

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	30 June 2021
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Internal Audit Report AC2104 Financial Sustainability
REPORT NUMBER	IA/AC2104
DIRECTOR	N/A
REPORT AUTHOR	Colin Harvey
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 Financial Sustainability.

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. BACKGROUND / MAIN ISSUES

- 3.1 Internal Audit has completed the attached report which relates to an audit of Financial Sustainability.

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 as detailed in the attached appendix.

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 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

9. APPENDICES

- 9.1 Internal Audit report AC2104 – Financial Sustainability.

10. REPORT AUTHOR DETAILS

Colin Harvey, Chief Internal Auditor (Interim)
Colin.Harvey@aberdeenshire.gov.uk
(01467) 530701



Internal Audit Report

Resources

Financial Sustainability

Issued to:

Steven Whyte, Director of Resources
Jonathan Belford, Chief Officer – Finance
Fraser Bell, Chief Officer – Governance
Carol Smith, Accounting Manager
Vikki Cuthbert, Assurance Manager
Ronnie McKean, Corporate Risk Lead
External Audit

EXECUTIVE SUMMARY

Background

The Council's management of Financial Sustainability risks could impact on its ability to meet its statutory obligations, commissioning intentions and transformational agenda. These risks are included in the Corporate Risk Register (CRR), which reflects the most significant risks faced by the Council.

Objective

The objective of this audit was to provide assurance that the Controls and Assurance Actions are operating as expected in ensuring that the identified risk is adequately mitigated. Where controls had been examined by Internal Audit recently, assurance was taken from that previous work. The scope of the audit was extended to include the measures which have been put in place as a direct result of the Covid-19 pandemic to protect the Council's balance sheet, revenue, and financial management reputation.

Assurance

Generally controls and assurance actions in respect of Financial Sustainability are comprehensive, and operating as expected. Whilst evidence-based, the level of assurance provided is largely based on professional judgement. Internal Audit has highlighted to Finance that there is a risk of gaps in the level of assurance available due to a lack of measurable actions and outcomes against which progress towards a reduced target risk score can be measured, and the detail in respect of some sources of assurance is not comprehensive. This has implications for the Council's wider Risk Management activity.

Management Response

The evidence presented in the report provides a high level of assurance that a great deal of activity is focused on financial sustainability, and that actions are generally in place to mitigate the risk of the Council failing to protect itself. The report highlights that a few important improvements could be made to the overall approach to managing the risk and these have been accepted and one already completed. The Council continues to maintain a strong focus on its financial obligations and in demonstrating its robust approach to managing and evidencing its financial sustainability.

1. INTRODUCTION

1.1 The Council includes within its Corporate Risk Register:

The failure to deliver financial sustainability due to:

- *Failure to align resources to commissioning intentions and service standards*
- *Inadequate financial reporting and planning*
- *Failure to respond to external factors*
- *Failure of partners, businesses, or the 3rd sector*
- *Failure of transformation plans, projects, or service redesigns*
- *Inadequate financial stewardship or capability*

1.2 The objective of this audit was to provide assurance that the Controls and Assurance Actions in relation to the risk of Financial Sustainability are operating as expected in ensuring that the identified risk is adequately mitigated. Where controls have been examined by Internal Audit recently, assurance will be taken from that previous work.

1.3 In discussion with management the scope of the audit was extended to include the measures which have been put in place as a direct result of the Covid-19 pandemic to protect the Council's balance sheet, revenue, and financial management reputation.

1.4 The Corporate Risk Register (CRR) reflects the most significant risks faced by the Council. In October 2020, a revised format was presented to Audit, Risk and Scrutiny Committee (ARSC) and included Assurance Maps which provide a visual representation of the sources of assurance associated with each risk contained within the CRR. These are shown as three defence lines which are Service based, Council based and External – also referred to as Doers, Helpers and Checkers. In February 2021, further revisions were approved by ARSC which reduce duplication of assurance sources across Assurance Maps. Assurance Maps are now associated with each Cluster rather than with the individual risks within the CRR.

1.5 Key reports to the Urgent Business Committee (UBC) regarding Financial Resilience were reviewed, and the opinions of external bodies including External Audit and Moody's were considered. In addition, because of the fundamental role played by Finance in mitigating the Corporate Risk, the Cluster's own risk register and Assurance Map were reviewed, updated versions having been presented to ARSC in February 2021. Report findings and recommendations should also be considered in terms of the wider Risk Framework.

