

Internal Audit Annual Report 2014/2015

Aberdeen City Council

For year ended
31st March 2015

FINAL



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Distribution List	
For action	Audit, Risk and Scrutiny Committee
For information	Director of Corporate Governance

This document has been prepared only for Aberdeen City Council and solely for the purpose and on the terms agreed with Aberdeen City Council under our engagement letter dated 4th October 2010.

1. *Executive summary*

Introduction

This report outlines the internal audit work we have carried out for the year ended 31st March 2015.

The Public Sector Internal Audit Standards require the Head of Internal Audit to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control (i.e. the organisation's system of internal control). This is achieved through a risk-based plan of work, agreed with management and approved by the Audit Committee, which should provide a reasonable level of assurance, subject to the inherent limitations described below and set out in Appendix 1. The opinion does not imply that Internal Audit has reviewed all risks relating to the organisation.

The Audit, Risk and Scrutiny Committee agreed to a level of internal audit input of 563 days, of which 563 days were delivered.

Internal audit work was performed in accordance with PwC's Internal Audit methodology which is in conformance with the Public Sector Internal Audit Standards.

Head of Internal Audit Opinion

We are satisfied that sufficient internal audit work has been undertaken to allow an opinion to be given as to the adequacy and effectiveness of governance, risk management and control. In giving this opinion, it should be noted that assurance can never be absolute. The most that the internal audit service can provide is reasonable assurance that there are no major weaknesses in the system of internal control.

Opinion

Our opinion is as follows:

Adequate and effective	Improvement required	Major improvement required	Unsatisfactory
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There are weaknesses in the framework of governance, risk management and control which potentially put the achievement of organisational objectives at risk and there is non-compliance with controls that may put the achievement of organisational objectives at risk.

Improvements are required in those areas to enhance the adequacy and effectiveness of governance, risk management and control. Please see our Summary of Findings in Section 2.

Basis of opinion

Our opinion is based on:

- All audits undertaken during the year.
- Any follow up action taken in respect of audits from previous periods.

The commentary below provides the context for our opinion and together with the opinion should be read in its entirety.

Commentary

The key factors that contributed to our opinion are summarised as follows:

Whilst we have identified that there are improvements required in the framework of governance, risk management and control, we are clear that Aberdeen City Council is making improvement and that there is a good culture focused on risk and governance within senior management.

We have noted, during the year, that the Audit, Risk and Scrutiny Committee functions well and has improved in its understanding of risk and in the challenge it gives to Council Officers on internal audit findings. Officers have also embraced a risk-based approach to internal audit and are focused on continuous improvement, particularly as they address a challenging management agenda.

We have conducted eight reviews that have identified findings considered as high risk, these were; Continuous Financial Controls, Car Parking and Bus Lane Enforcement, Corporate Landlord Responsibilities, ALEO Tier 2 Review, Compliance with Laws and Regulations, Service Reviews – Adult and Older People, Aberdeen International Youth Festival – Following the Public Pound and Fleet Management. The areas we have deemed high risk are not pervasive to the Council's operations but do pose significant risks, and improvements are required to ensure objectives in these areas are met. The key findings within these reports are summarised in Section 2.

We have also identified a number of areas of good practice within individual reviews. Where good practice has been identified this is reflected within the final individual internal audit reports.

Acknowledgement

We would like to take this opportunity to thank Aberdeen City Council staff, for their co-operation and assistance provided during the year.

2. Summary of findings

Our annual internal audit report is timed to inform the organisation's Annual Governance Statements.

A summary of key findings from our programme of internal audit work for the year is recorded in the table below:

<i>Description</i>	<i>Detail</i>
<p>Overview</p> <p>We completed 27 internal audit reviews. This resulted in the identification of 17 high, 52 medium and 64 low risk findings to improve weaknesses in the design of controls and operating effectiveness.</p>	<p>All internal audit reviews have been completed in accordance with the approved Internal Audit Plan, subject to the amendments approved by the Audit, Risk and Scrutiny Committee, with the exception of the Assurance Mapping review that remains outstanding. As this review does not involve an assessment of existing controls, the fact that it remains outstanding does not impact on our ability to provide an annual opinion.</p> <p>Overall, our findings have allowed Officers to identify specific control weaknesses within their current systems and to address these to improve the efficiency and effectiveness of controls and processes.</p>
<p>Internal Control Issues</p> <p>During the course of our work we identified a number of weaknesses that we consider should be reported in your Annual Governance Statement.</p>	<ul style="list-style-type: none"> • Car Parking and Bus Lane Enforcement Review – The review identified that a control that had been in operation prior to the reorganisation now does not operate. This finding related to the need to confirm that the amount collected by the parking machines was the amount eventually banked by the third party contractor that banks the cash. • ALEO Tier 2 Review – Our review noted two high risk findings. The first identifies a lack of consideration of the risks to the Council of the relationship with two of the Arm's Length Organisations. The second found a lack of adherence to the Council's 'Following the Public Pound' Guidance. • Compliance with Laws and Regulations Review – Our review identified that a significant number of reports by Council Officers did not have evidence of being properly submitted to the Head of Legal and Democratic Services prior to consideration by Council Committees. This was in breach of the Council's Standing Orders for Committee reports. • Service Review – Adult and Older People – We noted two high risk findings. These related to the inadequacy of the reviewing of care needs for vulnerable adults and older people. We found that non-performance of review was widespread and further noted that there were inconsistencies in the understanding of what constituted a review

