

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	29 September 2021
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Internal Audit Reporting
REPORT NUMBER	IA/21/010
DIRECTOR	N/A
REPORT AUTHOR	Colin Harvey
TERMS OF REFERENCE	2.3

1. PURPOSE OF REPORT

- 1.1 This report presents an updated format for advising the Committee of progress made by Services with implementing recommendations that have been agreed in Internal Audit reports.

2. RECOMMENDATIONS

- 2.1 The Committee is requested to review, discuss and comment on the contents of this report and the attached appendices, and thereafter approve the proposed amendments to Internal Audit reporting.

3. BACKGROUND / MAIN ISSUES

Internal Audit Reports

- 3.1 Public Sector Internal Audit Standards require that Internal Audit report regularly to the "Board" on the outcome of audit engagements, and on management's progress with implementing agreed actions arising from them. The content and format of reporting is not prescribed by the Standards. It is one of the functions of the Audit, Risk & Scrutiny Committee to review the activities of the Internal Audit function. This report presents proposals to revise the format of reporting from December 2021.
- 3.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) recently recommended the use of a set of standard audit engagement opinions¹. These are: 'Substantial Assurance', 'Reasonable Assurance', 'Limited Assurance' and 'No Assurance'. Having reviewed the CIPFA briefing, and current practice in other local authorities via the Scottish Local Authorities Chief Internal Auditor Group, the Chief Internal Auditor

1) <https://www.cipfa.org/policy-and-guidance/reports/setting-common-definitions>

considers that whilst an engagement opinion is informative, applying a grading does not add substantial value to the process.

- 3.3 Currently, the summary of each audit report presented to the Audit, Risk & Scrutiny Committee includes reference to whether assurance has been obtained, or details of the areas in which assurance was not obtained or requires improvement are set out.
- 3.4 Gradings are already applied to individual recommendations, taking into account the risk to the Council, Service and the process under review, in line with a clear grading scheme (see Appendix B) and application of professional judgement. A composite report grading, as recommended by CIPFA, would take account of these and seek to combine them. However, the combination of findings, and management's response to them – including proposed actions and timescales, is difficult to objectively score. Additional time would be required to consult and agree with Services regarding the grading applied, after the content and related actions had been agreed.
- 3.5 A grading would also need to be taken in the context of the scale and risks inherent in the process under review, within the wider context of those applying to the Council as a whole. Audited areas, whilst within the overall sphere of internal control, governance and risk management, vary widely in scope and objective, scale and risk profile, and the extent to which they reflect the Council's Risk Appetite. Comparison of the level of assurance obtained in one area with another could therefore be misleading. It is not therefore planned to include set audit engagement opinions.
- 3.6 As the full audit reports are provided to the Committee, it is considered that the Committee has sufficient opportunity to scrutinise the activity reported on, and to hold management to account at a detailed level.
- 3.7 Developments have however been applied to enhance interpretation of audit reports, via a new executive summary format which has been applied since June 2021. This includes a clearer opinion on the assurance obtained over the audited area, and a summary of the issues and actions planned to resolve any recommendations graded as Major or Significant. Clearer and more consistent structuring of the executive summary is intended to aid the Committee in interpreting the audit results and focusing on the more significant risks.

Overdue Actions

- 3.7.1 Management progress with implementing agreed actions as a result of recommendations made in Internal Audit reports is regularly reported to the Audit, Risk & Scrutiny Committee.
- 3.7.2 The Committee is currently provided with a summary of Services' progress including the number of actions agreed, implemented, added and closed since the last Committee meeting. Summaries are also provided of the number of actions agreed, implemented, added and closed for each audit completed during the current financial year, and all audits for which actions have not been concluded in accordance with the timescales originally agreed with management, and recorded in the Internal Audit reports, for their

implementation. The grading attributed to each action, and its original due date, is recorded. Details of progress with each overdue action and when it is now proposed to be completed are sought from Services and, where available, are included within the appendices to the Committee report. The history of updates and any extensions to deadlines are also listed.