1.6 The factual accuracy of this report and action to be taken with regard to the recommendations made have been agreed with Steven Whyte, Director of Resources, Jonathan Belford, Chief Officer – Finance, and Fraser Bell, Chief Officer - Governance.

2. FINDINGS AND RECOMMENDATIONS

2.1 Risk Management

- 2.1.1 The Risk Board is responsible for monitoring the Corporate Risk Register for Institutional and Place based risks and ensures this is updated regularly to show for each risk identified:
- the latest risk assessment
 - the control actions being implemented to enhance control
 - the progress made with these
- 2.1.2 Ownership of the Council's 'Financial Sustainability' risk has been allocated to the Director of Resources and the Risk Lead is the Chief Officer – Finance. They are responsible for reporting to the Risk Board to provide assurance in respect of mitigating measures and action being taken to manage risk relating to the Council's financial sustainability.
- 2.1.3 Four Executive Boards, which oversee Risk, Strategy, Transformation and Performance, were established in September 2020, each having Officer and Chief Officer membership. These Executive Boards play a significant role in 'Horizon Scanning' and have responsibility for planning, delivery and assurance. Each plays a role in risk identification and confirming that risk controls are operating effectively. The Risk Board takes the lead on risk and reporting as necessary to Corporate Management Team (CMT).
- 2.1.4 Ultimately matters concerning financial sustainability are reported to the City Growth and Resources Committee (CGRC) from where strategic decisions can be made or referred to Council to mitigate any risk posed to the Council's financial sustainability.
- 2.1.5 Any reports which go to Committees are considered by / on behalf of the Section 95 officer to ensure that the financial implications of these (if any) are fully considered and explained, so that Committee members are aware of the level of risk which decisions being made carry in relation to the Council's financial sustainability.
- 2.1.6 Risk Registers are reviewed as a Power BI report, which provides near-live data on the management of risks and can be reviewed by finance teams and the Extended CMT at any point. This is intended to facilitate the recording of progress with control actions and to record risk score changes, new risks which have been identified, and to de-escalate risks where appropriate.
- 2.1.7 Every risk across the Council's suite of risk registers is allocated with a category according to the nature of the most significant impact it will have. These currently include Strategic, Compliance, Financial, Reputational, Climate/Environmental, EU-Exit and Covid-19. The spreadsheet, which is updated via a Power App, allows risks in other Clusters to be filtered to "Financial", ensuring that those risks which could impact on the Council's financial sustainability are visible to anyone viewing the Power BI report. The Risk Owners in each case are accountable for those managing the risks and are open to challenge on the extent to which the control actions listed are supporting the financial sustainability of the Council. This helps Clusters to avoid taking a 'silo' or blinkered approach towards risk control.

2.2 Control Actions

- 2.2.1 Control actions are intended to enhance the control environment where deficiencies are identified. Internal Audit sought evidence that the controls and actions are operating as expected in ensuring that the Financial Sustainability risk is adequately mitigated.

- 2.2.2 Finance provided evidence to demonstrate that each of the Control Actions it had identified in respect of Financial Sustainability are being progressed, and in some cases are complete:

2021-23 and longer term financial planning

- 2.2.3 The Medium Term Financial Strategy was approved by CGRC in October 2020 and is aligned to the Council Delivery Plan, which itself aligns to the Council's commitment to the vision and priorities of the Local Outcome Improvement Plan.

Covid: Business Grants and liquidity for businesses; supply chain finance support

- 2.2.4 The S95 Officer provided the Urgent Business Committee (UBC) with details of involvement in the administration and distribution of business support grants on behalf of the Scottish Government. Financial Resilience Reports were provided to Urgent Business Committee on 20 March 2020, 6 May 2020, 30 June 2020, which gave assurance that the Council was delivering support for businesses where required. In addition to the grants, debt recovery action was suspended, NDR billing delayed and payment term flexibility was increased for businesses.

Covid: Financial Support to Citizens

- 2.2.5 The Financial Resilience Report to UBC on 20 March 2020 highlighted that funding was being made available to support existing hardship funds, and additional support would be available through increased provision from the Scottish Government for the Food Fund, Wellbeing Fund, Supporting Communities Fund. The report on 6 May 2020 noted the use of the Food Fund to support children entitled to free school meals and food provision / delivery for people in poverty.

