisfactory explanations, including viewing additional evidence on calls. However, they are not recording that they have done so, and there is limited documentary evidence held by the Council to support the claims (e.g. one project provides information covering only up to 50% of each claim, and certification required under the funding agreement is not on file). As discussed at 1.1 arrangements for obtaining further supporting evidence have not been formally documented – therefore it is not clear if this is a conscious decision to restrict the level of review based on e.g. other sources of assurance.</p>		

Ref	Description	Risk Rating	Major
	<p>Transaction level data was sought by Internal Audit from delivery partners to confirm accuracy. Full supporting records were not provided in every case. For example, one project provided a selection of invoices supporting approximately 73% of a £1.2m claim, and there was not always sufficient information to demonstrate that the costs included related to a specific activity referenced in the business cases or funding agreements. In another case, amounts (£40k out of a £714k claim – 6%) were being claimed that were committed but had not yet been paid out (retentions), contrary to terms in the funding agreement. Recoverable VAT was also being claimed on the basis of an informal agreement that it would be repaid, following its recovery, at a later date. As this level of detail is not typically obtained by the Council, these potential anomalies had not been reviewed and addressed.</p> <p>The Deal utilises in excess of £290m of public funds, leveraging over £530m of private sector contributions. In the absence of appropriate and proportionate checks and challenge where necessary, there is limited assurance that grant funding is only being paid out to cover eligible spend. As noted at 1.1 conditions and requirements of the UK / Scottish Government have varied over the life of the Deal. Partners and delivery of the programme and project outcomes may be at risk if the required information cannot be obtained to satisfy changing funders' requirements.</p>		
	IA Recommended Mitigating Actions		
	Partners should provide, and Aberdeenshire Council Finance should review, detailed spend records to demonstrate that expenditure and forecast figures have a sound basis, and that only grant eligible spend is being drawn down.		
	Management Actions to Address Issues/Risks		
	<p><i>The financial arrangements supporting the Aberdeenshire City Region deal have evolved throughout its duration. Since the inception of the deal, UKG and SG have cultivated a robust working relationship with private partners, reflecting the trust and confidence in the arrangement, with certain partners even receiving upfront funding. As the deal has advanced, UKG and SG have seen significant changes in staff and a number of new deals being developed, with valuable insights retroactively applied to enhance the ongoing Aberdeen City Region deal. One such change, is a reset with the financial arrangements, with both governments agreeing that all discussions around finance to be held between Partners and Aberdeenshire Council, and for Aberdeenshire Council to discuss with UKG and SG.</i></p> <p><i>In advance of the above reset, we are actively reviewing supporting evidence and taking steps to ensure assurance, although we recognise that reporting consistency has not always been maintained. To address this, a revised template has been crafted to meticulously document Aberdeenshire Council's review and scrutiny of evidence from partner bodies. This ensures that claims are strictly for eligible expenditures and align with the funding agreement. There is unanimous agreement among partner bodies to guarantee the provision of all necessary evidence to support deal submission claims. This refined process has been successfully implemented for the last two claims, with all supporting evidence meeting grant requirements.</i></p>		
	Risk Agreed	Person(s)	Due Date
	Yes	Head of Finance (Aberdeenshire Council)	September 2024

Ref	Description	Risk Rating	Moderate
1.6	Mitigation of Variances – There are some substantial variances in forecast outturn for the financial year, e.g.:		

