

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	27 June 2016
DIRECTOR	N/A
TITLE OF REPORT	Internal Audit Annual Report and Internal Financial Control Statement 2015/16
REPORT NUMBER	N/A
CHECKLIST COMPLETED	Yes

1. PURPOSE OF REPORT

The purpose of this report is to provide the Committee with Internal Audit's Annual Report and Internal Financial Control Statement for 2015/16.

2. RECOMMENDATIONS

It is recommended that the Committee:

- 2.1 Note the Internal Financial Control Statement for 2015/16;
- 2.2 Note that the Chief Internal Auditor has confirmed the organisational independence of Internal Audit;
- 2.3 Note that there has been no inappropriate limitation to the scope of Internal Audit work during 2015/16; and
- 2.4 Review, discuss and comment on the self-assessment undertaken as required by the Public Sector Internal Audit Standards.

3. FINANCIAL IMPLICATIONS

There are no financial implications arising as a result of this report.

4. OTHER IMPLICATIONS

There are no other implications arising as a result of this report.

5. BACKGROUND / MAIN ISSUES

- 5.1 It is one of the functions of the Audit, Risk and Scrutiny Committee to review the activities of the Internal Audit function, including its annual work programme. Internal Audit reports interim progress at each meeting of the Committee.
- 5.2 The Internal Audit plan for 2015/16 was agreed by the Audit, Risk and Scrutiny Committee on 26 February 2015. Each of the audits contained in the plan was allocated a certain number of days determined by the perceived complexity of the work, level of testing envisaged and expected outcome of the audit. The plan also included an allocation of time for dealing with additional work requests, providing advice to Services, and for investigations into suspected financial irregularities.
- 5.3 Appendix A to this report details the position relating to audits contained in the original 2015/16 plan. A number of audits have been deferred to 2016/17 as agreed by the Audit, Risk and Scrutiny Committee on 9 March 2016 and a further audit was postponed as reported to and approved by the Committee on 28 April 2016. Whilst this has limited the scope of Internal Audit work in relation to 2015/16, a number of additional audits were undertaken which have assisted in forming the annual Internal Audit opinion.
- 5.4 The 2015/16 Internal Audit plan was based on the Internal Audit Section being fully staffed during the year. However, the Section was operating at less than full establishment during the year due to: higher than usual sickness absence; a member of staff being called-up by the armed forces for a year from November 2015; and a further member of staff leaving the Council in January 2016. Whilst the Section ended the year at full establishment, it takes time for new staff to get up to speed. It is estimated that around 10% of the Section's capacity during the year was lost for these staffing reasons.
- 5.5 During 2015/16, a majority of recommendations made by Internal Audit were accepted which, if taken to full implementation, will improve the Council's internal control environment and, in some cases, result in more efficient and effective processes, and financial savings for the Council. Any failure to implement the more significant recommendations can have an impact on the overall Internal Audit opinion expressed in the annual Internal Financial Control Statement and the level of assurance that can be provided to those charged with governance. Internal Audit monitor the implementation of agreed recommendations on a regular basis with the results reported to each meeting of the Audit, Risk and Scrutiny Committee.
- 5.6 Despite the issues raised above, it is considered that sufficient work was completed during the year, or was sufficiently advanced by the

year-end, on which to base the conclusion drawn in the annual Internal Financial Control Statement. This is attached as Appendix B, and, despite some areas of concern having been raised during the year as detailed in the appendix, concludes that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control system in the year to 31 March 2016.

- 5.7 The Public Sector Internal Audit Standards (PSIAS) require that the Chief Internal Auditor report to Senior Management and the "Board" (the Audit, Risk and Scrutiny Committee) on the outcome of Internal Audit's Quality Assurance and Improvement Plan (QAIP). For 2015/16, a checklist developed by the Scottish Local Authorities Chief Internal Auditors Group for undertaking external peer reviews is being used to undertake the required self-assessment in assessing conformance with the PSIAS and the associated Local Government Application Note.
- 5.8 The checklist is a lengthy document, comprising a range of detailed questions, which leads to an assessment of 13 key areas of the PSIAS. Following completion of the self-assessment, the outcome was that Internal Audit either Fully or Generally Complies with all areas examined. Where General Compliance was recorded, actions have been determined with the intention of moving these areas to Fully Complies. These are detailed in Appendix D to this report. However, it should be noted that this is an internal self-assessment and that the external peer review, due to take place during 2016/17, may identify other areas that may need improvement to achieve compliance.
- 5.9 As part of reporting on the QAIP, there is a requirement to provide the Board with performance data. This has been a matter of great debate amongst practitioners in Scotland with little consensus reached on what should be measured. However, Internal Audit's performance data as it stands, and as agreed when approving the shared Internal Audit Service, is attached as Appendix C for discussion.
- 5.10 The Standards also require that Internal Audit confirms to the Board, at least annually, that it is organisationally independent. The organisational independence of Internal Audit is established through Financial Regulations (approved by the Finance, Policy and Resources Committee) and the Internal Audit Charter (approved by the Audit, Risk and Scrutiny Committee). Other factors which help ensure Internal Audit's independence are that: the Internal Audit plan is approved by the Audit, Risk and Scrutiny Committee; Internal Audit reports its outputs to Committee in the name of the Chief Internal Auditor; the Director of Corporate Governance and the Convenor of the Audit, Risk and Scrutiny Committee are invited to contribute to the Chief Internal Auditor's annual review (undertaken by Aberdeenshire Council's Director of Business Services); and, the outcome of the review is referred to the Director of Corporate

