



Internal Audit

Annual Assurance Report and Chief Internal Auditor's Opinion 2021-22

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1 Chief Internal Auditor's Foreword

1.1 Chief Internal Auditor's foreword

As it has been for our colleagues in the Council, in other local authorities, and beyond – this year has been challenging for Internal Audit (IA). COVID-19, remote working and other emerging issues have continued to impact on all operations and fundamentally changed the risk environment for the Council we serve.

As a team Internal Audit has had to be flexible and adaptable throughout the year to continue to provide the business with the assurance that it needs over its emerging and most significant risks. Assurance reviews, consultancy work and adhoc discussions are just some of the areas of engagement IA has had across the Council.

Going forward there is of course plenty of work to do, both from an assurance perspective and to further embed IA within the Council, to ensure it is adding as much value as possible. I hope to achieve this through a new risk based methodology, which was rolled out at the start of the financial year and will be utilised going forward from 2022-23. Initial conversations with management has seen this as a welcome change to how IA carries out its work.

The Internal Audit Plan recently agreed by the Audit, Risk and Scrutiny Committee also includes time set aside to assist services in developing their controls, approach to improving compliance, support, and consultancy services. This reflects continuing development of a more proactive value-added approach to supplement the more traditional core compliance-oriented audit work, whilst being mindful of our independence and objectivity. Both types of work will feed into the annual assurance opinions provided in the future.

Going forward, IA will engage with individual functions and clusters, as well as working strategically across the Council as a whole. Through enhanced engagement at the planning stage and more involvement from the auditee, it is hoped that this will alleviate some of the delays seen previously and result in more timely completion of planned audit work and an overall uplift in our KPI results, which I recognise are not where they need to be.

Upon taking up the role of Chief Internal Auditor, I knew that it would be a great opportunity to work with some of the great people across the Council. I would like to thank the team, Council staff, CMT and councillors for the support they have provided me and Internal Audit overall.

Jamie Dale

Chief Internal Auditor

2 Executive Summary

2.1 Introduction and background

Internal Audit's primary role is to provide independent and objective assurance on the Council's risk management, control, and governance processes. This requires a continuous rolling review and appraisal of the internal controls of the Council involving the examination and evaluation of the adequacy of systems of risk management, control, and governance, making recommendations for improvement where appropriate. Reports are produced relating to each audit assignment and presented when finalised to the Audit, Risk and Scrutiny Committee. Along with other evidence, these reports are used in forming an annual opinion on the adequacy of risk management, control, and governance processes.

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Public Sector Internal Audit Standards set the mission of IA as to enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight.

2.2 Purpose of this report

Public Sector Internal Audit Standards require that Internal Audit produce an annual report on the adequacy and effectiveness of the Council's framework of governance, risk management and control. 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.

This report is designed to meet three objectives; to present to the Audit, Risk and Scrutiny Committee, and through them, the Council:

- A formal opinion on the adequacy and effectiveness of the Council's arrangements for:
 - Governance
 - Risk management
 - Internal control
- A narrative over the key strategic and thematic findings from the assurance work undertaken by IA during 2021-22, drawing out key lessons to be learned.
- An account of the assurance activities and resources of IA during the period 2021-22.

This report covers the period from 1 April 2021 to 31 March 2022 and any work finalised during the 2021-22 assurance period. It also takes account of work undertaken up to the date of the issue of this report, 17 June 2022. The report is

grounded in the whole activity and work of IA, whether in terms of formal audit evidence and work, management assurance and consultancy activity, or evidence gathered throughout wider engagement across the Council.

2.3 Conclusion

The overall Chief Internal Auditor's opinion is:

In my opinion the Council had an adequate and effective framework for Governance, Risk Management and Control, covering the period 1 April 2021 to 31 March 2022.

For further commentary see the Annual Assurance Opinion section below.

2.4 Action requested of the Audit, Risk and Scrutiny Committee

The Audit, Risk and Scrutiny Committee is requested to note the contents of this report and the assurance opinion, to inform its annual report and its review of the Council's financial statements, in particular the governance statement.

