

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	8 October 2020
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Internal Audit Annual Report 2019/20
REPORT NUMBER	IA/20/008
DIRECTOR	N/A
REPORT AUTHORS	David Hughes and Colin Harvey
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 2019/20.

2. RECOMMENDATIONS

It is recommended that the Committee:

- 2.1 Note the Annual Report for 2019/20;
- 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 2019/20; and
- 2.4 Note the outcome of Internal Audit's self-assessment against the requirements of the Public Sector Internal Audit Standards.

3. BACKGROUND / MAIN ISSUES

- 3.1 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. Internal Audit reports interim progress at each meeting of the Committee.
- 3.2 The Internal Audit plan for 2019/20 was agreed by the Audit, Risk and Scrutiny Committee on 14 February 2019. Each of the audits contained in the plan was allocated a certain number of days determined by the perceived complexity of the work, level of testing envisaged and expected outcome of the audit. The plan also included an allocation of time for dealing with additional work requests, providing advice to Services, and for

investigations into suspected financial irregularities.

- 3.3 Appendices A and B to this report detail the position with those audits carried forward from 2018/19, along with details relating to audits contained in the original 2019/20 plan.
- 3.4 The 2019/20 Internal Audit plan was based on the Internal Audit Section being fully staffed during the year. However, the Section was operating at less than full establishment during the year due to: higher than usual sickness absence and resignations from two Assistant Auditors. The Section ended the year with one vacancy which was the subject of a recruitment exercise that was terminated due to the coronavirus outbreak. It is estimated that around 11.5% of the Section's capacity during the year was lost for these staffing reasons.
- 3.5 Delays with providing required information and responses to draft reports impact on the level of assurance that can be provided. During the year, Internal Audit reported regularly to the Audit, Risk and Scrutiny Committee regarding these matters. Improvements were being realised near the end of the financial year and more engagement with and from Chief Officers has been put in place for the 2020/21 planned work.
- 3.6 During 2019/20, all recommendations made by Internal Audit in completed audits were accepted which, if taken to full implementation, will improve the Council's internal control environment and, in some cases, result in more efficient and effective processes, and financial savings for the Council. Any failure to implement the more significant recommendations can have an impact on the overall Internal Audit opinion expressed in the annual Internal Audit Report and the level of assurance that can be provided to those charged with governance. Internal Audit monitors the implementation of agreed recommendations on a regular basis with the results reported to each meeting of the Audit, Risk and Scrutiny Committee. There have been delays with implementing some recommendations and, as a result, Corporate Management Team now also monitors progress with outstanding recommendations being updated in the new manager's portal on a regular basis.
- 3.7 It is considered that sufficient work was completed during the year, or was sufficiently advanced by the year-end, on which to base the conclusion drawn in the annual Internal Audit Report. This is attached as Appendix C and concludes that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's framework of governance, risk management and internal control system in the year to 31 March 2020.
- 3.8 However, as with previous years, Internal Audit has highlighted some concerns throughout the year relating to compliance with Council policies and procedures, and with regard to delays in the implementation of recommendations agreed in Internal Audit reports. The number of recommendations made by Internal Audit in reports finalised by the year end has increased when compared to the previous year (208 compared with 159). The number of reports containing recommendations graded as "major" remained the same (1). The number of outstanding recommendations due for implementation by 31 March 2020 as at 31 July 2020 was 23, whilst the number of outstanding recommendations due for

implementation by 31 March 2019 as at 31 July 2019 was 8.

- 3.9 The Public Sector Internal Audit Standards (PSIAS) require that the Chief Internal Auditor report to Senior Management and the Board (the Audit, Risk and Scrutiny Committee) on the outcome of Internal Audit's Quality Assurance and Improvement Plan (QAIP).
- 3.10 For 2019/20, a checklist developed by the Scottish Local Authorities Chief Internal Auditors Group for undertaking external peer reviews was used to undertake the required self-assessment in assessing conformance with the PSIAS and the associated Local Government Application Note.
- 3.11 The checklist is a lengthy document, comprising a range of detailed questions, which leads to an assessment of 13 key areas of the PSIAS. Following completion of the self-assessment, the outcome was that Internal Audit either Fully or Generally Complies with all areas examined. Where General Compliance was recorded, no improvement actions were considered necessary. Progress with previous actions is detailed in Appendix D to this report.
- 3.12 As part of reporting on the QAIP, there is a requirement to provide the Board with performance data. As reported to Committee previously, this has been a matter of great debate amongst practitioners in Scotland with little consensus reached on what should be measured. However, Internal Audit's performance data as it stands, and as agreed when approving the shared Internal Audit Service, is attached as Appendix E for discussion.
- 3.13 The Standards also require that Internal Audit confirms to the Board, at least annually, that it is organisationally independent. The organisational independence of Internal Audit is established through Financial Regulations (approved by full Council) and the Internal Audit Charter (approved by the Audit, Risk and Scrutiny Committee). Other factors which help ensure Internal Audit's independence are that: the Internal Audit plan is approved by the Audit, Risk and Scrutiny Committee; and, Internal Audit reports its outputs to Committee in the name of the Chief Internal Auditor. The Chief Internal Auditor considers that Internal Audit is organisationally independent.
- 3.14 There is also a requirement to report any instances where the scope of Internal Audit's work has been limited. During 2019/20, there have been no such limitations.

