

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	12 May 2021
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Internal Audit Annual Report 2020/21
REPORT NUMBER	IA/21/001
DIRECTOR	N/A
REPORT AUTHOR	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 2020/21.

2. RECOMMENDATIONS

It is recommended that the Committee:

- 2.1 Note the Annual Report for 2020/21;
- 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 2020/21; 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 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 2020/21 was agreed by the Audit, Risk and Scrutiny Committee on 12 February 2020, and following the advent of

the Coronavirus pandemic was amended as agreed by the Urgent Business Committee on 6 May 2020. 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 2019/20, along with details relating to audits contained in the original 2020/21 plan.
- 3.4 The 2020/21 Internal Audit plan was based on the Internal Audit Section being fully staffed during the year. However, Internal Audit's resources have been constrained due to the direct and indirect impacts of Covid 19 on team absences, a vacant Assistant Auditor post, and a temporary vacancy arising following the retirement of the former Chief Internal Auditor. It is estimated that around 20% 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. It is acknowledged that where necessary, responses will have been delayed where resources have been prioritised to support the Council's response to the Covid 19 pandemic.
- 3.6 During 2020/21, the majority of 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 progress is being monitored by the Performance Board and Risk Board, by exception, using data provided by Internal Audit 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. The volume of work completed during 2020/21 is less than previous years, due to the impact of Covid 19 on the resources and capacity of the Internal Audit team and of audited Services. Whilst this leads to a reduction in the sources of assurance available on which to form an opinion, reliance has been placed on the previous body of work completed by Internal Audit, and reported progress with management implementation of agreed Internal Audit recommendations. Consideration has been given as to whether this amounts to a limitation of the scope of Internal Audit's activities, and it is considered that for 2020/21 a one-off reduction in the number of completed

audits will not have a material impact. Should the situation extend to significantly impact work planned in 2021/22 and beyond, further consideration will be given to the level of assurance which Internal Audit can provide.

- 3.8 The annual Internal Audit Report 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 2021.
- 3.9 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.
- 3.10 Different areas of the organisation are audited each year, and there has been a decrease in the number of audits completed, there has therefore been a decrease in the number of recommendations made in 2020/21 (83) compared with 2019/20 (218), which had increased from 159 in 2018/19. The number of reports containing recommendations graded as "major" increased from 1 to 2.
- 3.11 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). Previous years' QAIP actions have been fully concluded.
- 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 D for discussion.
- 3.13 For 2020/21, 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. The checklist is a lengthy document, comprising a range of detailed questions, which leads to an assessment of 13 key areas of the PSIAS.
- 3.14 Following completion of the self-assessment, the outcome was that Internal Audit considers it Fully Conforms with 12 of the 13 key areas examined, and Generally Conforms in respect of 'Managing the Internal Audit Activity'. Development of the Internal Audit Service, audit prioritisation and assurance mapping, and more regular meetings with External Auditors would further enhance compliance. In respect of these, and in further areas where it is considered improvements could add value, actions have been added to a new QAIP for 2021/22, which is set out in Appendix E.
- 3.15 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.

- 3.16 There is also a requirement to report any instances where the scope of Internal Audit's work has been limited. During 2020/21, except to the extent discussed at 3.7 above, 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 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
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9. APPENDICES

- 9.1 Appendix A – 2019/20 Audit Work carried forward into 2020/21.
- 9.2 Appendix B – 2020/21 Audit Work.
- 9.3 Appendix C – Internal Audit Annual Report for the year ended 31 March 2021.
- 9.4 Appendix D – Internal Audit Performance Measures
- 9.5 Appendix E – Internal Audit Quality Assurance and Improvement Programme.

10. REPORT AUTHOR DETAILS

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APPENDIX A

2019/20 Audit Work carried forward into 2020/21:

Function	Audit Topic	Position
Cross Service	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	Performance Management	Complete November 2020
Operations	Car Parking and Bus Lane Enforcement	Complete September 2020
	Fostering and Adoption Payments	Complete July 2020
Resources	Industrial and Commercial Property Rental Income and Void Control	Complete February 2021
	Gas Servicing Contract	Complete September 2020
	HR / Payroll System	Complete March 2021
Health and Social Care Partnership	Commissioned Services – Contract Monitoring	Complete June 2020

APPENDIX B

2020/21 Audit Work:

Function	Audit Topic	Position
Cross Service	Financial Sustainability	Draft report issued February 2021
	Climate Change	Work in progress
	Vehicle Usage	Complete April 2021
	Agency Staff	Deferred to 2021/22 as approved by AR&S December 2020
	Timesheets and Allowances	Work in progress
Customer	Housing Waiting List	Work in progress
	Revenues and Benefits System	Complete November 2020
	Teachers' Payroll	Work in progress
	Housing Benefit and Council Tax Reduction	Removed as approved by AR&S December 2020
Operations	Health & Safety (Operations)	Work in progress
	Teachers Recruitment	Deferred to 2021/22 as approved by AR&S December 2020
	Vehicle Replacement	Work in progress
	School Security	Work in progress
	Garden Waste Income	Removed as approved by AR&S December 2020

Resources	Treasury Management	Complete November 2020
	Bank Reconciliations	Complete August 2020
	Sale of Land and Property	Deferred to 2021/22 as approved by AR&S December 2020
	Capital Projects	To be commenced
	Consilium System	Work in progress
Governance	Licensing	Deferred to 2021/22 as approved by AR&S December 2020
Place	Planning and Building Standards Income	Deferred to 2021/22 as approved by AR&S December 2020
Health and Social Care Partnership	Contributing to your care policy	Deferred to 2021/22 as approved by AR&S December 2020
	Housing / IJB Information Exchange	Removed as approved by AR&S December 2020
	Mental Health and Substance Abuse	Work in progress
	Bon Accord Care Budget Monitoring	Work in progress

Appendix C

Internal Audit Annual Report for the year ended 31 March 2021

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 2021. 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 2021.

