



Internal Audit

Audit, Risk and Scrutiny Committee Internal Audit Update Report September 2025

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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 2025/26 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 reviews have been completed.
- Management continue to work on implementation of agreed actions in response to recommendations.
- A review has been carried out to the Internal Audit methodology, resulting in slight changes, specifically to output reporting.

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 2025/26 Audits

Service	Audit Area	Position
City Regeneration & Environment	Carbon Budgeting	Review in Progress
City Regeneration & Environment	Trade Waste	Review Scheduled
City Regeneration & Environment	Roads Winter Service Plan	Review Scheduled
City Regeneration & Environment	City Region Deal	Review in Progress
City Regeneration & Environment	Capital Corporate Review	Review Scheduled
Corporate Services	Finance Controls Improvement Plan Follow Up	Review in Progress
Corporate Services	Purchase Cards	Final Report Issued
Corporate Services	Agency Costs	Review in Progress
Corporate Services	Voluntary Severance	Review Scheduled
Corporate Services	Mandatory Training Compliance	Review Scheduled
Corporate Services	Digital and Technology Demand	Review Scheduled
Corporate Services	Complaints Handling	Review in Progress
Corporate Services	Bond Governance	Final Report Issued
Families & Communities	RAAC Response	Review Scheduled
Families & Communities	Out of Authority Placements	Review Scheduled
Families & Communities	Nursery Visits	Final Report Issued
Families & Communities	PROTECT	Review Scheduled
Health & Social Care Partnership	Health and Social Care (staffing) Scotland Act 2019	Review Scheduled
Integration Joint Board	IJB Financial Sustainability	Review Scheduled
North East Scotland Pension Fund	Key Administrative Processes	Review Scheduled

2.2 Audit reports presented to this Committee

Report Title	Assurance Year	Net Risk Rating	Conclusion
AC2606 – Bond Governance	2025/26	Moderate	The level of net risk is assessed as MODERATE , with the control framework deemed to provide REASONABLE assurance over the Council's approach to Bond Governance. Reasonable assurance was available over the following areas reviewed: Payment Accuracy and Timelines, and Bond Trustee Year-End Compliance. However, the review identified some areas of weakness where enhancements could be made to strengthen the framework of control, specifically: Governance and Written Procedures, Training, Insider List and PDMR List, Credit Rating Risks, and London Stock Exchange Disclosures.

Report Title	Assurance Year	Net Risk Rating	Conclusion
			<p>Payment control arrangements are operating well. However, the various UK MAR compliance breaches risk mismanagement of inside information and FCA sanctions, whilst gaps in credit rating risk mismanagement, risk investor confidence, default events, and financial sustainability.</p> <p>Recommendations have been made to address the above risks, including reviewing and updating policies and procedures; improving the system of control over bond training and the Council's Insider List and PDMR List; improving bond risk management arrangements; monitoring a SMART (specific, measurable, achievable, relevant and time-bound) action plan for Economic Policy Panel recommendations; and enhancing control over London Stock Exchange announcements.</p>
AC2601 – Purchase Cards	2025/26	Moderate	<p>The level of net risk is assessed as MODERATE, with the control framework deemed to provide REASONABLE assurance over the Council's approach to purchase cards.</p> <p>During the 2024/25 financial year, a total of 556 cardholders made 21,021 purchases using purchase cards, amounting to approximately £780k.</p> <p>Governance arrangements are generally well controlled, with Finance centrally overseeing the allocation of new cards, setting cardholder transaction limits, designating card reviewers and approvers, and removing system access. Relevant purchase card use requirements are prescribed in Financial Regulations and these are expanded upon within user guidance, albeit this could be enhanced as described below in relation to prohibited spend. Current guidance was issued to cardholders, reviewers and approvers during this review with a requirement to acknowledge understanding of the guidance and related responsibilities via a newly introduced Accountability Form. Finance has warned failure to complete this form will result in cards being cancelled for cardholders or their use limited where reviewers/approvers fail to respond, helping to ensure purchase card requirements are understood.</p> <p>Purchase card user rules, where applied, are relevant to help ensure segregation in purchasing and approval of spend. Also, guidance warns of a three-stage escalation process, which when applied, can limit cardholder purchasing for a given area to £1 per transaction per cardholder, followed by cancelling cards for persistent delays in reviewing/approving. Finance advised they have cancelled 44 cards as a result of the process predominantly used by officers based in schools, but also cards used by Housing.</p> <p>However, the review identified some areas of weakness where enhancements could be made to</p>

Report Title	Assurance Year	Net Risk Rating	Conclusion
			<p>strengthen the framework of control, specifically: Written Procedures and Guidance, New Card Applications, Transaction Limits, Transactions, Monitoring, Children's Social Work and Family Support Payments, Multiple Cards, and Cardholder Data.</p> <p>This is a central process, which is controlled by Finance but operationally sits with first line card holders. We make recommendations centrally to add the most value but note the involvement of all services, with service specific recommendations also where applicable.</p> <p>Recommendations have been made to enhance the system of control, specifically in relation to administrator and user guidance; transaction limits; the new card order process; inactive cards; approval delay; absent receipts; petty cash management; and VAT recording. In addition, recommendations were made to establish C&PSS monitoring arrangements; prevent cardholders approving spend; enhance control over Children's Social Work and Family Support spend; and monitor changes in cardholder data/access.</p>
AC2605 – Early Learning and Childcare Setting Visits	2025/26	Moderate	<p>The level of risk is assessed as MODERATE, with the control framework deemed to provide REASONABLE assurance over compliance with Financial Regulations and the management of the financial aspects of Early Learning and Childcare settings.</p> <p>The Council's Scheme of Governance, the Financial Services staff intranet SharePoint page, and related Schools Finance SharePoint page adequately define policy and expectations in relation to the management of nursery finances.</p> <p>Purchase orders had been raised as required for expenditure at nurseries visited, and supporting documentation was present for all transactions through the purchase card process. None of the settings collected any income or handled cash in any format. Milk and Healthy Snack scheme data is being provided as required.</p> <p>However, the review identified some areas of weakness where enhancements could be made to strengthen the framework of control, specifically: Guidance and Training, School Funds, Purchase Cards, Payroll, and VAT.</p> <p>Collectively the financial risks highlighted risk of financial loss, lack of Best Value and poorer financial outcomes for parents and pupils.</p> <p>Recommendations have been made to address the above points, including formalising school administrator guidance and related training; risk</p>

