

# *Aberdeen City Council*

Internal audit – Summary of findings

## **Report to Audit and Risk Committee – 20 September 2011**

Internal Audit  
Aberdeen City Council  
**September 2011**

*FINAL REPORT*

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**Statement of responsibility**  
This report, which covers the findings of our review, has been prepared solely for Aberdeen City Council (ACC) in accordance with the terms and conditions set out in our engagement contract with ACC. We do not accept or assume any liability or duty of care for any other purpose or to any other party. This report should not be disclosed to any third party, quoted or referred to without our prior written consent.

# Section 1 – Introduction

## Background

- 1.01 The assurance you receive through the internal audit programme is a key component of your overall governance framework, ultimately reflected in the Statement on Corporate Governance presented in the annual financial statements. The purpose of this report is to highlight the key findings arising from the Internal Audit work completed since the last Audit and Risk Committee.

## Internal Audit Activity

- 1.02 Our overall approach to internal audit is to deliver challenge and support across the continuum from value protection (where we primarily provide assurance by protecting the current position) to value enhancement (where we add value with forward looking reviews).

## ***Completed reviews (reports with management comments finalised)***

- 1.03 Since the last Audit & Risk Committee meeting we have finalised the following reviews and agreed detailed action plans with management to address the recommendations made.
- Schools - Financial and Performance Management & Procurement (Education, Culture & Sport);
  - Community Centres (Education, Culture & Sport);
  - Payroll (Corporate Governance);
  - Pension Payments (Corporate Governance);
  - Trading Accounts (Housing and Environmental Services);

- Car Parking (Enterprise, Planning & Infrastructure Service); and
- Roads Maintenance (Enterprise, Planning & Infrastructure Service).

- 1.04 Within the report we have sent out in detail the high priority findings and recommendations and summarised the management action in relation to those recommendations categorised as being of high and medium priority.

## ***Fieldwork complete (draft reports in progress)***

- 1.05 In terms of current work in progress, we have completed our fieldwork in the following areas and are in the process of finalising draft reports with a view to issuing these for management comment and response:

- Contract Management/Procurement (Corporate Governance/Social Care & Wellbeing Service);
- Business Continuity Planning (Corporate Governance);
- Children Requiring Additional Support for Learning Needs (Social Care & Wellbeing Service);
- Common Good Fund (Corporate Governance);
- Creditors (Corporate Governance); and
- Staff Recruitment and Induction Procedures (Social Care & Wellbeing Service).

- 1.06 We plan to report the key findings from the above reports at the November Audit and Risk Committee.

# Section 2 – Schools – Financial and Performance Management

Report classification					
N/a – 2010/11 report					
Number of Findings					
Critical	High	Medium	Low	Advisory	Total
-	-	8	1		9

## Background

### Devolved and non-devolved budgets

- 2.01 Schools in Aberdeen City Council (ACC) are allocated a devolved budget for which the head teacher is responsible for its management using information from the Collaborative Planning system (CP). Schools are permitted to carry forward up to 2.5% of any budget under-spend to the following financial year with the full amount of any budget over-spend carried forward. The main categories of expenditure included in a school's devolved budgets are:

<b>Staffing</b>	Promoted and un-promoted teaching staff
<b>Premises</b>	Tenants Repairs
	Fuel, gas and electricity
<b>Supplies and Services</b>	Traditional per capita (covers expenditure such as administration, books, equipment)

- 2.02 Non-devolved budgets are allocated to each school with the main categories of expenditure being:

<b>Staffing</b>	Pupil Support Assistants, Janitors and Teachers Long Term absence cover > 10 days
<b>Premises</b>	Rates, landlord repairs, cleaning and refuse collection
<b>Transport</b>	Hire of external vehicles
<b>Supplies and Services</b>	Exam fees, catering, and equipment
<b>Capital Financing Costs</b>	Repayment instalments and interest
<b>Miscellaneous</b>	Various small expenditure items

- 2.03 Although the charges for non-devolved budgets are allocated directly to schools, the head teacher is not accountable for monitoring such costs which are the responsibility of officers in other areas of the Council. For example, the non-devolved transport budget for the hire of external vehicles is the responsibility of ACC's Public Transport Unit.

## **Collaborative Planning**

- 2.04 Collaborative Planning (CP) was introduced in schools during the financial year 2010/11 and is used by service and finance staff for budget monitoring. Financial information is downloaded from efinancials to CP on a monthly basis. CP enables budget holders in schools to review actual spend against budget on a monthly basis and provides a forecast<sup>1</sup> outturn position which is used in reports submitted to the Education, Culture and Sport (EC&S) senior management team and EC&S Committee.

## **Procurement within schools**

- 2.05 An electronic procurement system, PECOS, is used within schools to raise orders for supplies and services and to subsequently record items received. Invoices are received centrally by the accounts payable section within ACC where invoice details are input to PECOS and are matched with items logged as ordered and received. If there are issues with invoices, such as items invoiced but not receipted in PECOS, the accounts payable section use a workflow system, Infosmart, to return payment documentation to the school for action.

## **Non-financial performance information**

- 2.06 Non-financial performance information regarding schools covering matters such as examination performance and attendance is prepared, assessed and compared against other schools. Data is initially captured by schools and recorded in a management information system, Phoenix. Such data is then subject to statistical analysis by ACC's Policy and Performance team to identify trends and profiles and indicate potential issues that require to be addressed. Following the statistical analysis work reports are issued to the EC&S senior management and EC&S Committee.

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<sup>1</sup> Budget holders are responsible for entering forecasts within CP in accordance with agreed timescales.

## Approach and Scope

2.07 The overall objective of our review was to assess the effectiveness of procedures regarding finance and performance management within schools. Our review involved specific consideration of the following matters:

- Procedures in place for notification of annual budget details to responsible officers within ACC, on a timely basis;
- Arrangements in schools for the management and monitoring of devolved budgets;
- Management and monitoring of non-devolved budgets;
- Monitoring financial performance against budget on a Service basis and reporting variances to the Education, Culture and Sport Committee;
- Allocation of cost centre responsibilities, adequacy of documented procedures, and training in use of systems to monitor budgets;
- Monitoring and reporting key non-financial performance data such as pupil absence levels, exclusions and examination performance; and
- Arrangements for ordering and receipt of supplies and services at Schools.

2.08 During our review we visited a sample of five schools, (as shown in the table opposite) and held meetings with the head teachers and the school administration teams. Our review also involved discussion with officers from ACC's Finance Service and the EC&S Service.

2.09 For the five schools visited details of actual spend against budget for the 2009/10 financial year is set out in the table below for information:

School	Actual (£m)	Budget (£m)	Variance (Under) / Overspend (£)	Devolved Variance (£)	Non-devolved Variance (£)
Oldmachar Academy	5.146	5.166	(20,000)	(43,000)	23,000
Torry Academy	3.498	3.338	160,000	(54,000)	214,000
Hazlewood Primary	1.757	1.514	243,000	34,000	209,000
Manor Park Primary	1.423	1.394	30,000	3,000	27,000
Bucksburn Academy	Not available as this is a new school which opened in February 2010				

## Summary of Findings

### Devolved budget management

2.10 During our review we noted that improvements have been made to the budget monitoring arrangements in place within schools since the last internal audit review. In particular we identified improvements in respect of the management of devolved budgets where head teachers monitor actual spend against budget through the use of the Collaborative Planning system. Further monitoring arrangements have also been implemented through monthly budget meetings, establishment of cost centre managers and review of monthly service budget reports by the EC&S senior management and the EC&S Committee.

