

ABERDEEN CITY COUNCIL

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COMMITTEE	Audit, Risk & Scrutiny
DATE	27th June 2017
REPORT TITLE	Audit, Risk & Scrutiny Committee – Annual Report
REPORT NUMBER	OCE/17/007
DIRECTOR	Angela Scott
REPORT AUTHOR	Martin Murchie

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**1. PURPOSE OF REPORT:-**

- 1.1 The purpose of this report is to present the annual report of the Audit, Risk & Scrutiny Committee.

**2. RECOMMENDATION(S)**

- 2.1 that the Committee:-

- (a) Approve the annual report; and
- (b) Refer the report to the Council for their consideration.

**3. BACKGROUND/MAIN ISSUES / OTHER HEADINGS AS APPROPRIATE**

- 3.1 Members have previously agreed that the Committee prepare an annual report of its activities and that this be referred to Council. Annual reports were published in 2015 and 2016. This report attaches a draft of the annual report for 2016/17.

**4. FINANCIAL IMPLICATIONS**

- 4.1 There are no direct financial implications arising from this report.

**5. LEGAL IMPLICATIONS**

- 5.1 There are no direct legal implications arising from the recommendations of this report.

## **6. MANAGEMENT OF RISK**

- 6.1 There are no identified material risks which would result from the approval of the recommendations in this report.

## **7. IMPACT SECTION**

- 7.1 There is impact on the Council's governance arrangements through improved transparency, understanding and challenge of the activity and outcomes from the Audit, Risk & Scrutiny Committee.

**Economy** - No direct impact.

**People** - No direct impact.

**Place** - No direct impact.

**Technology** - No direct impact.

## **8. BACKGROUND PAPERS**

- "A Toolkit for Local Authority Audit Committees" - CIPFA
- "Audit Committees: Practical Guidance for Local Authorities and Police" - CIPFA (2013)

All Audit, Risk and Scrutiny Committee papers for 2016/17 are available on the Council's website.

## **9. APPENDICES (if applicable)**

- 9.1 Appendix A - List of all Reports considered by the Committee in 2016/17.

## **10. REPORT AUTHOR DETAILS**

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## HEAD OF SERVICE DETAILS

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# **Audit, Risk and Scrutiny Committee**

## **Annual Report 2016/17**

## **Introduction**

I am pleased to present this year's Annual Report of the Audit, Risk & Scrutiny Committee. An annual report to Council is a useful way to develop understanding of the Committee's role and functions. The Committee is accountable to Council and welcomes scrutiny of its effectiveness in fulfilling its terms of reference and its impact on the improvement of governance, risk and control within the authority. This report covers the work of the Audit, Risk & Scrutiny Committee during the period April 2016 – March 2017. In addition, to a summary of work undertaken, the report includes details of the Committee's membership and officer support to the Committee. The report ends with a look forward to 2017/18 and the Committee would welcome any feedback from Members of the Council on the themes identified.

***Stephen Flynn***

*Convener*

*Audit, Risk & Scrutiny Committee*

## The role of the Audit, Risk & Scrutiny Committee

Cipfa (the Chartered Institute of Public Finance and Accountancy) defines the purpose of an audit committee as:

*“...to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.”<sup>1</sup>*

In accordance with this, the role of the Committee is primarily concerned with assuring itself, and advising the Council as necessary, that the Council’s policies are being implemented and has in place systems which provide adequate controls over the Council’s resources and assets to prevent the risk of loss through fraud and corruption. It is not the role of the Audit, Risk & Scrutiny Committee to be responsible for, or manage, the arrangements themselves.

Key to the role of the Committee is that it should be independent; have clear reporting lines and rights of access to other committees; and that its members should be properly trained to fulfil the role. The Orders of Reference for the Committee are listed below with a summary of work undertaken.

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<sup>1</sup> CIPFA (2013) Audit Committees: Practical Guidance for Local Authorities and Police

# 1. Risk Management

The Committee will:-

- (a) receive an annual review of the risk management process, and an update every six months on the risk register and related action plans;
- (b) approve the risk management strategy and implementation plan;
- (c) monitor risk management and internal control arrangements; and
- (d) commission and review annual assessments of the effectiveness of the risk management and control framework.

## Summary of Activity

- Considered a review conducted by “The Good Governance Institute” which provided an external evaluation of the Council’s system of risk management. Agreed an action plan to further strengthen risk management arrangements.
- Reviewed Service Risk Register for each of the Council’s Directorates.
- Considered a number of reports on incidents as well as emerging risks. Reviewing effectiveness of controls and actions to mitigate future risks.

