



Internal Audit

Audit, Risk and Scrutiny Committee Internal Audit Update Report June 2024

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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 2023/24 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 reviews have been completed.
- Work is underway with regards to delivery of the 2023/24 Internal Audit Plan.
- 12 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 2023/24 Audits

Service	Audit Area	Position
Commissioning	Procurement Compliance	Review in progress
Commissioning	City Region Deal	Final Report Issued
Council Led HSCP Services	Social Care Financial Assessments	Review in progress
Customer	Recruitment	Review in progress
Customer	PREVENT	Final Report Issued
Resources	Creditors System	Final Report Issued
Resources	Private Sector Housing	Final Report Issued

2.2 Audit reports presented to this Committee

Report Title	Assurance Year	Conclusion
AC2422 – City Region Deal	2023/24	<p>Internal Audit has identified an overall net risk rating of MAJOR, with LIMITED assurance obtained over the governance and financial spend of the City Region Deal. The Deal planned to utilise in excess of £290m of public funds, leveraging over £530m from private sector and other contributions. This audit sought to determine whether suitable and proportionate controls, data, and checks, are in place to provide assurance over reported project delivery and grant disbursement. Partners to the arrangement are working together in the spirit of the agreement to deliver against the agreed aims and objectives. The level of progress with actions and spend are reported regularly, and this meets the current reporting requirements for the Councils, the UK, and Scottish Government. However, weaknesses have been identified in governance arrangements, review of the supporting audit trail for expenditure, and delivery of outcomes.</p> <p>It is noted that as an early adopter of the City Region Deal model, Aberdeenshire and Aberdeen City have had to continuously develop governance and reporting arrangements, and their work in this area has been recognised by the governments – which continue to develop their own requirements, reflected in variations to terms and conditions included in annual grant offer letters. Partners have adapted to meet changing demands, to meet funders' expectations.</p> <p>However, these changes have not been fully reflected throughout the Deal's governance arrangements (e.g. by updating funding agreements), and there is a need for more transparency and challenge in respect of financial and progress data provided by project delivery partners. Project status, expenditure claims, financial forecasts, and the realisation of benefits is declared, collated, and reported, but detailed supporting evidence is not always provided and reviewed in sufficient detail to confirm their accuracy. Data required for the measurement of benefits realised is being withheld due to partners' concerns over</p>

Report Title	Assurance Year	Conclusion
		<p>the release of commercially and personally sensitive information.</p> <p>Internal Audit requested project board minutes and transactional data, and where available this provided a level of assurance; however, full data was not provided in every case. If delivery partners are not comfortable sharing information, this limits the level of assurance that can be taken and drives up the level of risk. Explanations for variances, delays, and mitigating actions, are limited. There is limited scrutiny of financial and progress data provided from delivery partners by the councils as part of their programme management and financial accountable body roles, and where this takes place it is not well evidenced. It is important to demonstrate appropriate checks and challenge are being applied to provide assurance that the grant is only being paid out to cover eligible spend. Conditions and requirements of the UK and Scottish governments have varied over the life of the Deal. Partners and delivery of the programme and project outcomes may be at risk if required information cannot be obtained to satisfy changing funders' requirements.</p> <p>The delivery of benefits and conclusion of projects to date has been reported in summary or through selected highlights and case studies as part of the Deal Annual Report, rather than detailed comparisons of actual outcomes and costs against planned. It may be difficult to ensure this data is obtained, given requirements had not been determined and agreed in advance, and flexibility has not been incorporated into existing agreements. In the absence of this data, it may not be possible to fully determine the successful delivery of the intended Deal outcomes.</p> <p>An assumption is being made by project delivery partners that funds committed but not spent in the financial year can be rephased to future years, however few projects in this situation have submitted formal change requests to date. The governments have stated in grant offer letters that although the totality of funds remains available (within the Deal funding period – to 2027), requests to move funding between specific years may not be possible. It cannot therefore be assumed that all requests to rephase budgets will be agreed, or can be accommodated within the funding period.</p> <p>Approval of project changes is reserved to the City Region Deal Joint Committee. However, this has been delegated to an Officer on its behalf by one of the partners and there is no record of other partners having agreed this. It is essential that decision making on governance and controls is planned and transparent.</p> <p>Recommendations have been made to address the noted points, specifically around strengthening the governance, and reporting arrangements within the councils and from partners. These include updating and securing flexibility in</p>