### **Non devolved budget management**

- 2.11 Whilst notable improvements have been made in devolved budget management, the monitoring of non-devolved budgets is less developed and formalised. Management acknowledges this position and is already progressing plans to improve the robustness of the budget monitoring arrangements regarding non-devolved expenditure within schools. Proposed improvements include the devolvement of certain costs included within these budgets (for example costs relating to pupil support assistants, administration, technical and librarian staff) and transferring certain expenditure regarding premises costs to budgets held by officers within Enterprise, Planning and Infrastructure.

### **Supplies and Services**

- 2.12 During the past twelve months there have been significant changes regarding the ordering and receipt of supplies and processing of invoices. These changes have involved the introduction of an electronic ordering system called PECOS and the implementation of centralised processing of invoices. During our sample testing we identified some exceptions regarding raising orders and the authorisation and timing of payments to suppliers.

### **Recommendations**

- 2.13 No critical or high risk recommendations were noted during our review. However, we did identify a number of medium priority areas for management's consideration to further enhance EC&S arrangements. In particular, action plans have been agreed with management in respect of the following recommendations.

### **Carry Forward Balances**

- 2.14 In line with management's plans the Finance Manager will provide the head teacher of each school with details of their Devolved Education Management budget carry forward balances at the commencement of each academic year.

- 2.15 Should a delay in notifying schools of their budget occur in the future, as an interim measure the management team of each school will in conjunction with their designated Accountant work on an estimate of the carry forward balances until confirmation is received.

### **Staffing budget & payroll information**

- 2.16 Management will agree the composition of staff budgets with head teachers when pupil numbers have been determined. In line with standard procedure monthly information on paid employees will be submitted to the head teacher of each School.

### **School transport**

- 2.17 Management will ensure that realistic budgets are established which involve input from the schools who have knowledge of the needs of pupils attending the school.

### **Teachers Long Term Absence Cover**

- 2.18 Management will devolve supply teacher budgets to schools to improve monitoring and accountability for such expenditure.

### **Premises costs**

- 2.19 Consideration will be given to removing the budgets for premises from each School's cost centre to a central budget within EP&I.

### **Budget monitoring on a Service basis and reporting to committee**

- 2.20 The Service Managers, Head of Service, Head of Schools and Educational Establishments will now meet monthly with Quality Improvement Officers (QIOs) to discuss the monthly budget report. Details of any issues arising and actions required will be reviewed and discussed at the quarterly budget meetings with the QIOs, finance team and respective head teachers.



## **Training**

- 2.21 An assessment of the skills and knowledge of staff in schools will be undertaken with a view to providing training to bridge any skills gaps identified. Skills gaps remain in areas such as accessing information on commitments, use of Infosmart to understand status of supplier invoices, and using e-analyser to run queries. We will also consider including some aspects of financial management in induction training programmes for head teachers.

## **Arrangements for acquiring goods and services**

- 2.22 Management will consider preparing guidance to cover actions and responsibilities of staff for use of PECOS and Infomart and clarify the need for having two officers with PECOS authorisation rights at each school. The guidance will also emphasise that orders require to be completed for all goods and services.

## **Receipting goods and services**

- 2.23 Consideration will be given to the benefits of:
- Establishing a procedure to log receipt of orders requiring confirmation by faculty heads with follow-up after 5 days and thereafter escalation of the matter to the head teacher for action; and
  - Amending the PECOS order forms to show the contact party for invoice queries and the need to quote order numbers on invoices. This could be facilitated by setting out the details across the header of the PECOS order forms.

# Section 3 – Community Centres

Report classification					
N/a – 2010/11 report					
Number of Findings					
Critical	High	Medium	Low	Advisory	Total
-	3	2	-		5

## Background

- 3.01 There are 51 community centres in Aberdeen comprising 24 leased centres and 27 community learning and development centres (hereafter referred to as community learning centres).

## Leased Centres

- 3.02 Leased community centres operate from Council owned buildings and are managed by voluntary management committees who receive a development programme grant from ACC. In addition to the provision of a grant to the leased centres, ACC pays the utility bills and funds external repair and maintenance costs of the properties occupied by the centres. Leased centres are generally managed by a dedicated team of volunteers who develop a programme of activities with overall governance regarding the centres activities, financial, health & safety and legal matters overseen by a management committee. There is a standard constitution governing leased centres which covers the membership and objectives of the management committee and requires that the management committee meets on a regular basis.

## Community Learning Centres

- 3.03 In contrast to the arrangements for leased centres, community learning centres are staffed by ACC employees who deliver community learning and development activities in the centre building itself and also within the centre’s geographical catchment area.
- 3.04 Community learning centres in Aberdeen City Council (ACC) are allocated a budget to cover the planned costs of staffing, premises, supplies and services. A Principal Community Learning Worker (PCLW) is responsible for management of the community learning budget through use of efinancials and the Collaborative Planning system (introduced during financial year 2010/11). The PCLW is also responsible for ensuring that income generated from educational classes is properly accounted for and used to fund the wages of part-time workers.
- 3.05 All community learning centres have a constitution which requires the election of a management committee every three years and the holding of regular meetings to ensure governance over activities and finances. Induction training is provided to management committee members to cover their roles and responsibilities following the election of a new committee. These centres are required to deliver against three national priorities<sup>2</sup> and can be located in individual buildings or within schools. Separate community groups also operate within these centres providing a range of programmes which generate funds for the centres.

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<sup>2</sup> The three national priorities are adult learning, youth work, community learning and development activity.

### **Planned changes to status of centres**

- 3.06 The EC&S Committee approved a decision that all community learning centres will move to leased centre status by April 2012. In preparation for these changes, management within the EC&S Service are developing documentation to cover leased centres which will include an agreement to cover the lease of the building and also a separate management agreement regarding the Council's requirements for effective but proportionate governance, financial and operating procedures to be implemented at each centre.

### **Approach and Scope**

- 3.07 The overall objective of the review was to provide an independent evaluation of the governance, financial management and operation of community centres. Whilst our review covered the following specific matters it did not include detailed checking of financial records, cash transactions and balances or confirmation of the application of segregation of duties in the procurement of goods and services at each centre:

#### ***Governance***

- Review the effectiveness of the governance arrangements for Community Centres.

#### ***Financial Management***

- Evaluate the arrangements in Community Centres for financial management including setting and monitoring of budgets and preparing financial statements.

#### ***Planning and monitoring***

- Review planning and performance monitoring arrangements implemented by management committees in respect of meeting community and Council objectives (both financial and quality) and complying with statutory and legal requirements

#### ***Operating procedures***

- Evaluate the extent to which operating procedures are clearly documented, appropriate and subject to regular review.

