

Aberdeen City Council

Interim Report

2014/15 Audit



Prepared for Aberdeen City Council
June 2015

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Key messages

This report is the summary of our findings arising from routine audit work around governance and internal controls carried out in the period to May 2015 as part of the 2014/15 audit of Aberdeen City Council.

We also followed up the risks highlighted in our 2013/14 Interim Report which was presented to the Audit and Risk Committee in June 2014. In 2012/13, we recommended low risk actions to tighten up the council's anti-fraud policies and reporting arrangements. These actions have not yet been addressed.

We reviewed the council's internal audit function and concluded that we could place reliance on their work. This enabled us to agree a strategy with internal audit for 2014/15 which minimised the duplication of audit resources and ensured audit coverage of all key financial control systems. With regard to the key financial controls which we tested during the year, we were generally satisfied with their operation during the 2014/15 financial year.

In 2013/14, we commented on the inconsistencies in performance information reported to committees both in terms of the frequency and currency of reporting and the comparative information used. A new committee structure was implemented in 2014/15 and work has started to produce performance information which will reflect these new roles and responsibilities. Longer term, plans are at an early stage to develop performance dashboards to support the new management structure. We will revisit this area as part of the 2015/16 audit.

Introduction

1. This report is a summary of our findings from routine audit work carried out in the period to May 2015 as part of the 2014/15 audit of Aberdeen City Council. The nature and scope of the audit were outlined in our Annual Audit Plan presented to the Audit, Risk and Scrutiny Committee (ARSC) in February 2015 and follows the requirements of Audit Scotland's Code of Audit Practice which was published in May 2011.
2. Our work covered the following areas:
 - governance arrangements
 - the operation of financial controls in key financial system.
3. Appendix A is an action plan setting out our recommendations from the audit. Officers have considered the issues and are taking the specific steps in the column headed "management action". The ARSC should ensure that they are satisfied with the proposed management action and that there is a mechanism in place to monitor progress.
4. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit, or of risks or weaknesses, does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
5. The co-operation and assistance given to us by officers and staff is gratefully acknowledged.

Governance

6. Through its chief executive, a council is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
7. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
 - corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption.
8. In this part of the report we comment on aspects of governance routinely covered within the annual audit.

Corporate Governance

9. Proposals to revise the structure of the corporate management team were approved by the council in May 2014. The number, roles and remits of directors were reviewed resulting in a '3+1' model where the 'plus one' is a joint role with NHS Grampian to take forward the health and social care integration agenda. In August 2014, the council agreed a revised committee structure to reflect the new service structure. We confirmed that the council has updated its Standing Orders, Scheme of Delegation and Financial Regulations to take account of the changes to committee structure.
10. A revised Risk Management Strategy was approved by the ARSC in February 2015. The strategy covers key areas such as roles and responsibilities, risk appetite and monitoring and reporting risks. In addition, an update on progress with the overall system of risk management was presented to the committee in February.

National Fraud Initiative

11. Audit Scotland routinely coordinates a major counter-fraud exercise working together with a range of Scottish public bodies, external auditors and the Audit Commission to identify fraud and error. These exercises, known as the National Fraud Initiative in Scotland (NFI), are undertaken every two years as part of the statutory audits of the participating bodies. The 2012/13 exercise identified outcomes totalling £10m across Scotland. The 2014/15 exercise commenced in October 2014 and councils received matches for review in early 2015. The national timetable anticipates that match investigation work should be largely completed by the end of September 2015.

12. We were required to review the council's arrangements for responding to NFI, particularly with regard to the council's approach to dealing with data matches in a timely fashion. In February 2015, the council changed its key contact for NFI to the Investigations Manager. This officer was however, involved in the transfer of benefit fraud cases to the Single Fraud Investigation Service with effect from 1 April 2015 and consequently, limited progress was made in following up matches, particularly high risk matches.

