

ABERDEEN CITY COUNCIL

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| COMMITTEE | Audit, Risk and Scrutiny Committee |
| DATE | 26 June 2018 |
| REPORT TITLE | Internal Audit Planning |
| REPORT NUMBER | IA/18/012 |
| DIRECTOR | N/A |
| REPORT AUTHOR | David Hughes |
| TERMS OF REFERENCE | 2.2 |

1. PURPOSE OF REPORT

- 1.1 To discuss the methodology and timing for future Internal Audit Plans.

2. RECOMMENDATION

- 2.1 It is recommended that the Committee review, discuss and comment on the issues raised within this report.

3. BACKGROUND / MAIN ISSUES

- 3.1 During 2017, the Council's external auditor, KPMG, completed a review of the Council's Internal Audit arrangements. The review was commissioned by Council management to satisfy the Public Sector Internal Audit Standards requirement of having an external assessment at least once every five years as well as to make comparisons to best practice for an entity listed on the London Stock Exchange. This replaced the Aberdeen City Council element of a planned review of the Shared Internal Audit Service that was to be completed through arrangements put in place by the Scottish Local Authorities Chief Internal Auditors' Group.
- 3.2 One of the recommendations that came out of the KPMG review was as follows:

Recommendation

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.

- 3.3 The above recommendation was reported to the Audit Risk and Scrutiny

Committee on 23 November 2017 with actions as follows:

| No. | Management Response | Action by |
|-----|---|---|
| 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. | Chief Internal Auditor February 2018 |
| 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 2020/21 and 2021/22. | Chief Internal Auditor February 2019 |
| 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 against submission of a draft Plan as early as November. Planning would, in effect, need to begin in July / August. It is proposed that the Chief Internal Auditor submit a timetable for preparation of the Annual Plan to the Audit, Risk & Scrutiny Committee setting out the benefits and disbenefits, and alternatives, to an early submission of a draft Plan in November. | Chief Internal Auditor June 2018 |

3.4 Action number 1 was addressed when the Internal Audit Plan for 2018/19 was discussed and agreed by the Audit, Risk and Scrutiny Committee on 22 February 2018. This report addresses action number 3 and has an impact on action number 2.

3.5 When the Shared Internal Audit Service presented its first Internal Audit plan for Aberdeen City Council, relating to 2015/16, to the Audit, Risk and Scrutiny Committee in February 2015, it was stated that it was planned to have rolling three year plans in future. This objective was also stated when the 2016/17 and 2017/18 plans were approved, although it was noted that this had not yet proved possible. When the 2018/19 plan was approved by the Committee in February 2018, it was stated that it was proposed to develop a draft schedule of reviews for 2020/21 and 2021/22 when the 2019/20 plan is presented to Committee.

3.6 Having considered and reflected on the process of developing the 2018/19 plan in more detail, it is felt, by Internal Audit, that it may still be too soon to develop a three year plan and that starting planning earlier in the year to

allow a draft plan to be considered by the Audit, Risk and Scrutiny Committee as early as November in the year before the first year of any such plan would also be too early.

3.7 The 2018/19 Internal Audit Plan was developed as follows:

| Date | Action Taken |
|--------------------------|---|
| October 2017 | Review and analysis of current Risk Registers prepared by management to determine areas that had previously been covered and those where there had been no Internal Audit coverage. |
| October 2017 | Request sent to all Chief Officers for input to plan along with invitation to meet with Service Management teams. |
| October to December 2017 | Internal Audit staff met with Service Management Teams. |
| November 2017 | External Audit requested for input to planning process. |
| November 2017 | First draft of plan circulated to all Chief Officers for comment. |
| December 2017 | Updated draft plan submitted to Corporate Management Team for discussion. |
| January 2018 | Meetings between Internal Audit and Co-Leaders, Chair and Vice-Chair of Audit, Risk and Scrutiny Committee. |
| January 2018 | Updated draft plan re-submitted to Corporate Management team for agreement. |
| February 2018 | Plan submitted to Audit, Risk and Scrutiny Committee for discussion and approval. |

3.8 During the above process, new issues were identified on a regular basis for inclusion in the final Internal Audit plan which resulted in several versions of the draft plan being produced. Whilst this resulted in a plan that reviews the Council's arrangements in relation to areas of perceived risk, the risk environment, and senior officers' awareness of those risks, is constantly changing and evolving – as evidenced during the process.

