

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	30 April 2019
REPORT TITLE	Internal Audit Annual Report 2018/19
REPORT NUMBER	IA/19/007
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 2018/19.

2. RECOMMENDATIONS

It is recommended that the Committee:

- 2.1 Note the Annual Report for 2018/19;
- 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 2018/19; and
- 2.4 Note the outcome of Internal Audit's self-assessment against the requirements of the Public Sector Internal Audit Standards.

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 2018/19 was agreed by the Audit, Risk and Scrutiny Committee on 22 February 2018. 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 2017/18, along with details relating to audits contained in the original 2018/19 plan. Some 2018/19 audits have been deferred as agreed by the Audit, Risk and Scrutiny Committee on 14 February 2019.
- 3.4 The 2018/19 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. The Section ended the year with one vacancy which was the subject of a recruitment exercise. It is estimated that around 11.5% of the Section's capacity during the year was lost for these staffing reasons.
- 3.5 During 2018/19, 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 Audit Report 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 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 Audit Report. This is attached as Appendix C, and 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 2019.
- 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 2018/19, 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.
- 3.9 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.
- 3.10 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 E 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 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. The Chief Internal Auditor considers that Internal Audit is organisationally independent.

3.12 There is also a requirement to report any instances where the scope of Internal Audit's work has been limited. During 2018/19, 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.
Data Protection Impact Assessment	Not required
Duty of Due Regard / Fairer Scotland Duty	Not applicable

9. APPENDICES

- 9.1 Appendix A – 2017/18 Audit Work carried forward into 2018/19.
- 9.2 Appendix B – 2018/19 Audit Work.
- 9.3 Appendix C – Internal Audit Annual Report for the year ended 31 March 2018.
- 9.4 Appendix D – Internal Audit Improvement Action Plan
- 9.5 Appendix E – Internal Audit Performance Measures.

10. REPORT AUTHOR DETAILS

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APPENDIX A

2017/18 Audit Work carried forward into 2018/19:

Service	Audit Topic	Position
Corporate Governance	Fixed Asset Register	Complete August 2018
	Capital Plan	Complete April 2018
Education and Children's Services	Out of Authority Placements	Complete April 2018
Communities, Housing and Infrastructure	Housing Support Budget	Complete April 2018
	Stores Purchasing	Complete July 2018
	Internal Transport Tendering	Complete October 2018.
Health and Social Care Partnership	Care Management	Complete April 2018

APPENDIX B

2018/19 Audit Work:

Function	Audit Topic	Position
Cross Service	Transformation	Complete September 2018
	Voluntary Severance / Early Retirement Scheme	Complete January 2019
	Timesheets and Allowances	Complete August 2018
	Health and Safety	Complete February 2019
	Compliance with Procurement Legislation and Council Regulations	Complete April 2019
	Prevention of Fraud, Bribery and Corruption	Complete February 2019
	General Data Protection Regulations	Complete September 2018
	Creditors Payments (following Interface)	Complete August 2018
	Digital Bookings, Fees and Charges	Rescheduled to 2020/21 as agreed by the Audit, Risk and Scrutiny Committee on 14 February 2019
Customer	Debtors System	Complete August 2018
	Business Rates	Complete November 2019

Service	Audit Topic	Position
Operations	Music Centre	Draft Report issued April 2019
	Pupil Equity Fund	Complete April 2019
	Devolved Education Management	Complete November 2018
	NPS Housing System	Complete February 2019
	Craft Workers' Terms and Conditions	Rescheduled to 2019/20 as agreed by the Audit, Risk and Scrutiny Committee on 14 February 2019
	Housing Rent (impact of Universal Credit)	Complete August 2018
	Contract Management	Work in Progress
	Interreg Projects	Claims completed as required
Resources	VAT	Complete August 2018
	Data Security in a Cloud-Based Environment	Draft Report issued March 2019
	Digital Strategy	Complete January 2019
Governance	Bond Governance	Complete January 2019
Health & Social care Partnership	Criminal Justice	Complete April 2019
	Charging Policy	Draft Report issued March 2019
	National Care Home Contract	Complete January 2019

Appendix C

Internal Audit Annual Report for the year ended 31 March 2019

As Chief Internal Auditor of Aberdeen City Council, I am pleased to present my annual statement on the adequacy and effectiveness of the Council's framework of governance, risk management and control for the year ended 31 March 2019. 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 2019.

However, as in previous years, some significant issues have been identified throughout the year. Two recommendations graded as "major" were made in reports concluded in the year (compared with one in 2017/18 and five in 2016/17). One related to procurement issues (as in previous years) and one in relation to evidencing compliance with the requirements of the Working Time Directive. The overall number of recommendations made fell from 340 in 2016/17 and 274 in 2017/18 to 159 in 2018/19 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. However, as at the end of the year significant progress had been made in this area.

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 2019;
- 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 Council's framework of governance, risk management and control 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 the Corporate Management Team 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. 5 April 2019

Appendix D

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

IMPROVEMENT	IMPLEMENTATION DATE	ACTION BY
Make minor changes to terminology used in the Internal Audit Charter resulting from the External Quality Assessment undertaken regarding Aberdeenshire Council's Internal Audit arrangements.	June 2019	Chief Internal Auditor
Implement new Aberdeenshire Council Personal Performance Plans across the Internal Audit Team.	September 2019	Chief Internal Auditor / Senior Auditors
Review Internal Audit planning methodology to better demonstrate the consideration of other sources of assurance.	February 2020	Chief Internal Auditor

Appendix D

INTERNAL AUDIT PERFORMANCE MEASURES

PI	Description	Target	Actual 2018/19	Actual 2017/18
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%	60.87	78.57%
3	Percentage of current year audits (as adjusted) completed by end of current year.	65%	66.67	79.31%
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%	50.00%	52.17%
6	Percentage of previous year audits (as adjusted) that were completed within 110% of planned time allocated.	90%	48.15%	62.14%
7	Percentage of planned time taken for current year audits that were completed in the year.	90 - 110%	106.76%	108.48%
8	Percentage of planned time taken for all previous year audits completed by end of current year.	90 - 110%	109.71%	111.70%

PI	Description	Target	Actual 2018/19	Actual 2017/18
9	Percentage of recommendations accepted by management (See Note (2)).	95%	99.37%	99.66%
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 2017/18 was 29, and for 2018/19 was 27.
- (2) The number of recommendations made by Internal Audit in 2017/18 was 274, and for 2018/19 was 159.

Commentary

There was a reduction in the percentage of draft audit reports being issued by their anticipated deadline. This was caused by a mixture of late information being received from services and a reduction in the Internal Audit resource as reported to the Audit Risk and Scrutiny Committee throughout the year.

The percentage of audits fully completed by 31 March was lower than in the previous year, although all but one audit had been issued to management as a draft report.

The time spent on each individual audit, compared to that originally budgeted, varied in most cases with some being completed more quickly and others taking longer than anticipated. However, the overall amount of time, as a percentage of the budgeted time, reduced slightly.

Efforts are being made within Internal Audit to improve performance against these measures further.