

Aberdeen City Council

Corporate Policy and Procedure Development

Internal Audit Report
2014/2015 for Aberdeen
City Council

April 2015

	Target Dates per agreed Internal Audit Charter	Actual Dates	Red/Amber/Green and commentary where applicable
Terms of reference agreed 4 weeks prior to fieldwork	19 th January 2015	21 st January 2015	Amber
Planned fieldwork start date	16 th February 2015	16 th February 2015	Green
Fieldwork completion date	27 th February 2015	27 th February 2015	Green
Draft report issued for Management comment	6 th March 2015	12 th March 2015	Amber
Management Comments received	26 th March 2015	17 th April 2015	Amber – delayed due to Easter Holidays
Report finalised	24 th April 2015	24 th April 2015	Green
Submitted to Audit and Risk Committee	11 th May 2015	11 th May 2015	Green

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This report has been prepared solely for Aberdeen City Council in accordance with the terms and conditions set out in our engagement letter dated 4 October 2010. 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.

Internal audit work will be performed in accordance with Public Sector Internal Audit Standards. As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000.

1. Executive summary

Report classification	Total number of findings					
	Critical	High	Medium	Low	Advisory	
Low risk	← Section 3 →					
	Control design	-	-	-	1	-
	Operating effectiveness	-	-	-	1	-
	Total	-	-	-	2	-

Summary of findings

- 1.01 Policies and procedures, implemented within an organisation, establish official ways of carrying out tasks. They unequivocally set out the organisations views on particular matters. Policies translate the strategy and mission of the organisation into working practices by acting as a guide to decision makers. Best practice policy and procedure development involves: consistent writing standards; separation of those who create and review policies; documentation version controls; sufficient management of information; appropriate consultations and approvals, and proper communication to end users. This review within Aberdeen City Council has focussed on the finance and HR departments where the above elements have been assessed using walkthroughs of policies and procedures that have been developed over the year.
- 1.02 *Low risk findings*
 Currently there is a central database containing administrative information on HR policies and procedures. For example, information on the last review date of a policy or procedure can only be found by opening the document and looking for the date. There is a need for improved management of information to ensure staff are aware of: which policies are to be reviewed; the latest version which should be reflected on 'the Zone' and reasons for the last review. Centralised information will provide senior management with a snapshot of the overall picture which will allow for improved oversight.
- 1.03 One of the superseded financial policies on risk management had not been removed from 'the Zone'. The operational replacement of superseded documentation is carried out by the IT team after instruction from finance. In this instance, it appears that the finance team have simply not communicated to IT that this policy requires removal.

Management Comment

The audit report accurately reflects the process followed with regard to HR policy and guidance development and review. The audit findings confirm that the process is being followed. The action from the audit, comprising the compilation of a database to track policy and guidance development and review is noted that its rating is 'low'. Overall this report endorses the existing arrangements.

For finding 3.02 a process has now been implemented to address this action.

2. Background and scope

Background

2.01 *Responsibility for development of new or existing policy, procedures and guidance*

Within Human Resources (HR), development of new or existing policies is the responsibility of the Policy and Performance team. Policies that fall into the scope of this team mainly relate to employment regulation and corporate governance. Examples of these include: codes of conduct; disability; equality and diversity; grievance; and joiners and leavers.

On the Finance side, development of new or existing policies is delegated to a Finance team member upon identification of the need. There is no single person who has been designated with having the sole responsibility for this task. This is in response to the irregularity of development that is required in practice. Typical areas of policy that fall under the scope of the team include: Financial regulations, management and control; money laundering, and responses to fraud, bribery and corruption.

2.02 *HR development process*

To ensure that the Policy and Performance team are aware of policies and procedures that need to be created or amended, they rely on keeping their knowledge up to date through news sources and publications from the Chartered Institute of Personnel Development (CIPD). Ongoing communication with Trade Unions ensures that any future matters are brought into their consideration and knowledge. Additionally, for any guidance that is released, feedback is received from service managers on areas that should be clarified or developed further.