3.9 In order to make the process more robust, further work is required by management to establish operational risk registers to complement Service and Corporate Risk Registers which, themselves, are being changed as a result of the Council's new organisational structure. It is inevitable that the risks that the Council faces will change and evolve over time.

3.10 Looking further into the future, in a time when change across the public

sector is the only constant, and attempting to produce detailed three year plans would, in Internal Audit's view, result in more changes being made to plans that had already been agreed. Whilst having a three year plan would provide an idea of the areas that Internal Audit intended to review in the future, it would be inefficient to constantly be changing a larger plan. This may lead to uncertainty about areas to be audited and result in, potentially, wasted effort, both within Internal Audit and for management in providing consideration over the proposed areas.

3.11 The single year plans do, at present, include a statement that audits will be developed in the detailed Internal Audit plan to ensure that periodic assurance is provided over the following areas:

- Various aspects of procurement, payroll, and income collection will be reviewed on an annual basis.
- Various aspects of Budget Setting, Monitoring and Management will be covered across all Services on a rolling basis over a three year period.
- The main financial and business systems of the Council (Financial Ledger, Council Tax System, Business Rates, Receivables, Housing Rents, Payroll, Payables, Housing Benefit, Care First, etc) will each be covered once every four to five years.

Audits will be designed to audit specific key areas across Services or the Council, whilst Service or location oriented audits will also be undertaken to test a range of these areas. In doing so, assurance will be gained as to whether controls in place are operationally effective and efficient, and whether they are being complied with. Whilst undertaking audits, Internal Audit will consider opportunities to improve systems and processes, effect change and achieve value for money.

3.12 However, identifying the most relevant areas to review in order to achieve the above broad objectives too far in advance can be problematic. As mentioned above, the only constant in the public sector at present is change, and the areas that would most benefit from an independent review will also change. So, whilst the above is not specific regarding what will actually be audited in each financial year following the one detailed in the plan, it does give an indication of the areas that will be covered. For example, it might be planned to look at "income collection" as a broad theme in each year, but the area in which this might be best targeted (Trade Waste, School Catering, Planning, etc) would be better determined nearer the time determined by a review of current risk registers. This could be made more explicit by including the detail in a tabular form and indicating the actual year in which the theme will be covered, without detailing the actual area that will be reviewed to achieve the desired level of assurance across all of the Council's governance, risk management and control environment.

3.13 A search was undertaken through the Internet to determine whether other Scottish Local Authorities currently had multi-year plans. Plans relating to 24 other Councils were readily located (although not all were for 2018/19)

and all but one contained a one year plan. Whilst one contained indicative areas to be reviewed over the following two years (similar to the current Aberdeen City Council plan described at paragraph 3.11, above), the one exception split the Internal Audit resource over the Council's audit universe (all auditable areas identified) over a five year period. However, there was no scope or objective detailed other than the title of the area to be reviewed.

3.14 In conclusion, it is Internal Audit's view that:

1. Detailed single year Internal Audit plans should continue to be prepared.
2. The detail of themes to be covered over a three to five year period be made more explicit in the planning documentation without identifying the specific area to be reviewed to achieve the desired assurance outcomes.
3. This be kept under review by Internal Audit and Council management to determine if and when a multi-year plan would be more desirable.
4. The same timetable be used for developing the 2019/20 Audit Plan.

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. The purpose of this report is to address concerns raised by the Audit, Risk and Scrutiny Committee.

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 Module.
- 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 review, discuss and comment on the Internal Audit Planning process. 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. BACKGROUND PAPERS

- 9.1 Report to Audit, Risk and Scrutiny Committee on 23 November 2017 – Internal Audit Public Sector Internal Audit Standards (OCE/17/26).

10. REPORT AUTHOR DETAILS

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