

REPORT TO THE AUDIT COMMITTEE - 29 MARCH 2017

INTERNAL AUDIT PLAN 2017/18

1. Recommendations

- 1.1 **The Committee is requested to review, discuss and comment on the contents of this report and the attached appendices, and thereafter approve the 2017/18 Internal Audit Plan.**

2. Discussion

- 2.1 It is one of the functions of the Audit Committee to review the activities of the Internal Audit function, including its annual work programme. This report presents the Internal Audit plan for the period April 2017 to March 2018 which is attached as Appendix B to this report.
- 2.2 The starting point for the 2017/18 plan was to review progress against the 2016/17 annual plan and determine whether those audits which had not been undertaken should be included in the following year's plan. More detail regarding Internal Audit's progress against the 2016/17 plan will be presented to the Audit Committee on 22 June 2017.
- 2.3 There are a number of systems within the Council that are reviewed on an annual basis whilst others are reviewed on a cyclical basis dependent on the perceived risk to the organisation should these systems fail. For example, cash handling, purchasing and payroll systems are reviewed annually due to the level of devolved authority and perceived high level of risk involved. Other systems are audited every second or third year (the main financial systems – creditors, debtors, council tax, ledger, etc) due to the high volume and materiality of transactions and their impact on the Council. Others are reviewed as and when deemed appropriate in order to provide appropriate coverage and assurance. More detail relating to the matters considered is shown in Appendix A.
- 2.4 In preparation for the 2017/18 plan, Internal Audit wrote to Service Directors to ascertain if there were areas that they consider to be of risk to their business operations which they would wish to be considered for inclusion. Proposals received were considered and, where Internal Audit considered the suggestion appropriate, these have been included.
- 2.5 The Council's Risk Registers were consulted to determine whether these identified issues which could be covered by Internal Audit which were not already adequately covered in the plan. The most recent version of the registers are those that were signed off by Directors at the end of September 2015. However, an on-going review of risk registers by management has identified a number of Strategic and Service related risks which are documented in the December 2016 Risk Management Review.

- 2.6 The time allocation to all audits assumes that systems to be reviewed are adequately documented, detailing the controls put in place by management, and that testing identifies that these controls are being complied with. If this is not the case, there will be an impact on the time taken to review planned areas and on the plan's achievability.
- 2.7 The above considerations, and those detailed in Appendix A, have resulted in a draft Internal Audit plan being produced (Appendix B). The plan details what Internal Audit expects to be able to review in the year, assuming stability in resources available to the Section. The plan is flexible and can be amended to reflect changes in priority or because of new risks being introduced or identified.
- 2.8 All audits included in the attached plan, as well as those in future plans, will help inform Internal Audit regarding the Council's control environment and governance arrangements, allowing assurance to be provided regarding those arrangements. Where opportunities for improvement in controls and their application, or improvements in value for money, are identified these will be reported along with recommendations for management to consider.
- 2.9 In following the above process, it is anticipated that all the major risks which might impact on the Council will be identified and reviewed over time. All Services have had the opportunity to discuss the contents of the plan detailed in Appendix B to this report which was discussed and agreed by Strategic Leadership Team on 8 March 2017.
- 2.10 When the shared Internal Audit Service was introduced between Aberdeenshire and Aberdeen City Councils it was planned to have rolling three year plans, with those of both Councils linked as far as possible to improve efficiency and help share best practice. Whilst some audits appear in both plans, it has not, at present, been possible to achieve further integration.
- 2.11 In order to undertake the attached plan and that relating to Aberdeen City Council, Internal Audit has an establishment of thirteen posts and an annual budgeted cost for 2017/18 of £576,000. It is anticipated that this will be split between Aberdeenshire and Aberdeen City Councils on a 2:1 ratio.
- 2.12 The Head of Finance and Monitoring Officer within Business Services have been consulted in the preparation of this report. Any comments made have been incorporated within the report and they are satisfied that the report complies with the Scheme of Governance and relevant legislation.

3. Scheme of Governance

- 3.1 The Committee is able to discuss this item in terms of Sections G.1.1.d and G.1.4 of the List of Committee Powers in Part 2A of the Scheme of Governance as the Committee is responsible for Internal Audit matters and reviewing the activities of Internal Audit, including its annual work programme.