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 highlighted to the Audit, Risk & Scrutiny Committee.

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 for Committee to consider Internal Audit's annual report. 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 – 2018/19 Audit Work carried forward into 2019/20.
- 9.2 Appendix B – 2019/20 Audit Work.
- 9.3 Appendix C – Internal Audit Annual Report for the year ended 31 March 2020.
- 9.4 Appendix D – Internal Audit Improvement Action Plan
- 9.5 Appendix E – Internal Audit Performance Measures.

10. REPORT AUTHOR DETAILS

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APPENDIX A

2018/19 Audit Work carried forward into 2019/20:

Service	Audit Topic	Position
Cross Service	Compliance with Procurement Legislation and Council Regulations	Complete April 2019
Operations	Pupil Equity Fund	Complete April 2019
	Music Service	Complete May 2019
	Capital Contract Management	Complete October 2019
Resources	Data Security in a Cloud-Based Environment	Complete June 2019
Health and Social Care Partnership	Criminal Justice	Complete April 2019
	Charging Policy	Complete June 2019

APPENDIX B

2019/20 Audit Work:

Function	Audit Topic	Position
Cross Service	Income Generation	Complete December 2019
	Timesheets and Allowances	Complete January 2020
	Travel Policy	Complete January 2020
	Shutdown of Non-essential Spend	Complete February 2020.
	Workforce Planning	Complete August 2020
	Civil Contingencies	Complete September 2020
	Compliance with procurement related legislation and internal governance arrangements	Complete September 2020
	Transformation	Complete September 2020
Customer	Cyber Security	Complete August 2019
	Housing Rent Income	Complete September 2019
	Housing Repairs – Voids	Complete November 2019
	Customer Access Point and Service Centres	Complete January 2020
	Information Governance	Complete February 2020
	Performance Management	Draft report issued June 2020

Function	Audit Topic	Position
Operations	Stock Control in Building and Roads Services Stores	Complete November 2019
	School Catering Income and Expenditure	Complete January 2020
	SEEMIS	Complete February 2020
	Car Parking and Bus Lane Enforcement	Complete September 2020
	Fostering and Adoption Payments	Complete July 2020
	Craft Workers' Payroll	Cancelled as agreed by Committee on 12 February 2020
Resources	Ring-fenced Funding	Complete March 2020
	Financial Ledger System	Complete February 2020
	Industrial and Commercial Property Rental Income and Void Control	Draft report issued January 2020
	Gas Servicing Contract	Complete September 2020
	HR / Payroll System	Work in Progress
Governance	Risk Management Process	Complete August 2019
Place	Interreg Projects	Claims completed as required
Health and Social Care Partnership	Commissioned Services – Contract Monitoring	Complete June 2020

Appendix C

Internal Audit Annual Report for the year ended 31 March 2020

As Chief Internal Auditor of Aberdeen City Council, I am pleased to present my annual statement on the adequacy and effectiveness of the Council's framework of governance, risk management and control for the year ended 31 March 2020. The purpose of this statement is to assist the Chief Officer – Finance in forming the required opinion in relation to the Annual Governance Statement to be included in the Annual Accounts.

Opinion

It is my opinion, based on the following, that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's framework of governance, risk management and control in the year to 31 March 2020.

However, as in previous years, some significant issues have been identified throughout the year. One recommendation graded as "major" was made in reports concluded in the year (compared with two in 2018/19, one in 2017/18 and five in 2016/17). The overall number of recommendations made fell from 340 in 2016/17 and 274 in 2017/18 to 159 in 2018/19 but rose again in 2019/20 to 218. Although most recommendations have been agreed by management there have been delays with implementing a significant number of these as reported on a regular basis to the Audit, Risk and Scrutiny Committee and the Corporate Management Team.

In addition to the above, areas of good practice, improvement, and procedural compliance have been identified and these have been detailed in individual assignment reports.

