



Internal Audit

Audit, Risk and Scrutiny Committee Internal Audit Update Report May 2023

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1 Executive Summary

1.1 Introduction and background

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

This report advises the ARS Committee of Internal Audit's work since the last update. Details are provided of the progress against the approved 2022-23 Internal Audit plan, audit recommendations follow up, and other relevant matters for the Committee to be aware of.

1.2 Highlights

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

- Four reports have been finalised.
- Two audits are currently in progress.
- Three audit recommendations have been closed.

1.3 Action requested of the ARS Committee

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

2 Internal Audit Progress

2.1 2022-23 Audits

Service	Audit Area	Position
Commissioning	Contract management	Final audit report issued
Commissioning	ALEOs - Performance and Payments	Final audit report issued
HSCP	Adults with Incapacity (Management of funds)	Review in progress
Children's and Family Services	Scottish Milk and Healthy Snack Scheme	Final audit report issued
Resources	Corporate Asset Management	Review in progress
Resources	PVG & Disclosure Checks	Final audit report issued

2.2 Audit reports presented to this Committee

Report Title	Assurance Year	Conclusion
AC2306 – Arm's Length Organisations (ALEOs) - Performance and Payments	2022-23	<p>The level of net risk is assessed MODERATE, with the control framework deemed to provide REASONABLE assurance over the Council's approach to ALEOs performance and payments, and the associated compliance with the Council's Following the Public Pound (FtPP) Code.</p> <p>The governance arrangements and compliance with Council FtPP requirements for the ALEOs is monitored by the ALEO Assurance Hub, covering relevant financial and operational risk considerations centrally for the five ALEOs reviewed. The Assurance Hub regularly reports to Audit, Risk and Scrutiny Committee on ALEO governance arrangements, risk management and financial stewardship. Furthermore, the performance of the ALEOs, with the exception of Aberdeen Heat and Power (AHP) Ltd, is reported annually to full Council, providing assurance over ALEO service delivery. In addition, annual payments were made in at least four instalments for all ALEOs reviewed in line with the FtPP Code.</p> <p>While the Council's control framework over ALEOs performance and payments is generally being applied adequately, some exceptions and areas for improvement were noted.</p> <p>In accordance with the Council's FtPP Code, a letter of agreement must be in place with ALEOs with detailed terms and conditions of funding; this was absent for AHP Ltd. In addition, there was no record of AHP Ltd on the Council's grants register and whilst it is positive the ALEO Assurance Hub has monitored AHP Ltd.'s Board meeting minutes, covering governance and financial matters, there was no annual performance report received for review as required by the Council's FtPP Code. Finance advised that the AHP Ltd funding was out of scope for FtPP. However, there is no entry on the Council's contracts register and no evidence of compliance with the Council's Procurement Regulations i.e. inclusion on an approved workplan and approval of associated business case. This</p>

Report Title	Assurance Year	Conclusion
		<p>increases the risk Best Value will not be achieved, and the Council could suffer reputational damage as a result.</p> <p>Other exceptions noted, were similar to those noted in Internal Audit review AC2303 Following the Public Pound, including instances of absent / partial supporting documentation, (one (20%) absent financial plan; and incomplete funding agreements for the four agreements in place, with omissions including descriptions of what Council policy / strategy funds are linked to (100%); one absent payment schedule (25%); three (75%) statements of consequences for failure to provide necessary performance reports to the Council; and three statements on the ability to deduct debts prior to making payments (75%). These factors reduce control over use of Council funds and increase the risk Best Value will not be achieved.</p> <p>Recommendations have already been made to improve FtPP compliance and address the majority of the above points as part of Internal Audit review AC2303 Following the Public Pound. Recommendations have also been made as part of this review to formalise contractual key performance monitoring arrangements for AHP Ltd; and to ensure all FtPP funding agreement requirements are met.</p>
AC2310 – PVG & Disclosure Checks	2022-23	<p>The level of net risk is assessed as MODERATE with the control framework deemed to provide REASONABLE assurance over the Council's approach to PVG and disclosure checks.</p> <p>Within the Council there is a dedicated HR Service Centre team who are responsible for assisting recruiting managers and processing Disclosure Scotland applications and a dedicated Talent team providing advice and guidance both to the HR Service Centre and to recruiting managers. Corporate Recruitment & Selection guidance for managers adequately specifies the need for recruiting managers to identify necessary checks. At the point of requesting approval to advertise a vacancy on TalentLink, recruiting managers are asked to note the level of check required for the role. Furthermore, a checklist-based system is in place for the HR Service Centre team to ensure that the appropriate level of Disclosure Scotland check is identified and undertaken for a particular role.</p> <p>Other than PVGs for work with vulnerable individuals, a basic disclosure check for Chief Officers has been required since 2018. This check has been undertaken on Chief Officers recruited since this date. In addition, standard disclosure checks are also required for certain professionals, including accountants and solicitors and have 53 been completed on current employees.</p> <p>However, the review identified some control weaknesses that should be addressed by management, including: Checks, post classification, exception reporting, and unclear checks. These exceptions increase the risk that checks will not be undertaken where necessary or completed inappropriately, risking operational, compliance</p>

