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# ***Aberdeen City Council Internal Audit Risk Assessment and Plan 2013/2014***

**Draft for Audit and Risk Committee Approval**

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## **Distribution List**

For action

Corporate Management Team

For approval

Audit and Risk Committee

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# 1. Introduction and Approach

## Introduction

This document sets out the internal audit risk assessment and annual plan for Aberdeen City Council for the 2013/14 financial year.

## Approach

A summary of our approach to developing the risk assessment and annual internal audit plan is set out below. A more detailed description can be found in Appendix 3.

<b>Step 1</b> <b>Understand corporate objectives and risks</b>	<ul style="list-style-type: none"><li>Obtain information (for example SOA, 5 year business plan) and utilise Local Government knowledge to identify corporate level objectives and risks.</li></ul>
<b>Step 2</b> <b>Define the audit universe</b>	<ul style="list-style-type: none"><li>Identify all of the auditable units within the Council. Auditable units have been determined as key functions of the Council.</li></ul>
<b>Step 3</b> <b>Assess the inherent risk</b>	<ul style="list-style-type: none"><li>Assess the inherent risk of each auditable unit based on impact and likelihood criteria.</li></ul>
<b>Step 4</b> <b>Assess the strength of the control environment</b>	<ul style="list-style-type: none"><li>Assess the strength of the control environment within each auditable unit to identify auditable units with a high reliance on controls.</li></ul>
<b>Step 5</b> <b>Calculate the audit requirement rating</b>	<ul style="list-style-type: none"><li>Calculate the audit requirement rating taking into account the inherent risk assessment and the strength of the control environment for each auditable unit.</li></ul>
<b>Step 6</b> <b>Determine the audit plan</b>	<ul style="list-style-type: none"><li>Determine the timing and scope of audit work based on the Council's risk appetite and agreed internal audit budget.</li></ul>
<b>Step 7</b> <b>Other considerations</b>	<ul style="list-style-type: none"><li>Consider additional audit requirements to those identified from the risk assessment process for example requirements of external audit.</li></ul>

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## Key contacts

Meetings have been held with the following key personnel during the planning process:

***Stewart Carruth***

Director Corporate Governance

***Fred McBride***

Director Social Care and Wellbeing

***Gordon McIntosh***

Director of Enterprise, Infrastructure and Planning

***Gayle Gorman***

Director of Education, Culture and Sport

***Pete Leonard***

Director of Housing and Environment

***Martin Murchie***

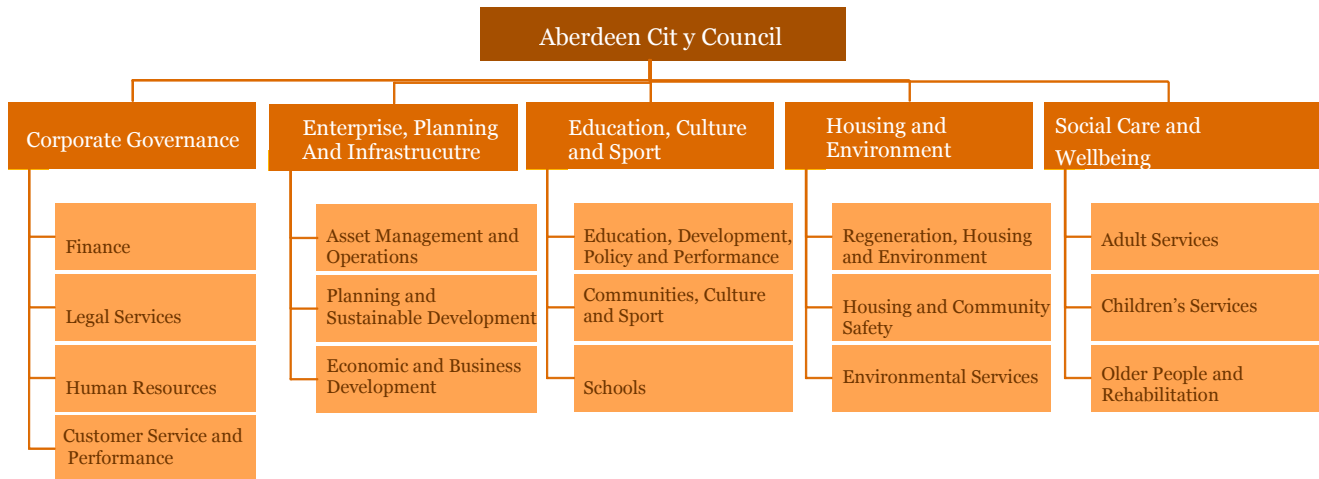
Community Planning and Corporate Performance  
Manager

***Audit Scotland***

External Auditors

















## 2. Audit Universe

The diagram below represents the high level auditable units of within the audit universe of Aberdeen City Council:







### 3. Risk Assessment

Each auditable unit has been assessed for inherent risk and the strength of the control environment, in accordance with the methodology set out in Appendix 3.

