



## **Internal Audit**

# **Audit, Risk and Scrutiny Committee Internal Audit Update Report March 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:

- Five reports have been finalised.
- Six audits are currently in progress.
- 17 audit recommendations have been closed, with three 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	Final audit report issued
Customer	Recruitment	Review deferred <sup>1</sup>
HSCP	Adults with Incapacity (Management of funds)	Review in progress
Integration Joint Board	IJB Data Sharing	Final audit report issued
Resources	Following the Public Pound	Final audit report issued
Children's and Family Services	Scottish Milk and Healthy Snack Scheme	Review in progress
Pensions	Pension Fund Governance Arrangements Including Risk Management	Final audit report issued <sup>2</sup>
Resources	Corporate Asset Management	Review in progress
Resources	Lease Financing	Final audit report issued
Resources	PVG & Disclosure Checks	Review in progress

### 2.2 Audit reports presented to this Committee

Report Title	Assurance Year	Conclusion
AC2302 – IJB Data Sharing	2022-23	<p>The level of net risk is assessed as <b>MODERATE</b>, with the control framework deemed to provide <b>REASONABLE</b> assurance over the IJB's approach to data sharing.</p> <p>Data Protection and other information legislation requires the Partners within the Aberdeen City Health &amp; Social Care Partnership (Aberdeen City Council and NHS Grampian) and the IJB to be aware of the consequences of inadequate information risk management. Accordingly appropriate resources, robust policies and procedures, and a clear governance framework must be in place to ensure data is appropriately managed in an information risk environment which the Aberdeen City Health &amp; Social Care Partnership and the IJB itself understands.</p> <p>Information risk is increased where data is shared between organisations, hence the Information Commissioner's Office (ICO) Data Sharing Code of Practice recommends that organisations have a data sharing agreement. A data sharing agreement between NHSG and the Aberdeen City, Aberdeenshire, and Moray councils was drafted and issued in 2022 but has not yet been signed by all parties.</p>

<sup>1</sup> Through discussions with Management, it has been identified that the implementation of the new Council approach to managing Recruitment has not yet been completed, with work still ongoing to instil the updated framework of control. Through discussions with Management, and at their request, this review has been deferred to 2023/24 and as such included in the Internal Audit Plan for that year. It has been determined that to carry out the review just now would only add limited value and provide limited assurance.

<sup>2</sup> This report will be presented to the Pensions Committee in March and then subsequently presented to the Audit Risk and Scrutiny Committee.

Report Title	Assurance Year	Conclusion
		<p>However the Policy, Procedure and Governance framework in place within each Partner organisation should ensure their staff are adequately trained in data protection to operate in a risk environment where their responsibility is clear.</p> <p>Records Management plans are in place in accordance with legislation, but how these and other procedural documents and the key staff involved fit into the overall information governance framework for the IJB is not clearly documented. The types of information, how this is shared, the systems used, and the individuals responsible for ensuring its quality, security, safe passage, and the authority required, should be clearly mapped out. Where appropriate, there may be scope for the harmonisation of procedures, potentially with the other IJB's that NHS Grampian serves.</p> <p>Assurance over information compliance can be drawn from the Partners' Risk Boards and records of training, data protection impact assessments, and information breaches, all of which are reported internally. The Chief Officer of the IJB is also a member of NHS Grampian's Chief Executive Team and similar with Aberdeen City Council. The Business and Resilience Manager is responsible for providing the IJB with this assurance: more comprehensive regular assurance reporting to the Risk, Audit and Performance Committee, based on such sources, would be beneficial for the IJB.</p> <p>The original intention of this review was for the assurance providers of the three organisations to work together and where individual reports would be produced, also include a covering report providing details of the assurance gained from all areas of work. As there is currently limited assurance being provided directly to the IJB on this aspect of its business, Internal Audit sought assurance from the Partners over their data protection governance arrangements, and how these are applied in respect of services delegated to the IJB.</p> <p>Comprehensive data was available on the arrangements put in place by Aberdeen City Council. However, due to other commitments (a regulatory audit from the ICO) NHS Grampian has not been able to facilitate such a review and their auditors instead plan to carry out the work later in the year. The IJB will still require assurance over this aspect of its governance arrangements, and recommendations have been made in this report as to the type and extent of assurance required. The intention is still to carry out analysis of all three pieces of work and create an overarching summary, however this will not be available until later in the financial year. Where we have been unable to confirm arrangements or gain assurance over elements of the control framework managed by NHS Grampian, this has been highlighted in the report and Management should seek to gain assurance over these areas where they feel it is needed. However, assurance can be taken from the</p>