Ref	Description	Risk Rating	Moderate
	<ul style="list-style-type: none"> • One project - £5.6m (20%) underspend for 2023/24 projected at September 2023, moving to £9.1m (34%) in November 2023 • Another project - £2.2m (40%) underspend for 2023/24 projected at September 2023, moving to £3.1m (56%) in November 2023 • A final project - £337k (25%) underspend for 2023/24 <p>The extent of explanations provided in variance notes, included in monthly returns to the governments, varies. Material movements in forecast outturns may arise through unanticipated events, but these should be the exception. There is a risk that increasing forecast variances towards the end of the financial year might indicate issues with forecast accuracy or over-optimistic figures provided by project leads. As noted at 1.5 above, forecasting is not subject to detailed review, though comments from Aberdeenshire Council Finance are included in the monthly returns.</p> <p>Reported action to mitigate anticipated variances (including the above) is generally limited to 're-phasing' of expenditure to future years. Assurance was only provided in one of the three above projects' PSR's that a formal change request had been submitted and approved to move budget (and therefore grant drawdown requests) into future years (however, see 1.2 above).</p> <p>The governments have stated in the grant offer letters that although the totality of funds remains available, requests to move funding between specific years may not be possible (because they effectively operate on a cash basis with a limited budget for distribution). It cannot therefore be assumed that all requests to re-phase budgets will be agreed. If change requests are not being prepared and approved sufficiently in advance, at the right level, there is a greater risk that funds may not be available in the future years when they are required.</p>		
IA Recommended Mitigating Actions			
<p>Variations and action taken to address them should be clearly explained. Forecast accuracy should be reviewed and the risk of over-optimism factored into future forecasting.</p> <p>Where material financial variances are anticipated, and action is not otherwise being taken to mitigate them in-year, change requests should be prepared and agreement sought in advance.</p>			
Management Actions to Address Issues/Risks			
<p><i>In general Aberdeenshire Council Finance, and the UK / Scottish Governments, are satisfied with the reasons provided by delivery partners for forecast in-year financial variances. Such variations are typical of capital projects where moderate changes to scheduling, availability of alternative finance streams, and other unforeseen circumstances, can result in apparently significant changes to cashflow within any given financial year, without a material impact on the overall project cost and timeline. Whilst financial spend is an important factor, and can be a proxy for progress to an extent, the focus needs to be on delivery of the project outputs, and realisation of the intended benefits, within the available resource and timeframe. We therefore support the proposals in response to earlier risks identified in this audit report, to develop progress reporting to facilitate Joint Board and Committee scrutiny.</i></p> <p><i>The Scottish Government issued change request guidance in 2021 and this is being applied. The Governments are being kept aware of anticipated changes through regular progress updates in addition to the financial monitoring reports.</i></p>			
Risk Agreed		Person(s)	Due Date
Yes		Interim City Region Deal Programme Manager	May 2024

Ref	Description	Risk Rating	Moderate
1.7	<p>Project Closure Reports – Project closure reports are being presented to the Programme Board and thereafter the Joint Committee for concluded projects. These follow a template, which includes highlights and benefits arising from the project.</p> <p>Whilst closure reports in respect of two recently concluded projects reviewed included relevant information, and commitments to continue to work with partners and capture subsequent benefits in the annual report, neither compared the benefits realised to date against those included in the original business case to provide an indication of progress at the date of conclusion. One of the projects did indicate that two benefits still remained to be achieved, but did not reflect on progress to date or a timescale for full realisation.</p> <p>Only one of the two included a comparison of actual cost with budget, and in this case it was stated the underspend would be carried forward to fund future projects. No request or approval to do so was documented - though a later business case consolidated multiple project underspends within the same workstream and proposed a new project to be delivered from these (£7m), which was agreed by the Joint Committee in November 2022. Lessons learned do not feature in the reports.</p> <p>In the absence of detailed comparisons of planned and actual costs and benefits, limited assurance can be gleaned from project closure reports other than confirmation that work has been completed, and a selection of outcomes delivered.</p>		
IA Recommended Mitigating Actions			
Project closure reports should include a comparison of planned and actual costs and benefits, with a reflection on lessons learned and how these are being applied to ongoing / future projects.			
Management Actions to Address Issues/Risks			
<i>A revised template has been drafted and takes into consideration all of the points made. All projects will make use of the revised template. This action is now considered complete.</i>			
Risk Agreed		Person(s)	Due Date
Yes		Interim City Region Deal Programme Manager	Implemented ⁵

⁵ Management provided evidence to confirm implementation of the action during the finalisation of the report after the risk had been highlighted by Internal Audit.

4 Appendix 1 – Assurance Terms and Rating Scales

4.1 Overall report level and net risk rating definitions

The following levels and ratings will be used to assess the risk in this report:

Risk Level	Definition
Strategic	This issue / risk level impacts the Council as a whole. Mitigating actions should be taken at the Senior Leadership level.
Directorate	This issue / risk level has implications at the directorate level and the potential to impact across a range of services. They could be mitigated through the redeployment of resources or a change of policy within a given directorate.
Service	This issue / risk level impacts at the Business Plan level (i.e. individual services or departments as a whole). Mitigating actions should be implemented by the responsible Head of Service.
Programme and Project	This issue / risk level impacts the programme or project that has been reviewed. Mitigating actions should be taken at the level of the programme or project concerned.