	<p>depending on the reviewer.</p> <ul style="list-style-type: none"> • Aberdeen International Youth Festival – Following the Public Pound – We noted two high risk findings these relate to an inappropriate relationship between the Council and the arm’s length organisation. The first relates to the level of involvement of ACC management in the governance of the Youth Festival and the second relates to the level of oversight of the funding of the Youth Council. This lack of oversight was due to the failure to submit financial reports. • Fleet Management Governance – We noted one high risk finding concerning the controls in operation over the Tranman fleet asset recording system. Our review highlighted significant concerns over the completeness and accuracy of the system as a result of failures in control around the acquisition and disposal of fleet assets and their recording on Tranman. This control failing was also noted as having an impact on the financial reporting of fixed assets in the Council’s financial statements.
<p>Follow up During the year we have undertaken follow up work on previously agreed actions.</p>	<p>We have followed up with management on the status of outstanding audit actions from internal audits completed in prior years. In total 112 actions were followed up on this year from prior year audit reports, of which 100 were identified as being implemented. Full details are included in Section 4 of this report.</p>
<p>Good practice We also identified a number of areas where few weaknesses were identified and / or areas of good practice.</p>	<p>Throughout our work we have identified areas of good practice and these have been noted in the relevant reports.</p>

3. Internal Audit work conducted

Introduction

The table below sets out the results of our internal audit work.

We also include a comparison between planned internal audit activity and actual activity.

Results of individual assignments

Review	Report classification	Number of findings			
		Critical	High	Medium	Low
Continuous Financial Controls Period 1 April 2014 to 30 September 2014	N/A	-	2	3	8
Continuous Financial Controls Period 1 October 2014 to 31 March 2015	N/A	-	3	8	8
Procurement Controls out with PECOS	Low	-	-	1	3
Car Parking and Bus Lane Enforcement	High	-	1	6	3
Pension Fund and Financial Controls and Pension Payroll	Medium	-	-	2	2
IT Disaster Recovery	Low	-	-	-	4
IT Security (Network and Perimeter)	Medium	-	-	2	1
IT Asset Management	Medium	-	-	2	2
Compliance with the Public Records (Scotland) Act – Phase 1	Low	-	-	1	-
Compliance with the Public Records (Scotland) Act – Phase 2	Medium	-	-	4	1
Management Information	Low	-	-	1	2
Procurement in Construction	Low	-	-	1	-
Corporate Landlord Responsibilities	Medium	-	1	1	1
Flooding and Coastal Risk Management	Medium	-	-	2	4
Corporate Policy and Procedures Development	Low	-	-	-	2
ALEO Tier 2 Review	High	-	2	3	-
Controls Assurance Mapping	N/A	-	-	-	-

Complaints Handling Process	Medium	-	-	2	3
Compliance with Laws and Regulations	High	-	1	3	-
Library Services (Self-Service Machines)	Low	-	-	-	3
Fraud Governance – Housing Tenancy and the Scottish Welfare Fund	Low	-	-	2	-
Service Reviews – Adult and Older People	High	-	2	1	-
Road Construction Consent	Low	-	-	-	4
CareFirst: Budgetary Controls and Forecasting	Medium	-	-	3	1
Section 75 Planning	Medium	-	-	2	3
Transport Contracts within Education and Social Care	Low	-	-	-	2
Parent Council Funds	Low	-	-	-	5
Aberdeen International Youth Festival – Following the Public Pound	High	-	2	1	2
Fleet Management Governance	Medium	-	1	1	-
Fleet Asset Verification	N/A	-	-	-	-
Devolved School Management	N/A	-	-	-	-
Total		-	17	52	64

Direction of control travel

<i>Finding rating</i>	<i>Trend between current and prior year</i>	<i>Number of findings</i>		
		<i>2014/15</i>	<i>2013/14</i>	<i>2012/13</i>
Critical	↔	-	-	-
High	↑	17	13	7
Medium	↑	52	38	32
Low	↓	64	68	26
Total	↑	133	119	65

Implications for management

Overall there has been an increase in the number of findings, particularly in the number of high and medium risk findings. However, as noted in our commentary to the Executive Summary, we have been specifically requested by senior management, and the Audit, Risk and Scrutiny Committee, to focus our internal audit work on areas of greater risk to the Council. This has naturally led us to identifying more significant findings in areas where we have made findings, given that these areas are of greater risk to the Council overall.