Refer Action Plan No. 1

Council Tax Single Person Discount to Electoral Register Matching

13. In addition to the 2014/15 exercise, councils were also expected to complete a data matching exercise comparing Council Tax Single Person Discount to the Electoral Register. The information for this exercise was expected to be submitted by councils in March 2014.
14. The relevant information for Aberdeen City Council was extracted in March 2014 but due to difficulties in formatting this extract so that it could be accepted by the online NFI database, it was not submitted until August 2014. In late October 2014, the council was contacted to say no data had been received. The council had initially understood that the Assessor's office would submit the Electoral Roll extract but after seeking clarification from NFI, the council submitted both the Council Tax Extract and the Electoral Roll Extract on 30 October 2014.
15. We reviewed the NFI database in April 2015 and found no evidence that matches had been followed up. The council has since informed us that they decided not to pursue investigation of the matches from the exercise due to the source data now being out date. The council is exploring the possibility of obtaining a new set of matches based on current data extracts.

Refer Action Plan No. 1

Follow up of Prior Year Risks

16. Our 2013/14 Interim Report identified a number of risks of which several had been carried forward from 2012/13 as they had not been implemented. Table 1 shows the current status:

Table 1: Follow up of Prior Year Risks - Governance and Accountability

Risk	Management Action/ Responsible Officer/ Agreed Date	Update/ Current Status
1. The procedures for responding to NFI matches should be updated prior to the start of the next exercise to ensure that all high risk data matches are followed up promptly.	High priority cases for Revenues and Benefits will be dealt with as a priority, including any follow up action with external bodies as required. Revenues & Benefits Manager Next NFI matching exercise - Autumn 2015	This action was not progressed and is superseded by the findings set out in paragraphs 11 to 15 earlier regarding the 2014/15 NFI exercise. Refer Action Plan No. 1

Risk	Management Action/ Responsible Officer/ Agreed Date	Update/ Current Status
<p>2. Although a central register of fraud or suspected fraud cases, whistleblowing cases or breaches of the Bribery Act framework has been established, the Audit and Risk Committee has not yet received a report summarising activity.</p>	<p>This will be added to the Matters under Investigation report as necessary and reported at least annually.</p> <p>Head of Legal & Democratic Services</p> <p>30 September 2014</p>	<p>Planned follow up action was reported to ARSC during the year but so far the action has not been implemented.</p> <p>OUTSTANDING - Refer Action Plan No. 2</p>
<p>3. The Fraud and Corruption Strategy should be refreshed and promoted to staff on a regular basis.</p>	<p>A revised policy is currently in draft form and requires further work to ensure it links cohesively with a number of other policies e.g. the financial regulations and managing performance. The intention is to include this policy with a suite of revised documents following the current restructure.</p> <p>Corporate Accounting Manager</p> <p>31 October 2014</p>	<p>A revised Fraud and Corruption Strategy has been circulated to Senior Managers but is not yet approved.</p> <p>OUTSTANDING - Refer Action Plan No. 2</p>
<p>4. There was no follow up by the Policy and Performance Section to ensure that the council's policy and procedures in relation to the Bribery Act have been properly implemented.</p>	<p>Completed risk assessments obtained for Corporate Governance. Other services are being worked on.</p> <p>Head of Legal & Democratic Services</p> <p>30 September 2014</p>	<p>Risk assessments are now substantially complete but we are unclear if the outcome of the assessments has highlighted areas which need to be addressed.</p> <p>OUTSTANDING - Refer Action Plan No. 3</p>
<p>5. In line with the Employee Code of Conduct, staff are responsible for declaring gifts or hospitality received. There may be merit in reviewing declaration processes within services including staff reminder systems.</p>	<p>Individual reminders given to Directors at 1-2-1 discussions. This will be highlighted as part of the launch of the new suite of policy documents.</p> <p>Head of Legal & Democratic Services</p> <p>31 October 2014</p>	<p>Gifts and hospitality declarations form part of the Financial Regulations which were refreshed and re-issued through the Zone (intranet) in Autumn 2014. Budgetholders are expected to cascade information to their teams.</p> <p>Action Completed</p>

