

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	27 June 2017
TITLE OF REPORT	Internal Audit Annual Report and Internal Financial Control Statement 2016/17
REPORT NUMBER	IA/17/008
DIRECTOR	N/A
AUTHOR	David Hughes

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to provide the Committee with Internal Audit's Annual Report and Internal Financial Control Statement for 2016/17.

2. RECOMMENDATIONS

It is recommended that the Committee:

- 2.1 Note the Internal Financial Control Statement for 2016/17;
- 2.2 Note that the Chief Internal Auditor has confirmed the organisational independence of Internal Audit;
- 2.3 Note that there has been limitation to the scope of Internal Audit work during 2016/17; and
- 2.4 Note that no self-assessment has been undertaken as required by the Public Sector Internal Audit Standards as an external assessment is being completed by KPMG.

3. BACKGROUND / MAIN ISSUES

- 3.1 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.
- 3.2 The Internal Audit plan for 2016/17 was agreed by the Audit, Risk and Scrutiny Committee on 9 March 2016. 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.

- 3.3 Appendices A and B to this report detail the position with those audits carried forward from 2015/16, along with details relating to audits contained in the original 2016/17 plan. Some 2016/17 audits have been deferred as agreed by the Audit, Risk and Scrutiny Committee previously.
- 3.4 The 2016/17 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 the replacement leaving the Section before the substantive employee returned to duty; and the resignation and new appointment of one of the two Senior Auditors. However, the Section ended the year at full establishment. It is estimated that around 10% of the Section's capacity during the year was lost for these staffing reasons.
- 3.5 During 2016/17, 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.
- 3.6 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 C, 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 2017.
- 3.7 The Public Sector Internal Audit Standards (PSIAS) require that the Chief Internal Auditor report to Senior Management and the Board (the Scrutiny and Audit Committee) on the outcome of Internal Audit's Quality Assurance and Improvement Plan (QAIP).
- 3.8 For 2015/16, a checklist developed by the Scottish Local Authorities

Chief Internal Auditors Group for undertaking external peer reviews was used to undertake the required self-assessment in assessing conformance with the PSIAS and the associated Local Government Application Note. 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, for 2015/16, was that Internal Audit either Fully or Generally Complied with all areas examined. Where General Compliance was recorded, actions were determined with the intention of moving these areas to Fully Complies.

- 3.9 No internal self-assessment has been completed for 2016/17 as an external review is in the process of being completed by KPMG. The outcome of this review is scheduled to be reported to the Audit, Risk and Scrutiny Committee as a separate item in September 2017.
- 3.10 As part of reporting on the QAIP, there is a requirement to provide the Board with performance data. As has been reported previously, this has been a matter of debate amongst practitioners in Scotland with little consensus reached on what should be measured. However, Internal Audit's performance data, as it stands, is attached as Appendix D for discussion.
- 3.11 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; and, Internal Audit reports its outputs to Committee in the name of the Chief Internal Auditor.
- 3.12 There is also a requirement to report any instances where the scope of Internal Audit's work has been limited. During 2016/17, there have been a number of areas where Internal Audit's work has been limited:

- Internal Audit report AC1617 – Self-Directed Support:

“Although the Service has provided summary and detailed information and explanations on request, the scope of the audit has been restricted to a degree as the auditor was not granted access to CareFirst or the full detail of Support Plans and other records, due to concerns within the Service over compliance with data protection legislation. Whilst partial assurance has been obtained from the data and redacted documentation provided, there is a risk that omitted or redacted records could have contained information to confirm, add, or contradict

findings raised within this report. The Service has stated that information redacted was third party and personal information relating to service users families only, however Internal Audit cannot verify this without access to the original documentation.”

Note- The level of access that Internal Audit will have to the Care First System has now been agreed and is being arranged.