Net Risk Rating	Description	Assurance Assessment
Minor	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.	Substantial
Moderate	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified, which may put at risk the achievement of objectives in the area audited.	Reasonable
Major	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	Limited
Severe	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.	Minimal

Individual Issue / Risk Rating	Definitions
Minor	Although the element of internal control is satisfactory there is scope for improvement. Addressing this issue is considered desirable and should result in enhanced control or better value for money. Action should be taken within a 12 month period.
Moderate	An element of control is missing or only partial in nature. The existence of the weakness identified has an impact on the audited area's adequacy and effectiveness. Action should be taken within a six month period.
Major	The absence of, or failure to comply with, an appropriate internal control, which could result in, for example, a material financial loss. Action should be taken within three months.
Severe	This is an issue / risk that could significantly affect the achievement of one or many of the Council's objectives or could impact the effectiveness or efficiency of the Council's activities or processes. Action is considered imperative to ensure that the Council is not exposed to severe risks and should be taken immediately.

5 Appendix 2 – Assurance Scope and Terms of Reference

5.1 Area subject to review

The Aberdeen City Region Deal (the Deal), agreed in November 2016, is a three-way, ten-year agreement between the UK Government, the Scottish Government and regional partners including Aberdeen City and Aberdeenshire councils, and other organisations including universities and Opportunity North East (ONE) - the private sector partner which leads on innovation projects within the Deal. The total allocations of funding for the capital projects is £826.2 million.

The Deal's aim is to significantly advance economic and infrastructure development in the area, addressing the challenges which business and industry face in the North East of Scotland whilst grasping opportunities through projects which can enable Aberdeenshire and Aberdeen City to continue to be an attractive and productive area for organisations to locate and develop. Key projects include the Net Zero Technology Centre (formerly Oil and Gas Technology Centre), Food and Drink and Life Science Innovation Hubs, a Digital Infrastructure Fund, expansion of Aberdeen Harbour, and development of a Strategic Transport Appraisal (STAG).

The councils' jointly fund £20 million of activity relating to the Digital (£7 million), STAG (£2 million) and Harbour Expansion (£11 million) elements of the Programme. The Digital and Transport themes are led by Council based Working Groups whilst the other project themes, Innovation, and Internationalisation, are led by external Project Boards with which the Council has a Funding Agreement. The councils are responsible for ensuring projects are appropriately planned and managed and for monitoring their progress and finances. They also host the Aberdeen City Region Deal Joint Committee, which includes representation from each stakeholder.

Aberdeenshire Council acts as a conduit for Government and Council funding in accordance with the signed Deal Agreement and the terms of the Scottish Government's annual Aberdeen City Region Deal Grant Offer. Drawdowns and grant payments to projects are dependent on the Accountable Body receiving evidence of projects' spend and progress.

5.2 Rationale for review

The objective of this audit is to provide assurance over the governance and financial spend of the City Region Deal. The Deal is managed on behalf of various partners; each stakeholder will have an interest in assurance over the governance arrangements. Aberdeen City Council supports programme management for delivery of the Deal's projects and outcomes. Aberdeenshire Council is the Accountable Body for project funding drawdowns and payments. They therefore have lead responsibility for programme delivery and stewardship of funds.

Since 2022-23 the UK and Scottish Governments' funding letter, setting out the terms of their annual grant offer, includes an expectation for the Deal to be included in the Internal Audit Plan at least every two years.

Governance of the Deal was last reviewed in 2020 (Internal Audit Report 2101). Whilst the main focus of the review was financial governance – over which positive assurance was obtained, areas of improvement were recommended relating to project change management controls, benefits measurement and associated action plans and reporting, and demonstrating project sustainability following the end of the funding period.

5.3 Scope and risk level of review

This review will offer the following judgements:

- An overall **net risk** rating at the **Strategic** level.
- Individual **net risk** ratings for findings.

5.3.1 Detailed scope areas

As a risk-based review this scope is not limited by the specific areas of activity listed below. Where related and other issues / risks are identified in the undertaking of this review these will be reported, as considered appropriate by IA, within the resulting report.

The specific areas to be covered by this review are:

- Governance arrangements
 - Reporting lines, delegations, and approvals
- Programme management and reporting
 - Business case development, critical appraisal, and approval
 - Monitoring delivery, risks, and issues
 - Change management
 - Performance and benefits realisation
 - Project conclusion, sustainability, and lessons learned
- Expenditure / grant disbursement
- Income / grant drawdown

5.4 Methodology

This review will be undertaken through interviews with key staff involved in the process(es) under review and analysis and review of supporting data, documentation, and paperwork. To support our work, we will review relevant legislation, codes of practice, policies, procedures, and guidance.

Due to hybrid working across the Council, this review will be undertaken primarily remotely.