3 Annual Assurance Opinion

3.1 Basis of annual assurance opinion

In accordance with the Public Sector Internal Audit Standards, our assessment and opinion over the framework of governance, risk management and control are based upon the whole activity and work of IA including:

- The results of internal audits completed (in final or draft) up to the date of this report (17 June 2022).
- Any follow-up action taken in respect of audits from previous periods.
- The effects of any significant changes in the Council's control environment.
- Matters arising from previous annual reports to the Council.
- Any limitations that may have been placed on the scope of IA – we have no restrictions to declare in this report, although we have performed all audits remotely this year and some physical verification work has not been possible.
- Reports issued by the Council's external auditors.
- Internal Audit's knowledge of the Council's governance, risk management and performance monitoring arrangements.
- The assessment of risk completed during the formation of the 2022-25 Audit Plan and the work on risk in general led by the Council.
- The results of other assurance activities completed during the year.

The Standards also require that Internal Audit confirms to the Committee, 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.

3.2 Annual assurance opinion 2021-22

We are satisfied that sufficient internal audit and assurance work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of the Council's framework for governance, risk management and control. Aberdeen City Council had an adequate and effective framework for Governance, Risk Management and Control, covering the period 1 April 2021 to 31 March 2022.

3.3 Rationale for the opinion

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.

The main objectives of the Council's internal control systems are to:

- Ensure adherence to management policies and directives 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.
- 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 Council has faced its second year of unprecedented challenges and its control framework and governance arrangements have come under sustained and significant pressure; primarily as it adapted to the COVID-19 pandemic.

Consideration has been given during the year to the impact on the level of assurance available, and we are satisfied that in the short term this has not had a material impact. The Council's risk profile and response adjusted to reflect the circumstances, and we reviewed and adapted plans to reflect changing risks and resource availability. Our work has been and remains cognisant of the risks to internal control from changes introduced in response to the pandemic.

Throughout the year our audit work found that the Council's systems have flexed, adapted, and largely held up despite this significant strain. We consistently found that management was aware of the risks it was dealing with and taking steps to mitigate and manage them as best they could within the constraints created by the pandemic.

On balance, most of the audited areas were operating as anticipated. Areas of good practice, improvement, and procedural compliance have been identified and these have been detailed in individual assignment reports to the Committee. Most recommendations made by Internal Audit related to general improvements to procedures, and the requirement to evidence adherence to them.

Analysis of the findings of our reports issued within the year highlights positively that in many cases there were minimal findings, with the vast majority at the significant or important levels. This reflects a strong control environment and the need for us to only make recommendations around the general improvement of controls, the improvement of efficiency and the drive for Best Value. However, during the year we did identify instances of financial regulation breaches (virements without approval, lack of purchase orders, and purchase orders not approved correctly). Common trends in our recommendations were also around systematising and standardising reviews (e.g. Financial Systems and Timesheets and Allowances audits) or the need to better evidence and record the completion of controls (e.g. Health and Safety Operations and the Capital Project Management audits).

We did make one recommendation at the Major level during the year. This was part of our Vehicle Replacement Audit and related to procurement process not demonstrably adhered to in the past for vehicle / plant purchases. Management has indicated plans

to improve compliance around this area and this is monitored through our audit recommendations follow up.

3.4 Areas of risk for future IA focus

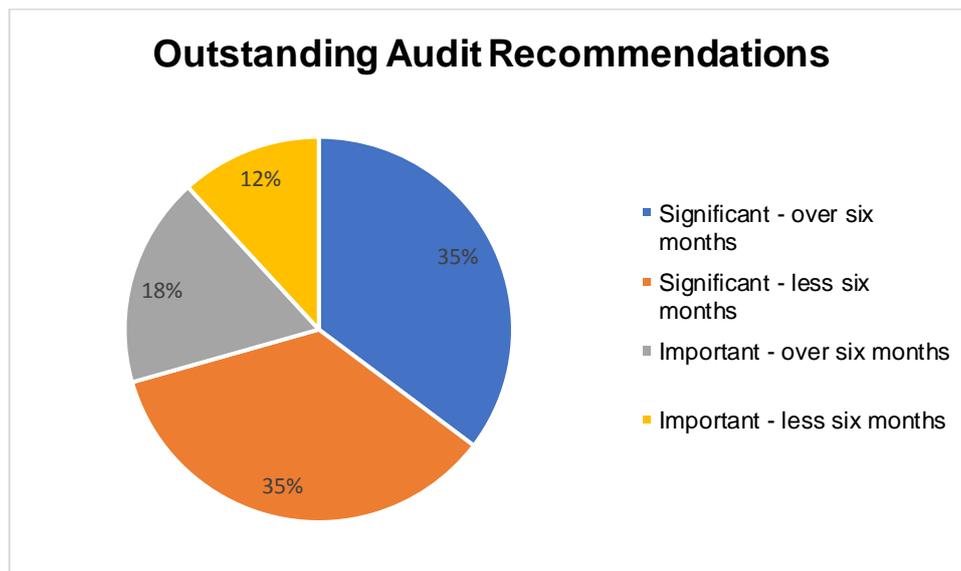
In addition to the points above continuing to be areas of focus for the Council, in the year there will be significant new risk areas for us to consider. The specific risk and control areas in the upcoming year that we intend to focus on to a greater degree include:

- IT and Digital
- Care Reform
- Accountability for Public Funds
- Pre-Employment Checks
- Other emerging risks identified during the year

3.5 Follow up of audit recommendations

Public Sector Internal Audit Standards require that Internal Audit report the results of its activities to the Committee and establishes a follow-up process to monitor and ensure that management actions have been effectively implemented.

During 2021-22 112 agreed actions have been completed, including 13 completed since our last update to the Committee. There are currently 17 overdue actions, 12 rated as Significant and five as Important. Of the 12 Significant overdue actions, six have been overdue by more than six months, with six overdue less than six months. Of the five Important actions, three have been overdue by more than six months, with two overdue less than six months. An explanation of the gradings used is shown at Appendix 1 – Grading of Recommendations.



Recognising the implementation of audit recommendations is an area where more work could be done, for the coming months, Internal Audit is in the process of leading an exercise aimed at supporting management on the closure of audit

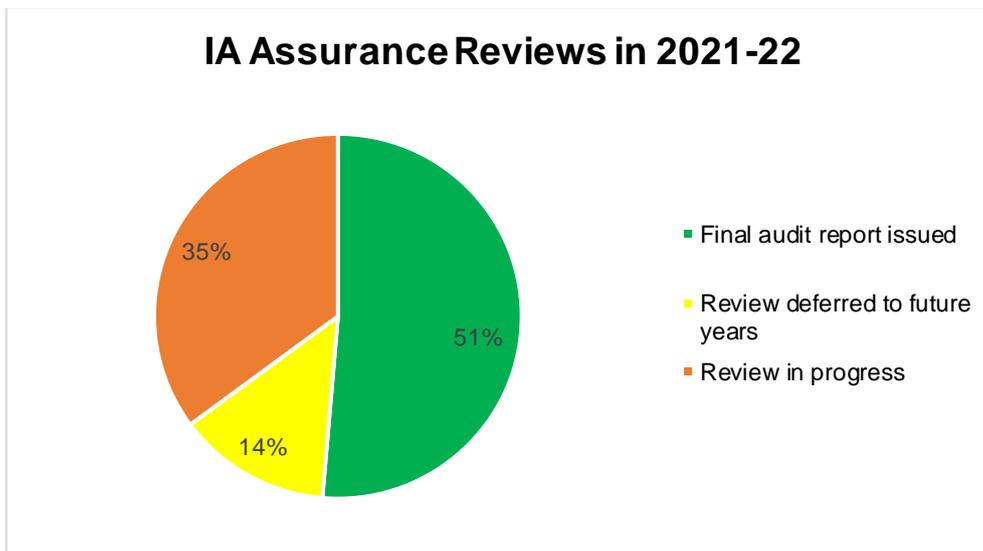
recommendations. This will not move the bar but through engagement beyond the routine follow up exercise, we hope to close out as many actions as possible and leave only those actions that were rightly ongoing for management to focus on.

Updates on audit recommendations implementation will be provided to the Committee as part of our standard reporting, with a detailed update on the outcomes of our follow up exercised presented to the next session of the Committee. Given the ongoing nature of the follow up, and the upcoming comprehensive update, we have not presented details of individual outstanding recommendations or reached out specifically for updates as part of this report.