## Outcomes

- The major review of the system of risk management, conducted by “The Good Governance Institute” gave the Committee assurance of the strengths of existing arrangements as well as a clear understanding of where further improvements are required. A number of significant improvement actions have been begun in 2016/17 including:-
  - mapping the sources of assurance for the controls of the Council’s corporate risks;
  - supporting the transformation programmes with risk assessment structures to ensure a consistent and cross-cutting dynamic to delivery;
  - the co-ordination of a corporate “Issues Log” to identify and assess external risks as they emerge.
- The practice of reporting post-incident reviews to the Committee is a significant step in increasing the understanding of weaknesses in risk management and controls and has provided greater assurance around future controls.

## 2. Internal Audit

The Committee is charged with responsibility for ensuring that there is an effective Internal Audit function. This to be achieved through the following:-

- (a) the approval of the Internal Audit Annual Plan;
- (b) the consideration of all reports issued by Internal Audit with the exception of those on the Pension Fund;
- (c) responsibility for ensuring that there is an adequately resourced Internal Audit service; and
- (d) the consideration of performance reports on Internal Audit activity.

### Summary of Activity

- Approved a risk based Audit Plan 2016/17 and Internal Audit Charter;
- Reviewed the performance of Internal Audit, including the progress in completing the Audit Plan, at each meeting;
- Considered 30 internal audit reports and management responses;
- Followed up on the implementation of all recommendations agreed following audit reviews;
- Considered an Annual Report by the Head of Internal Audit which included the Head of Internal Audit's annual opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control;

### Outcomes

- Whilst a small number of planned reviews have been carried forward to 2017/18 this has not impacted on the internal auditors ability to produce an overall opinion on the adequacy of the Council's control environment for 2016/17;
- Where appropriate, recommendations for improvement in the control environment have been made by Internal Audit and these have been supported by the Committee.

### **3. External Audit**

To receive all reports prepared by the Council's External Auditor with the exception of those on the Pension Fund.

#### **Summary of Activity**

- Considered the external auditor's independent report on the financial statements; and annual report to members and the Controller of Audit.
- Reviewed regular reports from the external auditor on progress in implementing the Audit Plan;
- Considered specific reports from the external auditor relating to Major Capital Projects;
- Considered the local implications and responses to nine national reports from Audit Scotland;
- Considered reporting of progress against External Audit recommendations and received status reports at each Committee meeting;
- Approved an External Audit Strategy, prepared by KPMG, for 2016/17.

\* It is noted that Aberdeen City Council's Local Scrutiny Plan for 2017/18, which is prepared by the "Local Area Network" of inspection agencies and regulators, was not presented to the Committee during 2016/17, but will be submitted to the June 2017 meeting.

#### **Outcomes**

- Ensured the discharge of the Council's responsibilities with regard the external audit function;
- Oversaw the transition to a new External Auditor with KPMG taking over from Audit Scotland;
- Reviewed progress of external audit activity, including implementation of recommendations, throughout the year;
- The external auditor's annual report to members was concluded and was considered by the committee alongside the audited financial statements.

## **4. Accounts**

To consider and approve the Council's, and its Registered Charities, Annual Accounts.

### **Summary of Activity**

- Approved an action plan and key dates for the preparation and audit of the Annual Accounts;
- Considered and approved the Annual Accounts for the Council and its Registered Charities; and
- Within the annual accounts, the Annual Governance Statement was specifically considered and approved.

### **Outcomes**

- The audited 2015/16 accounts were prepared and certified in line with the requirements of the Local Authority Accounts (Scotland) Regulations 2014.

## 5. Whistleblowing and Other Investigations

### Summary of Activity

- Considered and reviewed the activity and business plan of the Corporate Investigations Team
- Heard oral reports on a small number of investigations during 2016/17;
- Considered a “Whistleblowing Policy Annual Report” which gave details of “whistleblowing activity” during 2015/16;
- No whistleblowing reports were received or considered by the Committee in 2016/17.

## 6. Anti-Fraud

The approval of an anti-fraud policy and monitoring its implementation; and

- (a) Commissioning investigations to secure value for money in the delivery of services.
- (b) To oversee the processes by which services are exposed to competition and costs are let, where the Council itself is a bidder for the work.

### Summary of Activity

- The first Fraud Annual Report was considered by the Committee for the year 2015/16;
- Considered updates from the Corporate Investigation Team on the National Fraud Initiative;
- No frauds were reported to the Committee during the year.