Report Title	Assurance Year	Conclusion
		results of the ICO audit, and from the engagement of NHS Grampian in the finalisation of this report.
AC2308 – Lease Financing	2022-23	<p>The level of net risk is assessed as <b>MODERATE</b>, with the control framework deemed to provide <b>REASONABLE</b> assurance over the Council’s approach to lease financing.</p> <p>The audit focused mainly on the Council’s only finance lease for the Marischal Square Development, since finance leases are the most material leases requiring appraisal prior to agreement to avoid unnecessary additional financing costs and where possible requiring ongoing monitoring for refinancing opportunities. The Council had outstanding minimum lease payments of £152.1m as at 31 March 2022 for the Marischal Square development and there is no opportunity for the Council to refinance this lease without the mutual agreement of the landlord, since it is a sale and leaseback arrangement, with the lease due to end in 2053, when the property will be returned to the Council for £1.</p> <p>This conclusion of this review is not a critique of the Marischal Square Development lease, which was considered in detail by External Audit as part of their Annual Report to Members and the Controller of Audit for the Council’s 2014/15 annual accounts. A conclusion was reached that appropriate processes were followed in managing the project, with a good awareness of the risks and that assurance could be taken from the outcome of a judicial review and that a sale and leaseback arrangement and procurement processes were appropriate. Instead, our review focused on the Council’s approach generally to leases and any opportunities for enhancing controls where appropriate, using the Marischal Square development as an example.</p> <p>Financial Regulations adequately describe the approval requirements relating to leases, and more specifically, the record keeping requirements related to industrial and commercial property leases and these requirements had been complied with in relation to the Council’s most material lease, the finance lease for Marischal Square, with relevant records maintained by the Chief Officer – Corporate Landlord, and the associated contract approved by full Council in May 2013. Quarterly payments for this finance lease were made accurately in a timely manner. In addition, Marischal Square finance lease budget monitoring arrangements are adequate. Furthermore, Finance has begun preparation for the implementation of IFRS 16 on leases having nominated a responsible officer, who demonstrated an awareness of the associated challenges that need to be overcome, and leases are now a standing agenda item for budget holder meetings to help identify any existing or new lease arrangements for reporting purposes, to complement existing year end instructions on leases.</p> <p>However, gaps in some controls were identified, specifically written policies and procedures and IFRS 16</p>

Report Title	Assurance Year	Conclusion
		lease data collection. Recommendations have been made to address the noted points and to help strengthen the control framework
AC2303 – Following the Public Pound	2022-23	<p>The level of net risk is assessed as <b>MODERATE</b>, with the control framework deemed to provide <b>REASONABLE</b> assurance over the Council's approach to Following the Public Pound (FtPP).</p> <p>The Council has a Following the Public Pound procedure (the Council's FtPP Code) for managing grant payments to external organisations, covering relevant financial and operational risk considerations, as well as funding agreement, and payment requirements. Whilst generally comprehensive, some issues were noted, including no exemption for grants administered by the Council on behalf of other organisations where rules are already prescribed on ensuring Best Value; lack of clarity on required checks of financial statements for tier 3 and 4 grants; lack of clarity on when monthly payments rather than quarterly payments are required to reduce the risk of financial loss; and an absence of debt checks required by the Council's FtPP Code in the Code checklist for budget holders. These issues make it confusing for budget holders applying the Council's FtPP Code.</p> <p>Operational assessments of non-financial risks were not undertaken for eight (80%) grants reviewed and partial for one (10%), increasing the risk grants will be awarded to unsuitable organisations and that intended objectives of grant funding will not be achieved. Also, payments were not made with sufficient frequency for one grant (£158k) since it was made as a single grant payment despite exceeding the threshold requiring quarterly payments. These practices increase the risk of financial loss to the Council due to an organisation ceasing to operate.</p> <p>Recommendations have been made to improve FtPP compliance, including reviewing the Council's FtPP Code; devolving the use of the central register from Finance to budget holders to act as an FtPP checklist; introducing regular reconciliations of the central register for monitoring FtPP compliance; requiring functions to evidence their FtPP checks prior to payment; and establishing a system of control to prevent grant payments exceeding a maximum payment value.</p> <p>Where it is recognised that many stakeholders are involved in the FtPP process, recommendations have been focused on Management centrally to help ensure improvement across all functions who provide grants. A recommendation has also been made that the Council's FtPP Code should be reviewed and updated as appropriate. It is recommended that management take this opportunity to review the process overall to ensure it is fit for purpose and can be applied by all relevant functions.</p>
AC2311 – Benefits Quality	2022-23	The level of net risk is assessed as <b>MINOR</b> , with the control framework deemed to provide <b>SUBSTANTIAL</b>