4. Equalities, Staffing and Financial Implications

- 4.1 An equality impact assessment is not required because the reason for this report is for Committee to discuss, review and comment on the Internal Audit Plan for 2017/18 and there will be no differential impact, as a result of this report, on people with protected characteristics.
- 4.2 There are no staffing or financial implications arising directly from this report.

CHIEF INTERNAL AUDITOR

Report prepared by David Hughes, Chief Internal Auditor.
14 March 2017.

Appendix A

INTERNAL AUDIT PLAN 2017/18 STRATEGY AND RISK ASSESSMENT

This document details the process adopted for developing the Internal Audit plan for 2017/18. It is a requirement of the Public Sector Internal Audit Standards that the Internal Audit plan is based on a risk assessment. Many Internal Audit Sections will define the whole audit universe (all auditable Services or systems) and apply a score against each component for various criteria including the inherent risk in the system, and the quality of management and mitigating controls in place.

Whilst an audit universe has been identified, based on previous work undertaken by Internal Audit, to apply scores against various criteria is considered, by Internal Audit, to be too subjective and adds little value to the process.

In developing the plan, consideration was given to the Council's risk registers, the Council's Strategic Priorities, the Assurance and Improvement Plan 2014-17, and a listing of previous audits undertaken within both Aberdeenshire and Aberdeen City Councils, and the outcome of these. Service Directors were requested to provide input to the planning process through discussion with their management teams to help ensure that the right areas were targeted for review.

The Council's Strategic Priorities as detailed in the Council Plan 2013 – 2017, and are:

- Economic Development,
- Early Intervention, and
- Demography.

These are underpinned by the principles of:

Prevention	Community Engagement
Community Resilience	Place
Partnership	Equalities
Sustainability	Best Value

The Core Outcomes are:

- Lifelong Learning,
- Strong and Sustainable Communities,
- Caring for Communities, and
- Public Service Excellence.

In order to achieve these Priorities and Outcomes, the Council allocates its budget to Service Directorates and enables service delivery through delegated authority detailed in its governance arrangements.

For Internal Audit to fulfil its objective of providing assurance over the Council's control environment to those charged with governance (the Audit Committee), the internal controls put in place to protect the Council's assets have to be evaluated and tested. Taking this into account, and having considered the contents of the Council Plan and the factors that contribute to its delivery, Internal Audit considers that the

main risks to the Council's control environment and achieving its Strategic Priorities and Outcomes relate to the key areas detailed in the following table.

Key Area	Risk	Internal Audit's Inherent Risk Assessment Before Mitigating Controls Applied	Internal Audit's Risk Assessment Based on Evaluation of Mitigating Controls
Corporate Governance	Failure to have arrangements in place that specify the overall control environment and delegated authority across the whole Council.	High	Low
	Failure to comply with the requirements of the corporate governance arrangements including Financial Regulations, the Officers Scheme of Delegation, and other Council Policies.	High	Medium
Budget Setting	Failing to ensure that a sustainable budget is set which allows for delivery of a defined service including everything that will be required to deliver that service.	High	Medium
Budget Monitoring	Failing to ensure that budgets are monitored with the involvement of Service staff involved in service provision.	Medium	Medium
Budget Management	Failing to ensure that budgets are used only for service provision and are not spent because they exist.	High	Low
	Failing to have outcome measures to demonstrate service provision.	Medium	Medium
	Failing to achieve Best Value / Value for Money.	High	Medium
Procurement	Failing to comply with procurement legislation.	High	High

Key Area	Risk	Internal Audit's Inherent Risk Assessment Before Mitigating Controls Applied	Internal Audit's Risk Assessment Based on Evaluation of Mitigating Controls
Payments	Failing to ensure that the correct suppliers are paid for services or goods supplied.	Low	Low
	Failing to ensure that payment of statutory benefits are controlled in accordance with legislative requirements.	High	Low
Payroll	Failing to ensure that employees are paid correctly.	Medium	Medium
Income	Failing to collect statutory income (Council Tax, Business Rates, Housing Rent).	High	Low
	Failing to identify and recover sundry debts due to the Council.	Medium	Medium
	Failing to control cash income received.	Medium	Low
Assets	Failing to ensure that assets are managed, recorded and protected.	Medium	Medium
Cyber Security	Failing to have adequate arrangements in place to safeguard the Council's ongoing business arrangements.	High	Medium
Health and Safety	Failing to have adequate arrangements in place to safeguard the Council's workforce and clients.	High	Medium
Business Operations	Failing to have appropriate measures in place to ensure that services are provided in accordance with regulatory requirements.	Medium	Medium