- 3.7.3 This process was designed to highlight, by exception, those audited areas in which action had not been progressed as planned. This provided an opportunity to provide assurance that the actions were being prioritised for conclusion within a defined extended timescale.
- 3.7.4 In order to allow the Committee, and Officers responsible for implementing the actions, to focus on the higher risk areas in which actions have not yet been concluded, a new format for reporting progress with implementing agreed actions is proposed as set out in Appendix A.
- 3.7.5 In contrast to the traditional reporting format which provided updates on a report-by-report basis, this presents a revised focus on overall performance with implementing agreed actions, including a prioritised list of higher risk actions, based on the existing grading scheme (see Appendix B), and the extent to which actions are overdue.
- 3.7.6 Updates on management progress with implementing agreed actions will continue to be followed up, and recorded, by Internal Audit on a regular basis. Services are supported in their review of delayed actions with clear and regular data on performance in this respect.

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. The purpose of this report is to consult on proposals to amend the format of Internal Audit reports to aid the Committee in interpreting audit results and progress with actions, and focusing on the more significant risks.

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.
Data Protection Impact Assessment	Not required

9. APPENDICES

- 9.1 Appendix A – Position with Agreed Recommendations
- 9.2 Appendix B – Grading of Recommendations

10. REPORT AUTHOR DETAILS

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APPENDIX A

Contents:

- 1) Agreed actions Completed during 2021/22
- 2) Agreed actions Completed since last reported to Committee
- 3) Overdue actions by Function and Grading
- 4) Significant actions Overdue by more than 6 months
- 5) Significant actions Overdue by less than 6 months
- 6) Important actions Overdue by more than 6 months
- 7) Important actions Overdue by less than 6 months

INTERNAL AUDIT RECOMMENDATIONS

1) Agreed actions completed during 2021/22

Complete during current financial year

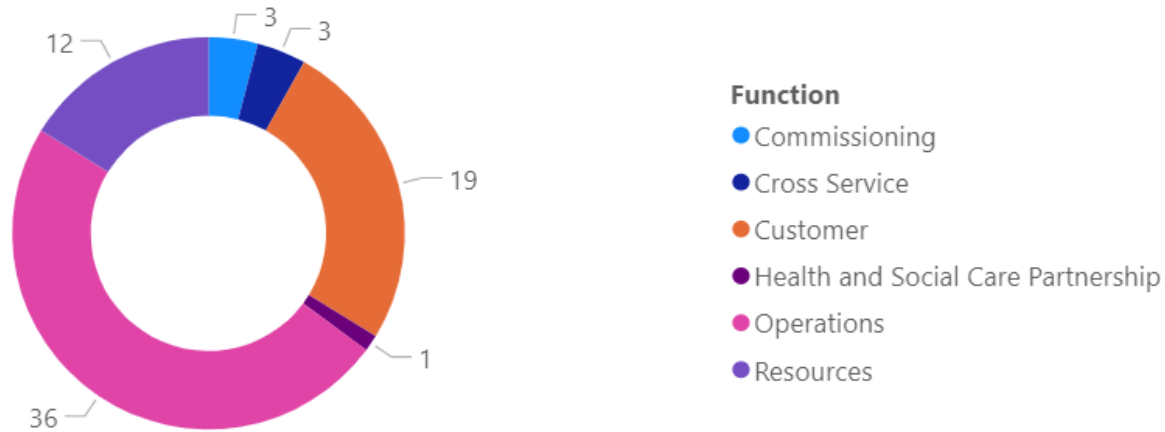
01/04/2021

17/09/2021

Total Complete

74

Number of recommendations by Service



Function	1) Important	2) Significant	3) Major - Service	4) Major - Corporate	Total
Commissioning		1		2	3
Cross Service		3			3
Customer	8	11			19
Health and Social Care Partnership	1				1
Operations	7	28	1		36
Resources	6	6			12
Total	22	49	1	2	74