There has been a relatively recent change in strategic approach to the type of policies and guidance released. Formerly, relatively strict procedures were in place for handling different circumstances and issues. Emphasis has now been placed on a models and frameworks approach which allows individuals more flexibility in their actions or responses. Having framework policies containing only minimal detail provides additional protection for the Council through reducing the scope for an inadvertent management omission resulting in non-compliance, with all the detail being contained in accompanying guidance notes.

Depending on whether guidance or a policy is being produced, the path of development differs slightly. Initially, benchmarking and researching of what is required is performed and an initial draft is compiled before a review is completed by the HR manager. The draft is then circulated to the HR business partner teams, the Human Resource Service Centre and any other relevant parties for comment. For both policies and guidance, the final draft must first be submitted for approval to the Corporate Governance Senior Management Team. Policies also require further approval from the Corporate Management Team (CMT), whereas guidance is released to directors for comment. Once this stage has passed, both are submitted to the Trade Unions for consultation or comments. There is also involvement and consultation with internal stakeholders such as the end users where required. When larger policy changes are required, for example, managers from across the organisation may be asked to participate in research activities such as focus groups, to elicit views on how an existing policy is operating. Once finalised versions are agreed, there must be an 'equality and human rights impact assessment' produced for both. At this point, guidance is publicised and

implemented in practice. Policies require one further stage of approval by the relevant council committee and must be accompanied by a report explaining the background and details for consideration. Communication of newly implemented policies and guidance is achieved using a combination of: cascading the details by e-mail to managers/employees across services; placing a message on the Council's internal website (called 'The Zone') and through providing briefings or training. To track the entire process of all development work, the Policy and Performance team currently have a work schedule in place showing the current reviews. The intention is to develop this further into a 'master workplan' that lists all the forthcoming jobs and the delegation within the team, which will take the form of a database.

2.03 Finance development process

Identification of the requirement for new Finance policies and procedures is a collective responsibility of the Finance team. Considering this, the team carry out two tasks to ensure completeness of their knowledge of all regulatory policies. Firstly, they consult the guidance provided to them by the Chartered Institute of Public Finance and Accounting (CIPFA). There is ongoing communication between these two parties, with CIPFA also publishing best practice guidance. Secondly, benchmarking checks are performed against other Council's to ensure Aberdeen City Council's finance policies and procedures are in line with other local authorities.

The delegated member of the Finance team performs the task before an initial review is performed by a senior Finance team member. At this stage, it may be required that the policy or procedure is distributed to the legal or human resource teams. The document is then updated and reviewed based on the feedback and comments received. After this, the document is presented to the CMT for comment. Further amendments are made at this stage if necessary before consideration and approval is made by the relevant appropriate committee (e.g. Finance, Policy and Resources Committee). After the policy has been approved, communication of the new policy is achieved by use of the Council's internal website (called 'The Zone') and direct communication with budget holders who are often the ones that are most affected by any changes in Finance policy and procedure.

Scope and limitations of scope

2.04 The detailed scope of this review is set out in Appendix 2. We have undertaken a review of the design and operating effectiveness of the Council's Policy and Procedure controls.

3. Detailed findings and recommendations

3.01 HR management of information – Control design deficiency

Finding

Currently there is no central database containing administrative information on HR policies and procedures. However this is currently being developed. For example, information on the last review date of a policy or procedure can only be found by opening the document and looking for the date. Some policies are intended to be reviewed after certain periods of time and ensuring that this has been completed is therefore a time consuming task. Due to the decentralised nature of the information, it also creates difficulty in regard to identifying the latest version of a document and reasons for prior review.

Tracking policy development and reviews has been carried out using a standalone document. There is a need for a more sophisticated central progress tracker which details the stage of the work and planned completion dates. This can allow for enhanced workload management, sufficient senior management oversight and a snapshot reference guide of progress.

Risks

- Overreliance on a few individuals holding knowledge about policies and procedures;
- The Council may be unaware of the last time that policies were reviewed or updated;
- The Council may not be aware of whether the latest version of the documentation is the same one as on ‘the Zone’;
- No oversight can be provided by senior management as no information overview exists; and
- There is potential for development of policies or procedures to not be completed to timescales due to insufficient tracking of progress.