Report Title	Assurance Year	Conclusion
Assurance Process		<p>assurance over the Council's management of Housing Benefits (HB) and Council Tax Reduction (CTR) processing.</p> <p>A sound quality assurance (QA) process is in place for checking processing of Housing HB and CTR claims. This covers the accuracy of input as well as decisions taken based on related claims and supporting documentation e.g. calculation of weekly wage, income to be disregarded, start date of claim etc. Five processed benefit claim transactions per transactional team member per month are reviewed, with additional testing undertaken where necessary to identify recurring errors. Where errors or omissions are identified the relevant team leaders of processing staff are notified to allow corrections to be undertaken and where necessary for training to be delivered. Staff are also supported through a training programme on joining the transactional team and have access to relevant procedures for processing.</p> <p>The audit walked through a sample of 12 claims from the benefits system to the supporting documentation within the electronic document management system, to ensure all required documentation was present and input correctly. The testing found the required QA checklist had been completed and the appropriate supporting documentation was present and input correctly into the benefits system.</p> <p>The errors identified in the QA process are categorised by the Benefits Team as material and non-material. In the period 1 April – 30 November 2022 the QA process identified 36 material and 61 non-material errors. Internal Audit reviewed nine material and seven non-material of these errors to ensure all relevant Team Leaders had been informed and confirmed notifying emails had been issued to each. It was also confirmed with each Team Leader those corrections had been completed and appropriate consultation had taken place, and been recorded, with the members of staff involved.</p> <p>One minor recommendation has been made to enhance controls including formalising the quality assurance procedures and recording quality assurance corrective actions for errors identified.</p>

### 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 31 January 2023 (the baseline for our exercise), 20 audit recommendations were due and outstanding:

- Two rated as Major
- 10 rated as Moderate

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- Eight rated as Minor

As part of the audit recommendations follow up exercise, 17 audit recommendations were closed:

- One rated as Major
- 10 rated as Moderate
- Six rated as Minor

The outstanding position going forward is that of three audit recommendations<sup>3</sup>:

- One rated as Major
- Two rated as Minor

For the three outstanding recommendations, an update was provided and a new implementation date agreed.

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 four outstanding audit recommendations that will be taken forward and followed up as part of the next cycle.

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<sup>3</sup> This is the position with regards to recommendations that were due as at 31 January 2023. 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 2 – Audit Recommendations Follow Up – Outstanding Actions

Overall Report Area	Report	Grading	Recommendation	Original Due Date	Current Due Date	Committee Update	Status
Operations and Protective Services	AC2111 - Consilium System	<b>Moderate</b>	2.6.7 The System Team should carry out an annual audit of users to ensure they still require the access they hold. Due to resource issues within the system team such a review would not be feasible. We would prefer to cover under the leavers process, through the notification to D&T. We will contact colleagues in D&T and ascertain if this is possible.	31/01/2023	31/05/2023	Unfortunately we could not be advised of council staff leaving through the leavers process due to GDPR. However we have agreed a process with HR in that we will send them a list of the system users, they will check for staff who have left the authority by identifying them with their works email address and return to ourselves for updating on the system. We were due to start this in January but as VSER has become available to staff we have held off for now but will run the process in April to catch leavers of the VSER process.	<b>In progress</b>
Digital and Technology	AC2201 - IT Infrastructure Resilience	<b>Minor</b>	2.1.6 Digital and Technology should introduce mandatory online cyber security training. Agreed - P&OD will work with D&T on the mandatory and essential elements of training and seek to ensure training is appropriate to job families. Consideration will be given to including the course as part of existing	31/12/2022	30/04/2023	Online Cybersecurity Training is available to all employees: an NCSC-provisioned 30min course "Staying Safe Online: Top Tips for Staff" is on ACC Learn, and this is supported by regular messaging, articles and videos shared and made available on the ACC Intranet for self-service learning. Alignment with job families is ongoing.	<b>In progress</b>

Overall Report Area	Report	Grading	Recommendation	Original Due Date	Current Due Date	Committee Update	Status
			mandatory training (e.g. Information Governance course).				
Digital and Technology	AC2201 - IT Infrastructure Resilience	Major	2.4.7a The Service should establish Cyber Essentials PLUS accreditation for the Council.	31/12/2022	31/03/2023	CE plus submission completed Dec 22. Awaiting verification from certification body.	In progress