

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	12 February 2024
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Assurance Reporting
REPORT NUMBER	COM/24/006
DIRECTOR	Gale Beattie
CHIEF OFFICER	Vikki Cuthbert
REPORT AUTHOR	Vikki Cuthbert
TERMS OF REFERENCE	4.4

1. PURPOSE OF REPORT

To advise Committee of the requirements for audit and scrutiny activities in 2024 and of the associated pressures on Council resources.

2. RECOMMENDATION(S)

That the Committee:

- 2.1 Instruct the Interim Chief Officer – Governance (Assurance) to seek a schedule of external audit reporting in 2024/25 from Audit Scotland by 31st March 2024, including dates for reporting the audited annual accounts and Best Value reports, in order that officers can plan for resourcing these activities, update committee business planners and ensure the requirements to notify the London Stock Exchange are fully met;
- 2.2 Instruct the Interim Chief Officer – Governance (Assurance) to write to the chair of the Strategic Scrutiny Group, comprising Scotland’s main public sector scrutiny bodies, to seek a schedule of external scrutiny in 2024/25 to allow Council resources to be allocated accordingly; and
- 2.3 Note the management proposals on the Internal Audit Plan 2024/25 and seek the views of the Chief Internal Auditor on these proposals when considering the Plan at a later point in this agenda.

3. CURRENT SITUATION

- 3.1 The Committee will be familiar with the three lines of defence model as an approach to risk management. This is referenced throughout other reports on this agenda, the basic principle being that we defend against the risks to the Council through 1) management actions day-to-day 2) internal control systems, policies and frameworks which regulate those management actions and 3) risk-based independent assurance – this comes from internal audit, which provides assurance on the effectiveness of our governance, risk management and internal controls, and from external audit and external inspection bodies.

- 3.2 Management assurance is reported to the committee in the form of reports such as our use of investigatory powers, risk appetite, risk registers and business continuity. Internal audit present their Internal Audit Plan and review reports, Internal Audit Progress Reports, the Internal Audit Charter and Annual Reports. External Audit present an Annual Audit Plan, Best Value Audit reports, audit opinions on the Council's Annual Accounts and those of its charities, and an Annual Audit Report. Until relatively recently, the Local Area Network produced a report on the external inspections which are planned for us however as reported to Committee in May 2023 ([COM/023/128](#)), this scrutiny activity is no longer reported as part of the external audit process. Audit Scotland, through their published Scrutiny Programme, notify local authorities of intended scrutiny, however this has not proved to be reflective of our experience of audit work completed in 2023/24.
- 3.4 An effective audit and inspection regime is an essential part of the council's end of year Annual Governance Statement, which is in turn required for sign-off of our Annual Accounts under statute. Notwithstanding, management must spend considerable time resourcing the response to audit and scrutiny activities and effective scheduling is essential if management are to manage all the demands on the limited resource available.
- 3.5 Agenda item 9.2 details our corporate risks, those presenting us with the most significant threat to achievement of our strategic outcomes. In the past year, members will note that we are now managing the risk around Reinforced Autoclaved Aerated Concrete (RAAC), the impacts of which will may be far-reaching. Furthermore, the risk scores relating to Financial Sustainability and Resettlement/Asylum Demand have increased since last reported to committee. Much officer time is being spent managing these risks. For that reason, the demands placed on us by delayed external audits, unexpected inspections and non-essential internal audits need to be reduced.
- 3.6 In 2023, the Council held 4 adjourned meetings and 3 requisitioned meetings, in addition to the scheduled 7 meetings. Officer preparation and time spent on these additional Council meetings is significant and clearly requires resourcing.

External Scrutiny

- 3.7 In 2016/17, Aberdeen City Council obtained a credit rating and issued bonds of £370 million on the London Stock Exchange (LSE). This brought with it reporting and governance requirements from the LSE. To comply, the Council's Annual Accounts are now prepared to earlier deadlines as there is a requirement for Annual Reports to be published within four months of their year-end. As the Council's year end is 31st March this means that the Annual Accounts must be audited and approved by Committee by 31st July, each year. This deadline has not been met in recent years. In 2022/23, Audit Scotland intended to conclude the audit on 20 July 2023 but following the Council's need to reschedule the meeting, the 2022/23 Accounts were approved at this Committee on 15 August 2023. While an improvement on the previous year, this was 15 days after the required deadline.

- 3.8 In addition and as previously [reported](#), the Best Value reporting regime has been modified by Audit Scotland, resulting in increased check-in points. As well as the annual financial audit report, Committee is due to receive a Best Value Thematic Report once a year. During the five year audit appointment, the Accounts Commission will consider each council's best value arrangements at least once. The report considered by the Commission will essentially be that year's annual audit report and best value thematic report. Audit Scotland, as our appointed auditor, are in the first year of implementing this schedule and expect the thematic report to be submitted in April, rather than last September as originally anticipated. There is a risk this will impact on the above requirement for early close of accounts.
- 3.9 Committee is referred to the item on this agenda "Corporate Risk Register, Assurance Maps and Inspections Planner". The Inspections Planner supports officers in preparing for external scrutiny, both from a scheduling and a readiness perspective. Unfortunately, the lack of an external scrutiny plan from the Local Area Network means that there are some gaps in this planner, and the report notes that some services are not currently sighted on all the areas of service likely to be subject to inspection. This will create in-year pressure when such inspections do come to fruition. The Strategic Scrutiny Group publishes the planned scrutiny activity for each local authority, however this has not aligned with the actual scrutiny activity undertaken in recent years. The committee is therefore recommended to formally seek confirmation of the planned external scrutiny activity in 2024/25 to allow council resources to be allocated accordingly.

