

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	26 June 2018
REPORT TITLE	Internal Audit Annual Report and Internal Financial Control Statement 2017/18
REPORT NUMBER	IA/18/011
DIRECTOR	N/A
REPORT AUTHOR	David Hughes
TERMS OF REFERENCE	2.3

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to provide the Committee with Internal Audit's Annual Report for 2017/18.

2. RECOMMENDATIONS

It is recommended that the Committee:

- 2.1 Note the Annual Report for 2017/18;
- 2.2 Note that the Chief Internal Auditor has confirmed the organisational independence of Internal Audit;
- 2.3 Note that there has been no limitation to the scope of Internal Audit work during 2017/18; and
- 2.4 Note that during the year, KPMG completed an External Quality Assessment of Internal Audit that has already been reported to Committee.

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 2017/18 was agreed by the Audit, Risk and Scrutiny Committee on 23 February 2017. 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 2016/17, along with details relating to audits contained in the original 2017/18 plan. Some 2017/18 audits have been deferred as agreed by the Audit, Risk and Scrutiny Committee previously.
- 3.4 The 2017/18 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; the resignations of three Assistant Auditors all of whom were replaced on temporary contracts to 31 March 2018. 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 2017/18, 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 monitors 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 framework of governance, risk management and internal control system in the year to 31 March 2018.
- 3.7 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).
- 3.8 For 2017/18, an external review of the Council's Internal Audit arrangements was completed by KPMG. The outcome of the review was reported to the Audit, Risk and Scrutiny Committee on 23 November 2017.
- 3.9 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 full Council) 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.

- 3.10 There is also a requirement to report any instances where the scope of Internal Audit's work has been limited. During 2017/18, there have been no such limitations.

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 Internal Audit follows up progress with implementing those that are agreed with management. Those not implemented by their agreed due date are detailed in the attached appendices.

7. OUTCOMES

- 7.1 There are no direct impacts, as a result of this report, in relation to the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place, or Enabling Technology, or on the Design Principles of the Target Operating Model.
- 7.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council's framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

8. IMPACT ASSESSMENTS

Assessment	Outcome
Equality & Human Rights Impact Assessment	An assessment is not required because the reason for this report is for Committee to consider Internal Audit's annual report. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics.
Privacy Impact Assessment	Not required
Duty of Due Regard / Fairer Scotland Duty	Not applicable

9. APPENDICES

- 9.1 Appendix A – 2016/17 Audit Work carried forward into 2017/18.
- 9.2 Appendix B – 2017/18 Audit Work.
- 9.3 Appendix C – Internal Audit Statement relating to Aberdeen City Council's Internal Control System for the year ended 31 March 2018
- 9.4 Appendix D – Internal Audit Performance Measures.

10. REPORT AUTHOR DETAILS

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APPENDIX A

2016/17 Audit Work carried forward into 2017/18:

Service	Audit Topic	Position
Cross Service	ALEOs	Complete August 2017
Corporate Governance	Budget Setting Process	Complete May 2017
	Benefits	Complete July 2017
	Disclosure Checks	Complete August 2017

APPENDIX B**2017/18 Audit Work:**

Service	Audit Topic	Position
Cross Service	Attendance Management	Complete August 2017
	Capital Plan	Complete April 2018
	Travel Costs	Complete October 2017
	Business Continuity Planning	Complete August 2017
	Bond Governance	Complete February 2018
Corporate Governance	PECOS System	Complete March 2018
	Fixed Asset Register	Work in progress – delayed as reported to Committee in May 2018.
	Financial Ledger System	Complete March 2018
	YourHR	Complete February 2018
	Major IT Business Systems	Complete December 2017
	Training for Councillors	Complete January 2018
Education and Children's Services	Out of Authority Placements	Complete April 2018
	Pre-School Commissioned Places	Complete December 2017
	Placing Requests	Complete November 2017
	Health and Safety - SSERC	Complete September 2017
	Community Care – Children and Young People	Complete February 2018

Service	Audit Topic	Position
Communities, Housing and Infrastructure	Housing Support Budget	Complete April 2018
	Building Maintenance Stocks	Complete August 2017
	Craft Workers Payroll	Deferred to 2018/19 as agreed by Committee on 23 November 2017.
	Corporate Landlord Responsibilities	Complete September 2017
	Stores Purchasing	Draft report issued April 2018
	Capital Contracts	Complete February 2018
	Vehicle Maintenance Workshops	Complete October 2017
	Internal Transport Tendering	Work in progress – delayed as reported to Committee in May 2018.
	Vehicle Usage	Complete January 2018
Adult Social Work / IJB	Social Work Payroll	Complete January 2018
	Social Work Financial Assessments	Complete February 2018
	Care Management	Complete April 2018
	Social Work Transport	Complete September 2017

Appendix C

Internal Audit Statement relating to Aberdeen City Council's Internal Control System for the year ended 31 March 2018

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 2018. The purpose of this statement is to assist the Chief Officer – Finance in forming the required 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 framework of governance, risk management and control in the year to 31 March 2018.

However, as in previous years, some significant issues have been identified throughout the year. One recommendation graded as "major" was made in reports concluded in the year (compared with five in 2016/17). This related to procurement issues. The overall number of recommendations made fell from 340 in 2016/17 to 274 in 2017/18 and, although most were agreed by management there have been delays with implementing a significant number of these as reported on a regular basis to the Audit, Risk and Scrutiny Committee and, more recently, the Corporate Management Team.

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 2018;
- 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
1 May 2018

Appendix D

INTERNAL AUDIT PERFORMANCE MEASURES

PI	Description	Target	Actual 2017/18	Actual 2016/17
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%	78.57%	72.73%
3	Percentage of current year audits (as adjusted) completed by end of current year.	65%	79.31%	73.08%
4	Percentage of previous year audits (as adjusted) completed by end of current year.	100%	100.00%	100.00%
5	Percentage of current year audits (as adjusted) that were completed in the year within 110% of planned time allocated.	90%	52.17%	73.68%
6	Percentage of previous year audits (as adjusted) that were completed within 110% of planned time allocated.	90%	62.14%	51.24%
7	Percentage of planned time taken for current year audits that were completed in the year.	90 - 110%	108.48%	106.34%
8	Percentage of planned time taken for all previous year audits completed by end of current year.	90 - 110%	111.70%	113.37%

PI	Description	Target	Actual 2017/18	Actual 2016/17
9	Percentage of recommendations accepted by management (See Note (2)).	95%	99.66%	97.18%
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 2016/17 was 26, and for 2017/18 was 29.
- (2) The number of recommendations made by Internal Audit in 2016/17 was 340, and for 2017/18 was 274.

Commentary

Improvements have been made in most areas when comparing 2017/18 performance against that of 2016/17, although more audits exceeded their anticipated budget. Efforts are being made within Internal Audit to improve performance against these measures further.