- 3.08 We visited a sample of six community centres (3 community learning and 3 leased centres).

Community Learning Centres	Leased Centres
• Kaimhill	• Altens
• Northfield	• Balnagask
• Rosemount	• Inchgarth

- 3.09 During our visits we met with the Centre's officer and administration staff. Our review also involved discussion with officers from the Council's Finance Service and the Education, Culture and Sport Service.

### **Summary of Findings**

- 3.10 Following the decision regarding changes to the planned status of centres, management of the EC&S service are in the process of developing documentation to cover the leased centres. This documentation will include a lease agreement in respect of the centre building and also a separate management agreement governing the financial and operating procedures of each centre. This is intended to provide a clear framework within which the centres and Council can operate to secure sustainable benefits for the community.
- 3.11 Whilst no critical risk findings were identified the following three high priority recommendations were raised as part of this review.

### **Management committees**

3.12 Management committees are important to enable the discharge of effective governance within the centres. During our review we noted the following:

#### ***Community learning centres***

- Rosemount Centre had difficulty obtaining a quorum due to a small committee membership and Northfield Centre had not established a committee for four years.

#### ***Leased centres***

- The manager of the three centres visited was also the Chairperson of the management committee which does not facilitate independent governance arrangements.
- Induction training is not provided to management committee members to cover their roles and responsibilities.
- Whilst Inchgarth centre had a policy to cover authorisation levels for spend on goods and services, the other two centres visited (Altens and Balnagask) had no policy.

#### ***Agreed action***

A revised constitution will be developed for community centres which will include provision for matters such as:

- The way in which the management committee will work jointly with ACC to ensure appropriate quality arrangements, effective utilisation of the centre and that the centre delivers the desired impact as reflected in the Combined Community Plan and Single Outcome Agreement.
- Ensuring the roles of management committee chairperson and centre manager are held by different persons and that the local councillor and youth members are prohibited from holding committee office bearer posts.
- Induction training and support to committee members to facilitate understanding of their responsibilities and ensure they can discharge their governance duties effectively.
- Establishing policies to cover matters such as the authorisation levels of staff and volunteers for procuring goods and services, including the involvement of management committees for approving spend over a certain threshold.

#### ***Responsible person/title***

Service Manager, Communities

#### ***Target date***

30/09/11

## Lease agreements

- 3.13 Lease agreements to cover the Council owned buildings that centres operate from are outdated and do not reflect current operating circumstances.

### **Agreed action**

In accordance with management's plans, a revised lease agreement will be prepared to cover the terms and conditions for use of the Council owned building the centres operate from.

The agreement should include, amongst other matters, the specific use which can be made of each building as well as obligations for payment of premises related costs, compliance with health and safety and other statutory legislation.

### **Responsible person/title**

Service Manager, Communities

### **Target date**

30/09/11

## Management Agreement

- 3.14 We identified that there was a lack of formal arrangements in place to provide a basis to agree and monitor the activities of each centre and ensure that the Council's requirements, as well as those of the community are met. Key matters identified during our review included:

- Lack of formal arrangements for agreeing plans and monitoring the financial and operating performance and activities of the centres.
- Although leased centres submit annual financial statements (unaudited) to ACC there are no formal arrangements for an independent review of these statements or periodic review of the arrangements implemented to record transactions, safeguard cash and manage budgets.
- The need to formalise arrangements which demonstrate compliance with statutory requirements such as HMIE inspections, health and safety requirements and PVG disclosure checks.
- No formal operating procedures guidance established for centres.

### **Agreed action**

A revised management agreement will be prepared to cover the responsibilities and obligations of leased centres. The agreement will include clauses for the following matters:

- A mechanism to facilitate ongoing communication between ACC and the management committee in relation to reviewing the requirements for financial and non-financial support as necessary. This could include the appointment of a Council Officer to provide support.
- Preparation of an annual business plan by each centre covering activities, objectives, and budgets with this subject to review and approval by the Council.
- ACC's right to periodically visit centres or appoint independent auditors to assess financial procedures and check use of funds.
- Training of centre staff to enable the discharge of responsibilities for statutory requirements including criminal disclosure checks, health and safety and HMIE;
- The extent to which the recipient should establish formal records, operating procedures and risk management arrangements.
- Preparation of annual financial statements by a qualified accountant and their submission to the Council for review.
- Clearly defined educational requirements for those centres which have a connection to education.
- The Council's right to change or amend funding / service agreements with centres
- A clause governing the ownership of funds held by centres and how such funds would be managed in the event of a change in the status of the leased centre (e.g. merger with other centre).

### **Responsible person/title**

- Service Manager, Communities

### **Target date**

- 30/09/11

## Cash Management Arrangements

3.16 At certain lease centres we noted:

- that significant cash balances were held by certain centres before being banked; and
- significant balances are held in non-interest bearing accounts

### **Agreed action**

In order to ensure that appropriate cash management arrangements are implemented we will work with Community Centres to establish procedures which will:

- Place a cap on the level of physical cash which can be held on-site at centres before being banked
- Ensure cash is banked on a regular basis e.g. weekly or more frequently;
- Ensure cash is appropriately secured at all times e.g. safe keys appropriately safeguarded; and
- Promote segregation of duties and introduce formal arrangements for regular bank/cash reconciliations.

In respect of maximising benefit from cash deposits, we will review options for the provision of interest bearing accounts and how these could be implemented to enable cash deposits to earn interest whilst ensuring cash remains available to management committees for re-investment.

### **Responsible person/title**

Service Manager, Communities

### **Target date**

30/09/11

3.17 In addition to the above high risk findings we identified a number of medium risk findings where improvements could be made to further strengthen existing processes and controls. These medium priority findings which have been accepted by management and a corresponding action plan agreed are set out below:

### **Procurement and ensuring best value arrangements**

3.19 Management will consider how best to provide support and advice to leased centres on the arrangements for achieving lowest prices and quality when procuring goods and services.

### **Number of community centres**

3.20 Consideration will be given to undertaking a review of the community centre coverage within Aberdeen City and whether the current arrangements meet both community need and the requirement for the Council to demonstrate effective use of resources.

<b>Council</b>	<b>Number of Centres</b>	<b>Population</b>	<b>Number of Citizens / Community Centre</b>
Dundee City Council	8	143,000	17,875
Aberdeenshire Council	17	243,510	14,324
Glasgow City Council	42	580,000	13,809
Aberdeen City Council	51	210,000	4,118

# Section 4 – Payroll

Report classification					
Medium risk					
Number of Findings					
Critical	High	Medium	Low	Advisory	Total
-	-	5	1		6

## Background

- 4.01 Salary payments represent a significant proportion of the total operating costs of ACC, amounting to £211 million<sup>3</sup> for the 2010/11 financial year. Given the volume and value of transactions processed on a regular basis it is essential that there is an effective control environment and clarity over roles and responsibilities between service line managers, human resources staff and the HRSC.
- 4.02 The Payroll computer system (PSe) is used to record employee details and to process all payments and deductions. The system incorporates a flexible reporting facility which can provide information for Corporate and Service management.

