



Internal Audit

Annual Assurance Report and Chief Internal Auditor's Opinion 2023/24

Contents

1	Executive Summary	3
1.1	Introduction and background.....	3
1.2	Purpose of this report.....	3
1.3	Conclusion.....	4
1.4	Action requested of the Audit, Risk and Scrutiny Committee.....	4
2	Annual Assurance Opinion	5
2.1	Basis of annual assurance opinion.....	5
2.2	Annual assurance opinion 2023/24.....	5
2.3	Rationale for the opinion.....	5
2.4	Areas of risk for future IA focus.....	6
2.5	Follow up of audit recommendations.....	7
3	Audit Results	8
3.1	In year audit results.....	8
3.1.1	Previous year reviews finalised in 2023/24.....	8
3.1.2	2023/24 reviews finalised in year.....	8
3.2	Post year end assurance.....	9
3.2.1	2023/24 reviews finalised in 2024/25.....	9
3.3	Consultancy and other work by IA.....	9
3.4	Counter Fraud.....	9
4	IA Performance	10
4.1	Key Performance Indicators.....	10
4.2	Quality assurance and improvement plan.....	11
4.3	Staffing.....	13
5	Appendix 1 – Grading of Recommendations	14

1 Executive Summary

1.1 Introduction and background

Internal Audit's (IA) 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.

1.2 Purpose of this report

Public Sector Internal Audit Standards require that IA 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 IA 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 2023/24, drawing out key lessons to be learned.
- An account of the assurance activities and resources of IA during the period 2023/24.

This report covers the period from 1 April 2023 to 31 March 2024 and any work finalised during the 2023/24 assurance period. It also takes account of work undertaken up to the date of the issue of this report. 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.

1.3 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 2023 to 31 March 2024.

For further commentary see the Annual Assurance Opinion section of this report.

1.4 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 Annual Governance Statement.

2 Annual Assurance Opinion

2.1 Basis of annual assurance opinion

In accordance with the Public Sector Internal Audit Standards, IA's assessment, and opinion over the framework of governance, risk management and control is 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.
- 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 – there are no restrictions to declare in this report.
- Reports issued by the External Audit.
- IA's knowledge of the Council's governance, risk management and performance monitoring arrangements.
- The assessment of risk completed during the formation of the 2024-27 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 IA confirms to the Committee, at least annually, that it is organisationally independent. The organisational independence of IA is established through Financial Regulations (approved by full Council) and the Internal Audit Charter (approved by the Audit, Risk and Scrutiny Committee). Other factors that help ensure Internal Audit's independence are that: the IA Plan is approved by the Audit, Risk and Scrutiny Committee; and IA reports its outputs to Committee in the name of the Chief Internal Auditor. The Chief Internal Auditor considers that IA is organisationally independent.

2.2 Annual assurance opinion 2023/24

IA is satisfied that sufficient audit and assurance work has been undertaken to allow a reasonable conclusion to be drawn 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 2023 to 31 March 2024.

2.3 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:

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- 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.

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.

However, during the year, IA identified Major risks across eight (2022/23: eight) reviews in the following areas¹:

- **Pupil Equity Fund** – IR35 Compliance.
- **Adults with Incapacity** – Written Procedures and Training, Complete and Consistent Records, Minimum Intervention, Financial Controls, and Funds Management Records.
- **Vehicle & Driver Compliance** – Operator Licence Compliance and Contracts and Vehicle Records
- **IJB Complaints Handling** – Management Monitoring
- **IJB Hosted Services** – Governance Arrangements
- **Corporate Asset Management** – Asset Management Framework, Action Plans, and Performance Indicators and Reporting.
- **City Region Deal** – Delegated Powers, Performance and Benefits Reporting, and Expenditure Records.
- **Secondary School Visits** – Procurement Scheme of Governance.

Full details of the risks are presented to the Committee in individual audit reports.

Most other recommendations made during the year were around the reinforcing application of existing controls,, the improvement of efficiency and the drive for Best Value. Common trends in IA's recommendations were also around governance, systematising processes, or the need to better evidence and record the operation of controls.

2.4 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 IA intend to focus on to a greater degree include:

¹ Some areas will include more than one recommendation.

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- Counter Fraud
 - Governance
 - Procurement
 - Other emerging risks identified during the year.

2.5 Follow up of audit recommendations

Public Sector Internal Audit Standards require that IA 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.

Progress made by officers in implementing recommendations is monitored by Internal Audit and reported to the Audit, Risk and Scrutiny Committee each cycle within the Chief Internal Auditor's Progress Report. 99² (2023: 119) actions were completed in year and as at year end, 123 (2023: 82) audit recommendations were open, 27 due for implementation and the remaining 96 due in the future (either as the original planned date of implementation or through an agreed extension which has been reported to the Committee). The vast majority of these recommendations were rated as either Minor (23) or Moderate (76), with the remaining recommendations (24) being in the more significant Major space. Management has highlighted in update reports that, where necessary, progress with implementing actions has continued but some have taken longer than expected due to factors such as resourcing and delivery of other priority areas. Internal Audit considers this an appropriate and proportionate response to the management of risk overall.