2) Agreed actions completed since last reported in May 2021

Complete since last Committee

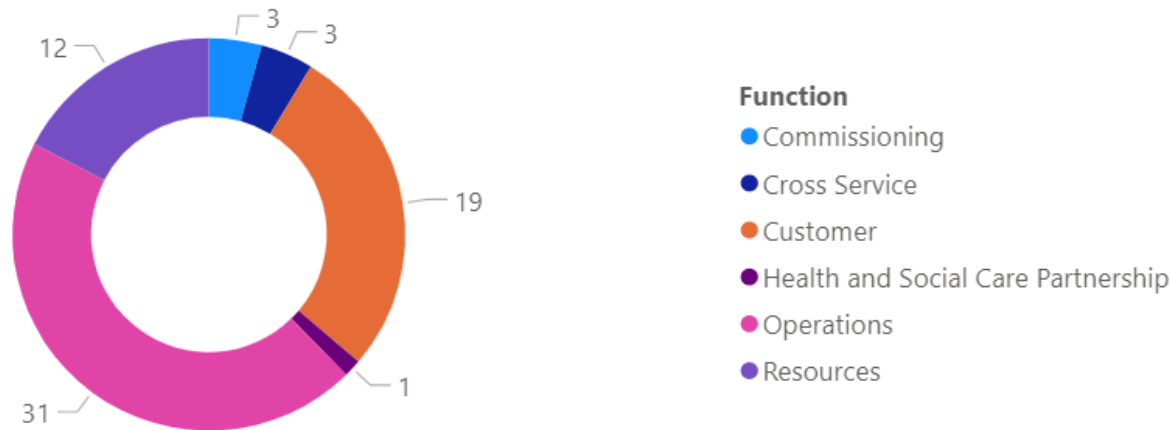
01/05/2021

17/09/2021

Total Complete

69

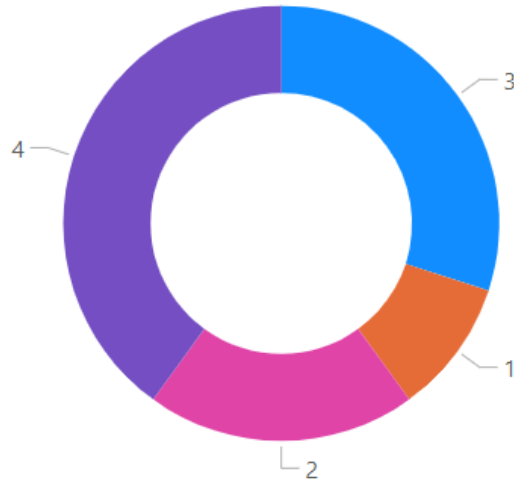
Number of recommendations by Service



Function	1) Important	2) Significant	3) Major - Service	4) Major - Corporate	Total
Commissioning		1		2	3
Cross Service		3			3
Customer	8	11			19
Health and Social Care Partnership	1				1
Operations	5	25	1		31
Resources	6	6			12
Total	20	46	1	2	69