NOTE – Internal Audit's risk assessment based on evaluation of mitigating controls is informed by previous Internal Audit work undertaken along with results of other external inspection reports.

Risk:

High	There is a high probability, before mitigating controls are applied, of errors being made which would expose the Council to an unacceptable level of risk which may impact on the Council's finances and or reputation, and its ability to achieve its Strategic Priorities.
Medium	There is a risk, before mitigating controls are applied, of errors being made which would expose the Council to an element of risk which may impact on the Council's finances and or reputation, and its ability to achieve its Strategic Priorities.
Low	There is a low probability, before mitigating controls are applied, of errors being made which would expose the Council to an unacceptable level of risk which may impact on the Council's finances and or reputation, and its ability to achieve its Strategic Priorities.

Internal Audit Plan 2017/18

Having considered Service risk registers, the Council's Strategic Priorities, the listing of previous audits along with progress against the current plan and emerging issues, it has been determined that audits will be developed in the detailed Internal Audit plan to ensure that periodic assurance is provided over the following areas as detailed.

Various aspects of procurement, payroll, and income collection will be reviewed across all Services on an annual basis.

Various aspects of Budget Setting, Monitoring and Management will be covered across all Services on a rolling basis throughout a three year period.

The main financial and business systems of the Council (Financial Ledger, Council Tax System, Business Rates, Receivables, Housing Rents, Payroll, Payables, Housing Benefit, Care First, etc) will each be covered once in each three year period.

Audits will be designed to audit specific key areas across Services or the Council, whilst Service or location oriented audits will also be undertaken to test a range of key areas. In doing so, assurance will be gained as to whether controls in place are operationally effective and efficient, and whether they are being complied with. Whilst undertaking audits, Internal Audit will consider opportunities to improve systems and processes, effect change and achieve value for money.

All audits will feed into an overall evaluation of the Corporate Governance arrangements and compliance, which will be supplemented by a specific review of the Council's Code of Corporate Governance.

APPENDIX B

ABERDEENSHIRE COUNCIL INTERNAL AUDIT PLAN 2017-2018

SUBJECT	SCOPE	OBJECTIVE	Last Review	Indicative Quarter
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CROSS SERVICE AUDITS

New Governance Arrangements	Implementation of the Council's new Governance Arrangements	To review actions taken by Services to ensure that appropriate staff are aware of the Council's new governance arrangements, with a particular emphasis on procurement. To ensure that management have made necessary amendments to systems to ensure compliance and achieve desired outcomes.	N/A	Q2
Compliance with Procurement related Legislation and Council Regulations.	Payments made to a sample of suppliers.	To review payments made to a sample of suppliers to ensure that appropriate arrangements are in place for the commodities procured. Where any failure to comply with Procurement Legislation / internal governance arrangements are identified, to ascertain the reasons for this.	2016/17	Q2
Overtime	Overtime Costs	Review levels of overtime across the Council and determine if this is the most cost effective way of managing additional work to achieve required outcomes.	2014/15	Q1
Attendance Management	Attendance Management	Ensure application of attendance management policy and determine if it is having a positive effect on attendance.	2014/15	Q2
Timesheets / Allowances	Timesheets and Allowance claim forms	Consider whether terms and conditions are being complied with and that timesheets submitted for payment are accurate. Where appropriate, confirm claims to Service documentation and challenge management regarding overtime / additional hours worked.	2015/16	Q1
Partnerships and Joint Working	Governance Arrangements	Review governance arrangements in place to ensure financial and reputational risk are managed in partnerships and joint working and that the outcomes expected from the arrangements happen.	2013/14	Q3

SUBJECT	SCOPE	OBJECTIVE	Last Review	Indicative Quarter
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CROSS SERVICE AUDITS (Continued)