² All recommendation figures include the Health and Social Care Partnership but exclude the JJB and North East Scotland Pension Fund.

3 Audit Results

3.1 In year audit results

Across the year, irrespective of the period initially planned for the review, IA issued 20 audit reports (2022/23: 22). These reviews span the entire breadth of the Council's operations, touching on not just individual services but also cross-Council areas, and IA's work with the Aberdeen City IJB and the North East Scotland Pension Fund.

This section highlights the results of our work in 2023/24, including finalisation of reviews. It should however be noted that:

- Previous years' work, issued in the current year, is considered for and factors into IA's annual assurance opinion.
- Work in progress, where the report is at a draft stage, is also considered for and factors into IA's annual opinion.
- The same is considered for consultancy work, which also factors into IA's annual assurance opinion.
- For all assurance reviews, IA 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.

3.1.1 Previous year reviews finalised in 2023/24

Service	Audit Area	Overall Rating
Commissioning	Contract Management	Moderate
Resources	PVG & Disclosure Checks	Moderate
Customer	Scottish Milk and Healthy Snack Scheme	Moderate
Health and Social Care Partnership	Adults with Incapacity	Major
Resources	Corporate Asset Management	Major

3.1.2 2023/24 reviews finalised in year

Service	Audit Area	Overall Rating
Children's & Family Services	Pupil Equity Fund	Moderate
Operations	Care Management System	Minor
Commissioning	Data Protection	Minor
IJB	Complaints Handling	Moderate
Customer	Attendance Management	Moderate
Resources	COVID-19 Spend	Minor
Resources	Vehicle and Driver Compliance	Moderate
NESPF	Pensions Investment Strategy	Moderate
Children's & Family Services	Secondary Schools Visits	Moderate
Resources	Stores Stock Control	Moderate

Service	Audit Area	Overall Rating
IJB	Hosted Services	Moderate
Customer	Cyber Action Plan	Moderate
Commissioning	City Region Deal	Major
Commissioning	Biodiversity and the Natural Environment	Moderate
Customer	Volunteer Arrangements	Moderate

3.2 Post year end assurance

The information presented in the above table, concerning audit work, covers the period 1 April 2023 to 31 March 2024. However, consideration has been given to any work during the period until the issue of this report. Since year end, IA has issued a further four reports.

3.2.1 2023/24 reviews finalised in 2024/25

Service	Audit Area	Overall Rating
Resources	Revenue Budget Setting and Financial Strategy	Minor
Customer	Prevent	Moderate
Customer	Private Sector Housing	Minor
Resources	Creditors System	Moderate

Since year end, IA has also progressed the final reviews of the year: Procurement Compliance, Social Care Financial Assessments, Recruitment, Creditors System and Private Sector Housing, and these are currently in the report finalisation stage. The emerging findings from the draft reports have been factored into the year end opinion.

3.3 Consultancy and other work by IA

In addition to planned assurance work, IA has also supported several services across the year. This has either been through requests for support or structured management assurance pieces of work, including but not limited to Service Standards, Rent Assistance Scheme, and Schools.

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, and will continue as IA looks to further support the Council overall.

3.4 Counter Fraud

IA does 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 IA from a control framework perspective.

4 IA Performance

4.1 Key Performance Indicators

Key Performance Indicator (KPI) results could be better and this is recognised by IA, whilst also acknowledging the impact engagement from Council Management can have on the delivery of audit work. However the results show that IA continues to improve; half of the KPIs have been met.

Description	Target	2021/22	2022/23	2023/24	Commentary
Percentage of planned audits commenced where the Service was given advance notice of commencement of field work.	100%	100%	100%	100%	All audits were agreed with Management in advance.
Percentage of current year audits (as adjusted through consideration of subsequent year's plan) where draft report issued by deadline.	90%	0%	50%	33.33%	2023/24 saw the continued implementation of a new audit methodology, which it took time for both IA and Management become familiar with and reflects more time needed during the fieldwork stage pre-draft reporting.
Percentage of current year audits (as adjusted) completed by end of current year.	65%	33.33%	55.56%	68.18%	Work was carried out in the previous year to ensure a minimal number of audits was carried forward and this facilitated meeting the target through focusing on the current year audits.
Percentage of previous year audits (as adjusted) completed by end of current year.	100%	86.67%	100%	100%	All previous year audits were completed within 2023/24.
Percentage of current year audits (as adjusted) that were completed in the year within 110% of planned time allocated.	90%	20%	80%	35.71	2023/24 saw the continued implementation of a new audit methodology, which it took time for both IA and Management become familiar with and reflects more time needed during the fieldwork stage, and for Management to review, digest and respond.
Percentage of previous year audits (as adjusted) that were completed within 110% of planned time allocated.	90%	7.69%	50%	40%	2023/24 saw the continued implementation of a new audit methodology, which it took time for both IA and Management become familiar with and reflects more time needed during the fieldwork stage, and for