3) Overdue actions – by Service and Grading – due on or before 31 July 2021

Number of recommendations by Service



Total overdue
10

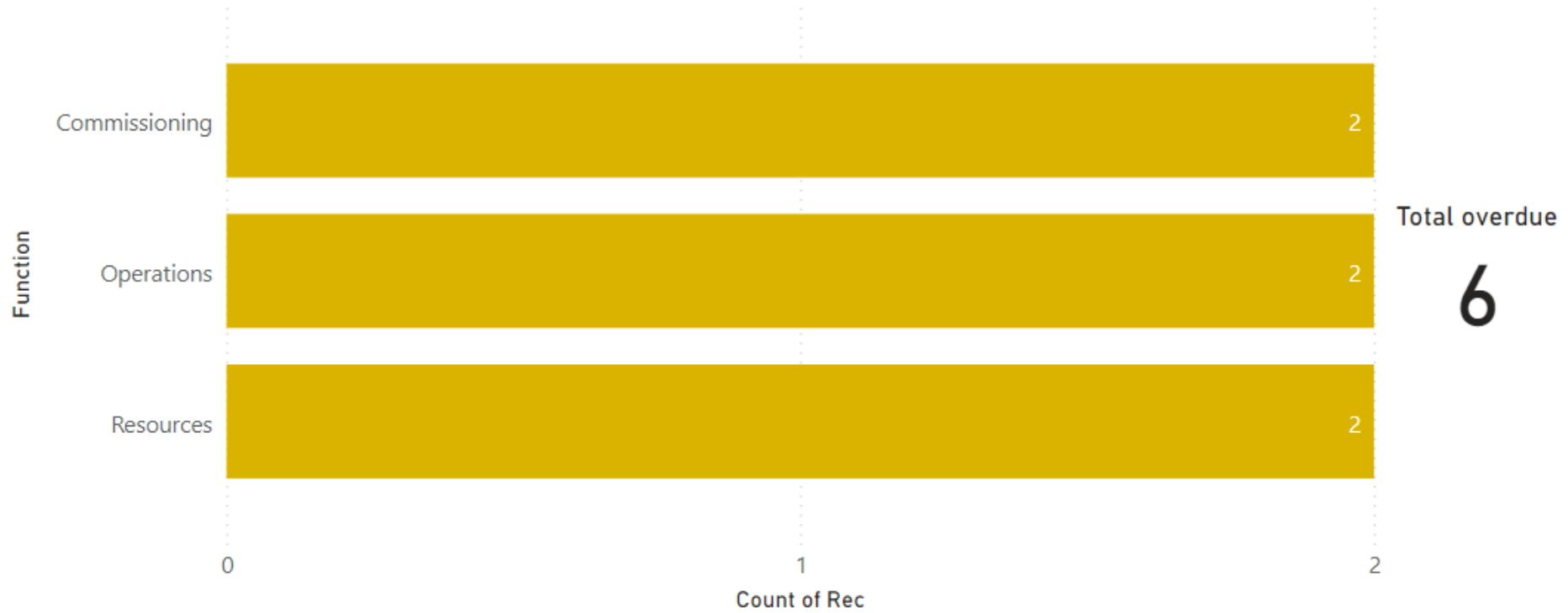
Function	1) Important	2) Significant	Total
Commissioning		3	3
Customer	1		1
Operations		2	2
Resources	1	3	4
Total	2	8	10

Function	a) Less than six months	b) Over six months	c) Over one year
Commissioning	1	2	
Customer			1
Operations		2	
Resources	2	2	
Total	3	6	1

4) Significant Overdue actions in excess of 6 months – Summary

Number of Significant recommendations overdue by more than 6 months by Function

Grading_ ● 2) Significant



Significant Overdue actions in excess of 6 months – Detail

Service	Report	Recommendation	Original Due date	Current due date	Committee Update		Times Extended
<p>Commissioning: Commercial & Procurement</p>	<p>AC2019 - Procurement Compliance</p>	<p>2.2.3a: All spend should be clearly linked, e.g. through consistent reference numbers and inclusion of approval details in the Contracts Register, back to a contract and its approval. (Significant within audited area)</p>	<p>Dec-20</p>	<p>Jun-21</p>	<p>Re recommendations 2.2.3a and 2.2.3b, initial work from the working group established by C&PSS/Finance has identified a method to link BOrganised records to the EFin system that will cover Catalogue and Punchout items only.</p> <p>In our work with Finance we’ve identified that there are a number of limitations in the Finance system and also limitations around the Feeder systems which means it is not possible to find a consistent approach to implement a methodology for spend out with a catalogue or punch out site, and would potentially involve updates to various systems at cost to the Council and require significant resource to implement as due to the way that systems are structured we would need to implement a number of different solutions to meet the recommendation.</p> <p>As an example we cannot report on the field in Pecos that a contract reference can be entered so cannot implement this as a solution via adding a Contract Reference to Purchase orders.</p> <p>We would wish to request that these recommendations are closed out on the basis of the solution identified to close out elements of contract spend, we will continue to work with Finance but a solution cannot be fully implemented to cover all contracts at present and may not be possible until there is a change in Finance system.</p>	<p>Awaiting decision</p>	<p>2</p>