Covid: Balance sheet/going concern and valuations analysis

- 2.2.6 The Council's Treasury Advisor and External Audit have provided assurance over the strength of the Council's balance sheet. The Financial Resilience reports to UBC detailed various scenarios as the financial implications of the pandemic position developed, considering how to maintain this strength, in light of lost income, uncertain government support and additional costs whose value was difficult to determine.
- 2.2.7 On 6 May 2020 UBC was assured that 'even during these unprecedented times, [the Council] continues to exhibit strong financial management of its financial affairs and evidence our ability to continue as a going concern.' Controlling the revenue position of the Council was key and the report identified the risks to the revenue and capital budgets and on 30 June 2020, proposals on how it intended to do so were put forward.

Covid: Revenue and Capital programme implications additional assurance

- 2.2.8 As noted above, Financial Resilience Reports to Urgent Business Committee provided detailed budget scenarios which took into account the potential budgetary impact in terms of lost income, additional costs, and Government funding uncertainties and which were mindful of how prolonged and severe the pandemic could be. Committee was informed on 6 May 2020 that major capital projects in progress would likely be affected in terms of increased costs and contractor time extensions meaning budgets and completion dates would not be met.
- 2.2.9 The budget and resource allocations approved in February 2020, prior to the UK outbreak, were reset in the Financial Resilience report presented to UBC on 30 June 2020. Financial monitoring and business advice has been maintained throughout the pandemic to support

services and ensure the Committee receives the latest position. Financial Monitoring continues to be presented to CGRC.

Covid: Financial stewardship of operational changes and controls

- 2.2.10 On 4 December 2019, the Public Protection Committee approved a Generic Emergency Plan in light of the threat of Covid, and a recent report to CGR on 3 February 2021 notes that all action taken by officers to ensure compliance with the law and relevant government guidance, were taken in accordance with the Council's approved Scheme of Governance, approved Generic Emergency Plan and the decisions of the Urgent Business Committee.
- 2.2.11 In accordance with the Financial Resilience report to UBC on 6 May 2020, the S95 officer was instructed to prioritise Council resources for critical services and to minimise all other expenditure, stopping non-essential or non-critical spend where possible. The Quarter 2 Financial Reporting provided to City Growth and Resources Committee on 28 October 2020, forecast the financial impact of the pandemic on the Council's General Fund as a deficit of c.£5m for the year. This was reduced to £2.6m according to Quarter 3 reporting and the unaudited outturn for the year was confirmed in May 2021 as a £0.4m surplus.

Covid: Reporting and responding to consultations and data collection

- 2.2.12 Appendix 2 of the Financial Resilience report to UBC on 6 May 2020 shows the initial COSLA information request submitted in April 2020 to capture costs and savings associated with the pandemic. This was required periodically thereafter and demonstrates the Financial review of the organisation wide, workforce and non-workforce costs, lost income, fees and charges, the impact on ALEOs, impact of customer behaviour changes, savings not realised as well as cost reductions due to reduced services.

Covid: Review financial support to ALEOs

- 2.2.13 The ALEO Assurance Hub reported to ARSC on 09 October 2020 to provide assurance regarding the financial management, governance and risk management support provided to ALEOs. Cash flow forecasts, draft annual accounts and other financial data were scrutinised by the S95 Officer and the Head of Commercial and Procurement throughout the pandemic. Discussions included ensuring that appropriate grants were applied for, that staff were furloughed in appropriate numbers, that updated forecasts and financial positions were provided, and potential savings / cost reduction opportunities were considered.

Digital programme for financial stewardship and use of resources

- 2.2.14 A Finance Review completed by Price Waterhouse Coopers in 2017 identified the need to shift from manual, spreadsheet based budget setting and to consider more efficient integrated digital tools which facilitate budget setting and reduce the need for rework.
- 2.2.15 While there is an intention to use Sharepoint and Teams more effectively in budget setting, there is no clear digital programme for financial stewardship and use of resources. However, the S95 Officer is engaged with the Council's Digital Transformation, and developments outlined below show progress in this area.

Integrated real time data and decision making

- 2.2.16 The Service has sought to make budget holders more accountable for the use of their budgets and has provided real time financial monitoring reports which, in addition to monthly budget monitoring reports, allows them to review their budget position at any time. This will assist them in their service delivery and give them greater control and responsibility for their spending decisions.

