



Internal Audit

Audit, Risk and Scrutiny Committee Internal Audit Update Report February 2023

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1 Executive Summary

1.1 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 these are provided to the Audit, Risk and Scrutiny (ARS) Committee. Along with other evidence, these reports are used in forming an annual opinion on the adequacy of risk management, control, and governance processes.

This report advises the ARS Committee of Internal Audit's work since the last update. Details are provided of the progress against the approved 2022-23 Internal Audit plan, audit recommendations follow up, and other relevant matters for the Committee to be aware of.

1.2 Highlights

Full details are provided in the body of this report however Internal Audit would like to bring to the Committee's attention that since the last update:

- Three reports have been finalised.
- Seven audits are currently in progress.
- One audit recommendation has been closed, with two carried forward.

1.3 Action requested of the ARS Committee

The Committee is requested to note the contents of this report and the work of Internal Audit since the last update.

2 Internal Audit Progress

2.1 2022-23 Audits

| Service | Audit Area | Position |
|--------------------------------|--|--|
| Commissioning | Contract management | Review in progress |
| Commissioning | ALEOs - Performance and Payments | Review in progress |
| Customer | Benefits | Review in progress |
| Customer | Recruitment | Not started – Review scheduled for Q4 |
| HSCP | Adults with Incapacity (Management of funds) | Not started – Review scheduled for Q4 |
| Integration Joint Board | IJB Data Sharing | Final audit report issued ¹ |
| Children's and Family Services | Out of Authority Child Placements | Final audit report issued |
| Commissioning | Heritage and Historical Assets | Final audit report issued |
| Resources | Following the Public Pound | Review in progress |
| Children's and Family Services | Scottish Milk and Healthy Snack Scheme | Not started – Review scheduled for Q4 |
| Pensions | Pension Fund Governance Arrangements Including Risk Management | Review in progress |
| Resources | Corporate Asset Management | Not started – Review scheduled for Q4 |
| Resources | Lease Financing | Review in progress |
| Resources | PVG & Disclosure Checks | Review in progress |

2.2 Audit reports presented to this Committee

| Report Title | Assurance Year | Conclusion |
|--------------------------------------|----------------|---|
| AC2301 – Out of Authority Placements | 2022-23 | <p>The level of net risk is assessed as MODERATE, with the control framework deemed to provide REASONABLE assurance over the Council's management of OAPs.</p> <p>The Service has developed a well-defined process for determining whether children's residential placements need to be made with an external provider out of the authority area or can be delivered locally. Despite this, the OAP budget has been overspending on a recurring basis and is forecast to overspend again in 2022/23 by £2.19m (20%) against a budget of £10.84 million with planned savings through reduction of OAPs not being realised. However this overspend is offset by a £900k underspend in out of authority foster placements; Management has advised they have asked Finance to vire between the budgets accordingly. Where management are aware of this and have been reporting to Committee, it presents a risk to the effective delivery of OAPs.</p> <p>Where Internal Audit has identified a moderate risk overall, recommendations have been made to strengthen controls,</p> |

¹ This will be presented to the IJB Risk, Audit and Performance Committee in February and then to the Council's Audit, Risk and Scrutiny Committee thereafter.

| Report Title | Assurance Year | Conclusion |
|---|----------------|---|
| | | <p>including Management to ensure plans to improve local support for families and reduce out of authority placements are progressed in a timely manner, and to work with Finance to ensure budgets are realistic and any necessary spend to save funding is identified and allocated to increase local provision.</p> <p>Where reviews are being completed through the LAC process, it was identified that reviews of existing placements by the CSSF are not always being completed as required (this was the case for two (10%) of 20 sampled); this should be addressed to ensure the most appropriate care is being delivered and to avoid OAPs and associated costs continuing unnecessarily where a preferable local alternative is available.</p> |
| AC2305 – Heritage and Historical Assets | 2022-23 | <p>The level of net risk is assessed as MODERATE, with the control framework deemed to provide REASONABLE assurance over the Council's management of heritage and historical assets.</p> <p>Internal Audit found AAGM, who manage the Council's heritage and historical assets, to be staffed by a complement of experienced and capable staff who were passionate about their work. AAGM is operating a framework of control that is on the whole conscious and comprehensive of all aspects of operations including acquisitions, loans, disposals, and the wider overarching requirements such as accreditation and security.</p> <p>Testing of the processes around acquisitions, loans and disposals found these to be designed and operating effectively, with no issues noted, and physical verification provided assurance over the location and recording of items. With regards to security arrangements, Internal Audit identified a myriad of different controls used to provide assurance and protection over items, which has been developed over time during different stages across multiple venues.</p> <p>Certain enhancements however could be made to improve controls. AAGM were cognisant of a number of these areas and expressed a desire to improve the control framework, which this audit has looked to do.</p> <p>Where no areas were found to be devoid of controls completely, recommendations have been made for a review of current operations and guidance, specifically concerning overall security arrangements, with these then rolled out and training provided to staff as required. Recommendations have also been made around the approach taken to AAGM gaining internal assurance, along with prioritisation of workload. A final recommendation has been made with regards to the engagement of volunteers and ensuring that they have the Right to Work in the UK.</p> <p>Whilst there is a recognition of issues with regards to historical missing items, this was not a key focus for this audit, which instead focused on the wider control</p> |