Service	Report	Recommendation	Original Due date	Current due date	Committee Update		Times Extended
<p>Commissioning: Commercial & Procurement</p>	<p>AC2019 - Procurement Compliance</p>	<p>2.2.3b: A clear and consistent method of recording contract details against each payment should be developed and implemented. (Significant within audited area)</p>	<p>Dec-20</p>	<p>Jun-21</p>	<p>Re recommendations 2.2.3a and 2.2.3b, initial work from the working group established by C&PSS/Finance has identified a method to link BOrganised records to the EFin system that will cover Catalogue and Punchout items only.</p> <p>In our work with Finance we've identified that there are a number of limitations in the Finance system and also limitations around the Feeder systems which means it is not possible to find a consistent approach to implement a methodology for spend out with a catalogue or punch out site, and would potentially involve updates to various systems at cost to the Council and require significant resource to implement as due to the way that systems are structured we would need to implement a number of different solutions to meet the recommendation.</p> <p>As an example we cannot report on the field in Pecos that a contract reference can be entered so cannot implement this as a solution via adding a Contract Reference to Purchase orders.</p> <p>We would wish to request that these recommendations are closed out on the basis of the solution identified to close out elements of contract spend, we will continue to work with Finance but a solution cannot be fully implemented to cover all contracts at present and may not be possible until there is a change in Finance system.</p>	<p>Awaiting decision</p>	<p>2</p>

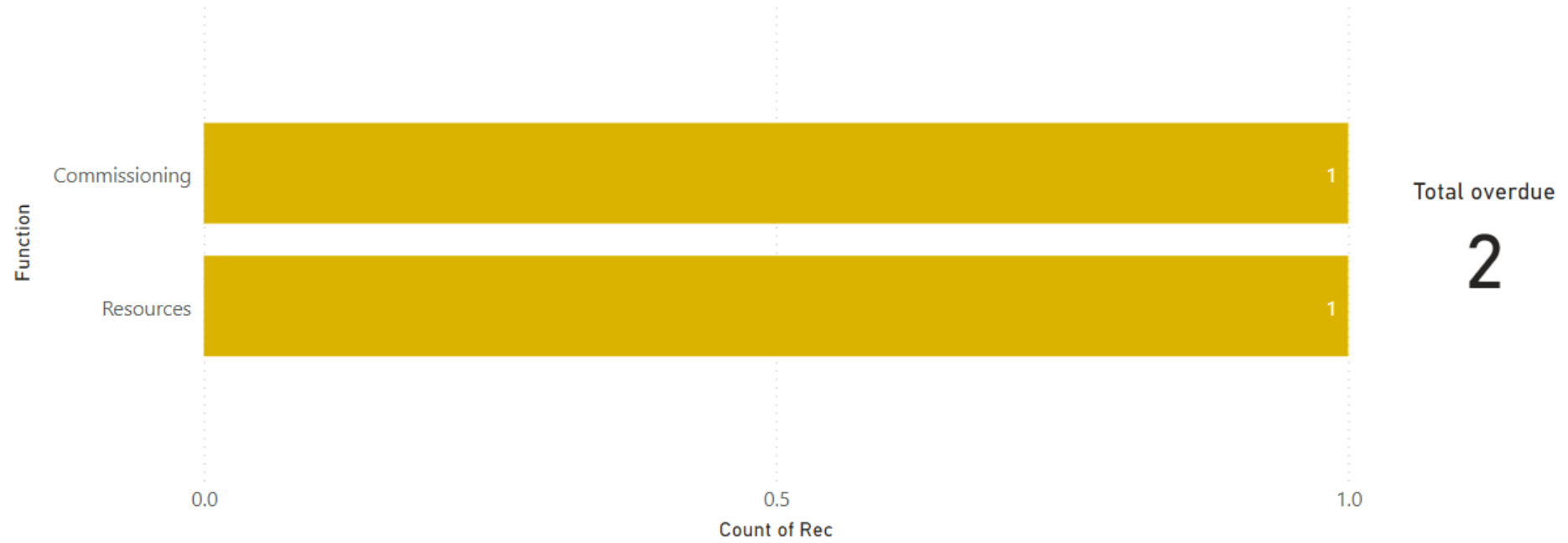
Service	Report	Recommendation	Original Due date	Current due date	Committee Update		Times Extended
Operations: Integrated Children's and Family Services	AC2021 - SEEMIS	2.4.10b: Required Data Sharing Agreements will be developed where not in place. (Significant within audited area)	Sep-20	Dec-21	<p>The Service last noted that this is progressing but as it involves a number of partners with whom there are ongoing discussions regarding data sharing arrangements this has been delayed and would now be completed by March 2021.</p> <p>Work continues to put this in place, however it has not progressed as quickly as hoped. Completion is now anticipated by the end of December 2021.</p> <p>Data sharing agreements are in place with key partners – two remain to be resolved and are being progressed.</p>	In progress	3
Operations: Operations and Protective Services	AC2013 - School Catering Income & Procurement	2.4.4: The Service should work with Commercial and Procurement Services to progress the tendering process for a cashless catering contract. (Significant within audited area)	Dec-20	Oct-21	<p>The Service has advised that the current contract license has been extended to October 2021 pending review in conjunction with Digital and Technology, Commissioning, and Scotland Excel, to determine the most advantageous route to market for the system replacement.</p> <p>Catering and Commercial and Procurement Service colleagues are engaged with Scotland Excel on the development of an online school payments framework. One of the lots which will be part of this framework is for Cashless Catering and Kitchen Management systems. It is expected that this framework will go live in Autumn 2021</p>	In progress	4