Improvements to financial transaction stewardship

- 2.2.17 Although the Covid pandemic has impacted to some extent efforts to centralise, re-organise and better resource the Transaction Team, there is now a clear direction to develop a two-team approach. Monitoring of this improvement project is on-going and recruitment has begun. Following a period of significant corporate restructure, this is an evident response to the findings of the Price Waterhouse Coopers Finance Review which was completed in 2017.

Capability framework development

- 2.2.18 The Staff Governance Committee approved the Council's Capability Framework on 18 June 2019 which is being embedded throughout the Council including within the Finance Cluster. The Capability Framework indicates that achieving outcomes, early intervention, considering service demand reduction, understanding service costs, and intelligent use of resources are all integral to Council staff's 'Purpose'. From those responsible for leading only themselves to those who lead the organisation, an appreciation of the skills and knowledge they need are critical to maintaining the Council's Financial Sustainability.

Counter Fraud

- 2.2.19 The Council's Fraud, Bribery and Corruption Policy was replaced by the Counter Fraud Policy which was approved by ARSC on 24 February 2021. This incorporates the Council's Money Laundering Policy and now reflects the requirement to address Tax Evasion.

Control Actions – Overall Assessment

- 2.2.20 The risk environment is fluid, and new control actions may be added (e.g. the Counter Fraud action plan in February 2021), and others are completed, reflecting the Council's response to changes in the risk environment. The most up to date version of the CRR indicates that overall, the financial sustainability Control Actions are 80% complete.
- 2.2.21 This position is subject to regular review, and Internal Audit considers that this is a reasonable indication. However, it requires a substantial degree of professional judgement from the Risk Lead, and the basis of this needs to be clear.
- 2.2.22 As at February 2021, the Corporate Risk Register showed risk in terms of the *Current Risk Score* (12) and a *Target Risk Score* (8). The former indicates the Council's exposure to risk, and the recommendation made above would help the Service to better demonstrate the accuracy of its *Current Risk Score*.
- 2.2.23 A Target Completion Date of 29 June 2021 has been set in the Corporate Risk Register by when the Service intends to have met its Target Risk Score. However, the contribution of each action to reducing the Current Risk Score has not been clearly set out. This would aid in prioritising and evidencing progress towards the Target.
- 2.2.24 Assurance over progress and the level of contribution provided by each control action could be improved by setting clearer separate actions which are specific, measurable, achievable, relevant and time-bound (SMART) and ranking these by priority. These could then be more easily measured.

Recommendation

The Service should ensure that progress with implementing Financial Sustainability risk control actions, and the extent to which each action contributes to reducing risk scores, is clearly supported.

Service Response / Action

Agreed. Whatever 'score' or percentage is given to the degree of progress is always going to be judgemental at some level and therefore it risks a level of administration that is not proportionate with the benefit that will be achieved.

It is agreed that actions could be smarter to improve the assessment of completeness and will be reviewed on that basis.

Implementation Date

September 2021

Responsible Officer

Chief Officer - Finance

Grading

Significant within audited area

2.3 Sources of Assurance

2.3.1 As part of regular review of sources of assurance, in February 2021 the Audit, Risk & Scrutiny Committee considered Cluster Assurance Maps set out in line with the 'three lines of defence' model. Internal Audit has reviewed the content of the Finance Cluster Assurance Map, which broadly aligns with the previously reported Financial Sustainability risk Assurance Map, to consider the level of assurance these sources provide:

First Line of Defence:

Annual statements of accounts and quarterly reporting

2.3.2 The unaudited Accounts are normally considered by ARSC in the first instance and Audited Accounts are reviewed by the Committee in May / June each year. Due to the Covid pandemic the review of the 2019/20 accounts was undertaken by the Urgent Business Committee in May (unaudited accounts) and June 2020 (audited accounts). Quarterly Financial Reporting is considered by CGRC.

Medium Term Financial Strategy (MTFS) and Budget setting

2.3.3 Short term (2021/22) and longer-term funding and expenditure assumptions (to 2026/27) were set out in the MTFS approved by CGRC in October 2020. Statute requires a balanced budget to be set for the General Fund Revenue and Capital Programme Budgets, Housing Revenue Account (HRA) and Common Good Fund. The budgets and related decisions proposed by officers are considered by Council in March each year. Previous (AC1719) and upcoming Internal Audit work provides additional assurance.