5.5 IA outputs

The IA outputs from this review will be:

- A risk-based report with the results of the review, to be shared with the following:
 - Council Key Contacts (see 1.7 below)
 - Audit Committee (final only)
 - External Audit (final only)

5.6 IA staff

The IA staff assigned to this review are:

- Colin Harvey, Audit Team Manager (**audit lead**)
- Jamie Dale, Chief Internal Auditor (**oversight only**)

5.7 Council key contacts

The key contacts for this review across Aberdeenshire Council are:

- Rob Simpson, Director of Business Services
- Alan Wood, Director of Infrastructure and Environment
- Paul Macari, Head of Planning and Economy
- Mary Beattie, Head of Finance
- Alison Alexander, Strategic Finance Manager (Capital) (**process owner**)
- John Lovie, Accountant

The key contacts for this review across Aberdeen City Council are:

- Gale Beattie, Director of Commissioning
- Julie Wood, Interim Chief Officer – City Growth
- Stuart Bews, Interim City Region Deal Programme Manager (**process owner**)
- Aigul Gray, Project Support

5.8 Delivery plan and milestones

The key delivery plan and milestones are:

Milestone	Planned date
Scope issued	20-Jul-23
Scope agreed	27-Jul-23
Fieldwork commences	4-Aug-23
Fieldwork completed	1-Dec-23
Draft report issued	15-Dec-23
Process owner response	12-Jan-24
Director response	19-Jan-24
Final report issued	26-Jan-24

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ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	27 June 2024
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Internal Audit Annual Report
REPORT NUMBER	IA/24/010
DIRECTOR	N/A
REPORT AUTHOR	Jamie Dale
TERMS OF REFERENCE	2.3

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to provide the Committee with Internal Audit's Annual Report for 2023/24.

2. RECOMMENDATIONS

It is recommended that the Committee:

- 2.1 Note the Annual Report for 2023/24;
- 2.2 Note that the Chief Internal Auditor has confirmed the organisational independence of Internal Audit;
- 2.3 Note that there has been no limitation to the scope of Internal Audit work during 2023/24; and
- 2.4 Note the outcome of Internal Audit's self-assessment against the requirements of the Public Sector Internal Audit Standards.
- 2.5 Note the content of Internal Audit's Quality Assurance and Improvement Plan.

3. BACKGROUND / MAIN ISSUES

- 3.1 Public Sector Internal Audit Standards require that Internal Audit produce an annual report on the adequacy and effectiveness of the Council's framework of governance, risk management and control. It

is one of the functions of the Audit, Risk and Scrutiny Committee to review the activities of the Internal Audit function, including its annual work programme.

- 3.2 This report is designed to meet three objectives; to present to the Audit, Risk and Scrutiny Committee, and through them, the Council:
- A formal opinion on the adequacy and effectiveness of the Council's arrangements for:
 - Governance
 - Risk management
 - Internal control
 - A narrative over the key strategic and thematic findings from the assurance work undertaken by IA during 2023/24, drawing out key lessons to be learned.
 - An account of the assurance activities and resources of IA during the period 2023/24.

- 3.3 This report covers the period from 1 April 2023 to 31 March 2024 and any work finalised during the 2023/24 assurance period. It also takes account of work undertaken up to the date of the issue of this report. The report is grounded in the whole activity and work of IA, whether in terms of formal audit evidence and work, management assurance and consultancy activity, or evidence gathered throughout wider engagement across the Council.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications arising from the recommendations of this report.

6. MANAGEMENT OF RISK

- 6.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are detailed in the resultant Internal Audit reports. Recommendations are made to address the identified risks and Internal Audit follows up progress with implementing those that are agreed with management. Those not implemented by their agreed due date are detailed in the attached appendices.

7. OUTCOMES

- 7.1 There are no direct impacts, as a result of this report, in relation to the Council Delivery Plan, or the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place.

7.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council's framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

8. IMPACT ASSESSMENTS

Assessment	Outcome
Impact Assessment	An assessment is not required because the reason for this report is to report Internal Audit's progress to Committee. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics.
Data Protection Impact Assessment	Not required

9. APPENDICES

9.1 Appendix A – Internal Audit Annual Report for the year ended 31 March 2024.

10. REPORT AUTHOR DETAILS

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Internal Audit

Annual Assurance Report and Chief Internal Auditor's Opinion 2023/24

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1 Executive Summary

1.1 Introduction and background

Internal Audit's (IA) primary role is to provide independent and objective assurance on the Council's risk management, control, and governance processes. This requires a continuous rolling review and appraisal of the internal controls of the Council involving the examination and evaluation of the adequacy of systems of risk management, control, and governance, making recommendations for improvement where appropriate. Reports are produced relating to each audit assignment and presented when finalised to the Audit, Risk and Scrutiny Committee. Along with other evidence, these reports are used in forming an annual opinion on the adequacy of risk management, control, and governance processes.

