

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk & Scrutiny
DATE	23 rd November 2017
REPORT TITLE	Internal Audit Public Sector Internal Audit Standards
REPORT NUMBER	OCE/17/026
LEAD OFFICER	Fraser Bell
REPORT AUTHOR	Martin Murchie

1. PURPOSE OF REPORT:-

- 1.1 This report presents proposed actions to be taken in response to recommendations made by KPMG following the review of the Council's arrangements for internal audit.

2. RECOMMENDATION(S)

- 2.1 that the Committee:-

- (a) note the recommendations made by KPMG with respect to the Council's Internal Audit function together with the management response to those recommendations; and
- (b) agree the actions identified in Appendix A to this report.

3. BACKGROUND/MAIN ISSUES / OTHER HEADINGS AS APPROPRIATE

- 3.1 Every local authority internal audit function must be externally assessed against the Public Sector Internal Audit Standards (PSIAS) once every 5 years. In 2017 Aberdeen City Council engaged KPMG to undertake a review of our existing function (shared with Aberdeenshire Council) covering the PSIAS requirements as well as making comparisons to best practice for an entity listed on the London Stock Exchange. KPMG's report was received and officers have reviewed the report and its recommendations.
- 3.2 The Council's Internal Audit service is provided by Aberdeenshire Council. Following receipt of KPMG's report, joint discussions were held with colleagues from Aberdeenshire Council. The specific

recommendations made by KPMG, together with a proposed management response and details of the specific actions proposed in response to the recommendations are attached as Appendix A to this report. The proposed management response has been agreed by Aberdeen City Council officers; Aberdeenshire Council; and the Chief Internal Auditor. If the Committee agree the proposed actions, progress with their implementation will be monitored and reported to future meetings of the Committee.

4. FINANCIAL IMPLICATIONS

4.1 There are no direct financial implications arising from 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 There are no identified material Financial, Employee, Customer / citizen, Environmental, Technological, Legal or Reputational risks which would result from the approval of the recommendations in this report. The actions and recommendations contained in the report are a response to identified risks and are designed to mitigate these.

7. IMPACT SECTION

7.1 There is impact on the Council's governance arrangements through improved assurance in areas of identified risk.

8. BACKGROUND PAPERS

8.1 KPMG Report on Aberdeen City Internal Audit Function.

9. APPENDICES (if applicable)

9.1 Appendix A - Recommendations, Management Response and Action Plan.

10. REPORT AUTHOR DETAILS

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KPMG – Public Sector Internal Audit Standards Review

	Recommendation	Accepted?	Draft Management Response	
1	<p>The CIA should clearly link the presented audit plan to the Council risk register and ensure that the key risk areas are being reviewed throughout a defined period, which we recommend is represented in a three year strategic audit plan. The internal audit planning process should start earlier in the year with a view to the draft internal audit plan being presented to ARSC in November to enable discussion and a final plan being brought to the March meeting for approval.</p>	<p>Accepted in part</p>	<ol style="list-style-type: none"> 1) Future Audit Plans will be clearly linked to the Council’s risk registers. This information is already held within Internal Audit but will be included in reporting to Committee. 2) There is a shared ambition to move to a multi-year Audit Plan. Officers believe this would be helpful, but recognise that rolling review of a 3 year Plan will see significant movement over the period as risks are continuously identified and assessed. Given the significant change underway within the Council it is proposed that the Audit Plan for 2019/20 include a draft schedule of reviews for the 2020/21 and 2021/22. 3) Officers agree that the annual audit planning process, building upon a multi-year Plan, should start early in the year and, indeed the Plan and risks must be kept under continuous review. It is believed, however, that the variables which will influence the Plan, including the results of both internal and external audit and inspections conducted in the current year, may militate 	<p>Chief Internal Auditor February 2018</p> <p>Chief Internal Auditor February 2019</p> <p>Chief Internal Auditor June 2018</p>