Monthly and Quarterly monitoring and reporting of budget including contingent liabilities

2.3.4 Quarterly Financial Reporting has been provided to CGRC, or UBC where appropriate during the pandemic, in addition to financial resilience reports which detail specific action taken to mitigate the impact of Covid on the Council's Financial Sustainability. Further assurance can be taken from previous budget monitoring Internal Audit reports (AC1610) and 'real time' reporting has been developed in addition to monthly and quarterly reviews.

Financial protocols in Scheme of Governance, Financial Regulations and associated financial procedures and practices

2.3.5 The revised Scheme of Governance including Financial Regulations was approved by Council in March 2021 and documents are available to staff via the intranet. This was also reviewed previously by Internal Audit (AC1604) as part of a general review of Council Policies and Procedures.

- 2.3.6 The associated Procurement Manual was initially unavailable for staff, presenting a risk to compliance, but access to this on the intranet has now been restored.
- 2.3.7 Examples of operational procedures reviewed show due consideration being given to financial protocol, including the Staff and Members Travel Policies approved by CGRC and Council in 2019 which were recently reviewed by Internal Audit (AC2009).

Financial policies and procedures including Fraud Prevention and Money Laundering, Following the Public Pound and Service Income

- 2.3.8 Key financial policies have been approved: including: Treasury Strategy (Council, December 2020); Treasury Management Policy (Council, March 2021); Reserves Policy (Council, March 2021); Corporate Debt Recovery Policy (CGR, November 2018); Service Income Policy (CGR, November 2018); Counter Fraud Policy (ARSC, February 2021).
- 2.3.9 Adherence to these and Financial Regulations is considered as a matter of course in Internal Audit work. More Specific Audits have covered Fraud (AC1916), Following the Public Pound (AC1704) and the VSER Policy (AC1913).

Financial Implications review of all committee reports

- 2.3.10 The Committee Reporting Guide requires that the S95 Officer ensures that the financial implications of Committee reports are considered prior to being presented to Committee for decisions being made. Compliance is evident in items within meeting agendas.

Treasury Management reviews with our treasury consultants

- 2.3.11 Regular meetings with and reports from the Council's Treasury Consultant indicate adequate balance sheet monitoring is in place and investment risk being considered. Treasury Management was reviewed recently by Internal Audit (AC2103).

Monitoring of Finance Cluster and Institutional risks

- 2.3.12 The Finance Cluster Risk Register and the Corporate Risk Register are reviewed each month by the Cluster's Senior Management Team and the Risk Board respectively. Both include the Risk Owner, and the Risk Lead for Finance is a member of the Risk Board which oversees Risk Management on behalf of CMT. Risk management was recently reviewed by Internal Audit (AC2004).

Pension fund management protocols and procedures

- 2.3.13 Pension Policies are in place and are available on the NESPF website. These are reviewed by the Pensions Committee and Board and are given consideration in Internal Audits of the Pensions scheme. Recent examples include the Pensions Investment Policy (AC2105) and the Pensions Payroll (AC2107).

Task plans, CR&D and Succession Plans

- 2.3.14 Examples of the Transactions Team Task Plans were reviewed and found to be adequate, although the function is still being reorganised since the need to centralise transaction processing to improve control being identified. The Continuous Review & Development process ensures there is reflection on performance of tasks. The Council's Workforce Planning was addressed in Internal Audit Report AC2018 and succession planning is evident in the Finance Cluster.

Horizon Scanning reviews

- 2.3.15 Horizon scanning is ultimately the Finance Cluster Service Management Team's responsibility in respect of Financial Sustainability, but is also a key activity of the Strategy, Performance, Transformation and Risk Boards. Membership of these Executive Boards ensures that Finance is made aware of matters which impact on financial planning and could carry risk for the Council's financial sustainability. The Council has a Horizon Scanning dashboard which facilitates this.

Second Line of Defence:

Policy Documentation

- 2.3.16 Due consideration is given to financial sustainability in the setting of Council Policies and authorisation of these is obtained from relevant Committees.

City Growth and Resources Committee scrutiny of all financial decisions

- 2.3.17 The CGRC provides scrutiny over the way the approved budget set by Council is used through Clusters' commissioning plans. Thresholds are set within Procurement Regulations which regulate the authorisation of expenditure and require best value to be demonstrated through obtaining quotes or tendering for goods and services. Appropriate authorisation to proceed must be received for contracts, including that of CGRC where the value exceeds that delegated to Officers. The Committee is also responsible for authorising grant distribution, debt write offs and other transactions which could impact on financial sustainability.