Service	Report	Recommendation	Original Due date	Current due date	Committee Update		Times Extended
Resources: Finance	AC2009 Travel Policy	- 2.4.4b: Ensuring value for money with the Travel Partnering arrangements and other significant supplies will be incorporated into the procurement compliance review (Significant within audited area)	Dec-20	Dec-21	<p>There are now more extensive checks and quotations in place through the updated process and with the commissioning intentions annual cycle this will be addressed as part of business as usual.</p> <p>The travel partnering review has been deferred due to Covid. It was considered that we should see what the travel footprint looked like post-Covid more closely before re-procuring travel arrangements. This will be completed by December 2021.</p>	In progress	1
Resources: Finance	AC2009 Travel Policy	- 2.4.6: The Council should ensure that action is taken to comply with its Procurement Regulations in respect of travel related expenditure (Significant within audited area)	Dec-20	Mar-22	<p>There are now more extensive checks and quotations in place through the updated process and with the commissioning intentions annual cycle this will be addressed as part of business as usual.</p> <p>The procurement compliance review has been deferred due to Covid. A revised date of July 2021 was proposed.</p> <p>After ongoing resource prioritisation to other activities and lower levels of travel the recommendation remains outstanding. Looking forward the Chief Officer confirms that the date for addressing this recommendation should be March 2022. The team has engaged with the Commercial & Procurement Service to ensure that the appropriate actions are taken to achieve this.</p>	In progress	2