Basis of Opinion

My evaluation of the control environment is informed by a number of sources:

- The audit work completed by Internal Audit during the year to 31 March 2020;
- Progress made by Services with implementing agreed Internal Audit recommendations;
- The assessment of risk completed during the updating of the audit plan;
- Reports issued by the Council's external auditors; and
- Internal Audit's knowledge of the Council's governance, risk management and performance monitoring arrangements.

Respective responsibilities of management and internal auditors in relation to internal control

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.

Sound internal controls

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

- ensure adherence to management policies and directives in order 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; and
- 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.

The Work of Internal Audit

Internal Audit is an independent appraisal function established by the Council for the review of the Council's framework of governance, risk management and control as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources.

The section undertakes an annual programme of work agreed with the Corporate Management Team and the Audit, Risk and Scrutiny Committee. The audit plan is based on a risk assessment process which is revised on an ongoing basis to reflect evolving risks and changes within the Council.

All Internal Audit reports identifying system weaknesses, non-compliance with expected controls, and / or assurance of satisfactory operation are brought to the attention of management and include appropriate recommendations and agreed action plans. It is management's responsibility to ensure that proper consideration is given to Internal Audit reports and that appropriate action is taken on audit recommendations. The Internal Auditor is required to ensure that appropriate arrangements are made to determine whether action has been taken on internal audit recommendations or that management has understood and assumed the risk of not taking action.

David Hughes, Chief Internal Auditor, Aberdeen City Council. 2 April 2020

Appendix D

**INTERNAL AUDIT IMPROVEMENT ACTION PLAN
IDENTIFIED THROUGH COMPLETION OF PSIAS SELF-ASSESSMENT**

Progress with 2018/19 Improvement Action Plan

IMPROVEMENT	POSITION
<p>Make minor changes to terminology used in the Internal Audit Charter resulting from the External Quality Assessment undertaken regarding Aberdeenshire Council's Internal Audit arrangements.</p>	<p>The Audit, Risk and Scrutiny Committee approved a revised Internal Audit Charter on 12 February 2020 which took account of the changes in terminology recommended as part of the external assessment of Aberdeenshire Council's Internal Audit arrangements and organisational changes in Aberdeen City Council.</p>
<p>Implement new Aberdeenshire Council Personal Performance Plans across the Internal Audit Team.</p>	<p>This has been implemented in Internal Audit.</p>
<p>Review Internal Audit planning methodology to better demonstrate the consideration of other sources of assurance.</p>	<p>During the planning process for 2020/21, all Chief Officers were asked to identify areas where other assurance activity was being undertaken to ensure that there was as little overlap between assurance providers as possible.</p>

Appendix E

INTERNAL AUDIT PERFORMANCE MEASURES

PI	Description	Target	Actual 2019/20	Actual 2018/19
1	Percentage of planned audits commenced where the Service was given advance notice of commencement of field work.	100%	100.00%	100.00%
2	Percentage of current year audits (as adjusted through consideration of subsequent year's plan, see Note (1)) where draft report issued by deadline.	90%	57.14%	60.87%
3	Percentage of current year audits (as adjusted) completed by end of current year.	65%	57.12%	66.67%
4	Percentage of previous year audits (as adjusted) completed by end of current year.	100%	100.00%	100.00%
5	Percentage of current year audits (as adjusted) that were completed in the year within 110% of planned time allocated.	90%	75.00%	50.00%
6	Percentage of previous year audits (as adjusted) that were completed within 110% of planned time allocated.	90%	68.75%	48.15%
7	Percentage of planned time taken for current year audits that were completed in the year.	90 - 110%	107.50%	106.76%
8	Percentage of planned time taken for all previous year audits completed by end of current year.	90 - 110%	113.71%	109.71%

PI	Description	Target	Actual 2019/20	Actual 2018/19
9	Percentage of recommendations accepted by management (See Note (2)).	95%	100.00%	99.37%
10	Where management has not agreed recommendation, percentage who accept risk.	100%	100.00%	100.00%

Notes:

- (1) The adjusted number of audits in the plan for 2018/19 was 27, and for 2019/20 was 29.
- (2) The number of recommendations made by Internal Audit in 2018/19 was 159, and for 2019/20 was 208.

Commentary

The main changes compared with the previous financial year is that fewer audits were completed by the end of the financial year although the percentage of those that were completed within target against budgeted time increased.

The time spent on each individual audit, compared to that originally budgeted, varied in most cases with some being completed more quickly and others taking longer than anticipated. However, the overall amount of time, as a percentage of the budgeted time, was comparable to previous years.

Efforts are being made within Internal Audit to improve performance against these measures further.