- 4.03 Line managers within each of the ACC services have the key responsibility for ensuring that all information passed to the HR Service Centre (HRSC)<sup>4</sup> is checked for completeness and accuracy and is provided without undue delay. For example overtime claims are processed by the HRSC on the basis of information provided by the Service departments; the HRSC does not have the staff resources to carry out detailed checks on the arithmetical correctness of overtime forms or verifying the use of correct rates. This responsibility rests solely with the line manager approving the claim.

## Update on shared service facility

- 4.04 When the former staffing sections for each service were relocated to the HRSC<sup>5</sup> in August 2010 they initially continued to operate in support of their individual services. As of May 2011 these teams have now been reorganised into functional groups covering:
- Enquiries handling;
  - Recruitment processing;
  - Absence handling (all types of leave and absence);
  - Employee Lifecycle (all other changes to employee details including termination of service); and
  - Restructures/gradings (project development team addressing current issues which may become permanent).

<sup>4</sup> The HRSC is responsible for the maintenance of employee records and all processing necessary to pay employees, make statutory and voluntary deductions from pay, and forward deductions to relevant parties, e.g. income tax payments to HM Revenue & Customs.

<sup>5</sup> The HRSC office is based on the 3<sup>rd</sup> floor of the AECC office accommodation

<sup>3</sup> This figure is exclusive of superannuation and national insurance payments

## Approach and Scope

4.05 We reviewed the design and operating effectiveness of key controls in place relating to payroll processing, with particular focus on the arrangements in place within individual Services to approve any adjustments to payroll information, to appoint or remove staff, and to monitor overall pay costs.

4.06 As part of this review we specifically considered the following sub-processes and related control objectives:

### ***Adjustments to payroll information***

- All changes approved by employee's line manager
- All changes to bank details verified with employee
- Exception reports on amendments reviewed by Service management
- Changes processed without undue delay

### ***Starters and Leavers***

- Filling of post has been authorised
- All pre employment checks carried out and recorded
- Employee placed on correct point on pay scale
- Timely notification given to staffing section of starters and leavers

### ***Pay cost monitoring***

- Management monitor payroll costs against budget and investigate any variances
- Management review overtime reports and investigate any unexpected or exceptional payments
- All timesheets and overtime claims are completed correctly

4.07 Our audit approach involved obtaining an understanding of the process through discussions with key personnel, review of systems documentation and walkthrough tests where appropriate. We identified the key risks and evaluated the design of the controls in place to address the key risks. Where appropriate we also tested the operating effectiveness of a sample of key controls.

4.08 The scope of this review did not involve any testing in respect of the EC&S Service, as a separate payroll review is planned to be carried out within this service as part of the 2011/12 internal audit programme.

### **Sample sizes used during our review**

4.09 During the course of this review we carried out tests on new starts, leavers and changes to employee details in order to determine whether all necessary documentation had been obtained, whether the PSe system had been updated correctly in a timely manner, and whether all necessary authorisations had been provided and recorded. We tested 15 new starts, 15 leavers and 30 changes to employee details (total sample size for this review of 60), from Services<sup>6</sup> in proportion to the total volume of transactions processed during 2010/11.

## Summary of Findings

4.10 During our last internal audit review in November 2010 we identified a number of high priority areas for management's consideration.

4.11 Testing undertaken as part of this review has identified improvements regarding the processing of new starts, leavers and amendments to employee's data, with fewer issues being noted in comparison with our review in November 2010.

4.12 Whilst no critical or high risk findings were noted we identified a number of areas where existing controls could be enhanced. We have agreed an action plan with management in respect of the medium risk findings and these are summarised below.

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<sup>6</sup> Corporate Governance, Enterprise Planning & Infrastructure, Housing & Environment, Social Care & Wellbeing



### ***Employee Personnel Files***

- 4.13 Employee files are held mainly in paper or hard copy form. As a result it is important that there are appropriate controls in place to track such files and ensure that there is adequate security over the personal information and data held therein. During our sample testing, we are unable to locate 7 out of a sample of 45 employee files selected for review.
- 4.14 Management should ensure there are appropriate security arrangements over employee personnel files such as a simple library system (using a spreadsheet) to track who has withdrawn a file. All files should be returned to storage at the end of each day. A longer term solution would be an electronic records system to hold personnel files however we acknowledge such a solution could be costly and would need to be factored into the medium to long term plans to modernise corporate services across the Council.

### ***Compliance with procedures***

- 4.15 Whilst we identified fewer instances of non-compliance with ACC procedures in relation to starters and leavers, our review did note exceptions in relation to the evidencing of approval to recruit staff and timely notification of leavers to the HRSC by service managers.

### ***Delays in submission of changes to employee data***

- 4.16 Directorate Support managers (DSMs) will ensure that managers within their Services who are responsible for late submission of changes of employee details are identified from the error reports provided by the HRSC each month, and the importance of prompt submission of all changes is communicated to them.

### ***New starts***

- 4.17 DSMs should advise managers within their Services to ensure that authorisation to recruit is recorded within each new personnel file by retaining a copy of the Recruitment Advertising Business Justification Form (RABJF). The DSM for Social Care & Wellbeing will also remind staff dealing with recruitment that where Disclosure Scotland / Protecting Vulnerable Groups (PVG) certificates are required. These must be received and checked before employees commence work with ACC.

### ***Leavers***

- 4.18 DSMs will advise managers in their Services to notify the HRSC of leavers in a timely basis, to ensure that staff are not paid beyond their leaving date. We noted exceptions in 13% of our sample however this was an improvement from our previous leavers testing where a 57% exception rate was noted.

### ***Overtime claim forms***

- 4.19 The number of incorrect or incomplete overtime claims being processed continues to present an issue, particularly with regard to the Social Care & Wellbeing Service, which has a significantly higher proportion of complex claims which are more susceptible to errors. Whilst we note that there are plans to introduce electronic overtime forms as part of service modernisation, it is important in the interim that managers responsible for approving the current manual overtime forms are clear on their requirement to check the accuracy and validity of claims.
- 4.20 Management are considering the implementation of electronic submission of overtime claims as part of the planned project for data inputs to the Payroll system. Consideration will be given to automating totalling of entries on claims (including running totals of weekly hours worked), and automated authorisation of claims for payment. In the interim the DSM for the Social Care & Wellbeing Service may wish to consider issuing further detailed guidance to claimants covering the completion of overtime claims.

# Section 5 – Pension Payments

Report classification					
Low risk					
Number of Findings					
Critical	High	Medium	Low	Advisory	Total
-	-	1	2	2	5

## Background

- 5.01 The pensions team within ACC are the administrators for bodies throughout the north east of Scotland, known as the North East Scotland Pension Fund (NESPF). The total number of pensionable employees within the pension fund as at 31<sup>st</sup> March 2011 was 21,388. Furthermore, total retirement pension payments of £67.6m and retirement allowances of £24.6m were paid in the year to 31 March 2011.
- 5.02 From a governance perspective the pensions team reports quarterly to two committees: ACC Pensions Panel and the Joint Investment Advisory Body. The Pensions Panel carries out a similar role to that of a trustee of a pension scheme. It is the key decision maker for all matters under the Local Government Pension Scheme Regulations covering benefits administration and investment management. The Joint Investment Advisory Body consists of 12 members, 4 elected members from Aberdeen City Council (members of the Pensions Panel), 4 elected members from Aberdeenshire Council, and 2 elected members from the Moray Council, 1 member representing the colleges and admitted bodies and 1 representative from Scottish Water. This Body has responsibility for monitoring the investment management of the Pension Fund.