Internal Audit Plan

- 3.10 Agenda item 9.13 is the proposed Internal Audit Plan from the Chief Internal Auditor. This includes a total of 21 internal audits in the coming financial year 2024/25, two of which are audits of the Integration Joint Board and one of the North East of Scotland Pension Fund. This means there are 18 audits of Council service areas.
- 3.11 The Chief Internal Auditor requires a minimum number of internal audits to be completed in a year to inform the annual opinion on the effectiveness of our internal controls and governance. This is then included in the end of year assurance within the Annual Governance Statement, informing external auditor opinion when they complete their audit of annual accounts.
- 3.12 In light of the pressures outlined above – emergence of new corporate risks and the escalation of existing risks, lack of visibility on the content and scheduling of external scrutiny and additional demand from committee governance – management view is that there is not sufficient capacity within our system to support 18 internal audits in 2024/25 unless additional resource is made available through the budget process. Committee will be asked to consider reducing the number of audits by six and to remove the audits listed below from the plan, when agreeing this at item 9.13. These audits are in areas which support our broader governance arrangements rather than internal financial controls and systems which are a priority for supporting the year end opinions of both the chief internal auditor and the external auditor. If agreed,

the Chief Internal Auditor, following consultation with the corporate management team, will advise the committee through his cyclical update report whether capacity has become available based on the progress of the remaining audits. This may include moving forward audits from the remainder of the three year plan, if these can be more easily managed and officer capacity released. Some service areas will be under particular pressure in the year ahead, as described in paragraphs 3.5 and 3.6, and external scrutiny is an unconfirmed pressure at this point in time. If there is no decision to reduce the number of internal audits, the Committee will be asked to note that limited capacity will impact on our ability to close off audit recommendation and therefore extended timelines will be proposed for the implementation of recommendations..

3.13 Audits recommended for removal from 2024/25 plan:

	Audit Title	Cluster
1.	Risk Management	Governance
2.	Right to Work in UK	People and Organisational Development
3.	Freedom of Information and Subject Access Requests	Customer Experience
4.	SEEMIS	Education
5.	Trusts/Common Good Funds	Finance
6.	Corporate Landlord Responsibilities	Corporate Landlord

4. FINANCIAL IMPLICATIONS

4.1 There are no financial implications arising from the recommendations in this report. Any additional hours freed up by the Chief Internal Auditor through a reduction to twelve Council audits will be invested in additional consultancy work, which is less onerous on officers than core assurance audits. There will be no saving to the Council from a reduction of internal audit activity.

5. LEGAL IMPLICATIONS

5.1 Aberdeen City Council is required to keep accounts of all transactions relating to all funds of the Council. These accounts must be audited annually by a professional accountant. The Council's external auditor is Audit Scotland. This duty is found in Part VII of the Local Government (Scotland) Act 1973.

5.2 Aberdeen City Council has a duty to secure Best Value. This duty was introduced by the Local Government in Scotland Act 2003. This piece of legislation also introduced best value audits. It requires that the auditor of a local authority's accounts be satisfied that the local authority has made proper arrangements for securing best value.

5.3 The Financial Conduct Authority requires through Disclosure Transparency Rule 4 that the Council, as a bond issuer, must make public its annual financial report at the latest four months after the end of each financial year.

6. ENVIRONMENTAL IMPLICATIONS

6.1 There are no environmental implications arising from the recommendations in this report.

7. RISK

Category	Risks	Primary Controls/Control Actions to achieve Target Risk Level	*Target Risk Level (L, M or H) *taking into account controls/control actions	*Does Target Risk Level Match Appetite Set?
Strategic Risk	Risk that control failures impact of delivery of strategic outcomes.	Best Value audits, annual audit and external scrutiny will be completed.	L	Yes
Compliance	Risk of internal control failures through lack of scrutiny.	Remaining internal audits will focus on internal financial controls. Those proposed for removal are assessed to be low risk.	L	Yes
Operational	Risk of a lack of scrutiny on operations.	Remaining audits are spread equally across operational areas.	L	Yes
Financial	Risk of internal control failures through lack of scrutiny.	Remaining internal audits will focus on internal financial controls. Those proposed for removal are assessed to be low risk.	L	Yes
Reputational	None.			
Environment / Climate	None.			

8. OUTCOMES

The recommendations have no impact on the delivery of our outcomes.

9. IMPACT ASSESSMENTS

Assessment	Outcome
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Integrated Impact Assessment	It is confirmed by the Interim Chief Officer – Governance (Assurance) that no Integrated Impact Assessment is required
Data Protection Impact Assessment	Not required.
Other	None.

10. BACKGROUND PAPERS

[Best Value in Scotland \(audit-scotland.gov.uk\)](https://www.audit-scotland.gov.uk)

[Local government in Scotland: Overview 2023 | Audit Scotland \(audit-scotland.gov.uk\)](https://www.audit-scotland.gov.uk)

11. APPENDICES

None.

12. REPORT AUTHOR CONTACT DETAILS

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