| Report Title | Assurance Year | Conclusion |
|--------------|----------------|---|
| | | framework. However, discussions have been carried out with Management and a review of documentation and reporting shows a focus and efforts to gain further assurances. |

2.3 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.

As at 30 November 2022 (the baseline for our exercise), three audit recommendations were due and outstanding:

- Two rated as Moderate
- One rated as Minor

As part of the audit recommendations follow up exercise, one audit recommendation was closed:

- One rated as Moderate

The outstanding position going forward is that of two audit recommendations²:

- One rated as Moderate
- One rated as Minor

For one of the outstanding recommendations, an update was provided and a new implementation date agreed. For the other recommendation, no update was received from Management.

Appendix 1 – Grading of Recommendations provides the definitions of each of the ratings used.

Appendix 2 – Audit Recommendations Follow Up – Outstanding Actions provides a detailed breakdown of the nine outstanding audit recommendations that will be taken forward and followed up as part of the next cycle.

² This is the position with regards to recommendations that were due as at 30 November 2022. Recommendations falling due past this date and those made as part of subsequent Internal Audit Reports will be followed up as part of the standard follow up cycle and reported to Committee session on session.

3 Appendix 1 – Grading of Recommendations

| Risk level | Definition |
|-----------------------|---|
| Corporate | This issue / risk level impacts the Council as a whole. Mitigating actions should be taken at the Senior Leadership level. |
| Function | This issue / risk level has implications at the functional level and the potential to impact across a range of services. They could be mitigated through the redeployment of resources or a change of policy within a given function. |
| Cluster | This issue / risk level impacts a particular Service or Cluster. Mitigating actions should be implemented by the responsible Chief Officer. |
| Programme and Project | This issue / risk level impacts the programme or project that has been reviewed. Mitigating actions should be taken at the level of the programme or project concerned. |

| Net risk rating | Description | Assurance assessment |
|-----------------|--|----------------------|
| Minor | A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited. | Substantial |
| Moderate | There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified, which may put at risk the achievement of objectives in the area audited. | Reasonable |
| Major | Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited. | Limited |
| Severe | Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited. | Minimal |

| Individual issue / risk | Definitions |
|-------------------------|--|
| Minor | Although the element of internal control is satisfactory there is scope for improvement. Addressing this issue is considered desirable and should result in enhanced control or better value for money. Action should be taken within a 12 month period. |
| Moderate | An element of control is missing or only partial in nature. The existence of the weakness identified has an impact on the audited area's adequacy and effectiveness. Action should be taken within a six month period. |
| Major | The absence of, or failure to comply with, an appropriate internal control, such as those described in the Council's Scheme of Governance. This could result in, for example, a material financial loss, a breach of legislative requirements or reputational damage to the Council. Action should be taken within three months. |
| Severe | This is an issue / risk that is likely to significantly affect the achievement of one or many of the Council's objectives or could impact the effectiveness or efficiency of the Council's activities or processes. Examples include a material recurring breach of legislative requirements or actions that will likely result in a material financial loss or significant reputational damage to the Council. Action is considered imperative to ensure that the Council is not exposed to severe risks and should be taken immediately. |

4 Appendix 3 – Audit Recommendations Follow Up – Outstanding Actions

| Overall Report Area | Report | Grading | Recommendation | Original Due Date | Current Due Date | Committee Update | Status |
|------------------------|---|----------|---|-------------------|------------------|---|--------------------|
| Resources | AC2017 - Industrial & Commercial Properties | Minor | 2.3.11 – The Service should review the efficiency of the leasing administration process. | Dec-21 | Nov-23 | The service continue to review the efficiency of the leasing admin process but are proposing to delay finalising this until the key position (Lead Officer Estates) is filled. This position is currently being advertised. | In progress |
| Children's Social Work | AC2206 - Children With Disabilities | Moderate | 2.4.5 – The Chief Officer - Integrated Children's and Family Services should review authorised signatory requirements for expenditure under the RAF's remit and if appropriate establish the necessary written sub-delegation of officer powers required to allow the RAF to approve expenditure under their remit. | Oct-22 | Oct-22 | No update provided. | No update provided |