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. Most recommendations made by Internal Audit during 2020/21 related to general improvements to procedures, and the requirement to evidence adherence to them.

However, as in previous years, some significant issues have been identified throughout the year. These included data protection compliance risks, ensuring segregation of duties is being applied where appropriate, updating business continuity plans, and completing reconciliations. Breaches of the Council's financial regulations were also identified – largely in respect of raising purchase orders in advance where required.

Six recommendations graded as "major" were made in two reports concluded in the year (compared with one in 2019/20, and two in 2018/19). These related to demonstrating compliance with the Council's and national procurement regulations. This remains under review, with the Commercial and Procurement Shared Service developing training programmes, and ongoing monitoring by the Risk Board. Resource has been allocated as part of the 2021/22 Internal Audit Plan to provide further support for improvements in this area.

The overall number of recommendations made fell from 218 in 2019/20 to 83 in 2020/21, in line with a reduction in the number of reports concluded during the year. Although most recommendations have been agreed by management there have been delays with implementing a number of these as reported on a regular basis to the Audit, Risk and Scrutiny Committee and the Risk Board. Management has highlighted in these reports that, where necessary, progress with implementing actions has been delayed where resources have been prioritised to support the Council's response to the Covid 19 pandemic. I consider this an appropriate and proportionate response to the management of the relative risks. The year commenced with 39 overdue actions, and closed with 37 remaining to be

implemented. However, during the year 134 actions have been implemented, demonstrating positive progress.

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 2021;
- Previous years' Internal Audit work and annual reports;
- 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.

Colin Harvey, Chief Internal Auditor, Aberdeen City Council. 6 April 2021

Appendix D

INTERNAL AUDIT PERFORMANCE MEASURES

PI	Description	Target	Actual 2020/21	Actual 2019/20
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%	20%	57.14%
3	Percentage of current year audits (as adjusted) completed by end of current year.	65%	18.75%	57.12%
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%	100.00%	75.00%
6	Percentage of previous year audits (as adjusted) that were completed within 110% of planned time allocated.	90%	36.36%	68.75%
7	Percentage of planned time taken for current year audits that were completed in the year.	90 - 110%	120.00%	107.50%
8	Percentage of planned time taken for all previous year audits completed by end of current year.	90 - 110%	148.78%	113.71%

PI	Description	Target	Actual 2020/21	Actual 2019/20
9	Percentage of recommendations accepted by management (See Note (2)).	95%	97%	100.00%
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 2019/20 was 29, and for 2020/21 was 16. 5 had passed the draft report stage by 31 March 2021.
- (2) The number of recommendations made by Internal Audit in 2018/19 for 2019/20 was 208, and for 2020/21 was 83. 82 were accepted by management.

Commentary

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

The time spent on each individual audit, compared to that originally budgeted, varied in most cases with some being completed more quickly but with the majority taking longer than anticipated, particularly in respect of audits carried forward from 2019/20. This has had an impact on capacity to progress with current year work.

Whilst reported performance has deteriorated, this should be considered against the backdrop of the Coronavirus pandemic, which has had a significant impact on the resources and capacity of the Internal Audit team, and of audited Services to facilitate and respond promptly to audit enquiries and reports.

Efforts are being made within Internal Audit to improve performance against these measures in future, and proposed actions are set out in the Quality Assurance and Improvement Programme (QAIP) at Appendix E.

Appendix E

INTERNAL AUDIT QUALITY ASSURANCE AND IMPROVEMENT PROGRAMME (QAIP)

Action	Timescale	Commentary
Internal Audit Service Development Planning	May 2021	PSIAS recommends that the Internal Audit Plan detail how the Service will be developed in accordance with the Internal Audit Charter. The QAIP will fulfil this recommendation.
Resourcing	May 2021	Recruitment for the Chief Internal Auditor post is ongoing, anticipated conclusion in May 2021; Recruitment for the Senior Auditor post will commence thereafter; Recruitment for an Assistant Auditor post is nearing completion.
Management Engagement	June 2021	Consultation and engagement with Directors and Chief Officers will be sought, to provide progress updates and identify any potential resource impacts within Services which could impact on Internal Audit progress with planned work.
External Auditor Engagement	June 2021	Consultation and engagement with External Audit will be required to ensure efforts are aligned and avoid duplication / overlap of assurance. This is a recommendation of PSIAS.
Performance Management	July 2021	More regular performance monitoring will be implemented following rationalisation of the Internal Audit performance management process.
Improvement Activity	September 2021	Corporate improvement and consulting activities have been included in the Internal Audit Plan for 2021/22. Progress will be monitored, outcomes and lessons learned recorded and acted on to inform future years' planning.
Assurance Mapping and Prioritisation	March 2022	Wider sources of Internal Audit assurance will be given formal consideration as part of the planning process for the 2022/23 Internal Audit Plan, and priority levels determined for each audit. This is a recommendation of PSIAS.