5.03 The work of the pensions team is split between managing the investment activity (for which a recent internal audit review was undertaken in 2010/11) and the actual benefit payments themselves. A separate pension benefits team, within the pensions team, led by a benefits manager is responsible for the calculation of the pension payments. The benefits team uses the Axise<sup>7</sup> pensions system to maintain a record of each member's relevant pension documentation, such as new start forms and consent to defer pension benefits.

5.04 The Pension Section is responsible for processing the standard pension payments to pensioners through use of ACC's PSe<sup>8</sup> payroll system which are made on the 15<sup>th</sup> of each month. Any lump sum pension payment would be made through the creditors system; however with effect from 1 July 2011 all lump payments will be made through the PSe payroll system.

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<sup>7</sup> Axise is the pensions system which holds records of members relevant pension documentation.

<sup>8</sup> The PSe payroll system is used to process the monthly pension payments.

## Approach and scope

- 5.05 The overall objective was to review the controls implemented to ensure that correct payments are made only to bona fide pensioners and payments are made at the point of retirement. As part of this review we specifically considered the following sub-processes and related control objectives:

### ***Compliance with Regulations***

- Ensure appropriate procedures in place for complying with the terms of all relevant regulations, including The Local Government Pension Scheme (Benefits, Membership and Contributions) (Scotland) Regulations.

### ***Amendments to Standing Data***

- Ensure appropriate procedures implemented in order that amendments to standing data, such as new starts, leavers, transfers in and out of the scheme, retirees and death of pensioners are recorded timeously and accurately.
- Ensure appropriate procedures implemented in order that amendments are appropriately authorised as complete and accurate.

### ***Annual Benefit Notices***

Ensure annual benefit notices are accurate and are distributed to existing active members on a timely basis.

### ***Pension Payments***

- Ensure pension payments are only made to those members of the pension scheme entitled to receive such benefits and that payments made at point of retirement.
- Ensure appropriate procedures implemented in order that pension payments are complete and accurate.

- 5.06 Whilst we tested the timeliness of the annual benefit notices distributed to active members we did not confirm the accuracy of details contained within the annual benefit notices. This is due to calculations of the included figures being performed by the Axise system.

## Summary of findings

- 5.07 From our testing we generally found controls to be operating effectively to ensure that correct payments are made only to bona fide pensioners and payments are made at the point of retirement. We identified areas of good practice within the pension benefit payment process, such as the guidance available to staff on the ACC intranet which has been produced by the pensions team to ensure compliance with the Scottish Public Pensions Agency regulations. Other implemented controls which help ensure the effectiveness of the process relate to the use of a monthly tracing service (to identify pensioner deaths in a timely basis) and the checking of test payslips for new members within the scheme.
- 5.08 Whilst no critical or high risk findings were identified we identified the following medium risk finding which is summarised below. We have agreed an action plan with management in respect of this finding.
- 5.09 The pension benefit payment process involves the use of two independent IT systems (Axise and PSe). As the two systems are not fully integrated this can present a level of risk.
- 5.10 At present it is not feasible or cost effective to integrate the two systems. Management have however implemented compensating controls, such as test payslips for new starts and monthly payroll checks to help mitigate risk. In addition to the mitigating controls established, there is a planned upgrade of Axise to Altair which includes functionality to improve the integration between the two systems. A report will be presented to the September meeting of the Pensions Panel recommending that the planned upgrade includes the introduction of the Altair payroll system. This may allow the pension benefit and payroll systems to be integrated at a future date.

# Section 6 – Trading Accounts

Report classification					
High risk					
Number of Findings					
Critical	High	Medium	Low	Advisory	Total
-	-	6	-	-	6

## Background

- 6.01 The Trading Accounts currently in use within ACC date back to the days when there was a split between Client and Contractor Services. Under the arrangements then in place, the provision of most Council functions involving a significant manual labour component was carried out by a Contracting Services Department, which recharged its costs to the Client services who were responsible for specifying the work required. This structure was initially established to comply with the Compulsory Competitive tendering legislation.
- 6.02 Trading Accounts therefore form the basis for recharging costs to the client in accordance with contracts which were drawn up in the mid 1990s or earlier. Recharging under the trading accounts is carried out largely upon the basis of Schedules of Rates which have been subject to inflationary uplifts based on terms as specified in the original contracts.

## Recharging costs

- 6.03 The basis for recharging is historical and does not in all cases reflect the actual cost of providing the service. Furthermore the nature of some of the services themselves has changed considerably. For example the refuse service has changed from a weekly to an alternate weekly uplift of household waste; however there has been no corresponding change to the charges. We also noted that different charging schemes apply to the various Contractor Services delivered across the Council. Where a function of the Council is recharged to a client service on a basis other than actual cost, there remains an obligation to maintain statutory trading accounts and for the contracting operation to make a surplus over a 3 year rolling period. We understand the historic charges were initially designed to ensure that Contractor Services achieved a surplus.

## Review of trading services across ACC

- 6.04 A report was made to the Finance & Resources Committee in May 2010 which acknowledged many of the issues outlined above, and proposed that operations which were recharging other areas of the Council on an actual cost basis may no longer require to be classed as Trading Services provided Best value can be demonstrated. Council Catering and Building Cleaning Services were reclassified from Trading Services to General Services at that time. A review to determine which other Trading Services could be reclassified is ongoing. The review which is being led by the finance department is working closely with the individual service operations that will have the lead role in determining appropriate charging schemes for recovery of their actual costs.

6.05 As at June 2011, Trading Accounts remain in place for the following ACC activities:

- Building Maintenance
- Car Parking
- Environmental Services (Refuse Collection, Street sweeping and Grounds maintenance)
- Property Letting
- Road Services
- Vehicle Maintenance

### **Approach and Scope**

6.06 We reviewed the processes, procedures and controls implemented in relation to trading accounts (within Environmental Services initially) to consider whether trading accounts are effective in supporting management to monitor costs and recover income in line with the Council's charging arrangements. As part of this review we specifically considered the following sub-processes and related control objectives:

#### ***Review of current Trading Accounts***

- Obtain an understanding of the current trading accounts in existence within Environmental Services.
- Consider the effectiveness of the procedures and controls implemented in relation to usage of the trading accounts within Environmental Services

#### ***Managing costs and income***

- Consider the effectiveness of trading accounts in supporting Environmental Services management to monitor costs (such as the full costs of service delivery, maintenance of assets) and recover income.
- Consider the effectiveness of the current trading accounts in providing information for management which is fit for purpose.