Action plan		
Finding rating	Agreed action	Responsible person / title
Low	<p>A central database of all policies and procedures will be developed.</p> <p>It is recommended that the database should at least contain information on:</p> <ul style="list-style-type: none"> • Type (e.g. policy or guidance); • Last review date; • Reason for last review; • Current version number/date; • Planned completion dates; • Current assignee of the work; and • Details on the progress of the development or review. 	<p>Jeff Capstick (Human Resource Manager)</p> <p>Keith Tennant (Team Leader, Policy and Performance)</p> <hr/> <p>Target date:</p> <p>30 August 2015</p>

3.02 Removal of superseded policies – Operational Deficiency

Finding		
We found that one finance policy ('Risk Strategy') sitting within the Corporate Policy and procedure development section of 'the Zone' was not removed after it was superseded in 2013. The operational replacement of superseded documentation is carried out by the IT team after instruction from finance. In this instance, it appears that the finance team have simply not communicated to IT that this policy requires removal.		
Risks		
Council staff may be following outdated policy and procedure due to old information not being removed.		
Action plan		
Finding rating	Agreed action	Responsible person / title
Low	The Finance team will perform routine checks to ensure that the intended communication of finance policy and procedure on the Council's internal website is complete and up to date.	Sandra Buthlay (Accounting Manager)
		Target date:
		Implemented

Appendix 1 – Agreed Terms of reference

Background

Aberdeen City Council has over 8000 employees working across the organisation and in performing their roles and responsibilities staff must comply with a wide variety of corporate policies and procedures. Therefore developing appropriate policies and procedures, and ensuring these are monitored and communicated effectively to staff, is important to the Council in ensuring that staff are aware of their roles and responsibilities.

Scope

We will review the design and operating effectiveness of the key controls in place to develop and communicate policy and procedures. The scope of our review will focus on corporate policies and procedures for the following sample of services: Human Resources and Organisational Development and Finance. The sub-processes included in this review are:

Sub-process	Control Objective
New policies and procedures	<ul style="list-style-type: none">• Responsibility for developing new policy and procedures is assigned appropriately.• Laws or regulations requiring new policy and procedures are identified.• New policy and procedures are developed in a timely manner when the need is identified.• Key stakeholders, internal and external, are consulted on new policy and procedures and their feedback considered in the development process.
Maintenance of policies and procedures	<ul style="list-style-type: none">• Responsibility for developing new policy and procedures is assigned appropriately.• Laws or regulations requiring changes in existing policy and procedures are identified.• Changes in existing policy and procedures are made in a timely manner when the need is identified.• Key stakeholders, internal and external, are consulted on changes in policy and procedures and their feedback considered in the amendment process.
Approval and communication of policies and procedures	<ul style="list-style-type: none">• New or revised policies and procedures are reviewed and approved by management and relevant Council committees.• New or revised policies and procedures are communicated to all affected staff and stakeholders in a timely manner.

Limitations of scope

The scope of our review is outlined above. This will be undertaken on a sample basis. 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.

Audit approach

Our audit approach is as follows:

- Obtain an understanding of the procedures in place through discussion with key personnel, review of documentation and walkthrough tests where appropriate.
- Identify the key risks in respect of policy and procedure development.
- Evaluate the design of the controls in place to address the key risks.
- Test the operating effectiveness of the key controls on a sample basis.

Appendix 2 – Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken a review of policy and procedure development, 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 to policy and procedure development is as at February 2015. 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.

In the event that, pursuant to a request which Aberdeen City Council has received under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), Aberdeen City Council is required to disclose any information contained in this document, it will notify PwC promptly and will consult with PwC prior to disclosing such document. Aberdeen City Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation. If, following consultation with PwC, Aberdeen City Council discloses any this document or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

This document has been prepared only for Aberdeen City Council and solely for the purpose and on the terms agreed with Aberdeen City Council in our agreement dated 4 October 2010. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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