Risk	Management Action/ Responsible Officer/ Agreed Date	Update/ Current Status
<p>6. Performance reports, both council wide and at service level, should be presented timeously and with comparable information to improve overall scrutiny.</p>	<p>Performance reporting to individual committees has developed differently, in some cases to suit the needs of particular committees. The Corporate Performance Management Group will review ongoing reporting and make recommendations as required.</p> <p>Community Planning & Corporate Performance Manager December 2014</p>	<p>Performance reports have been revised to reflect the remits for the new committee structure.</p> <p>The format of reports including the number of indicators provided continue to vary significantly across services. For example, comparison against target is used but trend information is not consistently used.</p> <p>OUTSTANDING - Refer Action Plan No. 4</p>
<p>7. "Aberdeen Performs" and the community planning website should be updated to provide users with information to assess how the council, its partners and services are performing.</p>	<p>The design of the community planning website is ongoing and will be populated with SOA performance data when this is complete. Aberdeen Performs is regularly updated, but it is noted that many indicators at this level are only available on an annual basis. The Corporate Performance Management Group is currently reviewing all public performance reporting.</p> <p>Community Planning & Corporate Performance Manager December 2014</p>	<p>Limited update in 2014/15. SPI data was up-to-date but benchmarking information was only available for the 2012/13 financial year.</p> <p>OUTSTANDING - Refer Action Plan No. 4</p>

Internal Financial Controls

17. International Standards on Auditing (ISAs) require evaluation of critical financial systems on an annual basis.
18. In order to gather assurances to support our opinion on the council's financial statements, we identified 10 key internal financial control systems which are listed in Table 2.
19. Our approach requires us to annually assess the key systems of internal control and how risks in these systems could impact on the financial statements. For each system identified, we undertake a short preliminary evaluation to obtain a general background of the system and to ascertain the key controls in operation. Where no significant change to a key internal financial control system has been identified, our approach allows us to rely on the results of any testing carried out in the previous 2 years. Where reliance is taken from previous testing, we are still however required to undertake a brief walkthrough of controls to confirm the operation of controls was as expected.
20. ISA 610, using the work of internal auditors, states that the external auditor shall determine whether the work of the internal auditors is likely to be adequate for the purposes of the audit and, if so, the planned effect of the work of internal auditors on the nature, timing or extent of the external auditor's procedures. Therefore we seek to rely on the work of internal audit wherever possible, to assist us in obtaining the assurances we require to support the financial statements.
21. Internal audit for the council is provided by PricewaterhouseCoopers. In respect of 2014/15, having concluded that reliance could be placed on their work, we agreed a strategy with internal audit which ensured sharing of the work between internal and external audit to avoid wherever possible duplication of audit resources and minimise the impact on officers.
22. Table 2 lists the internal financial control systems and summarises our testing work alongside where we agreed to take reliance from the work of Internal Audit in respect of 2014/15 continuous controls testing work. As reported to the ARSC, this has been split over 2 reporting periods, each covering 6 months of the financial year. The first report was considered by the committee in February 2015 and we anticipate that the findings for the second half of the financial year will be reported to the committee in June 2015. This will provide sufficient time for us to consider their findings before forming our opinion on the 2014/15 financial statements.

Table 2: Numbers of Key Controls Reviewed and Weaknesses Identified

Financial Control System	Controls Reviewed	Reliance on Prior Years	Control Weaknesses Identified	Reliance to be placed on Internal Audit?
General Ledger	7	0	0	Not Applicable
Payroll	3	0	0	✓
Accounts Payable	0	3	0	✓
Accounts Receivable	1	0	0	✓
Cash & Bank	1	0	0	✓
Treasury Management	1	0	0	✓
Fixed Assets	3	0	0	✓
Council Tax	1	2	1	✓
Non Domestic Rates	5	0	0	✓
Housing Rents	7	1	1	Not Applicable

23. The control weaknesses arising from our reviews were as follows:

Council Tax

- An annual property reconciliation is carried out between the Council Tax system and Assessors system. We confirmed that this reconciliation was carried out in October 2014 and that there was evidence that identified differences had been followed up. However, we found that there was no review of the reconciliation by senior management. A lack of management review increases the risk that reconciliations are not carried out or that any issues identified are not timeously followed up.

Refer Action Plan No. 5

Housing Rents

- Weekly checks are carried out between the housing rents system and the totals posted to the general ledger. These feed into a cumulative monthly reconciliation which provides a clearer picture of any differences between the systems and the stand alone weekly checks. However, we noted that there was no evidence that differences in the monthly reconciliations had been investigated. There is consequently a risk that significant differences between the system and ledger may not be picked up at an early stage.
- During the period since our audit fieldwork, monthly reconciliations have been reviewed and differences addressed as appropriate. We understand that this practice will now be carried out on a regular basis and consequently, the action we would have proposed has already been taken by the Finance Partner (Communities, Housing and Infrastructure).