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Public Sector Internal Audit Standards set the mission of IA as to enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight.

1.2 Purpose of this report

Public Sector Internal Audit Standards require that IA produce an annual report on the adequacy and effectiveness of the Council's framework of governance, risk management and control. It is one of the functions of the Audit, Risk and Scrutiny Committee to review the activities of the IA function, including its annual work programme.

This report is designed to meet three objectives; to present to the Audit, Risk and Scrutiny Committee, and through them, the Council:

- A formal opinion on the adequacy and effectiveness of the Council's arrangements for:
 - Governance
 - Risk Management
 - Internal Control
- A narrative over the key strategic and thematic findings from the assurance work undertaken by IA during 2023/24, drawing out key lessons to be learned.
- An account of the assurance activities and resources of IA during the period 2023/24.

This report covers the period from 1 April 2023 to 31 March 2024 and any work finalised during the 2023/24 assurance period. It also takes account of work undertaken up to the date of the issue of this report. The report is grounded in the

whole activity and work of IA, whether in terms of formal audit evidence and work, management assurance and consultancy activity, or evidence gathered throughout wider engagement across the Council.

1.3 Conclusion

The overall Chief Internal Auditor's opinion is:

In my opinion the Council had an adequate and effective framework for governance, risk management and control, covering the period 1 April 2023 to 31 March 2024.

For further commentary see the Annual Assurance Opinion section of this report.

1.4 Action requested of the Audit, Risk and Scrutiny Committee

The Audit, Risk and Scrutiny Committee is requested to note the contents of this report and the assurance opinion, to inform its annual report and its review of the Council's financial statements, in particular the Annual Governance Statement.

2 Annual Assurance Opinion

2.1 Basis of annual assurance opinion

In accordance with the Public Sector Internal Audit Standards, IA's assessment, and opinion over the framework of governance, risk management and control is based upon the whole activity and work of IA including:

- The results of internal audits completed (in final or draft) up to the date of this report.
- Any follow-up action taken in respect of audits from previous periods.
- The effects of any significant changes in the Council's control environment.
- Matters arising from previous annual reports to the Council.
- Any limitations that may have been placed on the scope of IA – there are no restrictions to declare in this report.
- Reports issued by the External Audit.
- IA's knowledge of the Council's governance, risk management and performance monitoring arrangements.
- The assessment of risk completed during the formation of the 2024-27 Audit Plan and the work on risk in general led by the Council.
- The results of other assurance activities completed during the year.

The Standards also require that IA confirms to the Committee, at least annually, that it is organisationally independent. The organisational independence of IA is established through Financial Regulations (approved by full Council) and the Internal Audit Charter (approved by the Audit, Risk and Scrutiny Committee). Other factors that help ensure Internal Audit's independence are that: the IA Plan is approved by the Audit, Risk and Scrutiny Committee; and IA reports its outputs to Committee in the name of the Chief Internal Auditor. The Chief Internal Auditor considers that IA is organisationally independent.

2.2 Annual assurance opinion 2023/24

IA is satisfied that sufficient audit and assurance work has been undertaken to allow a reasonable conclusion to be drawn as to the adequacy and effectiveness of the Council's framework for governance, risk management and control. Aberdeen City Council had an adequate and effective framework for governance, risk management and control, covering the period 1 April 2023 to 31 March 2024.

2.3 Rationale for the opinion

It is the responsibility of the Council's senior management to establish an appropriate and sound system of internal control and to monitor the continuing effectiveness of that system. It is the responsibility of the Chief Internal Auditor to provide an annual overall assessment of the robustness of the internal control system.

The main objectives of the Council's internal control systems are to:

-
- Ensure adherence to management policies and directives to achieve the organisation's objectives.
 - Safeguard assets.
 - Ensure the relevance, reliability, and integrity of information, so ensuring as far as possible the completeness and accuracy of records.
 - Ensure compliance with statutory requirements.

Any system of control can only ever provide reasonable and not absolute assurance that control weaknesses or irregularities do not exist or that there is no risk of material errors, losses, fraud, or breaches of laws or regulations. Accordingly, the Council is continually seeking to improve the effectiveness of its systems of internal control.

On balance, most of the audited areas were operating as anticipated. Areas of good practice, improvement, and procedural compliance have been identified and these have been detailed in individual assignment reports to the Committee.