It is our view that management should work to implement the agreed actions that address the findings made in order to continue to strengthen the Council's internal controls in response to these significant risks.

Comparison of planned and actual activity

<i>Audit Review</i>	<i>Budgeted days</i>	<i>Actual days</i>
Continuous Financial Controls	75	75
Car Parking and Bus Lane Enforcement	12	12
School PTA Funds	12	12
Disaster Recovery	15	15
Security Review	20	20
Asset Management	15	15
Compliance with Public Records (Scotland) Act	20	20
Management Information	30	20
Procurement in Construction	15	15
Use of PECOS	25	25
New Schools Programme	25	-
Corporate Landlord Responsibilities	15	15
Flooding and Coastal Risk Management	10	10
Policy and Procedure Development	12	12
ALEO Review	25	25
Controls Assurance Mapping	20	40
Complaints Handling Process	12	12
Legal Services	15	15
Library Services	15	15
Fraud Governance within Housing and Environment	15	15
Service Reviews – Adult and Older People	15	15
Roads Construction	15	15
Care First Budgetary Control and Forecasting	20	20
Music Services	20	-
Taxi Contracts	20	20
Aberdeen International Youth Festival	-	10
Fleet Management	-	30
Section 75 Planning	-	20
Devolved School Management	-	10
Follow-up of Internal Audit Recommendations	25	25
Contingency Days	50	10
Total Budgeted Versus Actual	563	563

4. Follow up work conducted

Introduction

In order for the organisation to derive maximum benefit from internal audit, agreed actions should be implemented. In accordance with our internal audit plan, we followed up on all recommendations made in prior years to ascertain whether action had been taken. The table below summarises the follow up work performed.

Results of follow up work

Audit unit	Report Risk Rating	Number of agreed actions	Status of agreed actions			
			Implemented	Ongoing	Outstanding	Not yet due
2013/2014						
Fraud Governance Arrangements	Medium Risk	4	4	0	0	0
Pension payroll and pension fund financial controls	Low Risk	2	2	0	0	0
Staff Performance management	Medium Risk	4	4	0	0	0
Contract management - Social Care and Wellbeing	High Risk	3	2	0	1	0
Corporate travel arrangements	Medium Risk	5	5	0	0	0
Following the public pound	Medium Risk	5	5	0	0	0
European grant funding	Medium Risk	6	6	0	0	0
Fleet management	Low Risk	5	4	0	1	0
Regeneration	Medium Risk	3	3	0	0	0
Building Services – Phase 1	High Risk	9	9	0	0	0
Sport Aberdeen	High Risk	5	5	0	0	0
IT Third Party Management	Low Risk	2	2	0	0	0
IT -Project Nevis - tranche 1	Low Risk	3	3	0	0	0
Building Services – Phase 2 (Follow Up)	Low Risk	2	2	0	0	0
Community centres	High Risk	4	0	0	2	2
Stakeholder Engagement	Low Risk	4	2	0	0	2
Roads reinstatements by utility companies	Medium Risk	5	4	0	0	1
ICT Governance	Medium Risk	3	2	0	0	1
Aberdeen Western Peripheral Route	Low Risk	1	1	0	0	0
Sourcing and Management of Agency Staff	High Risk	5	5	0	0	0
Private Sector Housing	Medium Risk	6	6	0	0	0
Self-Directed Support	Medium Risk	4	4	0	0	0
2012/2013						

Arm's Length Organisations	High Risk	6	4	0	2	0
Homelessness Targets	Low Risk	3	3	0	0	0
Lone Workers Review	High Risk	8	8	0	0	0
2011/2012						
Capital and Repairs Management	High Risk	4	4	0	0	0
		112	100	0	6	6

Summary

We recommend that further work is conducted by Aberdeen City Council to ensure all previously agreed recommendations are implemented at the earliest opportunity.

Appendices

Appendix 1: Limitations and responsibilities

Limitations inherent to the internal auditor's work

Our work has been performed subject to the limitations outlined below.

Opinion

The opinion is based solely on the work undertaken as part of the agreed internal audit plan. There might be weaknesses in the system of internal control that we are not aware of because they did not form part of our programme of work, were excluded from the scope of individual internal audit assignments or were not brought to our attention. As a consequence management and the Audit Committee should be aware that our opinion may have differed if our programme of work or scope for individual reviews was extended or other relevant matters were brought to our attention.

Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. 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 Aberdeen City Council is for the period 1st April 2014 to 31st March 2015. Historic evaluation of effectiveness may not be 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.

The specific time period for each individual internal audit is recorded within section 3 of this report.

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, and our examinations as internal auditors should not be relied upon to disclose all fraud, defalcations or other irregularities which may exist.

Appendix 2: Opinion types

The table below sets out the four types of opinion that we use, along with an indication of the types of findings that may determine the opinion given. The Head of Internal Audit will apply his/her judgement when determining the appropriate opinion so the guide given below is indicative rather than definitive.

<i>Type of opinion</i>	<i>Indication of when this type of opinion may be given</i>
Adequate and effective	<ul style="list-style-type: none"> • Generally only low risk rated weaknesses found in individual assignments; and • None of the individual assignment reports have an overall report classification of either high or critical risk.
Improvement required	<ul style="list-style-type: none"> • Medium risk rated weaknesses identified in individual assignments that are <i>not significant in aggregate</i> to the system of internal control; and/or • High risk rated weaknesses identified in individual assignments that are <i>isolated</i> to specific systems or processes; and • None of the individual assignment reports have an overall classification of critical risk.
Major improvement required	<ul style="list-style-type: none"> • Medium risk rated weaknesses identified in individual assignments that are <i>significant in aggregate but discrete parts</i> of the system of internal control remain unaffected; and/or • High risk rated weaknesses identified in individual assignments that are <i>significant in aggregate but discrete parts</i> of the system of internal control remain unaffected; and/or • Critical risk rated weaknesses identified in individual assignments that are <i>not pervasive</i> to the system of internal control; and • A <i>minority</i> of the individual assignment reports may have an overall report classification of either high or critical risk.
Unsatisfactory	<ul style="list-style-type: none"> • High risk rated weaknesses identified in individual assignments that <i>in aggregate are pervasive</i> to the system of internal control; and/or • Critical risk rated weaknesses identified in individual assignments that are <i>pervasive</i> to the system of internal control; and/or • <i>More than a minority</i> of the individual assignment reports have an overall report classification of either high or critical risk.
Disclaimer opinion	<ul style="list-style-type: none"> • An opinion cannot be issued because insufficient internal audit work has been completed. This may be due to either: <ul style="list-style-type: none"> ○ Restrictions in the audit programme agreed with the Audit Committee, which meant that our planned work would not allow us to gather sufficient evidence to conclude on the adequacy and effectiveness of governance, risk management and control; or ○ We were unable to complete enough reviews and gather sufficient information to conclude on the adequacy and effectiveness of arrangements for governance, risk management and control.

Appendix 3: Basis of our classifications

Report classifications

The report classification is determined by allocating points to each of the findings included in the report

<i>Findings rating</i>	<i>Points</i>
<i>Critical</i>	40 points per finding
<i>High</i>	10 points per finding
<i>Medium</i>	3 points per finding
<i>Low</i>	1 point per finding

Report classification	Points
Critical risk	40 points and over
High risk	16– 39 points
Medium risk	7– 15 points
Low risk	6 points or less

Individual finding ratings

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

Appendix 3: Performance of internal audit

Key Performance Indicators

We agreed a suite of Key Performance Indicators (KPIs) with management and the Audit Committee. Our performance against each KPI is shown in the table below. These highlight the focus of our work and the standard attained:

<i>KPI</i>	<i>Target</i>	<i>Performance</i>
Terms of reference agreed 4 weeks prior to fieldwork	95%	72%
Planned fieldwork start date	95%	97%
Fieldwork completion date	95%	68%
Issuing draft reports for management comments (2 weeks completion of field work)	95%	82%
Receiving management comments (2 weeks after issuing draft report)	95%	51%
Issuing finalised reports (within 1 week of receiving final management response)	95%	100%
Final reports presented to the Audit and Risk Committee in accordance with the agreed timetable	100%	97%

Quality assurance and improvement programme

As part of our quality assurance and improvement programme we have agreed the above suite of KPIs as a mechanism to monitor our performance and identify areas for improvement. We also obtain feedback on an annual basis from the Audit, Risk and Scrutiny Committee in order to help us identify areas for further improvement. The Audit, Risk and Scrutiny Committee perform a formal assessment of the effectiveness of the Internal Audit function on an annual basis through which we can also measure our performance.



In the event that, pursuant to a request which Aberdeen city Council has received under the Freedom of Information Act 2000 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), it is required to disclose any information contained in this terms of reference, it will notify PwC promptly and consult with PwC prior to disclosing such information. 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 Act to such information. If, following consultation with PwC, Aberdeen city Council discloses any such information, 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.

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