Report Title	Assurance Year	Net Risk Rating	Conclusion
			assessing nursery premises, and ensuring schools comply with school fund and purchase card requirements. In addition, it is recommended E&LL works with Finance to ensure an optimal approach to VAT accounting and that Payroll enhance monthly payroll reports for timesheet hour monitoring purposes.

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 June 2025 (the baseline for our exercise), 17 audit recommendations were due and outstanding:

- Two rated as Major
- 11 rated as Moderate
- Four rated as Minor

As part of the audit recommendations follow up exercise, 11 recommendations were closed:

- One rated as Major
- Seven rated as Moderate
- Three rated as Minor

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

2.4 Review of Internal Audit methodology

In line with ensuring compliance with the new Global Internal Audit standards, and at the request of the Council's Management Team, Internal audit recently conducted a light touch review of the Internal Audit methodology.

The review involved examining the guidance and standards set by the Scottish Government, CIPFA, and HMT, as well as considering the practices and methodologies of other local authorities.

The review concluded the methodology is fit for purpose and in several ways, such as fully risk based and different review levels, is beyond what many other local authorities are doing. This does not create extra workload on Internal Audit or those being audited

and instead makes the process easier by better articulating risks that can then be prioritised accordingly.

Maintaining the current approach is also consistent across the five organisations that Internal Audit serves.

However, based on the review and feedback from auditees, there has been slight changes around the methodology and reporting, specifically:

- **Update of the risk definitions to remove timescales** – The individual risk ratings include currently suggested timeframes for actions to be implemented. The timescales were intended as a way to allowing process owners to focus on prioritisation of risks. However, in practice, where there is prioritisation, some risks are quicker to address than others and not all similarly rated risks are in fact the same. It is therefore not deemed appropriate to define a timescale for individual risks. This should come from what Management believe they can deliver, as reported in the body of reports. It is then for Committee to decide if they are assured.
- **Update of the Executive Summary layout to include the number of risks** – The Executive Summary section of each report will now include a table showing the number of individual findings at each risk rating. This table will replace the repeated Major and Severe rated risks box currently included.

A briefing session for members is currently being planned by Governance officers and Internal Audit is feeding into this to facilitate a session on the methodology, both the updates and approach overall.

The methodology will continue to be reviewed to ensure it remains fit for purpose and any changes will be reported to Committee.

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

Report	Grading	Ref	Recommendation	Original Due Date	Current Due Date	Committee Update	Status
AC2313 – Corporate Asset Management	Major	1.1b	The Council should develop a clear Asset Management approach.	Jun-25	May-26	The transformation for Fleet and Roads has not completed, and hence the review has been unable to progress. There is a Fleet replacement programme and a Roads Asset Management Plan. The RAMP needs to be updated, and the Fleet Replacement Programme needs to form part of a larger Asset Management Plan. Work in progress has been discussed with Internal Audit	In Progress
AC2407 – Creditors System	Minor	1.1	The Service should create current training resources for staff on the use of the Financial Management System.	Jun-25	Dec-25	Work in progress discussed between the Service and IA. Other priorities have resulted in a delay and required extension.	In Progress
AC2417 – Cyber Action Plan	Moderate	1.4c	A system of control should be established to ensure devices used under BYOD are promptly patched with any necessary security updates.	Jun-25	Jan-26	3MB presented to ECMT. Agreement to proceed as per the recommendations. Subsequently delayed implementation pending delivery and installation of new firewalls to address operational network problems.	In Progress

Report	Grading	Ref	Recommendation	Original Due Date	Current Due Date	Committee Update	Status
AC2417 – Cyber Action Plan	Moderate	1.4d	Users of devices under BYOD should be required to install and maintain up to date endpoint security software on their BYOD devices, including anti-malware and anti-virus solutions.	Jun-25	Jan-26	3MB presented to ECMT. Agreement to proceed as per the recommendations. Subsequently delayed implementation pending delivery and installation of new firewalls to address operational network problems.	In Progress
AC2417 – Cyber Action Plan	Moderate	1.4b	Users' actual access to Council systems, software and apps should be subject to regular review in the interests of revoking access where it is deemed unnecessary. This should be automated where possible.	Jun-25	Oct-25	Complete for systems using Oauth and SAML authentication pass through from EntraID. Action remain for systems not under D&T control and these will be reviewed by ECMT .	In Progress
AC2514 – Risk Management	Moderate	1.3	Cluster Risk Registers should be monitored monthly by Cluster SMTs with service manager input to ensure required monthly Cluster Risk Register reporting to Directors is accurate. A set agenda will be issued to Chief Officers for SMT meetings to address this.	May-25	Sep-25	Work in progress discussed between the Service and IA with extension to allow for evidence of completion.	In Progress