However, during the year, IA identified Major risks across eight (2022/23: eight) reviews in the following areas¹:

- **Pupil Equity Fund** – IR35 Compliance.
- **Adults with Incapacity** – Written Procedures and Training, Complete and Consistent Records, Minimum Intervention, Financial Controls, and Funds Management Records.
- **Vehicle & Driver Compliance** – Operator Licence Compliance and Contracts and Vehicle Records
- **IJB Complaints Handling** – Management Monitoring
- **IJB Hosted Services** – Governance Arrangements
- **Corporate Asset Management** – Asset Management Framework, Action Plans, and Performance Indicators and Reporting.
- **City Region Deal** – Delegated Powers, Performance and Benefits Reporting, and Expenditure Records.
- **Secondary School Visits** – Procurement Scheme of Governance.

Full details of the risks are presented to the Committee in individual audit reports.

Most other recommendations made during the year were around the reinforcing application of existing controls,, the improvement of efficiency and the drive for Best Value. Common trends in IA's recommendations were also around governance, systematising processes, or the need to better evidence and record the operation of controls.

2.4 Areas of risk for future IA focus

In addition to the points above continuing to be areas of focus for the Council, in the year there will be significant new risk areas for us to consider. The specific risk and control areas in the upcoming year that IA intend to focus on to a greater degree include:

¹ Some areas will include more than one recommendation.

-
- Counter Fraud
 - Governance
 - Procurement
 - Other emerging risks identified during the year.

2.5 Follow up of audit recommendations

Public Sector Internal Audit Standards require that IA report the results of its activities to the Committee and establishes a follow-up process to monitor and ensure that management actions have been effectively implemented.

Progress made by officers in implementing recommendations is monitored by Internal Audit and reported to the Audit, Risk and Scrutiny Committee each cycle within the Chief Internal Auditor's Progress Report. 99² (2023: 119) actions were completed in year and as at year end, 123 (2023: 82) audit recommendations were open, 27 due for implementation and the remaining 96 due in the future (either as the original planned date of implementation or through an agreed extension which has been reported to the Committee). The vast majority of these recommendations were rated as either Minor (23) or Moderate (76), with the remaining recommendations (24) being in the more significant Major space. Management has highlighted in update reports that, where necessary, progress with implementing actions has continued but some have taken longer than expected due to factors such as resourcing and delivery of other priority areas. Internal Audit considers this an appropriate and proportionate response to the management of risk overall.

² All recommendation figures include the Health and Social Care Partnership but exclude the JJB and North East Scotland Pension Fund.

3 Audit Results

3.1 In year audit results

Across the year, irrespective of the period initially planned for the review, IA issued 20 audit reports (2022/23: 22). These reviews span the entire breadth of the Council's operations, touching on not just individual services but also cross-Council areas, and IA's work with the Aberdeen City IJB and the North East Scotland Pension Fund.

This section highlights the results of our work in 2023/24, including finalisation of reviews. It should however be noted that:

- Previous years' work, issued in the current year, is considered for and factors into IA's annual assurance opinion.
- Work in progress, where the report is at a draft stage, is also considered for and factors into IA's annual opinion.
- The same is considered for consultancy work, which also factors into IA's annual assurance opinion.
- For all assurance reviews, IA ensured that they were at the work in progress stage by year end. The majority are beyond this stage and draft reports are being finalised with the process owners for the areas under review.

Summaries are also included of fraud assurance, consultancy and other work performed by IA.

3.1.1 Previous year reviews finalised in 2023/24

Service	Audit Area	Overall Rating
Commissioning	Contract Management	Moderate
Resources	PVG & Disclosure Checks	Moderate
Customer	Scottish Milk and Healthy Snack Scheme	Moderate
Health and Social Care Partnership	Adults with Incapacity	Major
Resources	Corporate Asset Management	Major

3.1.2 2023/24 reviews finalised in year

Service	Audit Area	Overall Rating
Children's & Family Services	Pupil Equity Fund	Moderate
Operations	Care Management System	Minor
Commissioning	Data Protection	Minor
IJB	Complaints Handling	Moderate
Customer	Attendance Management	Moderate
Resources	COVID-19 Spend	Minor
Resources	Vehicle and Driver Compliance	Moderate
NESPF	Pensions Investment Strategy	Moderate
Children's & Family Services	Secondary Schools Visits	Moderate
Resources	Stores Stock Control	Moderate

Service	Audit Area	Overall Rating
IJB	Hosted Services	Moderate
Customer	Cyber Action Plan	Moderate
Commissioning	City Region Deal	Major
Commissioning	Biodiversity and the Natural Environment	Moderate
Customer	Volunteer Arrangements	Moderate

3.2 Post year end assurance

The information presented in the above table, concerning audit work, covers the period 1 April 2023 to 31 March 2024. However, consideration has been given to any work during the period until the issue of this report. Since year end, IA has issued a further four reports.