Description	Target	2021/22	2022/23	2023/24	Commentary
					Management to review, digest and respond.
Percentage of planned time taken for current year audits that were completed in the year.	90 - 110%	159.63%	88.30%	145.98%	This shows that current year audits are being completed slower on the whole. However, analysis of the underlying data does highlight variances (both over and under) across individual reviews.
Percentage of planned time taken for all previous year audits completed by end of current year.	90 - 110%	180.22%	129.51%	133.11%	2023/24 saw the continued implementation of a new audit methodology, which it took time for both IA and Management become familiar with and reflects more time needed during the fieldwork stage, and for Management to review, digest and respond.
Percentage of recommendations accepted by management.	95%	100%	97.97%	98.15%	Small number of recommendations not accepted in year, which is expected in line with the new risk based methodology.
Where management has not agreed recommendation, percentage who accept risk.	100%	100%	100%	100%	In the small number of cases where recommendations were not accepted by Management, they accepted the risk.

Based on the current year results, where efforts will be made across all KPIs, the completion of work within the budgeted time, specifically, the issue of reports, both in draft and final, will be a priority for IA.

4.2 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 PSIAS and the results of the quality assurance and improvement programme (QAIP).

In previous reports IA has updated the Committee on the work to address previously noted issues; the main driver for these being the internal quality assessment, any external quality assessments and recommendations made by External Audit.

IA is pleased to confirm an external review of the control framework was concluded in the year and found that IA fully conforms with PSIAS. The Assessment however did make four recommendations and updates are provided below:

Recommendation	Management Response	Responsible Officer/Agreed Completion Date	Update
<p>In order to meet the requirements of the PSIAS/LGAN, the Internal Audit Charter must be reviewed and revised to include the following:</p> <ul style="list-style-type: none"> • arrangements for appropriate resourcing (including the role of the internal audit contract manager); and • define the role of internal audit in any fraud-related work (including notification of both suspected and detected fraud). 	<p>The Internal Audit Charter is considered fit for purpose and accurately reflects the relationship between Aberdeen City Council and Aberdeenshire Council Internal Audit, specifically focusing on the areas for which the latter has responsibility. However as part of the annual review, scheduled to be presented to Committee in March next year, the points noted will be factored in.</p>	<p>Chief Internal Auditor Mar-24</p>	<p>Complete. The updated charter was approved by the AR&S Committee in February 2024.</p>
<p>The Counter Fraud Policy should be reviewed and revised to include a requirement for the CAE to be informed of all suspected and detected fraudulent activity. This can be used to inform the CAE's assessment of risk when preparing the annual audit plan and their annual audit opinion.</p>	<p>We will work with ACC Management to support a review and revision of the Counter Fraud Policy to better reflect what is already being done operationally.</p>	<p>Chief Internal Auditor Dec-23</p>	<p>Complete. Confirmed by Management in December 2023.</p>
<p>The scope of the internal QAIP assessments (including both ongoing and periodic) should be documented and the results of each included in the annual opinion report.</p>	<p>The annual internal QAIP is reported to Committee as part of the CIA's Annual Report. The scope of this work will now also be documented. The next review is scheduled to be presented to Committee in June next year.</p>	<p>Chief Internal Auditor June-24</p>	<p>Complete. Evidenced through this report and internal documentation within Internal Audit.</p>
<p>In line with CIPFA's best practice, Internal Audit should provide improved information to explain to the Audit,</p>	<p>Behind the Internal Audit Plan that is presented to Committee each year is a full suite of</p>	<p>Chief Internal Auditor Mar-24</p>	<p>Complete. Evidenced through Annual Plan reporting to Committee in February 2024.</p>

Recommendation	Management Response	Responsible Officer/Agreed Completion Date	Update
Risk and Scrutiny Committee that it has sufficient resources to deliver the internal audit plan.	supporting analysis that looks at resourcing. This is discussed with Management and Committee when presenting the Plan. However, in order to satisfy best practice, this will be reported as part of the actual document that is approved by Committee. The next Plan is scheduled to be presented to Committee in March next year.		

A year end internal refresh of the assessment was carried out and highlighted no changes. At present there are no further outstanding actions for IA to take forward.

4.3 Staffing

At present IA is operating with a 12.6 FTE, 0.4 FTE under budget.

5 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 Rating	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, which could result in, for example, a material financial loss. Action should be taken within three months.
Severe	This is an issue / risk that could 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. Action is considered imperative to ensure that the Council is not exposed to severe risks and should be taken immediately.