Pensions Committee scrutiny of pensions decisions

- 2.3.18 Pensions decisions are overseen by the Pensions Committee and guided by Pensions Policy. The S95 officer gives due consideration to the financial implications of decisions proposed to the Pensions Committee through the Committee reporting process. In addition, NESPF is regulated by The Pensions Regulator, although this is not detailed among the 'Checkers' within the Finance Cluster Assurance Map.

Audit, Risk and Scrutiny Committee oversight of risk management system

- 2.3.19 The Risk Management System Policy, Guidance and the Council's Risk Appetite are reviewed by ARSC annually where significant changes have been made. The Corporate Risk Register is reviewed annually - most recently in October 2020. Revised Cluster Assurance Maps were approved by ARSC in February 2021 and demonstrate the sources of assurance which the Finance Cluster relies upon to mitigate the financial sustainability risk.

Audit Risk and Scrutiny oversight of Internal and External Audit reports

- 2.3.20 ARSC is responsible for approving the Internal Audit Plan and receiving Audit Plan progress updates, reviewing Internal Audit Reports, and considering progress with the implementation of report recommendations. Many reports cover subjects which underpin the Council's financial sustainability. The factual accuracy of these is agreed with relevant Officers prior to issue to the Director and the Committee.
- 2.3.21 ARSC's annual review of the External Audit report provides the Council with assurance over the financial position declared in the annual Accounts. It ensures that lessons learned in one year are acknowledged by Officers and are adopted going forward. In 2019/20, these included risks associated with the valuation of some property assets and of the valuation of additional retirement cost liabilities associated with the McCloud Judgement.

- 2.3.22 The review provided assurance over matters such as the Council's correct treatment of Capital Expenditure and its prompt planning and action to mitigate the impact of the Covid Pandemic on financial stability. External Audit recognised the Council's prompt submission of the accounts despite the pandemic and noting the Council's strong balance sheet indicated that the Going Concern assumption was appropriate.

Council and specific Charitable Trust Boards

- 2.3.23 The Charitable Boards provide assurance of the correct administration of the Charitable Trusts in accordance with their Terms of Reference.

Other Committees as applicable

- 2.3.24 Terms of Reference indicate the scope of other Committees' remits, which include considering the financial impact of the decisions they make.

CMT and ECMT

- 2.3.25 Corporate Management Team (CMT) is provided with assurance by the Risk Board, which undertakes a monthly review of the Corporate Risk Register including the financial sustainability risk. CMT and ECMT receive updates from the Risk Board on a monthly basis.
- 2.3.26 Senior Management Teams (SMT) undertake a monthly review of Cluster Operational Risk Registers. Mitigation of the risks within the Finance Cluster Risk Register is critical to the Council's Financial Sustainability.

Risk Board

- 2.3.27 The Risk Board oversees the Council's control environment ensuring identified risks are adequately managed through robust controls and monitoring and that new risks are identified and mitigated. Finance is represented on this Board so any matters which present a significant increase in risk to the Council's Financial Sustainability, whether established by the Service itself or through the work of the other Executive Boards. In addition, the Risk Board reviews inspection reports and agrees corrective action where necessary.

Strategy Board

- 2.3.28 The Strategy Board considers all internal and external factors and changes which impact on Council strategy. The Council's strategy is the basis for financing and directing operations to deliver outcomes and to comply with statutory responsibilities. The Board ensures the link between strategy and medium-term financial planning is maintained to achieve objectives sustainably within available resources.

Transformation Board

- 2.3.29 The Transformation Board ensures that transformation programmes, projects and staffing redesigns are appropriate and that progress and impact is in line with expectations. Any deviation from plan is reviewed including the financial impact which is built into the Medium Term Financial Strategy. The Board plays a role in ensuring savings are identified, programmed and planned for implementation.

Performance Board

- 2.3.30 The Performance Board monitors the Council's progress in achieving its strategic outcomes and how efficiently and effectively it does this. This includes Key Performance

Indicators and other standards which should be delivered in accordance with the Council's Delivery Plan and within the resources available as indicated by the Medium Term Financial Strategy which it is responsible for approving. Any performance issue which may significantly impact the Council's Financial Sustainability would be reported to the Risk Board.

- 2.3.31 The ALEO Assurance Hub reports to ARSC annually, however is not indicated as a Helper in the Assurance Map. Assurance over ALEO's has been obtained from Internal Audit Reports AC1621 (Governance Arrangements) and AC1722 (Performance and Payments) in addition to the annual accounts and external audit which their finances undergo.