3.2.1 2023/24 reviews finalised in 2024/25

Service	Audit Area	Overall Rating
Resources	Revenue Budget Setting and Financial Strategy	Minor
Customer	Prevent	Moderate
Customer	Private Sector Housing	Minor
Resources	Creditors System	Moderate

Since year end, IA has also progressed the final reviews of the year: Procurement Compliance, Social Care Financial Assessments, Recruitment, Creditors System and Private Sector Housing, and these are currently in the report finalisation stage. The emerging findings from the draft reports have been factored into the year end opinion.

3.3 Consultancy and other work by IA

In addition to planned assurance work, IA has also supported several services across the year. This has either been through requests for support or structured management assurance pieces of work, including but not limited to Service Standards, Rent Assistance Scheme, and Schools.

This is an overview of the more substantial pieces of work delivered during the year, however it should be noted that other informal advice was provided on an adhoc basis, and will continue as IA looks to further support the Council overall.

3.4 Counter Fraud

IA does not have a dedicated responsibility across the Council to lead on Counter Fraud activities, this instead within the remit of a separate inhouse team. The potential for fraud is however considered as part of all reviews carried out by IA from a control framework perspective.

4 IA Performance

4.1 Key Performance Indicators

Key Performance Indicator (KPI) results could be better and this is recognised by IA, whilst also acknowledging the impact engagement from Council Management can have on the delivery of audit work. However the results show that IA continues to improve; half of the KPIs have been met.

Description	Target	2021/22	2022/23	2023/24	Commentary
Percentage of planned audits commenced where the Service was given advance notice of commencement of field work.	100%	100%	100%	100%	All audits were agreed with Management in advance.
Percentage of current year audits (as adjusted through consideration of subsequent year's plan) where draft report issued by deadline.	90%	0%	50%	33.33%	2023/24 saw the continued implementation of a new audit methodology, which it took time for both IA and Management become familiar with and reflects more time needed during the fieldwork stage pre-draft reporting.
Percentage of current year audits (as adjusted) completed by end of current year.	65%	33.33%	55.56%	68.18%	Work was carried out in the previous year to ensure a minimal number of audits was carried forward and this facilitated meeting the target through focusing on the current year audits.
Percentage of previous year audits (as adjusted) completed by end of current year.	100%	86.67%	100%	100%	All previous year audits were completed within 2023/24.
Percentage of current year audits (as adjusted) that were completed in the year within 110% of planned time allocated.	90%	20%	80%	35.71	2023/24 saw the continued implementation of a new audit methodology, which it took time for both IA and Management become familiar with and reflects more time needed during the fieldwork stage, and for Management to review, digest and respond.
Percentage of previous year audits (as adjusted) that were completed within 110% of planned time allocated.	90%	7.69%	50%	40%	2023/24 saw the continued implementation of a new audit methodology, which it took time for both IA and Management become familiar with and reflects more time needed during the fieldwork stage, and for

Description	Target	2021/22	2022/23	2023/24	Commentary
					Management to review, digest and respond.
Percentage of planned time taken for current year audits that were completed in the year.	90 - 110%	159.63%	88.30%	145.98%	This shows that current year audits are being completed slower on the whole. However, analysis of the underlying data does highlight variances (both over and under) across individual reviews.
Percentage of planned time taken for all previous year audits completed by end of current year.	90 - 110%	180.22%	129.51%	133.11%	2023/24 saw the continued implementation of a new audit methodology, which it took time for both IA and Management become familiar with and reflects more time needed during the fieldwork stage, and for Management to review, digest and respond.
Percentage of recommendations accepted by management.	95%	100%	97.97%	98.15%	Small number of recommendations not accepted in year, which is expected in line with the new risk based methodology.
Where management has not agreed recommendation, percentage who accept risk.	100%	100%	100%	100%	In the small number of cases where recommendations were not accepted by Management, they accepted the risk.

Based on the current year results, where efforts will be made across all KPIs, the completion of work within the budgeted time, specifically, the issue of reports, both in draft and final, will be a priority for IA.

4.2 Quality assurance and improvement plan

The Public Sector Internal Audit Standards (PSIAS) require that the annual report must also include a statement on conformance with the PSIAS and the results of the quality assurance and improvement programme (QAIP).

In previous reports IA has updated the Committee on the work to address previously noted issues; the main driver for these being the internal quality assessment, any external quality assessments and recommendations made by External Audit.