Business Continuity Planning	Business Continuity Planning	Ensure that Business Continuity Plans are in place and that arrangements adequately manage identified risks.	N/A	Q1
Climate Change Action Plan	Climate Change Action Plan	Ensure that the Council's Climate Change Action Plan ensures that statutory targets will be achieved and that action is being taken to achieve targets.	N/A	Q2
Changes in Government Policy, Legislation and Regulation	Arrangements in place to identify future changes	Ensure that the Council has appropriate arrangements in place to identify forthcoming changes in government policy, legislation and regulation so that action can be taken to ensure compliance.	N/A	Q3

BUSINESS SERVICES

Finance (Payments)

Purchase Cards	Purchase Cards	Review procedures for applying for, issuing, monitoring and complying with all procedures to confirm the need for purchase cards and ensure that they are not being used to circumvent corporate procurement rules.	2016/17	Q3
Creditors System	Centralisation of Payments Function	To review the process for centralising the payments function to ensure that appropriate project management is in place with lessons learned from previous exercises in the Council, and that operational efficiency within Services has been considered and the result will be enhanced outcomes.	N/A	Q4

Finance (Revenues)

Business Rates	Billing, reliefs, payments and arrears recovery.	Consider whether billing and collection arrangements are robust and adequately applied and that reliefs awarded are appropriately supported.	2014/15	Q4
Payroll Reconciliations	Payroll Reconciliations	Review procedures to ensure that accurate, timely reconciliations are produced using a robust methodology.	2013/14	Q1

SUBJECT	SCOPE	OBJECTIVE	Last Review	Indicative Quarter
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BUSINESS SERVICES

Finance (Accountancy & Corporate)

City Region Deal	City Region Deal	To review the governance arrangements put in place to protect the Council's interests and ensure that planned actions are progressing with appropriate monitoring mechanisms in place.	N/A	Q4
Fixed Asset Register	Asset Register	To consider whether assets are recorded accurately on the system, that management information regarding all aspects of the assets' financial information can be accessed timeously, and that the reconciliation from asset register to ledger is intact.	2016/17	Q4
Balance Sheet Codes	Monitoring	To review the process in place for monitoring balance sheet codes to ensure that there is an understanding of the requirement for the codes and that they are actively managed.	N/A	Q2
Budget Setting Process	Council Budget	Review procedures used in setting the Council's budget to ensure that the requirements of the Council's new governance arrangements are being incorporated.	2014/15	Q3

Finance (Benefits)

Benefits	Rent Allowances, Rebates and Council Tax Reduction	Consider whether benefits being paid to claimants are supported by appropriate documentary evidence, that the calculation of benefit is accurate, that it has been properly recorded for subsidy purposes, and that the requirements of the Verification Framework are being complied with.	2014/15	Q4
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Human Resources and Organisational Development

Superannuation	Superannuation	Ensure that each payroll code which contributes towards an employee's gross pay is set up to account for superannuation correctly and that payments to the appropriate pension funds are accurate and timely. Review procedures when employees opt out of scheme having been in scheme.	2010/11	Q2
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SUBJECT	SCOPE	OBJECTIVE	Last Review	Indicative Quarter
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BUSINESS SERVICES (continued)

Human Resources and Organisational Development (continued)

Leavers' Procedures	Procedures in place when employees leave the Council	Ensure that procedures relating to employees leaving the Council ensure that system access is revoked, equipment / ID badge is returned, payment ceases timeously, etc	N/A	Q4
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ICT

Change Management	Operational changes and their impact on ICT	Ensure that appropriate change management procedures are in place and being followed in respect of operational change to ensure that the impact of change is understood and managed.	N/A	Q3
System Recovery	System Recovery Processes	To review system recovery processes for Priority 1 business applications and ensure that recovery tests are undertaken as planned and that there is evidence that the test has been successful.	N/A	Q1
Procurement	Procurement of ICT hardware, software, services and consultancy outwith ICT	To review Services' spend on ICT hardware, software, services and consultancy (outwith ICT) and ensure that adequate control is exercised in compliance with the Council's internal governance arrangements relating to ICT.	N/A	Q2
Mobile Telephony	Review of Contract	To ensure that the Council is obtaining value for money through a properly procured contract which ensures that fit-for-purpose equipment is supplied.	N/A	Q4