5) Significant Overdue actions less than 6 months – Summary

Number of recommendations overdue by less than 6 months by Function and Grading

Grading_ ● 2) Significant



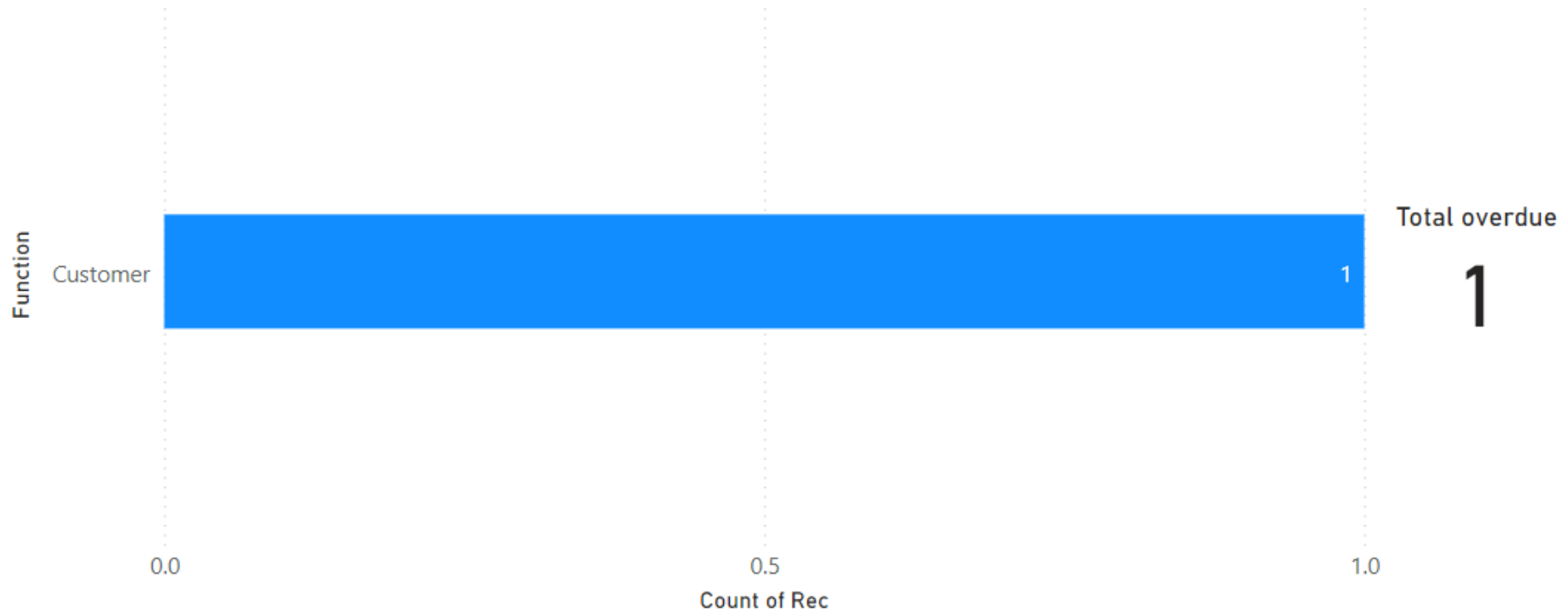
Significant Overdue actions less than 6 months – Detail

Service	Report	Recommendation	Original Due date	Current due date	Committee Update		Times Extended
Commissioning: Governance	AC2014 - Civil Contingencies	2.5.4: Further development of the resilience plans detailed above should be scheduled, taking account of existing multi-agency plans. (Significant within audited area)	Jul-21	Dec-21	To be completed by December 2021 due to on-going requirements for resilience support to the organisation and Local Resilience Partnership. Gaps are well understood but not fully scheduled.	In progress	1
Resources: Corporate Landlord	AC2017 - Industrial & Commercial Properties	2.2.2: The Service should update the Property Estates Strategy. (Significant within audited area)	Apr-21	Jul-23	An extension to the April 2021 implementation date has been given until July 2023 to allow the Property Strategy to be determined when post covid 19 market conditions and needs are clearer.	In progress	1