IA is pleased to confirm an external review of the control framework was concluded in the year and found that IA fully conforms with PSIAS. The Assessment however did make four recommendations and updates are provided below:

Recommendation	Management Response	Responsible Officer/Agreed Completion Date	Update
<p>In order to meet the requirements of the PSIAS/LGAN, the Internal Audit Charter must be reviewed and revised to include the following:</p> <ul style="list-style-type: none"> • arrangements for appropriate resourcing (including the role of the internal audit contract manager); and • define the role of internal audit in any fraud-related work (including notification of both suspected and detected fraud). 	<p>The Internal Audit Charter is considered fit for purpose and accurately reflects the relationship between Aberdeen City Council and Aberdeenshire Council Internal Audit, specifically focusing on the areas for which the latter has responsibility. However as part of the annual review, scheduled to be presented to Committee in March next year, the points noted will be factored in.</p>	<p>Chief Internal Auditor Mar-24</p>	<p>Complete. The updated charter was approved by the AR&S Committee in February 2024.</p>
<p>The Counter Fraud Policy should be reviewed and revised to include a requirement for the CAE to be informed of all suspected and detected fraudulent activity. This can be used to inform the CAE's assessment of risk when preparing the annual audit plan and their annual audit opinion.</p>	<p>We will work with ACC Management to support a review and revision of the Counter Fraud Policy to better reflect what is already being done operationally.</p>	<p>Chief Internal Auditor Dec-23</p>	<p>Complete. Confirmed by Management in December 2023.</p>
<p>The scope of the internal QAIP assessments (including both ongoing and periodic) should be documented and the results of each included in the annual opinion report.</p>	<p>The annual internal QAIP is reported to Committee as part of the CIA's Annual Report. The scope of this work will now also be documented. The next review is scheduled to be presented to Committee in June next year.</p>	<p>Chief Internal Auditor June-24</p>	<p>Complete. Evidenced through this report and internal documentation within Internal Audit.</p>
<p>In line with CIPFA's best practice, Internal Audit should provide improved information to explain to the Audit,</p>	<p>Behind the Internal Audit Plan that is presented to Committee each year is a full suite of</p>	<p>Chief Internal Auditor Mar-24</p>	<p>Complete. Evidenced through Annual Plan reporting to Committee in February 2024.</p>

Recommendation	Management Response	Responsible Officer/Agreed Completion Date	Update
Risk and Scrutiny Committee that it has sufficient resources to deliver the internal audit plan.	supporting analysis that looks at resourcing. This is discussed with Management and Committee when presenting the Plan. However, in order to satisfy best practice, this will be reported as part of the actual document that is approved by Committee. The next Plan is scheduled to be presented to Committee in March next year.		

A year end internal refresh of the assessment was carried out and highlighted no changes. At present there are no further outstanding actions for IA to take forward.

4.3 Staffing

At present IA is operating with a 12.6 FTE, 0.4 FTE under budget.

5 Appendix 1 – Grading of Recommendations

Risk level	Definition
Corporate	This issue / risk level impacts the Council as a whole. Mitigating actions should be taken at the Senior Leadership level.
Function	This issue / risk level has implications at the functional level and the potential to impact across a range of services. They could be mitigated through the redeployment of resources or a change of policy within a given function.
Cluster	This issue / risk level impacts a particular Service or Cluster. Mitigating actions should be implemented by the responsible Chief Officer.
Programme and Project	This issue / risk level impacts the programme or project that has been reviewed. Mitigating actions should be taken at the level of the programme or project concerned.

Net Risk Rating	Description	Assurance Assessment
Minor	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.	Substantial
Moderate	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified, which may put at risk the achievement of objectives in the area audited.	Reasonable
Major	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	Limited
Severe	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.	Minimal

Individual Issue / Risk Rating	Definitions
Minor	Although the element of internal control is satisfactory there is scope for improvement. Addressing this issue is considered desirable and should result in enhanced control or better value for money. Action should be taken within a 12 month period.
Moderate	An element of control is missing or only partial in nature. The existence of the weakness identified has an impact on the audited area's adequacy and effectiveness. Action should be taken within a six month period.
Major	The absence of, or failure to comply with, an appropriate internal control, which could result in, for example, a material financial loss. Action should be taken within three months.
Severe	This is an issue / risk that could significantly affect the achievement of one or many of the Council's objectives or could impact the effectiveness or efficiency of the Council's activities or processes. Action is considered imperative to ensure that the Council is not exposed to severe risks and should be taken immediately.

Exempt information as described in paragraph(s) 14 of Schedule 7A of the Local Government (Scotland) Act 1973.

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