Legal and Governance

Developer Obligations	Developer Obligations	Consider whether procedures governing Developer Obligations are robust, comply with best practice, and proceeds are used for appropriate purposes.	2013/14	Q4
Training for Councillors	Post Election Training for new Council	Ensure that appropriate arrangements were made for training Councillors following the May 2017 Local Government Elections, that training was delivered and was effective.	N/A	Q3

SUBJECT	SCOPE	OBJECTIVE	Last Review	Indicative Quarter
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BUSINESS SERVICES (continued)

Legal and Governance (continued)

Councillors Code of Conduct	Councillors Code of Conduct	Ensure that arrangements for dealing with potential Code of Conduct issues are clear and understood, and that issues are dealt with in an appropriate manner.	N/A	Q3
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Property and Facilities Management

Estate Rationalisation	Estate Rationalisation	Ensure that procedures are in place to ensure that the risks identified in the December 2016 Risk Management Review are appropriately managed and that progress is being made as planned.	N/A	Q3
Hard FM Contract	Hard FM Contract	Review implementation of Hard FM Contract and ensure that it is achieving its aims.	N/A	Q4

EDUCATION AND CHILDREN'S SERVICES

Primary School Visits	Selection of Primary Schools	Consider whether income and expenditure, payroll records, inventories, school transport arrangements, computer security and statutory returns are adequately controlled and completed.	2016/17	Q1
Academy Visits	Selection of Academies	Consider whether income and expenditure, payroll records, inventories, school transport arrangements, computer security, and statutory returns are adequately controlled and completed.	2014/15	Q3
Procurement	Procurement relating to whole Service	Ensure that contracts are in place as required relating to aggregated spend on commodities.	N/A	Q2
Health and Safety - SSERC	Application of Health and Safety measures and practices in schools	Consider whether arrangements in place adequately manage risk responsibility in relation to: hazard information, handling and disposal of chemicals; safety in microbiology; material of living origin, and routine fume cupboard testing.	N/A	Q1

SUBJECT	SCOPE	OBJECTIVE	Last Review	Indicative Quarter
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EDUCATION AND CHILDREN'S SERVICES (Continued)

Out of Authority Placements	Out of Authority Placements	Consider whether system used to make and review on-going out of authority placements is robust and that alternatives are considered before decisions are made which commit expenditure.	2009/10	Q4
Education Maintenance Allowances	Education Maintenance Allowances	Consider whether appropriate control is being exercised over assessing entitlement and confirming attendance, and assess controls over making payments.	2012/13	Q3
Catering Procurement	Procurement	Review procedures for letting contracts relating to the procurement of raw materials.	2013/14	Q2
PFI / PPP Schools	PFI / PPP Charges	Consider whether there is adequate control over the charges made.	2007/08	Q4
Libraries	Libraries	Consider whether control over income and expenditure is adequate.	2013/14	Q1
Proposed Sport and Culture Trust	Business Case for proposed Sport and Culture Trust	Review assumptions used in business case for proposed Sport and Culture Trust ensuring that they are robust and based on appropriate supporting data.	N/A	Q1
Community Centres	Selection of CC's	Consider whether income and expenditure, payroll records, inventories, stocks, computer security, etc are adequately controlled	2014/15	Q2
Raising Attainment and Closing the Gap	Raising Attainment and Closing the Gap	Ensure that risks identified in the December 2016 Risk Management Review relating to raising attainment and closing the gap are actively managed and that there is evidence of success.	N/A	Q4
Teachers Payroll	Teachers Payroll	Ensure that new arrangements are adopted that ensure salaries are calculated in accordance with new SNCT requirements	N/A	Q3

SUBJECT	SCOPE	OBJECTIVE	Last Review	Indicative Quarter
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INFRASTRUCTURE SERVICES

Economic Development

European Agricultural Fund for Rural Development Grant Claim	European Agricultural Fund for Rural Development	Audit of grant claim to support report to The Scottish Government Rural Payments and Inspections Directorate.	2016/17	Q2
Regeneration	Joint Action Plans for Banff / Macduff, Fraserburgh and Peterhead	Ensure that the actions detailed in the December 2016 Risk Management Review have been put in place and that measures of success have been established.	N/A	Q4