			against submission of a draft Plan as early as November. Planning would, in effect, need to begin in July / August.	
2	<p>The two Council bodies should develop an agreed set of KPIs which can be measured and monitored at a senior management level. These should also be reviewed and shared with the ARSC.</p> <p>There should be qualitative and quantitative metrics included within the SLA. Metrics can be two way i.e. include the obligations on ACC in terms of access, engagement and responses. Performance against these metrics should be measured at least six monthly.</p>	Accepted	The Internal Audit function does monitor its performance through KPIs. These will be jointly reviewed by the Chief Internal Auditor and Head of Legal Services and reported regularly to the Audit, Risk & Scrutiny Committee.	<p>Chief Internal Auditor and Head of Legal and Democratic Services</p> <p>April 2018</p>
3	<p>The CIA and senior management/ARSC should agree a detailed scope of work in advance of each review which is based on key risk areas for the Council or emerging areas where independent review is welcomed. Any work carried out should directly tie back to the scope and be referenced as such in the audit reports. Where management would like specific areas excluded from scope, there should be a good reason for doing so and this should be agreed with the CIA in advance. This</p>	Accepted in part	The scope of work is currently discussed with management prior to commencing an audit, with management's input being sought and welcomed. The process for obtaining this input will be formalised. The auditor will continue to review relevant areas aligned with the scope, highlight any material governance or internal control issues identified as a result of their work (regardless of whether they are considered in-scope or not by management), and report any areas where limitations have been placed on their review (or reporting).	<p>Chief Internal Auditor Head of Legal and Democratic Services</p> <p>April 2018</p>

	should then be referenced in the scope document.			
4	<p>The CIA and Director of Corporate Governance (or individual defined as the internal audit sponsor) should arrange regular one to one discussions to discuss performance, any obstacles to completing the work and upcoming audits.</p> <p>The CIA should meet with the convenor of the ARSC on a quarterly basis, to provide a route to discuss any concerns if relevant.</p>	Accepted	<p>Monthly one-to-one meetings have now been scheduled between the Head of Legal and Democratic Services and the CIA.</p> <p>Additional planning meetings have also been scheduled which include the Convenor / Vice-Convenor which provide the route to discuss any relevant concerns.</p>	<p>Head of Legal and Democratic Services</p> <p>Implemented</p>
5	<p>Feedback should be sought from customers of the IA function on a periodic basis and this should be built into a continuous improvement process which is evaluated by senior management. The CIA should seek feedback in order to build in training objectives for auditors.</p>	Accepted	<p>The CIA and Head of Legal Services will jointly explore the most appropriate way of seeking feedback from IA customers and will advise the Audit, Risk & Scrutiny Committee accordingly.</p>	<p>Chief Internal Auditor and Head of Legal and Democratic Services</p> <p>April 2018</p>
6	<p>Senior stakeholders within the Council and the CIA should arrange regular meetings to discuss ongoing risk areas and projects within each service area.</p> <p>The formality of such meetings would vary depending on the level of change within the Council.</p>	Accepted	<p>The CIA has been invited to attend monthly CMT meetings.</p>	Implemented
7	<p>The ARSC should consider the internal audit plan together with the corporate risk</p>	Accepted	<p>During the preparation of the 2018/19 IA planning process, Council officers, in</p>	<p>The Proposed Internal Audit Plan for 2018/19 will</p>

	<p>register to ensure there is sufficient assurance coverage of all risks. Where there is insufficient specialist capability in the IA function then the ARSC should commission further expertise to provide independent assurance specifically over the key risks. The CIA should consider recruitment of a technical auditor, particularly with up to date IT qualifications and experience.</p>		<p>conjunction with the CIA, will assess the Council's risk and assurance framework, in the light of a significantly changing environment, including the requirement to comply with the rules of the London Stock Exchange, and the potential role of internal audit in providing assurance. This will help inform both the CIA and the Audit, Risk and Scrutiny Committee on any requirement for specialist capability. Should it be determined that specialist capability is required, options for engaging it will be brought forward.</p>	<p>be presented to the Audit Risk and Scrutiny Committee on 22 February 2018</p>
8	<p>It is recommended that the format of IA reports is reviewed to ensure that it meets the requirements of the ARSC and the key senior stakeholders of the Council. Key points for review should include:</p> <ul style="list-style-type: none"> i. A clear measure of materiality and classification of findings which are defined in the charter. ii. Potential introduction of an overall report grading. iii. Introduction of an executive summary. 	<p>Accepted in part</p>	<p>In light of the substantially changed membership of the Audit, Risk and Scrutiny Committee, following the 2017 local government elections, it is proposed to engage with the Committee on the nature and level of reporting required.</p>	<p>Chief Internal Auditor April 2018</p>

9	<ul style="list-style-type: none"> i. The Council Management Team should ensure that IA is given unrestricted access to any system used by the Council to ensure it can discharge its authority appropriately. ii. IA should consider investing in audit software to increase the efficiency of the audit process. iii. IA should also work with the Information Technology department to understand if it can deploy CAATs techniques to improve the coverage and efficiency of each review. 	Accepted	<ul style="list-style-type: none"> i. Complete as reported to last the Audit, Risk & Scrutiny Committee in June 2017. ii/iii. The IA Team makes significant use of interrogative software and the CIA will give ongoing consideration to any further requirements 	<p>Implemented</p> <p>Chief Internal Auditor</p> <p>On-going</p>
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