Ref	Auditable Unit	Inherent Risk Rating	Control Environment Indicator	Audit Requirement Rating	Colour code	Frequency
<b>A</b>	<b>Corporate Governance</b>					
A.1	Finance	5	3	4		Annual
A.2	Legal Services	4	4	2		Every 3 years
A.3	Human Resources	5	2	4		Annual
A4	Customer Services and Performance	6	3	5		Annual
<b>B</b>	<b>Enterprise Planning and Infrastructure</b>					
B.1.	Asset management and operations	4	4	2		Every 3 years
B.2	Planning and sustainable development	4	2	3		Every 2 years
B.3	Economic and Business Development	5	3	4		Annual
<b>C</b>	<b>Education, Culture and Sport</b>					
C.1	Education development, policy and performance	4	4	2		Every 3 years
C.2	Community Culture and sport	5	2	4		Every 2 years
C.3	Schools	4	4	2		Every 3 years
<b>D</b>	<b>Housing and Environment</b>					
D.1	Regeneration, housing and environment	5	5	3		Every 2 years
D.2	Housing and community safety	3	3	2		Every 3 years
D.3	Environmental issues	3	2	2		Every 3 years
<b>E</b>	<b>Social Care and Wellbeing</b>					
E.1.	Adult Services	6	4	4		Annual
E.2	Children Services	6	4	4		Annual
E.3	Older people and rehabilitation	5	5	3		Every 2 years

## Key to frequency of audit work

Audit Requirement Rating	Colour Code	Timescale	Description
6, 5 and 4		Every year	A review of processing and monitoring control design and operating effectiveness
3		Every two years	A review of the design and operating effectiveness of monitoring controls
2		Every three years	A review of the adequacy of breadth of monitoring controls and analytical review of the output of monitoring controls.
1		No further work	n/a

## 4. Internal Audit Plan 2013/14

The following table sets out the internal audit work planned for 1 April 2013 to 31 March 2014. The proposed plan is cross referenced to the Council's Corporate Risks as at January 2013, set out in Appendix 1.

Service Area	Indicative days	Proposed Timing	High Level Internal Audit focus
Corporate Governance (including core financial controls)	95	Q2 & Q4	<p>Rolling Financial Controls Assessment - Testing of key controls within the Council's key financial systems using continuous auditing techniques and data techniques to interrogate complete populations of data where controls are automated. Testing will cover compliance with processes and production of an internal audit report on a six monthly cycle, allowing for the identification of trends.</p> <p>Systems / processes to review include:</p> <ul style="list-style-type: none"> <li>• Housing Benefits;</li> <li>• Fixed Assets;</li> <li>• Council Tax;</li> <li>• NNDR;</li> <li>• Main Accounting System (Accounts Payable, Accounts Receivable, Cash &amp; Bank, Journals, Treasury Management);</li> <li>• Payroll; and</li> <li>• Manual journals.</li> </ul>
	10	Q3	Review of the relevant pension fund financial controls.
	15	Q1	Review of fraud governance arrangements.
	15	Q2	Pension payroll – review of processes and controls in place within the new pension's payroll system to ensure accurate and valid payment of pensions.
	20	Q2	IT third party contract management
	15	Q3	IT Helpdesk arrangements
	30	Q1-Q4	IT reviews based on a priority needs assessment
	20	Q2	Review of process surrounding the five year business plan, budgeting and priority setting and procedures in place to ensure that this links with the Single Outcome Agreement.



Service Area	Indicative days	Proposed Timing	High Level Internal Audit focus
	15	Q3	Staff Performance management arrangements including review of the performance appraisal arrangements.
	20	Q1	Review of contract management arrangements in particular compliance with procurement policies and procedures within Education, Culture and Sport and Social Care and Wellbeing.
	20	Q1	A review into the travel system to ensure there is a consistent approach to booking travel; obtaining currency; and daily allowances whilst away on Council business.
	20	Q2	Review of compliance with following the public pound across all Directorates, excluding Sport Aberdeen, Aberdeen Exhibition Centre, Aberdeen Sports Village and the LATC.
	20	To be determined	Contingency days for ad hoc requests from Officers, Audit and Risk Committee requests or to provide additional support to external audit.
<b>Corporate Governance (including financial controls) total</b>	<b>315</b>		
Social Care and Wellbeing	20	Q4	Review of monitoring arrangements in place for Adult Social Care services around care package and use of finance (Self Directed Support)
	25	Q4	LATC Contract management arrangements and arrangements in place to consider the achievement of best value for the services procured.
	35	Q2 and Q3	Review of the Council's state of readiness for the Welfare Reform changes ( <i>* Note that Welfare Reform impacts on all aspects of the Council and remit will be wider than Social Care and wellbeing but sits here within the plan as Director of SC&amp;W has overall lead</i> )
<b>Social Care and Wellbeing total</b>	<b>80</b>		