## 7. Legal Compliance

To review minuted actions from all main Committees with the exception of the Planning Development Management and Licensing Committees (or Regulatory Committee) to ensure compliance with legal requirements and good practice. The Committee will not prevent any decision being taken and will only review a decision.

### Summary of Activity

- Reports to the Audit, Risk and Scrutiny Committee can cover matters relating to services across the Council. This provides the Committee with an opportunity to ensure that services are being delivered in accordance with the law, Council procedures and best practice; and
- The Audit, Risk and Scrutiny Committee receives information on a regular basis in respect of the Council's compliance with the Data Protection Act 1998. This allows members to scrutinise performance in this area. The General Data Protection Regulation (GDPR) will replace the Data Protection Act 1998 from 25 May 2018.

## 8. Health and Safety

Approve the Council's Health & Safety Policy, including its annual review and implementation.

### Summary of Activity

- The Audit, Risk & Scrutiny Committee received the minutes of each meeting of the Central Health and Safety Committee during 2016/17.

## 9. Arm's Length External Organisations (ALEOs)

The Committee will ensure, through consideration of a quarterly report from the governance hub, that each tier 1 Arm's Length External Organisation has an effective system of risk management in place, covering strategy, structure, skills, system, staff and shared values. The Committee will use this to determine the level of assurance it can place on the effectiveness of that system and its ability to achieve the organisational objectives.

### Summary of Activity

- The Committee received and considered minutes of the meetings of the ALEO Governance Hub and a report of significant issues for May and August 2016;

### Outcomes

- The Committee's scrutiny of the work of the ALEO Governance Hub provides additional assurance that risks are controlled and this will continue in 2016/17.

## 10. Additional Reports

The Committee commissioned and received additional reports covering a number of areas, including:-

- Regular reports identifying any upheld complaints which had been considered by the Scottish Public Services Ombudsman;
- Inspector of Crematoria Complaint Decisions Crematoria Investigation
- Due Diligence Process for the Establishment of the Aberdeen City Health & Social Care Partnership
- Regular reports on compliance with FOI and Data Protection legislation, including breaches;
- Third Don Crossing;
- Solar Photovoltaic Agreement;
- Update on Gas Central Heating Maintenance Framework Contract;
- Aberdeen Treasure Hub.

## Membership of the Committee

The Audit, Risk & Scrutiny Committee is composed of 17 Members from across all parties. Members bring with them business experience of audit, risk management, health & safety, project management and relevant service and local governance knowledge. During the self-evaluation of the committee's effectiveness, Members and officers acknowledged the skills and knowledge of the Committee.

During 2016/17 training was delivered to all new members of the committee giving an overview of the role of the Committee and the member's role in this. Additional training packages were delivered to members:-

- The annual accounts process;
- Internal Audit;
- Risk Management.

### Attendance:

Member	Total Expected Attendances	Total Attendances	Nominated Substitute Attended
Cllr Flynn Convener from 27 June 16	5	1 as member 4	
Cllr Yuill Vice Convener	5	5	
Cllr Cameron	5	4	Cllr Corall 23 Feb 17
Cllr Cooney	5	4	Cllr Young 27 Sept 16
Cllr Crockett	5	4	Cllr Ironside 27 June 16 Cllr Grant 24 Nov part
Cllr Dickson	5	5	
Cllr Donnelly	5	5	
Cllr Jackie Dunbar Convener for 28 April 16	5	1 as convener 4	
Cllr Graham	5	4	Cllr Allan 23 Feb 17
Cllr Greig	5	5	
Cllr Lawrence	5	5	
Cllr Malik	5	5	
Cllr Jean Morrison	5	5	
Cllr Nathan Morrison	5	0	Cllr Young 27 June 16 Cllr Carle 27 Sept 16 Cllr Young 24 Nov 16 Cllr Young 23 Feb 17
Cllr Reynolds	5	2	Cllr Taylor 27 Sept 16 Cllr Taylor 24 Nov 16
Cllr Samarai	5	3	Cllr Nicoll 24 Nov 16 Cllr Copland 23 Feb 17
Cllr Townson	5	5	

## **Officer support to the Committee**

### The Chief Executive

The Chief Executive has taken a very active role in the development and support of the Committee over the last 12 months. She regularly attends the Committee and ensures that the Committee is effectively supported.

### The Section 95 Officer

Steve Whyte, Head of Finance, provides key support to the Committee. Statute requires every local authority to make arrangements for the proper administration of their financial affairs and requires one officer to be nominated to take responsibility for the administration of those affairs. The Section 95 Officer, with the support of his colleagues and external audit, has provided reports and training in relation to the Annual Accounts, external audit activity and financial management. They have attended every Audit, Risk & Scrutiny Committee meeting and ensured that the Committee has received the information and advice that it needs to do its job effectively.