Report Title	Assurance Year	Conclusion
		funding agreements, and reviewing delegations. Further work has been recommended to develop and expand the level of data obtained, and its critical appraisal, in respect of use of funding, performance against plans, and realisation of benefits, at a more detailed level proportionate with the level of funds being managed through the City Region Deal.
AC2419 – Prevent	2023/24	The level of net risk is assessed as MODERATE , with the control framework deemed to provide REASONABLE assurance over the Council's approach to its Prevent duty. Full details of this exempt report are included within the relevant paper.
AC2421 – Private Sector Housing	2023/24	The level of net risk is assessed as MINOR , with the control framework deemed to provide SUBSTANTIAL assurance over the Council's private sector housing ¹ . Substantial assurance was available over the following areas reviewed: Staff Costs, Following the Public Pound, Disabled Adaptation Grants, and Budget Setting and Reporting. However, the review identified some areas of weakness where enhancements could be made to strengthen the framework of control, specifically: Mandatory Staff Training, Procurement, Travel Costs, and Income. Recommendations have been made to update the Scheme of Assistance for disabled adaptation grants where necessary; formalise staff procedures cover administration of this area; update the Public Contracts Scotland website; monitor travel costs; and establish a system of reconciliation for private sector housing fee income.
AC2407 – Creditors System	2023/24	The level of risk is assessed as MODERATE , with the control framework deemed to provide REASONABLE assurance over the Council's approach to the Creditors System. The following governance, risk management and control measures were sufficiently robust and fit for purpose: Procurement, Duplicate Payments, Password Control, Payment Control, and Business Continuity and Disaster Recovery. However, the review identified some areas of weakness where enhancements could be made to strengthen the framework of control, specifically: Privileged Access, Interfaces, Supplier Standing Data, and Invoice Processing.

¹ Substantive testing for factoring was out with the scope of this review, as factoring is a relatively new Council operation and is under review; a property factoring action plan has been established covering relevant improvements for progression in 2024/25.

Report Title	Assurance Year	Conclusion
		Recommendations have been made to address the above risks including enhancing training, segregating, and monitoring privileged user activity, standardising requirements to verify payee identification and bank account details across Council payment systems, monitoring changes to supplier standing data, and formalising BACS transmission to Creditors system reconciliation procedures.

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 30 April 2024 (the baseline for our exercise), 30 audit recommendations were due and outstanding:

- Three rated as Major
- 18 rated as Moderate
- Nine rated as Minor

As part of the audit recommendations follow up exercise, 12 recommendations were closed:

- Six rated as Moderate
- Six rated as Minor

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

Appendix 2 – Audit Recommendations Follow Up – Outstanding Actions provides a detailed breakdown of the outstanding audit recommendations that will be taken forward and followed up as part of the next cycle, including instances where no update was provided by Management.

2.3.1 AC2314 - Assurance Review of Adults with Incapacity – Follow Up

At the September Audit, Risk and Scrutiny Committee, in response to a question relating to how the Committee would get assurance that the Service was on track with implementation of the recommendations of this Major risk report, it was agreed that progress updates would be presented to each Committee going forward. Internal Audit reached out on the recommendations in advance of Committee and the response from Management is included at Appendix 3 – Audit Recommendations Follow Up – AC2314 – Adults with Incapacity. Internal Audit has worked with Management and can confirm that only one action remains in progress.

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.