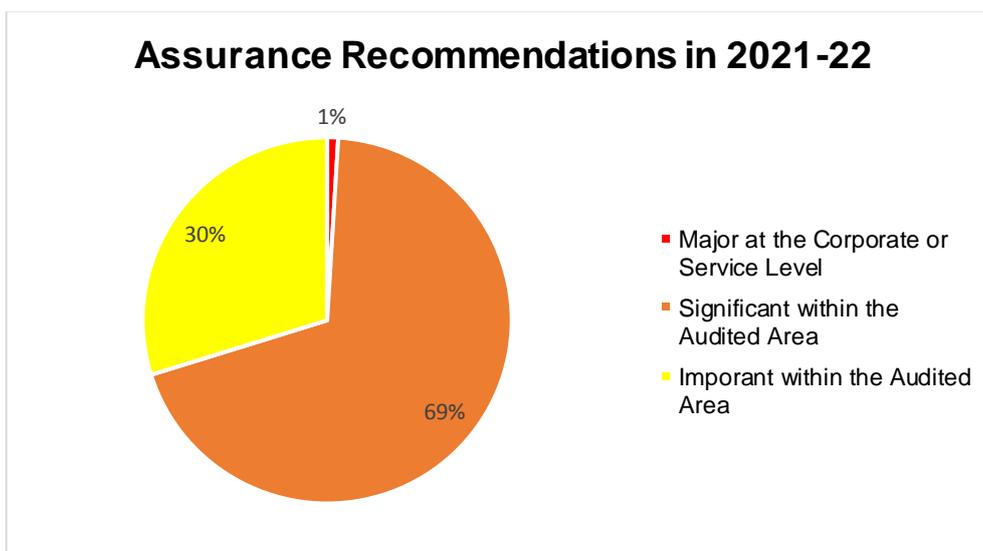
4 Audit Results

4.1 In year audit results

Across the year, irrespective of the period initially planned for the review, we issued 19 audit reports, with a further 13 currently work in progress. These reviews span the entire breadth of operations, touching on not just individual areas but also strategically across the Council. For those reviews currently work in progress, we have set an internal deadline to ensure that these are all completed by the end of Q2. Given the current progress of the reviews we believe this to be manageable and will also limit the impact of legacy work on our assurance plan for 2022-23.



Across the 19 audit reports issued, we made 104 recommendations: one considered Major at the Corporate or Service level, 72 considered Significant within the Audited area, and 31 considered Important within the audited area. 100% of recommendations made during the year were accepted by management.



This section highlights the results of our work in 2021-22, including finalisation of legacy 2020-21 reviews. It should however be noted that:

- Previous years' work, issued in the current year, is considered for and factors into our annual assurance opinion.
- Work in progress, where the report is at a draft stage, is also considered for and factors into our annual opinion.
- The same is considered for consultancy work, which also factors into our annual assurance opinion.
- The deferral of audits was taken in consultation with chief officers across the Council and also at their request.
- For all assurance reviews, we ensured that they were at the work in progress stage by year end. The majority are beyond this stage and draft reports are being finalised with the process owners for the areas under review.

Summaries are also included of fraud assurance, consultancy and other work performed by IA.

4.2 2020-21 Audits

Council Area	Audit Area	Position
Cross Service	Timesheets and Allowances	Final audit report issued
Customer	Teachers Payroll	Final audit report issued
Customer	Housing Waiting List	Final audit report issued
Health and Social Care Partnership	Mental Health and Substance Abuse	Final audit report issued
Health and Social Care Partnership	Bon Accord Care Budget Monitoring	Final audit report issued
Integration Joint Board (IJB)	IJB Performance Management	Review in progress
Operations	Vehicle Usage	Final audit report issued
Operations	Health and Safety	Final audit report issued
Operations	Vehicle Replacement	Final audit report issued
Operations	School / Pupil Security	Final audit report issued
Operations	Consilium System	Review in progress
Pensions	Pensions Payroll	Final audit report issued
Resources	Financial Sustainability	Final audit report issued
Resources	Climate Change	Final audit report issued
Resources	Capital Project Management	Final audit report issued

4.3 2021-22 Audits

Council Area	Audit Area	Position
Cross Service	Commissioning	Review in progress
Cross Service	Payroll and HR system amendments	Review in progress
Cross Service	Staff resourcing	Review in progress

Council Area	Audit Area	Position
Cross Service	Recruitment	Review in progress
Cross Service	Attendance Management	Review in progress
Customer	Debt recovery	Review in progress
Customer	IT Infrastructure Resilience	Review in progress
EI & CE	Private Sector Housing	Review deferred to future years
Governance	Licensing Income	Final audit report issued
Health and Social Care Partnership	Care Establishments	Final audit report issued
Health and Social Care Partnership	Care Management	Review in progress
IJB	Transformational Programme	Review in progress
Operations	Financial Administration - Waste	Review deferred to future years
Operations	Client Transport	Review deferred to future years
Operations	Children's Social Care	Review in progress
Pensions	Pensions System	Review in progress
Place	Planning and Building Standards fee income	Final audit report issued
Place	Interreg Projects	Final audit report issued
Resources	Revenue Budget Monitoring	Final audit report issued
Resources	Financial system interfaces and reconciliations	Final audit report issued
Resources	Following the Public Pound	Review deferred to future years
Resources	Land and Property	Review deferred to future years