### Chief Internal Auditor

David Hughes, who manages a joint service with Aberdeenshire Council, is the Chief Internal Auditor. David and his colleagues have attended each meeting of the Committee to present their reviews, answer members' questions and provide advice in relation to scrutiny and the regulatory framework. In addition, the Committee and the Council Corporate Management Team have commissioned additional investigations from David's team.

### Lead Executive Support

The lead executive support role for the Committee was performed by Richard Ellis the then Interim Director of Corporate Governance. He was supported in this role by Martin Murchie, Office of Chief Executive.

### External Audit

During 2016/17 Audit Scotland were the Council's appointed external auditors. The appointed auditor for the Council was Stephen Boyle and the local contact responsible for day to day management of the audit was Anne MacDonald. External Auditors' primary responsibility is to give their opinion on whether the Council's accounts give a true and fair view of the Council's financial transactions. Audit Scotland also deliver a targeted programme of risk based reviews and, as the Council's External Auditor, took the lead role in the Local Area Network, which determines the level and nature of external scrutiny which will be applied to the Council's services. On 1<sup>st</sup> April 2017 KPMG took over from Audit Scotland as the Council's External Auditor.

**Attendance:**

<b>Officer</b>	<b>Total Expected Attendances</b>	<b>Total Attendances</b>	<b>Nominated Substitute Attended</b>
Chief Executive	5	5	N/A
Steve Whyte	5	5	N/A
David Hughes	5	5	N/A
Anne Macdonald	5	5	N/A
Richard Ellis	5	5	N/A
Martin Murchie	5	5	N/A

## Next year's focus

The Audit, Risk & Scrutiny Committee will continue to review and challenge the Council's arrangements with regards to risk management, corporate governance, internal and external audit and treasury management throughout 2017/18.

Amongst the issues which are likely to receive particular focus are:-

- Oversight of the appropriate outputs from the Council's Governance Review. This will include a revised model for obtaining assurance from the Council's ALEOs;
- The new approach to Best Value developed by the Accounts Commission, which includes an annual focus on specific aspects of Best Value;
- Implications of the BOND and the rules of the London Stock Exchange;
- Preparation for the commencement of The General Data Protection Regulation;
- Overseeing the ambition to accelerate the preparation of annual accounts;
- Continuing development of the governance arrangements for the Council's Arm's Length External Organisations;
- Implementation of the System of Risk Management Action Plan previously agreed by the Committee;
- Continuing development of scrutiny arrangements with respect to integrated health and social care;
- Assessment and development of the internal audit function;
- The exercise of the Committee's responsibilities for Health and Safety;
- Follow up on the first Fraud Annual Report;
- The transition to a new External Auditor;
- The development of arrangements for the Local Area Network.

**APPENDIX B**

<b>Title of Report</b>	<b>Lead Officer</b>	<b>28/04/16</b>	<b>27/06/16</b>	<b>27/09/16</b>	<b>24/11/16</b>	<b>23/02/17</b>
<b>Risk Management</b>						
Risk Register – Corporate Governance	N Buck	✓				
Risk Register – Communities, Housing & Infrastructure	Director of CHI			✓		
Risk Register – Education and Children’s Services	Director of CHI			✓		
Review of Risk Management System	Interim Director of CG				✓	✓
Public Mortuary Status Report	Director of CHI					✓
Website Breach	Interim Director of CG					✓
<b>Internal Audit</b>						
Internal Audit Progress Report & Performance	D Hughes	✓	✓	✓	✓	✓
Revised Internal Audit Charter	D Hughes	✓				
Internal Audit – Outstanding Recommendations	D Hughes	✓	✓	✓	✓	✓
Internal Audit Annual Report and Internal Financial Control Statement	D Hughes	✓				
Internal Audit Plan 2016/17	D Hughes					✓
Cross Service Corporate Policies and Procedures	D Hughes	✓				
Education Secondary Schools	D Hughes	✓				
Education Teachers’ Payroll	D Hughes	✓				
Rent Collection and Arrears Management	D Hughes	✓				
Communities, Housing and Infrastructure - Vehicles	D Hughes	✓				
Social Work Tendering	D Hughes	✓				
Compliance with Procurement Related Legislation and Financial Regulations	D Hughes		✓			
Infosmart System	D Hughes			✓		
Scottish Welfare Fund	D Hughes			✓		
Building Services Re-charges	D Hughes			✓		
Building Services Procurement	D Hughes			✓		
Cleaning Payroll	D Hughes			✓		
Roads Payroll	D Hughes			✓		
Family and Community Support – Family Centres	D Hughes			✓		
Public Records (Scotland) Act	D Hughes			✓		
Budget Monitoring	D Hughes				✓	
Following the Public Pound	D Hughes				✓	