4 Appendix 2 – Audit Recommendations Follow Up – Outstanding Actions

Report	Grading	Ref	Recommendation	Original Due Date	Current Due Date	Committee Update	Status
AC2313 – Corporate Asset Management	Moderate	1.4	Finance should review and ensure the finance asset register reconciles with relevant Service records supporting asset descriptions and values.	Mar-24	Jul-24	This is currently being worked on as part of the annual accounts process. Discussions will Internal Audit and provision of evidence to follow in the coming months.	In Progress
AC2406 – Data Protection	Minor	1.3	Council Data Sharing Agreement requirements should be formalised to ensure DSAs are made available to relevant staff.	Mar-24	Jun-24	we have prepared an abridged version of the Information Sharing Agreement Register, just showing the details which colleagues will need (along with contact details for further info) and this is being published on our IG webs pages. This should be completed in the coming weeks.	In Progress
AC2313 – Corporate Asset Management	Moderate	1.5	Governance and reporting structures should be clarified, with procedures and their application documented in an accessible format. Officers to consider the points made regarding process in the review of the Capital Board)	Apr-24	Dec-24	The proposed new team and staffing structure for Corporate Landlord, currently being drafted, will help to clarify governance and reporting structures, which will be documented and shared with all relevant staff once completed.	In Progress

Report	Grading	Ref	Recommendation	Original Due Date	Current Due Date	Committee Update	Status
						A review of the Capital Board's role will be included within the wider review of the asset management process, which will be completed following confirmation of the new structure. An initial report will go to the Capital Board on 25 July.	
AC2313 – Corporate Asset Management	Major	1.1a	The Council should develop a clear Asset Management approach. Further work is required to document the process around asset management and this will be reviewed as part of the asset transformation programme.	Apr-24	Dec-24	A review of the asset management process is under way, in conjunction with the work being undertaken on changes to team and staffing structures within Corporate Landlord. Formal documentation of the process will be completed following confirmation of the new structure.	In Progress
AC2313 – Corporate Asset Management	Major	1.2a	The Service should develop asset management plans, linked to the Council's asset management policy and strategic objectives, for all categories of assets. The Service should develop a strategy and plan to address the backlog of maintenance. Strengthen the governance around the development of implementation plans. This will be developed through the works being done on the Asset	Apr-24	Dec-24	As noted in the management response to the audit report and thereafter agreed by the committee, producing plans for all asset types is not consistent with other council reporting and in relation to resource availability. A review of all operational assets is underway as part	In Progress

Report	Grading	Ref	Recommendation	Original Due Date	Current Due Date	Committee Update	Status
			Transformation programme and will be reported through the capital and transformation boards.			<p>of the annual budget review process.</p> <p>A maintenance strategy is not a priority given the budget is not available to implement and instruction for essential spend. Management do not propose progressing with this recommendation as noted in the original audit report and agreed by committee.</p> <p>Work on strengthening the governance around the development of implementation plans is progressing alongside the review of the overall asset management process, and the development of a new team and staff structure for Corporate Landlord.</p> <p>These processes will be reported through the Capital and Transformation Boards following confirmation of the new structure.</p>	

Report	Grading	Ref	Recommendation	Original Due Date	Current Due Date	Committee Update	Status
AC2411 – Attendance Management	Moderate	1.1b	Management should review the Absence Improvement Project Charter and Draft Project Plan to ensure it is as accurate and complete as possible. The review should ensure that realistic timescales are in place for all workstreams and that these are monitored and reported throughout the lifecycle of the Project.	Apr-24	Jul-24	Improvement bootcamp training to allow follow up review to be completed - this is booked for end of May with full review of project charter and project plan to be completed by end of June.	In Progress
AC2411 – Attendance Management	Moderate	1.1a	Management should review the Supporting Attendance and Wellbeing Policy, either as a standalone task or as part of a dedicated workstream within the Absence Improvement Project.	Mar-24	Dec-24	Supporting Attendance and Wellbeing Policy is under review and scheduled in the committee planner to be presented at Staff Governance Committee on 18 November 2024	In Progress
AC2406 – Data Protection	Minor	1.1b	People and Organisational Development should formalise guidance for Service Managers on the use of the Managers Portal and implement the CR&D development on mandatory training self-declaration.	Mar-24	Sep-24	Self-declaration on mandatory training as part of CR&D End of Year Review is now implemented. Employees self-declare then manager confirms. As a result of this we have seen significant increase in mandatory training compliance from what we would normally expect to see at this time of year. A significant and atypical jump in compliance in March 2023 can also be seen - we have	In Progress