Service Area	Indicative days	Proposed Timing	High Level Internal Audit focus
Enterprise Planning and Infrastructure	20	Q4	Review of management arrangements surrounding utility contracts and the assessment of best value and the linkage to the Council's strategy.
	20	Q2	Review of the controls in place within EP&I over the services provided across the Council in respect of grant applications including EU Grants.
	20	Q1	Review of arrangements within fleet management, including fleet procurement, efficiency of fleet and capital management plan, and service level agreements between the fleet manager and the service areas.
	20	Q3	Review of the controls in place in respect of the Aberdeen Western Peripheral Route
<b>Enterprise and Planning and Infrastructure total</b>	<b>80</b>		
Housing and Environment	20	Q2	Review of controls in place surrounding the decision making process for private sector housing and serious repair notices as a result of the change in legislation removing grants for these.
	15	Q3	Review of the Council's waste management strategy and arrangements in place to ensure national targets are achieved
	20	Q3	Regeneration – a review to explore corporate roles and responsibilities, including governance arrangements and service strategies in order to map what resources and strategies exist and who is responsible for what and to identify potential gaps.
	25	Q1	Building services review of business operations including controls over cash forecasting, billing, and financial reporting, including budgeting and financial management.
<b>Housing and Environment total</b>	<b>80</b>		

Service Area	Indicative days	Proposed Timing	High Level Internal Audit focus
Education, Culture and Sport	20	Q4	Review of certain aspects of community centres
	20	Q3	A review of schools budgeting arrangements and actual spend on capital expenditure in particular repairs and the design and operation of the controls in place.
	20	Q2	Review of Community Learning and Development and Library services.
	20	To be considered	Review of stakeholder engagement and consultation.
<b>Education, Culture and Sport planned total</b>	<b>80</b>		
Follow up of Internal Audit recommendations	20	Throughout year	
<b>Total indicative audit days for 2013/14</b>	<b>655</b>		

Alternative reviews identified to the ones above which could either be substituted or held should some of the above reviews slip in terms of timing due to a change in nature, priority or introduction of new processes/controls, resulting from our risk assessment are:

Alternative areas of internal audit focus
Performance management and performance reporting
Controls assurance mapping
Community Planning arrangements
ALEO review on a rotational basis
Risk Management – focus on mitigating controls

# Appendix 1: Council Objectives and Risks

These Council wide objectives and risks have been determined by Aberdeen City Council as documented in:

- 5 year Business Plan (2013/14 to 2017/18)
- Priority based budget (linked to 5 year plan)
- Corporate Risk Register

## Key Priorities

Provide for the needs of the most vulnerable people

Help to ensure that all schoolchildren reach their potential

Manage our waste and increase recycling

Encourage the building of new affordable housing

Ensure a sustainable economic future for the city

Ensure efficient and effective delivery of services by the Council and with its partners

In addition, a number of themes are picked up in the 5 year business plan and these are shown below:

## 5 year business plan themes

Severe financial constraints and increasing cost pressures

Commitment to front office

Aging population

Areas of deprivation

Increased demand for key services

Electronic Service Delivery

Opportunities for efficiency and improved productivity

Concordat agreement – Single outcomes

Committed to have a flexible, skilled and motivated workforce

Committed to - Listen to, and be responsive to, our customers, shaping our services around their needs and focusing our resources where they are most needed

Committed to - Work closely with our partners, including local communities, to deliver a single set of outcomes for all the citizens of Aberdeen

## Corporate Risk Register

### Council strategic risks

Risk that services do not deliver the 5 year business plan priorities.

Risk that major projects and strategies are not fully delivered.

Risk that planned welfare reform will negatively impact on the council and its communities.

Risk that decisions taken are not legitimate and that legitimate decisions are not implemented appropriately

Risk that we do not demonstrate that the expectations of regulatory bodies are being met

Risk that effectiveness of the Council's workforce is compromised due to poor morale and industrial relations

Risk that those in need are not protected

Risk that statutory obligations are not met

Risk that the council does not fully comply with Health & Safety obligations

Risk of Community Planning failing to deliver city wide projects/opportunities and associated funding

Risk that an adequate and consistent quality of service is not defined and delivered

Risk that we do not act within our legal powers

Risk of major business systems failure

Risk that the Council suffers loss of building facilities

Risk of changes to national or local policies which impact on the Council's objectives and Corporate Business Plan

Risk of lower than anticipated income (national and local)

Risk of an emergency (as defined by the Civil Contingencies Act 2004) affecting Aberdeen City and/or an incident having a significant adverse effect on the operations of Aberdeen City Council

Risk that business rates collection in future years fall below anticipated levels impacting on funding from Scottish Government encompassing combined impact of TIF and BRIS

Risk that culture of council does not support an entrepreneurial operational approach to opportunities

Risk that information is not managed effectively to support policy and decision making and statutory requirements

# Appendix 2: Risk Assessment Criteria

## Determination of Inherent Risk

We determine inherent risk as a function of the estimated **impact** and **likelihood** for each auditable unit within the audit universe as set out in the tables below.