### **Summary of Findings**

6.07 No critical findings or high risk findings were identified during our review although we identified a number of medium risk recommendations which are summarised below. All findings have been agreed by management and an action plan agreed.

#### **Review of Trading Accounts (Environmental Services) – control design**

6.08 The Trading Accounts in use within Environmental Services (in the Housing & Environment Directorate) were originally established under Compulsory Competitive Tendering (CCT) legislation which is no longer applicable. Although CCT legislation is no longer applicable, a legislative requirement remains within the Local Government in Scotland Act (2003) and the associated Best Value Code of Practice (2007) which requires that Statutory Trading Accounts return a surplus over a three year rolling period. A Statutory Trading Account is defined as being required where a significant operation of the Council charges for its services on a basis other than the recovery of actual costs.

6.09 In May 2010, as part of an ongoing review of Statutory Trading Accounts within ACC, ACC discontinued the use of Trading Accounts for the following services:

- Catering (Schools);
- Catering (Other); and
- Building Cleaning.

6.10 At present the Trading Accounts within Environmental Services are time consuming and complex to operate, and appear to be of limited value to managers in tracking those costs which are under their control. A similar approach to discontinuing Trading Accounts for other services such as Refuse Collection, Street Sweeping and Grounds Maintenance may also be appropriate.

- 6.11 A review of Statutory Trading Services is in progress, and the finance department within ACC is reviewing accounting and charging structures. It is intended that the focus for the next phase of the review of Statutory Trading Services will be Environmental Services. Meetings have been set up between staff within the ACC finance department and Environmental Services to discuss this matter.
- 6.12 Environmental Services management should, in consultation with the finance department, agree timescales for the review of trading accounts within Environmental Services with a view to identifying next steps. A key requirement for any proposed new arrangement should be to provide Environmental Services managers and their clients with more accurate information on the actual costs of the services provided.

### **Grounds maintenance and street sweeping contracts**

- 6.14 The contracts which are in place with other ACC Services are out of date and in some cases their charging basis has been superseded.
- 6.15 Environmental Services management should consider whether contracts are still required with other ACC Services for Grounds Maintenance, given the move to charging for work based on schedule of rates designed to reflect the actual cost basis. The schedule of rates would replace the rates specified in the existing contracts and any subsequent amendments. If considered necessary, new contracts could be implemented reflecting the current position and up to date rates.

### **Refuse Collection Contract**

- 6.16 Environmental Services management may wish to consider whether contracts would still be required with external and internal customers for Refuse Collection if the basis of charging for work was changed to be recovery of actual costs. If considered necessary, new contracts could be drawn up to reflecting the updated position.
- 6.17 Management would need to determine the most effective method for establishing actual costs for use in setting Schedules of Rates for refuse collection to be implemented in the Confirm computer system or other appropriate system. Consideration could be given to the analysis of samples of Refuse Collection Crew Sheets to extract information on labour costs and vehicle usage, in order to provide unit costs which could help inform the basis for the Schedules of Rates.

### **Recovery of income**

- 6.18 The Confirm computer system which has been implemented within Grounds Maintenance could be rolled out across the other functions of Environmental Services such as Street sweeping and Refuse collection to help simplify the process of charging, provide improved management information on costs, and facilitate the removal of Trading Accounts and the Client/Contractor split which no longer reflects current structures or operating practices.
- 6.19 Environmental Services management should progress the implementation of the Confirm system or other suitable system for the scheduling of all Refuse Collection and charging where appropriate (which is already at an early stage of consideration), and also consider implementing Confirm or another suitable system for Street Sweeping work, in a manner consistent with what has been introduced for Grounds Maintenance.

### **Management of overall service costs and demonstrating best value**

- 6.20 Management could in consultation with the finance department consider whether ledger information from both the Client and Contractor roles can be consolidated to provide an overall cost for the provision of each Service.
- 6.21 Management could also consider whether lower level reports will be required in respect of those activities which either would or would not come under the scope of tendering exercises which could be carried out in order to demonstrate best value. This may require the restructure of ledger details or the development of spreadsheets to facilitate reporting.

### **Management information**

- 6.22 Environmental Services management should evaluate the reporting capability from the Confirm system for Grounds Maintenance services. Management should also include the production of information on costs within the objectives for the implementation of the Confirm system or other suitable system for Refuse Collection and Street Sweeping.

# Section 7 – Car Parking Arrangements

Report classification					
Medium risk					
Number of Findings					
Critical	High	Medium	Low	Advisory	Total
-	1	1	1	2	5

## Background

7.01 Public parking within Aberdeen city can be divided into the following three categories:

- **On-street parking** consists of limited stay parking bays with one, two and three hour maximum stay parking bays. City centre on-street parking is time restricted to encourage parking turnover in premium areas.
- **Off-street parking** consists of long and short stay car parks. Drivers who require parking for longer durations are encouraged to park in the off-street car parks, which are located within the city centre. A longer maximum period of stay (three hour maximum stay) is permitted in streets which are located further away from the off-street car parks.

- **Long stay car parks** currently consist of Chapel Street (500 spaces), West North Street (165 spaces), Denburn (326 spaces) and Mearns Street (47 spaces). The city centre short stay car parks are East North Street (72 spaces), Golden Square (32 spaces), Summer Street (42 spaces), and St Nicholas House (17 spaces - weekends only). The peripheral short stay car parks are Jacks Brae, Fonthill Road and Broomhill Road.

## Discharge of Council responsibilities

7.02 The Asset Management & Operations Section within the Enterprise, Planning & Infrastructure (EP&I) Service is responsible for the implementation of ACC's car parking strategy including provision and regular maintenance of car parks and on-street parking bays, providing a strategic input in the process for setting and publicising car parking charges and ensuring compliance with the requirements of parking regulations.

7.03 The enforcement of parking restrictions is carried out by the City Wardens (Housing and Environmental Service) who are responsible for issuing penalty notices for violation of parking restrictions. The short stay car parks are generally smaller than the long stay car parks, but the shorter maximum stay and the higher hourly costs encourages an increased turnover. Parking fine payments and pursuit of non payments are administered as part of the Income Collection function within the Corporate Governance Service.



7.04 Parking permits are also available for residents and businesses in Aberdeen. Resident permit currently costs £80 for the first permit and £120 for the second permit; properties in the core area are only entitled to one permit. Business permit currently costs £160 per year and the contractors permit currently costs £50 per month.

#### **Setting of future charges**

7.05 The Council's five year business plan includes an action to increase car parking trading account income by £1.9m over the 5 year period. With this in view the car parking charges are to be revised every two years.

7.06 A report titled 'Car Parking Charges 2011/13' was approved by the EP&I committee in January 2011. In this report three main charging options were assessed in making proposal for increasing car parking income:

- Option A – Maintain current charges;
- Option B – Apply a 10% increase to current charges (then rounding charges to the nearest 10p); and
- Option C – Economy pricing approach with premium prices applying for on street parking in the zones in and around the city centre.

7.07 The committee approved Option C to take effect from April 2011 or as soon as practicable thereafter. Based on the maintenance of current levels of usage, the introduction of revised car parking charges is projected to result in additional income of £658,000 in both 2011/12 and 2012/13.