4.4 Consultancy and other work by IA

In addition to planned assurance work, we also supported several clusters across the year. Support was provided to the Commercial and Procurement Service (C&PSS) on analysing data for procurement compliance purposes, and suggestions were made to improve procurement procedures and training; exception reporting to Senior Management; and reports for procurement planning by Delegated Procurers. In addition, Internal Audit shared control considerations with the Health and Social Care Partnership and Digital and Technology for the development of the new Social Care system.

This is an overview of the more substantial pieces of work delivered during the year, however it should be noted that other informal advice was provided on an adhoc basis.

4.5 Counter Fraud

We do not have a dedicated responsibility across the Council to lead on Counter Fraud activities, this instead within the remit of a separate inhouse team. The potential for fraud is however considered as part of all reviews carried out by Internal Audit from a control framework perspective.

4.6 Post year end assurance

The information presented in the above tables and charts, concerning audit work and recommendations covers the period 1 April 2021 to 31 March 2022. However, since year end, we have progressed our 2021-22 work and issued a further two reports (JB Performance Management and Pensions System) and closed off a further 10 recommendations. The assurance gained from this has been factored into the wider report and opinion overall for 2021-22. Our priority over the coming months will be to finalise the 2021-22 audit work and deliver on our already commenced 2022-23 Audit Plan.

5 IA Performance

5.1 Key Performance Indicators

Key Performance Indicator (KPI) results could be better and there is a recognition within Internal Audit that we need to focus more on these going forward. Explanations are provided for individual KPIs below but the overarching reason for most results is:

- **Internal Audit** – Part of the responsibility for not achieving the targets lies internally. Over the year, as well as responding to the ongoing impact of COVID-19, we saw continued staffing changes, recruitment requirements, sickness, and the responsibility to support other non-planned work.
- **Aberdeen City Council** – Internal Audit is not an external facing service, but we provide an internal product across the Council. This means that most of our work relies on other functions and clusters across the Council. Unfortunately, there has been examples of lack of engagement across the year, including lack of provision of evidence, issues with staff availability and an absence of engagement overall. This primarily results in delays to completing engagement, with a knock-on effect on the finalisation of audit reports.

Through the methodology refresh, which focuses specifically in how we scope and report audits, and wider engagement with services around our audit work planned for the year, we hope to see an upturn in results. Where these are reported to the Committee annually, these are monitored regularly internally by IA SLT.

KPI Description	Target	Actual 21-22	Actual 20-21	IA Commentary
Percentage of planned audits commenced where the Service was given advance notice of commencement of field work.	100%	100%	100%	Auditees are always notified in advance of audit work commencing. We will take this further through the new methodology, which will see a dedicated scoping process with the area under review.
Percentage of current year audits (as adjusted through consideration of subsequent year's plan) where draft report issued by deadline.	90%	0%	20%	The lack of achievement of this KPI is through the two key factors noted above. This is partly the responsibility of Internal Audit but analysis of the data highlights delays on the parts of functions and clusters as the key driver for this result.
Percentage of current year audits (as adjusted) completed by end of current year.	65%	33.33%	18.75%	This is an extension of the above.
Percentage of previous year audits (as adjusted) completed by end of current year.	100%	86.67%	100%	We prioritised the completion of previous year audits to ensure a minimal amount were carried into the next assurance year.
Percentage of current year audits (as adjusted) that were completed in the year within 110% of planned time allocated.	90%	20%	100%	Over the year we have faced difficulty completing audits within the allocated time. The lack of achievement of this KPI is through the two key factors noted above. This is partly the

KPI Description	Target	Actual 21-22	Actual 20-21	IA Commentary
				responsibility of Internal Audit but analysis of the data highlights delays on the parts of the service as the key driver for this result.
Percentage of previous year audits (as adjusted) that were completed within 110% of planned time allocated.	90%	7.69%	36.36%	This is an extension of the above.
Percentage of planned time taken for current year audits that were completed in the year.	90-110%	159.63%	120%	This is an extension of the above.
Percentage of planned time taken for all previous year audits completed by end of current year.	90-110%	180.22%	148.78%	This is an extension of the above.
Percentage of recommendations accepted by management	95%	100%	99%	We welcome the response from management of our individual reports and their acceptance of all our recommendations.
Where management has not agreed recommendation, percentage who accept risk.	100%	100%	100%	This is an extension of the above.