Purchasing and Creditors System	D Hughes				✓	
Business Rates	D Hughes				✓	
Self-Directed Support	D Hughes				✓	
Council Tax Reduction	D Hughes		✓			
Care First	D Hughes				✓	
Council Owned Land and Property	D Hughes					✓
Treasury Management	D Hughes					✓
Cash Receipting System	D Hughes					✓
3 <sup>rd</sup> Don Crossing	D Hughes					✓
Timesheets	D Hughes					✓
Agency Staff	D Hughes					✓
Primary School Visits	D Hughes					✓
Compliance with Procurement Related Legislation	D Hughes					✓
<b>External Audit (Non-Accounts)</b>						
External Audit – Outstanding Recommendations	A MacDonald	✓	✓	✓	✓	✓
External Audit Progress & Performance	A MacDonald	✓	✓	✓		
External Audit Strategy 2016/17	KPMG					✓
Borrowing and Treasury Management in Councils	Interim Director of CG	✓				
Managing Capital Projects	A MacDonald			✓		
<b>External Inspection &amp; Regulation</b>						
Best Value Audit	M Murchie	✓				
<b>Annual Accounts</b>						
Interim Report on the 2015/16 Audit	A MacDonald		✓			
Annual Report to Members and the Controller of Audit on the 2015/16 Audit	A MacDonald			✓		
Unaudited Accounts & Annual Governance Statement	S Whyte		✓			
Audited Annual Accounts 2015/16	S Whyte			✓		
Annual Accounts 2016/17 – Action Plan and Key Dates	S Whyte					✓
<b>ALEO Governance</b>						
Aleo Governance Hub – Minutes and Significant Issues <ul style="list-style-type: none"> <li>• AECC</li> <li>• Bon Accord care</li> <li>• Sport Aberdeen City Council</li> <li>• Aberdeen Sports Village</li> </ul>	R MacBeath		✓	✓*		
<b>Audit Scotland – National Reports</b>						
Procurement in Councils	M Murchie		✓			
Major Capital Investment in Councils - Follow Up	M Murchie		✓			

Community Planning – An Update	M Murchie		✓			
Overview of Local Government in Scotland and	M Murchie		✓			
Changing Models of Health and Social Care	M Murchie		✓			
Maintaining Scotland's Roads	M Murchie				✓	
Social Work in Scotland	M Murchie				✓	
Financial Overview 2015/16	M Murchie					✓
How Councils Work, Roles and Working Relationships in Councils	M Murchie					✓
<b>Health &amp; Safety</b>						
Minute of Meeting of the Corporate Health & Safety Committee of:- - 19 <sup>th</sup> February 2016 - 20 <sup>th</sup> May 2016 - 26 <sup>th</sup> August 2016	K Rennie		✓	✓	✓	
<b>Fraud, Corruption, Bribery and Whistleblowing</b>						
Fraud Annual Report	B Muldoon	✓				
Matters Under Investigation	S Whyte / M Murchie					
Whistleblowing Policy Annual Report	Interim Director of CG		✓			
Corporate Investigation Team Business Plan	B Muldoon		✓			
Corporate Investigation Team Update	B Muldoon			✓		
<b>Committee Development</b>						
Committee Annual Report	M Murchie		✓			
<b>Information Governance</b>						
Data Protection Monitoring	Interim Director of CG	✓	✓	✓		
Data Protection Annual Report	Interim Director of CG		✓			
Information Governance Management and Reporting Arrangements	Interim Director of CG			✓		
<b>Complaints Management</b>						
Scottish Public Services Ombudsman (SPSO) Complaint Decisions	L McKenzie	✓			✓	
<b>Other Reports</b>						
Due Diligence Process for the Establishment of the Aberdeen City Health & Social Care Partnership	Interim Director of CG	✓				
Public Performance Reporting	Interim Director	✓				

	of CG					
Crematoria Investigation	Chief Executive		✓			
Inspector of Crematoria Complaint Decisions	Interim Director of CG				✓	
Third Don Crossing*	Interim Director of CG			✓		✓
Solar Photovoltaic Agreement	Director of CH&I				✓	
Update on Gas Central Heating Maintenance Framework Contract	Director of CH&I				✓	✓
Aberdeen Treasure Hub	Director of E&CS					✓

\* *Late paper.*