7.08 The Controlled Parking Areas Working Party is tasked with the responsibility for assessing operational decisions relating to the overall management of parking areas and making recommendations to the EP&I committee. We understand that the 'Car Parking Charges 2011/13' report was not reviewed by the Controlled Parking Areas Working Party before going to the EP&I committee for consideration.

#### ***Approach and scope***

7.09 We reviewed the arrangements in place for the overall management of council car parking facilities. In particular we considered the effectiveness of the arrangements for provision and maintenance of facilities, determining and publicising parking charges and ensuring compliance with parking regulations. As part of this review we specifically considered the following sub-processes and related control objectives:

#### ***Policies and strategy for determination of car parking charges and publicity arrangements***

- Consider the effectiveness of the policies and procedures for determination and collection of parking charges with a view to ACC ensuring comparability with private operators and comparable local authorities.
- Ensure charges are applied in a clear and consistent manner and publicised appropriately.

#### ***Provision and maintenance of car parking facilities***

- Ensure adequate arrangements are in place for monitoring and reviewing the availability of parking facilities for car users and addressing issues identified as a result of these reviews.
- Ensure parking facilities are adequately maintained.
- Ensure parking facilities meet the requirements of target users.

#### ***Compliance with parking regulations***

- Consider appropriateness of procedures implemented for ensuring compliance with key parking regulations for example signage, road markings, availability of parking spaces for disabled users.

## Summary of Findings

- 7.10 Based on our review we have made a number of recommendations with a view to improving the overall management of car parking in ACC. No critical risk findings were identified however we identified the following high risk finding during our review.

### On street parking meters

- 7.11 The majority of the on street parking meters in the city (530 out of 685) are now obsolete and it is uncertain how long replacement parts may be available from the manufacturer. Furthermore the parking meters do not allow users to pay by debit/credit card and are not integrated to the back office management systems and thus cannot be monitored for breakdown from a remote location.
- 7.12 A significant investment will be required in order to replace and modernise the Council operated parking meters. The proposal to fund the on street parking meter replacement programme on a phased basis from the car parking trading account surplus was approved by the EP&I committee in January 2011. However generating a surplus on the trading account is dependent on a number of factors that are out with the control of the Council and sufficient surplus may not be generated to replace the parking meters within a realistic timeframe.
- 7.13 Approximately £4.3 million is collected every year from on street parking meters. There is a risk that the income collected from the on street parking could be significantly reduced due to breakdown of parking meters. From our review of the on street parking income trend analysis for 2008/09, 2009/10, 2010/11 presented to the management at the Car Parking Performance and Expenditure meeting in March 2011 we noted that the amount of income collected from on street parking meters fluctuates significantly on a monthly basis in all three years and there has been a gradual reduction in the total amount of income collected over the three years.

### Agreed action

Management will develop an action plan to ensure that the facilities to enable collection of on street parking income are modernised within a realistic timescale and that levels of 'lost income' due to mechanical failure of on-street parking meters is monitored.

### Responsible person/title

Head of Asset Management and Operations

### Target date

Action Plan by December 2011

- 7.14 In addition to the high risk finding outlined above we identified the following medium risk finding in respect of which an action plan has been agreed with management.

### Traffic Orders

- 7.15 Management should review the arrangements for reviewing road markings and rectifying traffic order violations with a view to ensuring that traffic order violations are minimised and that any issues reported to the Traffic Engineering section are rectified as soon as relevant legislation permits. 'Traffic Orders' should be included as a standing item on the agenda of the Car Parking Performance and Expenditure meeting to enable discussion on issues relating to traffic order violations.

# Section 8 – Roads Maintenance

Report classification					
High risk					
Number of Findings					
Critical	High	Medium	Low	Advisory	Total
-	-	5	1	1	7

## Background

- 8.01 Aberdeen City Council Roads Section is responsible for the repair of minor roads defects, major roads resurfacing work and winter maintenance operations. The staff involved in planning and delivering these activities are based at the Tullos Depot and have recently undergone a restructuring exercise.
- 8.02 Minor roads defects are identified, prioritised and executed within specified timescales to minimise danger and disruption to drivers and pedestrians. Urgent repairs which relate mostly to potholes are prioritised for attention either immediately or within 2 or 7 days. During financial year 2010/11 approximately 7,800 potholes were repaired or made safe at a cost of approximately £670,000.

8.03 An annual programme of roads to be resurfaced is prepared in advance of each financial year and covers those roads which are deemed to be most in need of work due to their condition. The condition of the roads in Aberdeen is assessed and recorded in a number of ways including a Scottish roads maintenance condition survey which is currently being undertaken to determine the condition of the entire 56,000 km of Scottish road network. Annual resurfacing work is carried out as part of the Council's capital plan and during 2010/11 a total of £2.2 million was spent.

8.04 Winter maintenance operations are undertaken to ensure that people and vehicles can travel safely on the main roads throughout the City. A detailed winter service plan is prepared each year in advance of the winter months and is available to the public on the Council's website. The service plan covers each aspect of winter maintenance including preventative work, snow clearing of priority roads, personnel duties and emergency contacts. A total of £2.460 million was spent on winter maintenance during 2010/11 for which the Council received a grant of approximately £350,000 from the Scottish Government.

## Approach and scope

8.05 We reviewed the processes and procedures implemented to prioritise and plan for roads maintenance, including arrangements for winter planning and adverse weather response. As part of this review we specifically considered the following sub-processes and related control objectives:

### **Prioritising and planning – replacement and reconstruction**

- Ensure condition of all roads recorded and analysed
- Ensure plans for major maintenance works appropriately developed and costed and that works are prioritised in line with available budget

### **Prioritising and planning – minor repairs**

- Ensure appropriate procedures for responding to urgent minor repairs and works suitably prioritised.

### **Winter maintenance and adverse weather response**

- Ensure robust service plan developed detailing winter maintenance operations.
- Priority routes and areas appropriately identified for snow clearance and preventative treatment.
- Adequate budget available to cover normal winter conditions with contingency available for prolonged periods of severe weather.
- Arrangements in place to ensure adequate supplies of salt and grit
- Emergency contact list and standby arrangements in place to respond to adverse weather event

## Summary of Findings

8.06 Our review identified a number of areas of good practice relating to the preparation of a comprehensive roads winter service plan and annual review of the plan to confirm its continuing relevance. In addition, we note the current efforts of management in developing a Roads Asset Management plan to record the condition of all roads in Aberdeen.

8.07 Whilst no critical or high risk findings were identified we did identify a number of medium risk recommendations which have been agreed and an action plan in place.

### **Winter Maintenance Budget**

8.08 A winter service plan is updated on an annual basis around August in preparation for the forthcoming winter. From an examination of the plan for 2010/11 we identified that a great deal of information is provided relating to the strategy for precautionary salting and gritting and snow clearance operations. The resources including men and plant, methods of operation and priority roads are specified in the plan which has an overall objective of minimising the adverse effects of snow on the movement of people and vehicles.