Third Line of Defence:

Annual External Audit and report of ACC Accounts, Pension Funds and Group Accounts

- 2.3.32 Statutory financial reporting requires transparency and detail which allows reasonable assurance to be drawn in terms of the Financial Sustainability or otherwise of the Council and its partners. The External Audit report provides feedback regarding the Council's financial sustainability and any risks identified which may compromise it.

Annual Internal Audit Plan based on risk and approved and overseen by Audit, Risk and Scrutiny Committee.

- 2.3.33 ARSC has oversight of the Internal Audit Plan. The Plan is risk based and developed in conjunction with Senior Management Teams and the Risk Board.

Annual credit rating review

- 2.3.34 Assurance has been taken from Internal Audit's Bond Governance Report (AC1824) and Bond Trust Deed Compliance Report (AC1921) which considered the safeguarding of the Council's credit rating.
- 2.3.35 Moody's gave its latest annual credit rating opinion on 18 January 2021 and CGR received a report on this in February 2021. The rating of A1 with a stable outlook was unchanged and was in line with the recent downgrade to the UK's rating from Aa2 to Aa3.
- 2.3.36 The report was positive on matters which contribute to the Council's financial sustainability and its credit rating, including the strength of the balance sheet. Credit rating risk exposure was however highlighted by the Treasury Consultants in respect of Investment Property i.e. Marischal Square, TECA and its associated hotels. Although significant, the Council was deemed to have sufficient reserves to compensate for lost income. This was evident in the balancing of the budget for 2020/21.

London Stock Exchange compliance checks

- 2.3.37 The Bond Governance Report (AC1824) also reviewed the arrangements in place to ensure compliance with the London Stock Exchange requirements.

National Audit reports and Best Value Audit

- 2.3.38 Aberdeen City Council's Best Value Audit started in November 2020 and is due to report to Council in June 2021. This Audit is informed by External Audit Reports on matters including Financial Sustainability and itself reviews performance in terms of achieving strategic outcomes efficiently through the resources available.

- 2.3.39 Other national audit reports enable the Council to consider its risk and performance in the wider context through for example the Local Government in Scotland Financial Overview. Some national reports address key themes such as Scotland's City Region & Growth Deals, the National Fraud Initiative, Digital Progress in Local Government and the Impact of Equal Pay, which all have transformation and financial sustainability implications.

Her Majesty's Revenue and Customs Inspections

- 2.3.40 HMRC inspections and advice mitigates the risk of errors associated with the collection and payment of taxes. HMRC intends to provide risk ratings where it carries out inspections which will provide additional assurance and inform the risk register and control actions. Internal Audit also reviews the Council's application of VAT rules, most recently in report AC1906.

Treasury, Director of Finance and other bodies reports and advice

- 2.3.41 As detailed earlier the Council's Treasury Advisor provides assurance over the balance sheet, its investments, and its ongoing exposure to certain aspects of financial sustainability risk. The wider network of Directors of Finance and bodies such as COSLA provide relevant updates and guidance and enables inter-authority discussion of issues which may impact on the Council's Financial Sustainability.

Scottish Charity Regulator (OSCR) reports and advice and reports on Charitable Trust Accounts

- 2.3.42 The OSCR is the regulator for registered charities like those operated by the Council. Their charitable status requires them to operate in accordance with a governance framework which mitigates the risk which improper practice would pose towards the Council's financial sustainability.

Scottish Government Returns e.g. budget and outturn data, grant claim criteria

The duty to submit financial returns of varying nature to the Scottish Government increases the accountability of those responsible for ensuring that the data sources used (commonly the financial systems) are accurate. Input accuracy is tested in the course of various Internal Audits which cover income and expenditure.

- 2.3.43 The duty to submit returns compels local authorities to consider the figures submitted and the performance and control they portray, including trends which may indicate a deterioration in the Council's financial sustainability.

Data required by other grant funders and stakeholders of ACC

- 2.3.44 Similarly, the requirement for data by other organisations increases the accountability for the accuracy of data provided which helps maintain a culture which is suitable for maintaining the Council's financial sustainability.

ICAS and CIPFA trainer accreditations

- 2.3.45 Finance staff are required in their Job Description to have the competency, experience and qualifications (where necessary) for the responsibilities of their posts. Maintaining professional standards and having to demonstrate these to external Professional Institutes reduces the risk of financial sustainability being jeopardised due to poor judgement, lack of training or malpractice.