- Internal Audit report AC1709 – CareFirst System:

“As reported in previous Internal Audit reports the Service has not granted direct access to the live CareFirst system due to concerns over compliance with data protection legislation. Internal Audit has instead obtained assurance through examination of the processes and systems in place, discussion with key officers, redacted records provided by the CareFirst Team, and viewing data from the anonymised Test version of the system. Although the Service has stated that the Test and Live systems are directly comparable, restrictions on access to live data could have had an effect on the findings and the level of assurance obtained through the audit process.”

Note- The level of access that Internal Audit will have to the Care First System has now been agreed and is being arranged.

- Internal Audit report AC1716 – Timesheets and Allowances:

“6 rotas covering 58 staff were not provided as requested so no assurance can be provided regarding these.”

- Internal Audit report AC1717 – Compliance with Procurement Related Legislation and Internal Regulations:

“No response has been received from officers contacted relating to 13 of the sampled suppliers. Therefore, no assurance can be provided regarding the level of spend with each of these.”

- In addition to the above, Internal Audit’s regular progress reports have highlighted areas where progress has been delayed due to requested data or responses to draft reports not being provided and additional requests having to be made to secure the requested information.

3.13 Such instances impact on Internal Audit’s ability to progress planned work efficiently and within budget, and to provide those charged with governance the level of assurance required. At its meeting in February 2017, the Audit, Risk and Scrutiny Committee requested that the Chief Executive and Depute Chief Executive (Director of Corporate Governance) discuss the importance of responding to the

Internal Auditor with Senior Management to ensure information was presented in a timeous manner.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications arising from the recommendations of this report.

6. MANAGEMENT OF RISK

- 6.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are detailed in the resultant Internal Audit reports. Recommendations are made to address the identified risks and any that are considered to be “Major” are referred to in Internal Audit’s Statement on the Internal Control System (Appendix C).

7. IMPACT SECTION

- 7.1 **Economy** – The proposals in this report have no direct impact on the local economy.
- 7.2 **People** – There will be no differential impact, as a result of the proposals in this report, on people with protected characteristics. An equality impact assessment is not required because the reason for this report is for Committee to discuss and comment on Internal Audit’s annual report, performance measures and Internal Financial Control Statement. The proposals in this report will have no impact on improving the staff experience.
- 7.3 **Place** – The proposals in this report have no direct impact on the environment or how people friendly the place is.
- 7.4 **Technology** – The proposals in this report do not further advance technology for the improvement of public services and / or the City as a whole.

8. BACKGROUND PAPERS

- 8.1 All Internal Audit reports as detailed in Appendices A and B.

9. APPENDICES

- 9.1 Appendix A – 2015/16 Audit Work carried forward into 2016/17.
- 9.2 Appendix B – 2016/17 Audit Work.

- 9.3 Appendix C – Internal Audit Statement relating to Aberdeen City Council's Internal Control System for the year ended 31 March 2017
- 9.4 Appendix D – Internal Audit Performance Measures.

10. REPORT AUTHOR DETAILS

David Hughes, Chief Internal Auditor
David.Hughes@aberdeenshire.gov.uk
(01224) 664184

APPENDIX A

2015/16 Audit Work carried forward into 2016/17:

Service	Audit Topic	Position
Cross Service	Compliance with Procurement related Legislation	Complete June 2016
Corporate Governance	Bank Reconciliations	Complete November 2016
	Benefits – Council Tax Reduction	Complete April 2016
	Budget Monitoring	Complete November 2016
Education and Children's Services	Family Centres	Complete July 2016
	Secondary Schools	Complete April 2016
	Teachers Payroll	Complete April 2016
Communities, Housing and Infrastructure	Housing Rent Collection	Complete April 2016
	Vehicle and Driver Records	Complete April 2016
Adult Social Work / IJB	Self-Directed Support	Complete October 2016
	Social Work Tendering Procedures	Complete April 2016

APPENDIX B

2016/17 Audit Work:

Service	Audit Topic	Position
Cross Service	Council Owned Land and Property	Complete February 2017
	ALEOs	Draft report issued April 2017
	Compliance with Procurement related Legislation	Complete February 2017
	Timesheets / Allowances	Complete January 2017
	Following the Public Pound	Complete November 2016
	Data Protection	Complete September 2016
Corporate Governance	Infosmart System	Complete August 2016
	Budget Setting Process	Complete May 2017
	Treasury Management	Complete February 2017
	Business Rates	Complete October 2016
	Cash Receipting System	Complete November 2016
	Scottish Welfare Fund	Complete August 2016
	Benefits	Draft report issued April 2017
	Disclosure Checks	Draft report issued April 2017
	Agency Staff	Complete February 2017
Education and Children's Services	Public Records (Scotland) Act	Complete August 2016
	Commissioning of Children's Social Work Services	Moved to 2018/19 (*)
	Primary Schools	Complete February 2017
	Fostering and Adoption Allowances	Moved to 2018/19 (*)

Service	Audit Topic	Position
Communities, Housing and Infrastructure	Building Maintenance Procurement	Complete August 2016
	Cleaning Payroll	Complete June 2016
	Vehicle and Driver Records	Complete March 2017
	Internal Transport Tendering Procedures	Moved to 2017/18 (*)
	Roads Payroll	Complete August 2017
Adult Social Work / IJB	Purchasing and Creditors Procedures	Complete November 2016
	CareFirst System	Complete November 2016

(*) = As requested by Services and agreed at the Audit, Risk and Scrutiny Committee on 23 February 2017

Appendix C

Internal Audit Statement relating to Aberdeen City Council's Internal Control System for the year ended 31 March 2017

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 2017. 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 2017.

However, as with the year to 31 March 2016, some significant concerns have been identified throughout the year. Recommendations graded as "major" have been made in 5 reports in 2016/17: Budget Monitoring, Compliance with Procurement Related Legislation (2015/16 and 2016/17 audits), Adult Social Work Purchasing and Creditors Procedures, and Agency Staff. Recommendations made regarding the issues identified were either agreed by management or the Audit, Risk and Scrutiny Committee sought, and were satisfied with, management assurances.

In addition, there were limitations to the scope of planned Internal Audit work. These limitations relate to not being permitted access to records held within the Care First system (with data being provided to Internal Audit by officers), and requested information not being provided during audits, thereby limiting the level of assurance that could be provided. These issues impacted on audits of Self-Directed Support, the Care First System, Timesheets and Allowances, and Compliance with Procurement Related Legislation (2016/17 audit).

Whilst the above issues occurred, areas of good practice, improvement, and procedural compliance were also 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 2017;
- 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 2017

Appendix D

INTERNAL AUDIT PERFORMANCE MEASURES

PI	Description	Target	Actual 2016/17	Actual 2015/16
1	Percentage of planned audits commenced where the Service was given advance notice of commencement of field work.	100%	100.00%	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%	72.73%	29.17%
3	Percentage of current year audits (as adjusted) completed by end of current year.	65%	73.08%	50.00%
4	Percentage of previous year audits (as adjusted) completed by end of current year.	100%	100.00%	N/A
5	Percentage of current year audits (as adjusted) that were completed in the year within 110% of planned time allocated.	90%	73.68%	53.85%
6	Percentage of previous year audits (as adjusted) that were completed within 110% of planned time allocated.	90%	51.24%	N/A
7	Percentage of planned time taken for current year audits that were completed in the year.	90 - 110%	106.34%	102.43%
8	Percentage of planned time taken for all previous year audits completed by end of current year.	90 - 110%	113.37%	N/A

PI	Description	Target	Actual 2016/17	Actual 2015/16
9	Percentage of recommendations accepted by management (See Note (2)).	95%	97.06%	98.21%
10	Where management has not agreed recommendation, percentage who accept risk.	100%	100.00%	100.00%

Notes:

- (1) The adjusted number of audits in the plan for 2015/16 was 26, and for 2016/17 was 26.
- (2) The number of recommendations made by Internal Audit in 2015/16 was 168, and for 2016/17 was 340.

Commentary

Improvements have been made in most areas when comparing 2016/17 performance against that of 2015/16 and efforts are being made within Internal Audit to improve performance against these measures further.