Report	Grading	Ref	Recommendation	Original Due Date	Current Due Date	Committee Update	Status
						<p>investigated to understand this and can attribute it to a DPO blog at this time. From this, we will commit to continue with mandatory training compliance as part of annual review meeting in CR&D - and also work with subject matter experts to deliver targeted comms campaigns on each of mandatory training topics.</p> <p>Guidance for Service Managers on the use of Managers Portal: D&I and Governance colleagues currently developing a short demo/training video.</p>	
AC2111 - Consilium System	Moderate	2.6.12	The Service should ensure system access is aligned with service requirements, and that use of generic users is limited and monitored. The technical reasons requiring such users will be raised with the software supplier as part of the system upgrade.	Mar-24	Dec-25	Total/Consilium system no longer technically viable. Business case in development to rationalise system and replace with existing housing platform.	In Progress

Report	Grading	Ref	Recommendation	Original Due Date	Current Due Date	Committee Update	Status
AC2111 - Consilium System	Moderate	2.6.4	The Service should explore options to lock users after a set period of inactivity with the software provider as part of the system upgrade. The Business & Systems Support Manager will raise this with the software provider to ascertain if this can be applied in the current system. It will also be looked to be addressed as part of the system upgrade.	Mar-24	Dec-25	Total/Consilium system no longer technically viable. Business case in development to rationalise system and replace with existing housing platform.	In Progress
AC2111 - Consilium System	Moderate	2.6.8	The System Team should ensure the system enforces compliance with the Councils password standard. Current system does not provide this functionality, but it will be raised as part of the system upgrade.	Mar-24	Dec-25	Total/Consilium system no longer technically viable. Business case in development to rationalise system and replace with existing housing platform.	In Progress
AC2111 - Consilium System	Moderate	2.6.6	The system team should raise the issue of transactional processes only being available under an administrator profile as part of the system upgrade.	Mar-24	Dec-25	Total/Consilium system no longer technically viable. Business case in development to rationalise system and replace with existing housing platform.	In Progress

Report	Grading	Ref	Recommendation	Original Due Date	Current Due Date	Committee Update	Status
AC2111 - Consilium System	Moderate	2.2.4a	The Service should ensure appropriate forward planning is undertaken so as not to require suspension of Procurement Regulations, and to ensure costs and approvals are accurate and fully transparent.	Mar-24	Dec-25	Total/Consilium system no longer technically viable. Business case in development to rationalise system and replace with existing housing platform.	In Progress
AC2111 - Consilium System	Moderate	2.3.14	Customer Experience should assess the data protection risks associated with the Building Maintenance system and use this process to ensure appropriate data processing agreements and data sharing agreements are in place. The system upgrade will incorporate works to ensure all measures are in place to fully comply with all risks associated with Data protection.	Mar-24	Dec-25	Total/Consilium system no longer technically viable. Business case in development to rationalise system and replace with existing housing platform.	In Progress
AC2417 – Cyber Action Plan	Moderate	1.2	Administrator access control arrangements should be reviewed and updated to ensure excessive access is removed and avoided in future.	Apr-24	Jun-24	Reviewed, last action to remove local admin access will be completed by June 2024.	In Progress

Report	Grading	Ref	Recommendation	Original Due Date	Current Due Date	Committee Update	Status
AC2417 – Cyber Action Plan	Moderate	1.3	Administrator password should be reviewed and checked for compliance as a matter of priority.	Mar-24	Jun-24	Currently in progress and should be implemented by June 2024.	In Progress
AC2201 – IT Infrastructure Resilience	Major	2.4.7 a	The Service should establish Cyber Essentials PLUS accreditation for the Council.	Mar-24	Jul-24	Assessment underway and actions being progressed.	In Progress
AC2405 – Care Management System	Minor	1.2	D&T should automate the interface between the care management system and the North East Child Protection Register.	Apr-24	Jul-24	Ongoing discussion with regards to implementation	In Progress

