

REPORT TO THE AUDIT COMMITTEE – 1 JULY 2021

EXTERNAL AUDIT PROGRESS REPORT

1 Reason for Report / Summary

1.1 The report provides an update on progress against the external auditor's 2020/21 audit plan.

2 Recommendation

The Committee is recommended to:

2.1 Review, discuss and note the progress report.

3 Purpose and Decision Making Route

3.1 The report provides an update on progress against the 2020/21 audit plan.

3.2 The report was shared with the Director of Business Services and the Head of Finance for comment and feedback.

3.3 The external auditor's engagement with the council is through the Audit Committee.

4 Discussion

4.1 The report provides an update on progress against the 2020/21 audit plan.

5 Council Priorities, Implications and Risk

5.1 The work of external audit is relevant to all of the Council's Priorities. It aims to provide assurance over the appropriateness and effectiveness of the council's arrangements in respect of four audit dimensions - financial sustainability, financial management, governance and transparency, and value for money.

5.2 The table below shows whether risks and implications apply if the recommendation is agreed.

Subject	Yes	No	N/A
Financial		X	
Staffing		X	
Equalities		X	
Fairer Scotland Duty		X	
Town Centre First		X	
Sustainability		X	
Children and Young People's Rights and Wellbeing		X	

- 5.3 An equality impact assessment is not required because this report informs the Committee of the planned scrutiny activity to be carried out by external audit and does not have a differential impact on any of the protected groups.
- 5.4 The external audit process considers financial statement risks and wider audit dimension risks. Any audit risks identified are detailed in the external auditor's interim management report normally each July and annual audit report normally each September. Recommendations are made to address the identified risks and follow up work is undertaken to assess progress against agreed management actions. Follow up activity and progress against actions is reported to the Audit Committee.

6 Scheme of Governance

- 6.1 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.
- 6.2 The Committee is able to consider/comment on this item in terms of Section G.1.5 of the List of Committee Powers in Part 2A of the Scheme of Governance as the report relates to the Council's relationship with its external auditors

Ritchie Johnson Director of Business Services

Report by Anne MacDonald, Senior Audit Manager, Audit Scotland
Date: 18 June 2021

Appendix 1 – External Audit Progress Report as at 30 June 2021

Aberdeenshire Council

Progress Report 2020/21



 AUDIT SCOTLAND

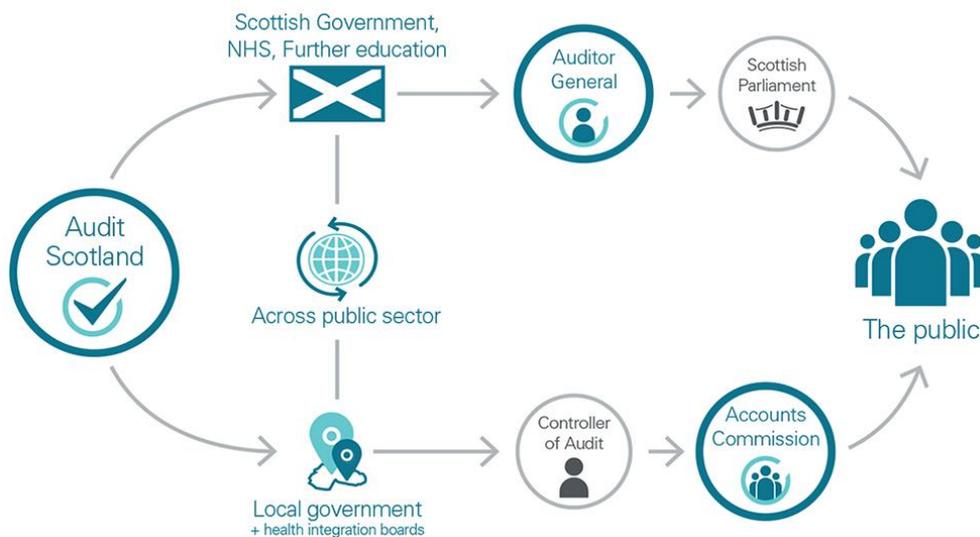
Prepared for Aberdeenshire Council

June 2021

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non – executive board chair, and two non – executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

Contents

Planned work

4

Planned work

1. This report provides an update of progress with our review of Aberdeenshire Council internal audit. When we issued our annual audit plan in March 2021, we indicated that our review was ongoing and that we would report our findings in due course.

2. Each year we review the council's internal audit arrangements in accordance with International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors), to determine the extent we can rely on the work of internal audit. When we plan to place reliance on internal audit work, our assessment of the internal audit function aims to ensure that it is sufficient in terms of documentation standards, reporting procedures and quality, and is performed in accordance with Public Sector Internal Audit Standards (PSIAS).

3. We routinely use the work of internal audit to support our wider scope responsibilities. For 2020/21, we are also intending to place formal reliance on internal audit to support our financial statements opinion work. In that regard, we are currently reviewing internal audit's policy documentation and working papers for the following audits:

- energy management
- vehicle usage/replacement
- Stonehaven flood prevention
- out of area placements
- social care financial assessments
- timesheets/allowances.