6) Important Overdue actions in excess of 6 months – Summary

Number of Important recommendations overdue by more than 6 months by Function

Grading_ ● 1) Important



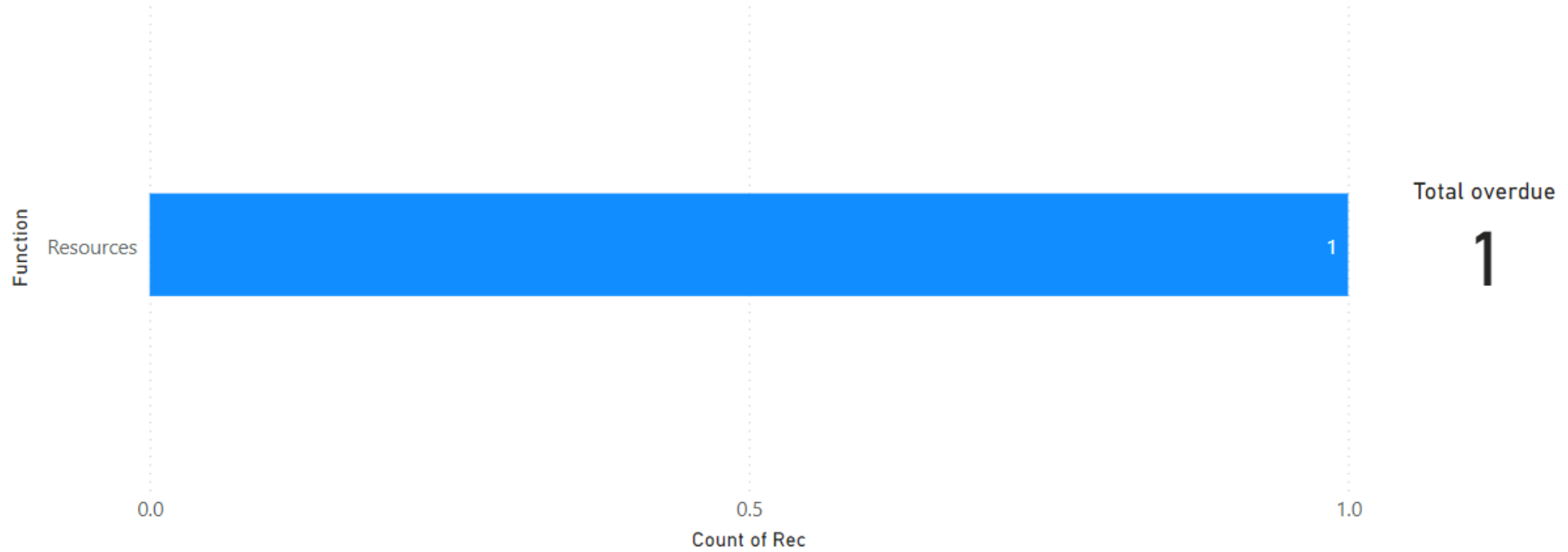
Important Overdue actions in excess of 6 months – Detail

Service	Report	Recommendation	Original Due date	Current due date	Committee Update		Times Extended
Customer: Finance	AC2012 - Cash Collection Offices	2.9.2b: The Chief Officer – Finance in consultation with the Chief Officer – Corporate Landlord will review the inventory arrangements outlined within the Financial Regulations and design a new process for the management of inventories. (Important within audited area)	Jun-20	Mar-22	<p>The Committee was last advised that the inventory arrangements were updated in the Financial Regulations updated in March 2020 that set the principles for the new process. Due to other priorities in the Finance Cluster as a result of Covid, this process has been delayed. In addition, managing inventory during the pandemic with significant changes for staff in their operational places of work has required reconsideration of the process. It was proposed that the action completion date is moved to March 2021.</p> <p>It was subsequently proposed that the action completion date is moved to June 2021.</p> <p>Prioritisation of this action will be changed to ensure a procedure is in place for the end of the financial year, March 2022</p>	In progress	3

7) Important Overdue actions less than 6 months – Summary

Number of recommendations overdue by less than 6 months by Function and Grading

Grading_ ● 1) Important



Important Overdue actions less than 6 months – Detail

Service	Report	Recommendation	Original Due date	Current due date	Committee Update		Times Extended
Resources: Corporate Landlord	AC2017 - Industrial & Commercial Properties	2.2.14: The Service should consider whether different approaches to property management could be applied across parts of the Investment Portfolio which might increase Portfolio income and deliver Portfolio objectives more efficiently and effectively. (Important within audited area)	Apr-21	Dec-21	An Extension has been requested until December 2021 to allow the Service to take forward the review of the commercial estate as part of Transformational Board activities under more settled market conditions.	In progress	1

APPENDIX B

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 / within audited area	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. Financial Regulations have been consistently breached.
Significant within audited area	Addressing this issue will enhance internal controls. An element of control is missing or only partial in nature. The existence of the weakness identified has an impact on a system's adequacy and effectiveness. Financial Regulations have been breached.
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.