Follow Up of Prior Year Risks

24. Our 2013/14 Interim Report highlighted a number of risks within the council's key financial control systems. Table 3 shows the current status of the action taken to address these risks.

Table 3: Follow Up of Prior Year Risks

Risk	Management Action/ Responsible Officer/ Agreed Date	Update/ Current Status
1. There is no standard procedure to check and confirm the legitimacy of requests to change supplier bank details.	A weekly report is run which details all changes made to suppliers including set up and by whom, which can be used to check and confirm changes. Financial Services Manager 31 July 2014	Internal Audit review of this control for first 6 months of the 2014/15 financial year was concluded satisfactorily. Action Completed
2. The reconciliation between the cash receipting system and the ledger for housing rents has not been carried out on a regular basis.	A number of reconciliations, including this one are currently being transferred to Accounting and this will be addressed within that process. Services Accounting Manager 31 October 2014	Our review confirmed the reconciliation had been carried out to the proscribed frequency. Action Completed
3. The monthly cumulative reconciliations between the Housing Rents system and the financial ledger have not been carried out on a regular basis.	This will be incorporated into the current process. Finance Partner (Housing & Environment) 31 August 2014	Our review confirmed the reconciliation had been carried out to the proscribed frequency. Action Completed
4. Period end management reports in respect of the general ledger were not signed off to evidence that relevant matters had been addressed.	This will be considered and incorporated into the current process as appropriate. Finance Manager (Systems) 30 June 2014	We reviewed period end management reports but did not identify evidence that these were being signed off to confirm relevant matters had been addressed. Since April 2015, reports are reviewed and signed off electronically. An email trail is retained to evidence the sign off process. Action Completed

Appendix A: Action Plan

Action Point	Refer Para No.	Recommendation	Management Action	Responsible Officer	Target date
1	12, 15 and 16	In order to benefit more from the NFI data matching exercise, the council should put plans in place to follow up high risk matches promptly.	The council recognises that the matches have not been reviewed as quickly as they should have been. The Corporate Fraud Team Manager became responsible for NFI in January. Work is underway with services to put new procedures in place to ensure the outstanding matches are reviewed as quickly as possible.	Revenues and Benefits Manager	31 October 2015
2	16	<p>The Fraud and Corruption Strategy should be refreshed and promoted to staff on a regular basis.</p> <p>As part of the refresh, arrangements should be put in place to provide the ARSC with an annual activity report summarising fraud/suspected fraud cases, whistleblowing cases and breaches of the Bribery Act. This report should also include any lessons learnt and action taken.</p>	<p>Strategy to be approved and promoted.</p> <p>Report to be prepared for the ARSC</p>	<p>Head of Finance</p> <p>Head of Legal & Democratic Services</p>	<p>30 September 2015</p> <p>31 March 2016</p>

Action Point	Refer Para No.	Recommendation	Management Action	Responsible Officer	Target date
3	16	Risk assessments undertaken in response to the requirements of the Bribery Act should be evaluated and addressed as appropriate.	Risk assessments to be evaluated and any issues highlighted to be addressed as appropriate.	Head of Legal & Democratic Services	31 December 2015
4	16	Plans should be formalised for the development of a consistent approach for reporting performance information to elected members and arrangements for the refresh of 'Aberdeen Performs'.	Proposals for implementing a consistent approach will be developed and presented to elected members for approval. 'Aberdeen Performs' is updated when performance data becomes available. A refresh is scheduled for 2015/16 to reappraise the method in which performance information is communicated to the public in light of developing corporate priorities.	Head of IT and Transformation Head of Communications and Promotion	31 March 2016 31 March 2016
5	23	Property reconciliations between council tax records and Assessors records should be evidenced that they have been reviewed by a second officer.	Property reconciliations to be timetabled (6 months) for August and February. Sign off on exceptions to be undertaken by senior management.	Revenues & Benefits Manager	30 September 2015