4. In line with the requirements of the PSIAS, a formal external quality assessment of internal audit was carried out by a peer review through the Scottish Local Authorities Chief Internal Auditors' Group in 2018. The peer review concluded that Aberdeenshire internal audit 'generally conforms' to the majority of the internal audit professional standards but highlighted some scope for improvement and development. The associated action plan was reported to the Audit Committee in September 2018 and completed in 2019.

5. In respect of 2020/21, the interim chief internal auditor reported slippage in delivering the internal audit plan which largely arose as a result of vacancies in the section. An important element of this related to the vacancy at senior auditor level arising from interim arrangements put in place following the retirement of the chief internal auditor last summer. Following a review, a number of audits were deferred to 2021/22 or removed from the plan. Overall however, the interim chief internal auditor was able to provide an unqualified audit opinion for 2020/21 on the basis of work done including follow up and reliance on previous years' work.

6. While there were particular circumstances which led to the significant slippage in the 2020/21 plan, it is critical that the service gets back on track as the delivery of a particular year's plan is an important element of the council's governance assurance framework. While vacancies are in the process of being filled, the time

lag involved may impact on the service's ability to complete the 2021/22 audit plan. Delivery of the plan should therefore be regularly risk assessed to ensure that it remains realistic and achievable each year.

7. In drawing together the audit plan, internal audit considers the audits undertaken in previous years. The frequency of audits is determined on the level of perceived risk to the organisation should those systems fail. Some areas are reviewed annually, others on a cyclical basis.

8. Many internal auditors set out a high level audit universe (ie all areas which may be subject to audit) and provide the risk assessment to audit committees as part of the information supporting the annual plan. Aberdeenshire internal audit has not routinely shared such information or has provided limited information. In our view, this makes it more difficult for the Audit Committee to see the bigger picture and particularly when there is slippage, it is not well placed to offer alternative solutions. The internal audit plan does, however, reflect feedback from a range of stakeholders when it is submitted to the Audit Committee for approval.

9. CIPFA's statement on 'the role of the head of internal audit' states that internal audit work should be risk based and aligned with the council's priorities. Ideally, internal audit should be able to draw on the council's risk management processes when undertaking its risk assessment to support the audit planning process. We previously commented, however, on Aberdeenshire's delay in updating its corporate and service risk registers but plans were in place to undertake a wider review. We understand that this review is now nearing completion and that revised risk management arrangements are due to be implemented in Autumn 2021.

10. In practice, a council's risks can change regularly dependent on projects and events. This was the case during 2020 as the pandemic progressed but is also likely to be the case in the current and subsequent years as councils adapt, change and recover from the impact of the last year. This could also mean that internal audit plans could change more regularly to ensure that key business priorities and risks continue to be assessed by the audit process.

11. In order to demonstrate that the annual audit plan is adequately covering the council's highest risk areas, it should provide a clear link between individual audits and council priorities and risks.

12. CIPFA 's statement also states that 'the audit plan must identify the priorities for internal audit based on an assessment of the key risks to organisational objectives and the extent of alternative sources of assurance, as well as the resources and skills needed to deliver it'. By setting priorities for audits, it should be clearer where there is flexibility in audit plans if changes are necessary and/or easier to identify which audits can be dropped or deprioritised as the council's risks change.

13. As well as providing an independent audit opinion, internal audit has a role in securing improvement and assisting the council to deliver its corporate priorities. The internal audit plan already includes an allocation for corporate improvement and consultancy activities. There may, however, be greater demand on this time if internal audit advice is sought to support service redesign options and improvement projects within the council as the country recovers from the pandemic. Bids for the potential use of this internal audit resource could form part of the consultation process for the annual plan, thereby enriching the engagement opportunities with stakeholders.

14. Internal audit also has scope to draw on other assurances to support the annual internal audit opinion and there may be more scope to consider such other sources more widely when resources are scarce.

15. During 2020/21, the reporting process for following up internal audit recommendations was changed. This was in response to recurring delays by services in implementing recommendations by agreed timescales. When recommendations are promptly implemented and controls are operating effectively, this reduces the risk and potentially the frequency for some audits. The new reporting process should enable the Audit Committee to better manage change by focusing on higher risk recommendations.

16. In summary, based on our observations, we recommend that:

- the council continues to develop and improve its risk management processes including arrangements to better understand the impact of local circumstances, trends and challenges when identifying and managing risks
- clearer links are demonstrated between internal audit planning arrangements and the council's priorities and strategic risks
- the audit universe and risk assessment are included as part of the annual plan to provide senior leadership and the Audit Committee with the context to better understand the content of an individual year's plan
- audits are prioritised to provide a wider understanding of those which are critical to the audit opinion, those which may be subject to change if corporate risks change and where there is more flexibility if resources are scarce
- internal audit consider other forms of assurance to support the audit opinion, thereby maximising the use of its resources.

17. We note that internal audit already has plans in place to consider wider sources of assurance and implement priority levels for audits by March 2022. These actions form part of an improvement plan included in internal audit's 2020/21 annual report and opinion. We will monitor the development of these proposals.

18. We will comment further on internal audit when we have concluded our review of a sample of working paper files and other documentation as listed in paragraph three. Overall conclusions on our findings will be incorporated in our Interim Report on the 2020/21 audit which is scheduled for inclusion on the Audit Committee's September meeting agenda. We will seek formal responses to our recommendations at that point.