8.09 From a review of information per *efinancials* for winter maintenance activities over the past four years we identified there has been an overspend each year:

Financial Year	Budget (£)	Actual (£)	Overspend (£)
2007/08	1,941,000	2,069,000	128,000
2008/09	1,575,000	1,878,000	303,000
2009/10	1,499,000	2,407,000	908,000
2010/11	1,499,000	2,460,000	961,000
Total	£6,514,000	£8,814,000	£2,300,000

Finance does hold centrally a budget for winter maintenance to provide a contingency fund, recognising the variability of winter weather. However, given the annual overspends, management may wish to review this budget setting process to take into account average spend

over a five year period or alternative suitable period in order to set as an accurate and realistic budget as possible given the circumstances.

### **Documented Guidance and Confirmation of Planned Inspections**

- 8.14 Management should revise the Roads Maintenance procedure to ensure that it provides a comprehensive and clear guide to officers involved in carrying out roads inspections and rectifying defects. Management should undertake a quarterly check of each Roads Inspectors plan to provide assurance that inspections are being carried out as planned.

### **Performance Information**

- 8.15 Management will ensure that:
- A seasonal target is established for the % of repairs carried out within the specified timescales; and
  - A monthly report is prepared to cover their assessment of performance achieved in responding to urgent repairs together with details of improvement action if applicable.

### **Analysis and Recording of the Condition of Roads**

- 8.16 Management should ensure that monthly progress meetings are held to monitor the development of the Roads Asset Management Plan (RAMP) with status reports prepared and submitted to senior management.

### **Capital Maintenance Programme**

- 8.17 Management will consider:
- Providing a basis for costings to support the jobs included in the capital plan;
  - Undertaking a review of each resurfacing job following completion and providing a record of the reasons for differences between estimated and actual cost; and
  - Allocating a unique job number to each resurfacing job to ensure that spend is recorded against the correct road.
  - Preparing documented procedures to cover the actions and responsibilities of staff in preparing the annual capital programme.

# Appendix A – Progress against 2011/12 plan as at September 2011

Corporate Governance	Audit Title	Proposed timing	Terms of reference agreed	Draft Report Issued	Management Response Received	Report Finalised	Report to Audit and Risk Committee
<b>Corporate Governance</b>							
Operational	Contract management/ Procurement	Jun-11	✓				November 2011
	Health and Safety	Sep-11					January 2011
	Performance Management	Nov-11					January 2011
	Common Good Fund - Best Value	Jun-11	✓				November 2011
	Risk Management	Sep11					January 2012
Finance	Housing Benefits	Dec 11	✓				March 2012
	Pensions Payments	May-11	✓	✓	✓	✓	September 2011
	Treasury	Aug-11	✓				November 2011
	Creditors ( payables )	Jul-11	✓				November 2011
	Payroll	Apr-11	✓	✓	✓	✓	September 2011
	Financial Ledger	Sep-11	✓				November 2011
	Debt Management	Dec 11	✓				March 2012
	Fraud Governance	Jan 11					March 2012
	<i>Other finance:</i>	<i>Follow up</i>	-	✓	-	-	-
Core Assurance - IT	Information Management - data centre	Oct-11	✓				January 2012
	New hardware / Software Procurement	Mar-12	✓				June 2012
	IT Control Environment	Oct-11	✓				January 2012
Implementation of Business Plan	Overall Governance and Management of PBB	Aug-11	✓				November 2011
	Corporate Programme Office	Oct 11	✓				January 2012
	Implementation of Effective Project Management - Review of PQ Q Process - Alternative Delivery Model	Sep-11	✓	✓	✓	✓	November2012
	Financial Planning, Budgeting and Monitoring	Dec 11	✓				March 2012

<b>Audit Title</b>	<b>Proposed timing</b>	<b>Terms of reference agreed</b>	<b>Draft Report Issued</b>	<b>Management Response Received</b>	<b>Report Finalised</b>	<b>Report to Audit and Risk Committee</b>
<b>Education, Sport and Culture</b>						
Sport Aberdeen	Feb-12	✓				June 2012
Human Resource Management	Dec 11	✓				March 2012
Establishing Arts and Heritage Trust	Nov 11	✓				January 2012
Children with Additional Support Needs	Jun-11	✓				November 2011
<b>Enterprise Planning and Infrastructure</b>						
AECC/ Hotel Development - Project Management	Oct 2011	✓				January 2012
Commercial Estates	Jun-11	✓				November 2011
Car parking	Apr-11	✓	✓	✓	✓	September 2011
Estates Management (Council Occupied Property)	Mar 2012	✓				June 2012
Roads Maintenance (including winter planning)	Apr-11	✓	✓	✓	✓	September 2011
<b>Housing and Environment</b>						
Regeneration - Strategy and Focus	Nov 11	✓				March 2012
Housing rents (implementation)	Dec 11	✓				March 2012
Property Maintenance and Repairs	Jan-12	✓				June 2012
Capital and Repairs Project Management	Jan-12	✓				June 2012
Business Continuity Planning	Jun-11	✓	✓			November 2011
Trading Accounts	May-11	✓	✓	✓	✓	September 2011
<b>Social Care and Wellbeing</b>						
Staff Recruitment and Induction Procedures	Jun-11	✓				November 2011
Procurement/Contract Award	Jun-11	✓				November 2011
Management of sensitive information	Feb-12	✓				June 2012

# Appendix B – Basis of our classifications

Assessment rationale	
Critical	<p>A finding that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Critical</b> impact on operational performance; or</li> <li>• <b>Critical</b> monetary or financial statement impact; or</li> <li>• <b>Critical</b> breach in laws and regulations that could result in material fines or consequences; <i>or</i></li> <li>• <b>Critical</b> impact on the reputation or brand of the organisation which could threaten its future viability.</li> </ul>
High	<p>A finding that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Significant</b> impact on operational performance; or</li> <li>• <b>Significant</b> monetary or financial statement impact; or</li> <li>• <b>Significant</b> breach in laws and regulations resulting in significant fines and consequences; <i>or</i></li> <li>• <b>Significant</b> impact on the reputation or brand of the organisation.</li> </ul>
Medium	<p>A finding that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Moderate</b> impact on operational performance; or</li> <li>• <b>Moderate</b> monetary or financial statement impact; or</li> <li>• <b>Moderate</b> breach in laws and regulations resulting in fines and consequences; or</li> <li>• <b>Moderate</b> impact on the reputation or brand of the organisation.</li> </ul>
Low	<p>A finding that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Minor</b> impact on the organisation's operational performance; or</li> <li>• <b>Minor</b> monetary or financial statement impact; or</li> <li>• <b>Minor</b> breach in laws and <i>regulations</i> with limited consequences; or</li> <li>• <b>Minor</b> impact on the reputation of the organisation.</li> </ul>
Advisory	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>



# Appendix C – Limitations and Responsibilities

## Limitations inherent to the internal auditor's work

Our report is presented, subject to the limitations outlined below.

## Internal control

Internal control, no matter how well designed and operated, can provide only reasonable and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

## Future periods

Our assessment of controls relating is for the period to August 2011. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

## Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected. Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.

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