5.2 Quality assurance and improvement plan

The Public Sector Internal Audit Standards (PSIAS) require that the annual report must also include a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme (QAIP).

In previous reports we updated the Committee on our work to address previously noted issues; the main driver for these being our internal quality assessment.

We are pleased to confirm that all actions reported previously have now been completed and an internal review of our control framework has concluded that we fully conform with PSIAS. An External Quality Assessment, which will test our fully compliant assessment, is currently underway and will be presented to the Committee when finalised.

Action Area	Timescale	Commentary and Status
Internal Audit Service Development Planning	May 2021	Completed <ul style="list-style-type: none"> PSIAS recommends that the Internal Audit Plan detail how the Service will be developed in accordance with the Internal Audit Charter, and this was presented and agreed by the Committee in February 2022. Recommendation is also fulfilled by our work as part of the QAIP.

Resourcing	May 2021	Completed <ul style="list-style-type: none"> Staffing complement achieved in January 2022 with the appointment of the Chief Internal Auditor.
Management Engagement	June 2021	Completed <ul style="list-style-type: none"> Consultation and engagement with Chief Officers and wider management prioritised as part of the development of the 2022-25 Internal Audit Plan, and as part of the induction of the Chief Internal Auditor.
External Auditor Engagement	June 2021	Completed <ul style="list-style-type: none"> Consultation and engagement with External Audit prioritised as part of the development of the 2022-25 Internal Audit Plan, and as part of the induction of the Chief Internal Auditor.
Performance Management	July 2021	Completed <ul style="list-style-type: none"> More regular performance monitoring implemented following rationalisation of the Internal Audit performance management process.
Improvement Activity	September 2021	Completed <ul style="list-style-type: none"> Corporate improvement and consulting were included in the current year Internal Audit Plan. Progress has been monitored through the year, lessons learned recorded and acted on to inform future years' planning. Reporting is included as part of this annual report and will be a continued focus going forward.
Assurance Mapping and Prioritisation	March 2022	Completed <ul style="list-style-type: none"> Wider sources of Internal Audit assurance were given formal consideration as part of the planning process for the 2022-25 Internal Audit Plan, and priority levels determined for each audit. Assurance mapping will be maintained going forward, with an explicit refresh as part of each year's annual planning.

5.3 Staffing

Throughout the year we have had several changes to staffing and resources, including the recruitment of a new Chief Internal Auditor.

At present we are operating with a 12.6 FTE, 0.4 FTE under budget.

5.4 Methodology

This report and the annual opinion contained within is based on assurance work completed under the historical IA methodology.

However, over the past few months, Internal Audit has carried out a methodology refresh exercise. This refresh mostly focused on the scoping and the report stages (encompassing new assurance terms and rating scales); we are not suggesting any

fundamental changes in how we carry out our audits. The refresh is instead focused on ensuring we scope audits to set us up for the best reviews, and how we report to ensure our messages land with the most impact and support auditees to take our recommendations forward.

These changes went live in April 2022 but only for audits as part of the 2022-25 plan. For any audits underway currently, or from previous years, we will continue to use the historic methodology. Given the lead in time and ongoing 2021-22 audits, we expect the first set of audits under the new methodology to be presented to the Committee in Q2. This lead in time has allowed for engagement sessions across the Council on the new approach.

The methodology refresh is however considered a work in progress. It is expected that there will be further changes to the methodology going forward, which the Committee will be kept updated on.

6 Appendix 1 – Grading of Recommendations

GRADE	DEFINITION
Major at a Corporate Level	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the Council.
Major at a Service Level / within audited area	<p>The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited.</p> <p>Financial Regulations have been consistently breached.</p>
Significant within audited area	<p>Addressing this issue will enhance internal controls.</p> <p>An element of control is missing or only partial in nature.</p> <p>The existence of the weakness identified has an impact on a system's adequacy and effectiveness.</p> <p>Financial Regulations have been breached.</p>
Important within audited area	Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control.