Governance.

- 5.11 There is also a requirement to report any instances where the scope of Internal Audit's work has been limited. During 2015/16, although there were limitations as detailed in paragraph 5.3, above, and in appendix A, there was no inappropriate limitation.

6. REPORT AUTHOR DETAILS

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APPENDIX A

2015/16 Audit Work:

Service	Audit Topic	Position
Corporate / Cross Service	Corporate Policies and Procedures	Complete March 2016
	Risk Registers	Complete November 2015
	Recruitment Procedures	Complete February 2016
	ALEOs	Complete February 2016
	Compliance with Procurement related Legislation and FRs	Complete June 2016
	Timesheets	Complete January 2016
	Following the Public Pound	Moved to 2016/17 (*)
	Data Protection	Moved to 2016/17 (*)
Corporate Governance	Creditors System	Complete November 2015
	Budget Setting Process	Moved to 2016/17 (*)
	Council Tax	Complete January 2016
	Bank Reconciliations	Draft report issued April 2016
	VAT	Cancelled (*)
	Budget Monitoring	Work in Progress – delayed due to year-end work being undertaken by Finance.
	Benefits – Council Tax Reduction	Complete April 2016
	Payroll System	Complete October 2015

Service	Audit Topic	Position
Education and Children's Services	Recruitment Procedures Secondary Schools Family Centres Teachers Payroll Out of Authority Placements	Complete February 2016 Complete April 2016 Draft report issued March 2016 Complete April 2016 Postponed at request of Service and agreed at Committee on 28 April 2016
Communities, Housing and Infrastructure	Rent Assessment Rent Collection Building Maintenance Procurement Sheltered Housing Vehicles Crematorium Tendering Procedures (Transportation) Trade Waste	Complete July 2015 Complete April 2016 Moved to 2016/17 (*) Complete February 2016 Complete April 2016 Complete December 2016 Moved to 2016/17 (*) Complete January 2016
Adult Social Work / IJB	Social Work Tendering Self Directed Support Pre-Integration Financial Assurance	Complete April 2016 Draft report issued March 2016 Complete January 2016
Additional Audits which helped inform the annual opinion	Council Tax Billing 2014/15 Craft Workers Terms and Conditions Payment Controls in Children's Social Work	Complete July 2015 Complete October 2015 Complete February 2016

Appendix B

Internal Audit Statement relating to Aberdeen City Council's Internal Control System for the year ended 31 March 2016

As Chief Internal Auditor of Aberdeen City Council, I am pleased to present my annual statement on the adequacy and effectiveness of the internal control system of the Council for the year ended 31 March 2016. The purpose of this statement is to assist the Head of Finance in forming his opinion in relation to the annual Governance Statement to be included in the Annual Accounts.

Opinion

It is my opinion, based on the following, that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control system in the year to 31 March 2016.

During the year, Internal Audit has concluded five audits that contained recommendations that were graded as "major". These related to: Recruitment Procedures, Trade Waste, Social Work Tendering, Payment Controls in Children's Social Work, and Craft Workers Terms and Conditions.

Recommendations made regarding the issues identified, with the exception of those made in the Recruitment Procedures audit relating to recruitment of Teachers were agreed with management. All recommendations have been reported to, and were supported by, the Audit, Risk and Scrutiny Committee. Internal Audit will be ascertaining progress with implementing these recommendations during 2016/17 and progress made by Services will help inform Internal Audit's annual opinion for 2016/17. In relation to the exception detailed above, the Audit, Risk and Scrutiny Committee took positive action by instructing management to report to the Education, Culture and Sport Committee and the Finance, Policy and Resources Committee in respect of the issues identified.