Report Title	Assurance Year	Conclusion
		<p>and financial penalties for the Council as well as reputational damage.</p> <p>Recommendations have been made to address identified control weaknesses, including formalising check requirements for posts and the outcomes for unclear checks; recording post requirements; and establishing a system of exception reporting for missing checks to ensure these are investigated and resolved.</p>
AC2312 - Scottish Milk and Healthy Snack Scheme	2022-23	<p>The level of net risk is assessed as MODERATE, with the control framework deemed to be providing REASONABLE assurance over the Council's approach to the Scottish Milk and Healthy Snack Scheme.</p> <p>Setting registrations for the scheme are adequately controlled by the Early Years team using a Firmstep Forms based registration system, which establishes the necessary information, including Care Inspectorate service number details, as well as the necessary serving data.</p> <p>The registration process requires the submission of the Care Inspectorate registration certificate, and this was present for all the registered providers.</p> <p>Calculations to arrive at the payments to be made using the data submitted were tested for the period 1 August 2021 to 28 February 2023 and with the exception of one minor difference any variations could be supported by the Early Years team.</p> <p>Submission of the required returns to the Scottish Government with the details of the registered settings both external and internal along with the number of eligible children were undertaken on time. The submission of the year one figures resulted in an extra grant contribution from the Scottish Government of £18k due to higher numbers than had been used by the Scottish Government to arrive at the year one grant.</p> <p>However, the review identified areas for improvement where enhancements could be made to strengthen the framework of control, specifically: Written Procedures, Timely Payments, Monitoring, and Reconciliation of Scottish Government Grant to Actual Entitlement.</p> <p>Recommendations have been made to address the above points, including formalising written procedures; reviewing in-year registration processes to ensure timely payment, introducing a system of risk based on-site monitoring and establishing a system of funding / payment reconciliation based on actual servings to ensure internal setting recoveries are accurate and any Scottish Government funding owed is recovered.</p>
AC2307 – Contract Management	2022-23	<p>The level of net risk is assessed as MODERATE, with the control framework deemed to provide REASONABLE assurance over the Council's approach to Contract Management.</p>

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		<p>A variety of types of contracts are used by the Council, which derive from adopted frameworks, call offs from these, direct awards, and individual tenders. Contracts vary significantly in value and are managed to varying degrees by contract managers at a Cluster level, by CPSS and by framework providers such as Scotland Excel. A dedicated team within CPSS manages almost 150 Social Care contracts with a total value of £606m, £125m of which relates to the 2022/23 financial year, the Social Care team also manage four Scotland Excel Frameworks with a total value of £84M, £21M of which relates to the 2022/23 financial year. Other Services within the Council call off from an additional 47 Scotland Excel frameworks with a total spend of £10m in 2022/23, there are also a number of frameworks in use hosted by other framework providers for example Scottish Government or Crown Commercial Services.</p> <p>The remaining contracts 451 (including all contracts for Capital projects) with an annual value of £462m are devolved to varying degrees to procuring Functions. CPSS has developed a Contract Management Framework to support the administration of procurement, record keeping and performance monitoring, which provides for a consistent and transparent approach to social care contract management. Although there are too many variables to establish a one-size-fits-all procedure for where contract management is more devolved, CPSS intends to issue refreshed guidance in 2023 that includes resources that have the potential to improve consistency and transparency. This should increase assurance regarding compliance and the effectiveness of contract management regardless of the level of support CPSS provides. The framework adoption report has recently been updated to include a section on contract management and a revised version added to the Procurement Manual. This is intended to ensure that roles & responsibilities for Contract Management are considered at the adoption stage of any framework agreement.</p> <p>This review looked at a series of contracts across different Functions and although many findings relate to where management are largely responsible for elements of contract management, the findings and recommendations have been focused on Contract Management in general so as to provide the greatest level of assurance and benefit on the whole. Recommendations have been made across six key areas: Training and Guidance, Consistency of Practice, Best Practice and Sharing the Learning, Ownership of Contracts and Escalation, Contract Management Records, and Assurance Reporting.</p> <p>Where contract management responsibility and basic contract management principles and procedure are unclear or not applied, risks to service quality, sustainability and the Council's reputation are increased.</p>

2.3 Follow up of audit recommendations

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

As at 28 February 2023 (the baseline for our exercise), three audit recommendations were due and outstanding:

- Two rated as Moderate
- One rated as Minor

As part of the audit recommendations follow up exercise, all three audit recommendations were closed.

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

3 Appendix 1 – Grading of Recommendations

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

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

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