Housing

Homeless Persons	Homeless Persons budget	Consider whether adequate control is being exercised over income and expenditure, and that best value is being obtained.	2014/15	Q3
Housing tendering Procedures	Procedures and Scheduling	Ensure that robust tendering procedures are in place and that scheduling of tenders ensures that the right tenders are being progressed at the right time.	N/A	Q1
Gas Servicing	Gas Servicing Procedures	Consider whether appropriate procedures are being consistently applied to ensure that the Council complies with the requirements of legislation, and that adequate control is being exercised over the database. Ensure that Gas Servicing contracts have been procured appropriately.	2013/14	Q2

Transportation

Bus Service Operators Grant	Bus Service Operators Grant	Audit of grant claims before submission for payment.	On-going	As required
Interreg Projects	HyTrEc2, Civitas Portis, and G-Patra	To undertake First Level Control work required by grant conditions.	New Projects	As required
MOT and Taxi Licensing	Operators running Council contracts	Ensure that adequate procedures are in place to confirm that taxis used by operators on Council contracts are MOT'd, have been subject to the required six-monthly check, and are properly licensed by the Council.	N/A	Q1
Vehicle Usage	Vehicle Usage	Ensure that adequate procedures are in place to ensure that vehicles are being used effectively for business purposes and any non-business use is appropriately reported.	2014/15	Q2

SUBJECT	SCOPE	OBJECTIVE	Last Review	Indicative Quarter
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INFRASTRUCTURE SERVICES (continued)
Roads and Landscape Services

Quarries	Quarries	Consider whether adequate control is being exercised over income, expenditure, stocks, payroll, T & S, and budget monitoring.	2014/15	Q4
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Protective Services and Waste Management

Recycling	Recycling of waste collected by the Service	Ensure that appropriate processes are in place to ensure that recycling targets are met, including the production of relevant data on recycling, and that plans are in place to meet future demands.	N/A	Q3
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ABERDEENSHIRE HEALTH AND SOCIAL CARE PARTNERSHIP

Day Care	Day Care Establishment Visits	By visiting a selection of establishments, consider whether adequate control is exercised over income, expenditure, security of premises, and inventories, and that staff have been issued with adequate guidelines for dealing with clients.	2015/16	Q1
Social Work Tendering	Commissioning of contracts for Social Care	Consider whether robust, documented procedures are in place to adequately control tendering and selection processes and that commissioning plans are in place based on identified need.	2015/16	Q2
Joint OT Store	Joint OT Store	Consider whether adequate control is being exercised over use of equipment, purchasing, and cost sharing with the NHS.	2014/15	Q4

SUBJECT	SCOPE	OBJECTIVE	Last Review	Indicative Quarter
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GENERAL

Follow up of agreed recommendations.	Follow up of recommendations agreed in previously issued Internal Audit reports.	To provide assurance that agreed actions have been implemented. Reporting will be by way of regular updates to the Audit Committee.	On-going	Continuous
Reporting Internal Audit outputs to the Audit Committee.	Reporting Internal Audit outputs to The Audit Committee.	To provide the Audit Committee with assurance regarding the areas for which they are responsible.	On-going	Continuous
Contingency	Completion of previous year's planned audits.	Completion of previous year's planned audits.	N/A	Q1
Contingency	Investigations and additional works.	Investigations and additional works.	N/A	As Required

FOR INFORMATION

Internal Audit work relating to the following area will be approved by the Aberdeenshire Council Integration Joint Board Audit Committee

Integration Joint Board

SUBJECT	SCOPE	OBJECTIVE	Last Review	Indicative Quarter
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Integration and Change Funding	Integration and Change Funding	Ensure appropriate governance is in place to manage delivery of funded projects and use of the funds.	N/A	TBC
Integration of Health and Social Care	Health and Social Care Partnership	Internal Audit provision for Health and Social Care Partnership to include consultancy on arrangements being introduced covering risk management, staff and information governance, and provision of assurance to stakeholders.	N/A	As Required