In addition to the above, areas of good practice, improvement, and procedural compliance have been identified and these have been detailed in individual assignment reports.

Basis of Opinion

My evaluation of the control environment is informed by a number of sources:

- The audit work completed by Internal Audit during the year to 31 March 2016;
- Progress made by Services with implementing agreed Internal Audit recommendations;
- The assessment of risk completed during the updating of the audit plan;
- Reports issued by the Council's external auditors; and
- Internal Audit's knowledge of the Council's governance, risk management and performance monitoring arrangements.

Respective responsibilities of management and internal auditors in relation to internal control

It is the responsibility of the Council's senior management to establish an appropriate and sound system of internal control and to monitor the continuing effectiveness of that system. It is the responsibility of the Chief Internal Auditor to provide an annual overall assessment of the robustness of the internal control system.

Sound internal controls

The main objectives of the Council's internal control systems are to:

- ensure adherence to management policies and directives in order to achieve the organisation's objectives;
- safeguard assets;
- ensure the relevance, reliability and integrity of information, so ensuring as far as possible the completeness and accuracy of records; and
- ensure compliance with statutory requirements.

Any system of control can only ever provide reasonable and not absolute assurance that control weaknesses or irregularities do not exist or that there is no risk of material errors, losses, fraud, or breaches of laws or regulations. Accordingly, the Council is continually seeking to improve the effectiveness of its systems of internal control.

The Work of Internal Audit

Internal Audit is an independent appraisal function established by the Council for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources.

The section undertakes an annual programme of work agreed with Service Directors and the Audit, Risk and Scrutiny Committee. The audit plan is based on a risk assessment process which is revised on an ongoing basis to reflect evolving risks and changes within the Council.

All Internal Audit reports identifying system weaknesses, non-compliance with expected controls, and / or assurance of satisfactory operation are brought to the attention of management and include appropriate recommendations and agreed action plans. It is management's responsibility to ensure that proper consideration is given to Internal Audit reports and that appropriate action is taken on audit recommendations. The Internal Auditor is required to ensure that appropriate arrangements are made to determine whether action has been taken on internal audit recommendations or that management has understood and assumed the risk of not taking action.

David Hughes, Chief Internal Auditor, Aberdeen City Council
21 April 2016

Appendix D

INTERNAL AUDIT PERFORMANCE MEASURES

PI	Description	Target	Actual 15/16
1	Percentage of planned audits commenced where the Service was given advance notice of commencement of field work	100%	100.00%
2	Percentage of current year audits (as adjusted through consideration of subsequent year's plan, see Note (1)) where draft report issued by deadline.	90%	29.17%
3	Percentage of current year audits (as adjusted) completed by end of current year.	65%	50.00%
4	Percentage of previous year audits (as adjusted) completed by end of current year.	100%	N/A
5	Percentage of current year audits (as adjusted) that were completed in the year within 110% of planned time allocated.	90%	53.85%
6	Percentage of previous year audits (as adjusted) that were completed within 110% of planned time allocated.	90%	N/A
7	Percentage of planned time taken for current year audits that were completed in the year	90 -110%	102.43%
8	Percentage of planned time taken for all previous year audits completed by end of current year	90 -110%	N/A
9	Percentage of recommendations accepted by management (See Note (2)).	95%	98.21%
10	Where management has not agreed recommendation, percentage who accept risk	100%	100.00%

Notes:

- (1) The adjusted number of audits in the plan for 2015/16 was 26.
- (2) The number of recommendations made by Internal Audit in 2015/16 was 168.

Commentary

Improvements in relation to indicators number 2 and 5 are being worked on by Internal Audit.

Appendix D

INTERNAL AUDIT IMPROVEMENT ACTION PLAN IDENTIFIED THROUGH COMPLETION OF PSIAS SELF-ASSESSMENT

IMPROVEMENT	IMPLEMENTATION DATE	ACTION BY
Review audit plan methodology to include specific reference to other sources of assurance.	March 2017	Chief Internal Auditor
Improve understanding and recording of risk when developing required testing.	September 2016	Senior Auditors
Improve understanding of systems and processes before planning testing required.	September 2016	Senior Auditors
Improve records maintained of meetings held to discuss systems subject to audit.	September 2016	Senior Auditors
Formally approve audit programmes before audit testing commences.	September 2016	Senior Auditors
Consider introduction of formal training records in addition to those held for Employee Annual Review and Career Development Scheme records.	September 2016	Chief Internal Auditor