5 Appendix 3 – Audit Recommendations Follow Up – AC2314 – Adults with Incapacity

Report	Grading	Ref	Recommendation	Due Date	Management Update
AC2314 - Adults with Incapacity - management of funds	Major	1.1.a	The Service should document and implement procedures in respect of DWP appointeeship, Intervention Orders, Access to funds, guardianship and POA in dealing with Adults with Incapacity. The Service should ensure these are clear, efficient, provide practical guidance on day-to-day management of funds, and are subject to periodic recorded reviews. Staff required to apply the procedures should be adequately trained in their application.	Jan-24	Complete. This action has been implemented by Management.
AC2314 - Adults with Incapacity - management of funds	Major	1.1.b	The Service should develop AWI staff training and procedures for key systems, D365, the corporate appointee database, access to funds process, DWP website to provide adequate cover so that key information required can be accessed and audit trails completed for client information stored.	Jan-24	Complete. This action has been implemented by Management.

Report	Grading	Ref	Recommendation	Due Date	Management Update
AC2314 - Adults with Incapacity - management of funds	Major	1.2.a	The Service should implement processes and controls to ensure consistent and complete AWI records are held in line with the GDPR accuracy principle, and these are accessible to relevant officers to avoid the risk of duplication and misalignment.	Apr-24	Complete. This action has been implemented by Management.
AC2314 - Adults with Incapacity - management of funds	Major	1.2.b	A reconciliation of existing file records against new system records should be undertaken, and corrections applied where necessary.	Apr-24	Complete. This action has been implemented by Management.
AC2314 - Adults with Incapacity - management of funds	Major	1.2.c	A system of review should be developed and implemented to obtain regular periodic assurance over the content and accuracy of AWI funds management records	Apr-24	Complete. This action has been implemented by Management.

Report	Grading	Ref	Recommendation	Due Date	Management Update
AC2314 - Adults with Incapacity - management of funds	Major	1.3	The Service should review the appointeeship process to ensure it reflects the requirements of the scheme, and minimises intervention where possible. As part of the review the Service should ensure all interventions are subject to secondary review to ensure they are appropriate in line with policy and procedure in advance of their implementation.	Mar-24	Complete. This action has been implemented by Management.
AC2314 - Adults with Incapacity - management of funds	Major	1.4.a	All requests for funds and payments should have clearly documented review and approval before funds are released. Segregation of duties should be in place for each stage	May-24	Complete. This action has been implemented by Management.
AC2314 - Adults with Incapacity - management of funds	Major	1.4.b	The identity of funds recipients should be verified and documented. Variations should be subject to approval.	May-24	In Progress. Further discussions are required around D365/Share point to aid us meeting this recommendation. Clarity required around variations being subject to approval. Due to be discussed at next SLWG.

Report	Grading	Ref	Recommendation	Due Date	Management Update
AC2314 - Adults with Incapacity - management of funds	Major	1.4.c	All funds movements and transfers should be documented and countersigned at the point such movements take place, with such documentation held separately from the physical funds	May-24	Complete. This action has been implemented by Management.
AC2314 - Adults with Incapacity - management of funds	Major	1.4.d	Consideration should be given to whether collecting and distributing cash remains the most appropriate means of providing support to individuals.	May-24	Complete. This action has been implemented by Management.
AC2314 - Adults with Incapacity - management of funds	Major	1.4.e	The bank reconciliation to the corporate appointee database should be regularly completed, reviewed, and actions approved and monitored to conclusion.	May-24	Complete. This action has been implemented by Management.

Report	Grading	Ref	Recommendation	Due Date	Management Update
AC2314 - Adults with Incapacity - management of funds	Major	1.4.f	Accounts of deceased clients that are still active should be reviewed for necessary actions to close.	May-24	Complete. This action has been implemented by Management.
AC2314 - Adults with Incapacity - management of funds	Major	1.5	The Service should ensure there is a clear and consistent audit trail for all instances where funds are managed on behalf of service users. This should be subject to periodic reconciliation against other records (e.g. bank statements, cash balances, inventories, DWP data and other source documentation), and potential discrepancies escalated and the results and actions recorded.	Feb-24	Complete. This action has been implemented by Management.
AC2314 - Adults with Incapacity - management of funds	Moderate	1.6	The Service should ensure client accounts with balances in excess of specified thresholds are reviewed to ensure they are managed appropriately.	Jan-24	Complete. This action has been implemented by Management.