Impact rating	Assessment rationale
6	Critical impact on operational performance; or Critical monetary or financial statement impact ; or Critical breach in laws and regulations that could result in material fines or consequences ; or Critical impact on the reputation or brand of the organisation which could threaten its future viability.
5	Significant impact on operational performance ; or Significant monetary or financial statement impact; or Significant breach in laws and regulations resulting in large fines and consequences; or Significant impact on the reputation or brand of the organisation.
4	Major impact on operational performance ; or Major monetary or financial statement impact ; or Major breach in laws and regulations resulting in significant fines and consequences ; or Major impact on the reputation or brand of the organisation.
3	Moderate impact on the organisation's operational performance; or Moderate monetary or financial statement impact ; or Moderate breach in laws and regulations with moderate consequences; or Moderate impact on the reputation of the organisation.
2	Minor impact on the organisation's operational performance ; or Minor monetary or financial statement impact ; or Minor breach in laws and regulations with limited consequences ; or Minor impact on the reputation of the organisation.
1	Insignificant impact on the organisation's operational performance; or Insignificant monetary or financial statement impact ; or Insignificant breach in laws and regulations with little consequence; or Insignificant impact on the reputation of the organisation.

Likelihood rating	Assessment rationale
6	Has occurred or probable in the near future
5	Possible in the next 12 months
4	Possible in the next 1-2 years
3	Possible in the medium term (2-5 years)
2	Possible in the long term (5-10 years)
1	Unlikely in the foreseeable future

# Appendix 3: Detailed methodology

## Step 1 - Understand corporate objectives and risks

In developing our understanding of your corporate objectives and risks, we have:

- Reviewed your 5 year business plan, organisational structure and corporate risk register
- drawn on our knowledge of the Local Government sector
- met with the Council's Directors.

## Step 2 - Define the Audit Universe

In order that our internal audit plan reflects your management and operating structure we have identified the audit universe for Aberdeen City Council made up of a number of auditable units. Auditable units include functions, processes, systems, products or locations. Any processes or systems which cover multiple locations are separated into their own distinct cross cutting auditable unit.

## Step 3 - Assess the inherent risk

Our internal audit plan should focus on the most risky areas of the business. As a result each auditable unit is allocated an inherent risk rating i.e. how risky the auditable unit is to the overall organisation and how likely the risks are to arise.

The inherent risk assessment is determined by:

- mapping the corporate risks to the auditable units
- our knowledge of your business and its sector
- discussions with management.

Impact Rating	Likelihood Rating					
	6	5	4	3	2	1
6	6	6	5	5	4	4
5	6	5	5	4	4	3
4	5	5	4	4	3	3
3	5	4	4	3	3	2
2	4	4	3	3	2	2
1	4	3	3	2	2	1

## Step 4 - Assess the strength of the control environment

In order to effectively allocate internal audit resources we also need to understand the strength of the control environment within each auditable unit. This is assessed based on:

- our knowledge of your internal control environment
- information obtained from other assurance providers
- the outcomes of previous internal audit reviews.

### Step 5 -Calculate the audit requirement rating

The inherent risk and the control environment indicator are used to calculate the audit requirement rating. The formula ensures that our audit work is focused on areas of with high reliance on controls or a high residual risk.

Inherent Risk Rating	Control design indicator					
	1	2	3	4	5	6
6	6	5	5	4	4	3
5	5	4	4	3	3	n/a
4	4	3	3	2	n/a	n/a
3	3	2	2	n/a	n/a	n/a
2	2	1	n/a	n/a	n/a	n/a
1	1	n/a	n/a	n/a	n/a	n/a

### Step 6 -Determine the audit plan

Your risk appetite determines the frequency and scope of internal audit work at each level of audit requirement.

Your risk appetite determines the frequency of internal audit work at each level of audit requirement. Auditable units may be reviewed annually, every two years or every three years.

### Step 7 -Other considerations

In addition to the audit work defined through the risk assessment process described above, we may be requested to undertake a number of other internal audit reviews such as regulatory driven audits, value enhancement or consulting reviews. These have been identified separately in the annual plan.



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