Benchmarking – LGBF and Directors of Finance

2.3.46 Some Local Government Benchmarking Figures and CIPFA Performance Indicators are helpful in making comparisons between the Council and other Local Authorities in terms of finance and other matters. These give the Council opportunity to review its efficiency and financial sustainability in terms of the of the Council.

Sources of Assurance – Overall Assessment

2.3.47 In general the foregoing provides a complementary suite of assurance sources, through which the Council has the opportunity to consider, and where appropriate act to mitigate, risks to its financial sustainability.

2.3.48 Overall consideration was given to each financial sustainability *Risk Description* (i.e. risk cause / source) in the Corporate Risk Register which needs to be mitigated through the risk control framework. The Assurance Maps provide adequate assurance that the *Three Lines of Defence*, in conjunction with the *Control Actions* being progressed and the governance in place (for which enhancements have been recommended in this report) provide reasonable assurance over the Council's control of Financial Sustainability risk.

2.3.49 In respect of the measures in place to monitor and manage the Council's balance sheet, revenue and financial management reputation, the control elements within the Assurance Maps and Committee reports associated with the Council's financial resilience and sustainability give assurance that these are robust. This has been confirmed by external bodies including Moody's and External Audit in addition to Internal Audit's testing and review of available documents and controls.

2.3.50 Confirming that the controls are in place and operating effectively is more difficult where general statements of the controls in place are made such as '*associated financial procedures and practices*' and '*Scottish Government Returns*'. The lack of detail makes controls, and the extent to which they provide assurance, less identifiable and addressable.

2.3.51 For example, for a period staff could not access the online Procurement Manual because of intranet links which did not work. Although an alternative measure has now been put in place by the Shared Commercial and Procurement Service, the risk of incorrect procurement practice was increased which increases the Council's exposure to financial sustainability risk. And when evidence of the London Stock Exchange Compliance Checks was requested, there was a lack of clarity on what these were, what they demonstrated and how they could be evidenced. Finance was subsequently able to provide supporting detail.

2.3.52 It must be clear to those responsible what each control involves and how it can be checked and evidenced as being effective.

Recommendation

The Service should ensure that the control elements referred to in the Finance Cluster Assurance Map are adequately understood and can be easily referenced.

Service Response / Action

Agreed. Appropriate detail to support the control element should exist, and this should not be at the expense of the clear and concise nature of the Assurance Map, to avoid it becoming unwieldy and unreadable. Documentation of the assurance map control elements will be produced to improve understanding and referencing.

Implementation Date

September 2021

Responsible Officer

Chief Officer - Finance

Grading

Significant within audited area

2.3.53 The Finance Cluster Assurance Map does not currently include the following sources, which provide further assurance over Financial Sustainability:

- Doers: Budget Holder training
- Helpers: Senior Management Team (Monthly Cluster Risk Register review)
- Helpers: ALEO Assurance Hub
- Helpers: IJB Risk, Audit and Performance Board
- Checkers: Pensions Regulator
- Checkers: Bond Trustee

Recommendation

The Service should consider documenting further assurance sources in the Finance Cluster Assurance Map.

Service Response / Action

Agreed.

Implementation Date

Implemented

Responsible Officer

Chief Officer - Finance

Grading

Important within audited area

2.4 Risk Management

2.4.1 As part of this review of the Financial Sustainability risk, areas where the Council's Risk Management approach could be improved have been identified as set out above. As the process owner, Governance is well situated to develop guidance and practice to promote consistency of approach across the Council.

Recommendation

Governance should review the consistency of Clusters' approach to documenting control actions and sources of assurance.

Service Response / Action

Agreed.

Implementation Date

September 2021

Responsible Officer

Chief Officer -
Governance

Grading

Significant within audited area

AUDITORS: C Harvey
T Wight
P Smith

Appendix 1 – Grading of Recommendations

GRADE	DEFINITION
Major at a Corporate Level	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the Council.
Major at a Service Level	<p>The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited.</p> <p>Financial Regulations have been consistently breached.</p>
Significant within audited area	<p>Addressing this issue will enhance internal controls.</p> <p>An element of control is missing or only partial in nature.</p> <p>The existence of the weakness identified has an impact on a system's adequacy and effectiveness.</p> <p>Financial Regulations have been breached.</p>
Important within audited area	Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control.