

REPORT TO THE AUDIT COMMITTEE – 16 SEPTEMBER 2021

INTERNAL AUDIT REPORTS

1. Reason for Report / Summary

- 1.1 This report advises the Committee of completed audits and of progress with implementing agreed recommendations.

2. Recommendation

The Committee is recommended to:

2.1 Review, discuss and comment on the issues raised within this report and the attached appendices

3. Purpose and Decision Making Route

3.1 Purpose

- 3.1.1 Public Sector Internal Audit Standards require that Internal Audit report the results of its activities to the Board. In Aberdeenshire Council, this is the Audit Committee. This report helps satisfy the requirement.

3.2 Decision Making Route

- 3.2.1 The results from individual audit activities detailed in Section 4, below, have not previously been considered by this, or another Committee, with the exception of any outputs relating to audits contained in the Aberdeenshire Integration Joint Board Internal Audit Plan. In such cases, the output will have been considered by the Aberdeenshire Integration Joint Board Audit Committee prior to being considered by this Committee.

4. Discussion

Internal Audit Reports

The following Internal Audit reports have been finalised and agreed with Services since the Audit Committee's last meeting:

- 4.1 **Recovery of Payroll Overpayments (Internal Audit Report 2120 – June 2021)** – see Appendix A
- 4.2 **Mental Health and Substance Misuse (Internal Audit Report 2123 – August 2021)** – see Appendix B
- 4.3 **Housing Purchasing and Creditors (Internal Audit Report 2124 – August 2021)** – see Appendix C

4.4 Procurement Compliance (Internal Audit Report 2127 – August 2021) –
see Appendix D

5. Council Priorities, Implications and Risk

5.1 The work of Internal Audit covers all of the Council’s Priorities. It aims to provide assurance over the adequacy and effectiveness of the Council’s framework of governance, risk management and control, which underpin the delivery of all priorities.

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 and Fairer Scotland Duty		X	
Children and Young People’s Rights and Wellbeing		X	
Health and Wellbeing		X	
Town Centre First		X	
Sustainability		X	

5.3 An integrated impact assessment is not required because the reason for this report is for Committee to discuss and comment on the findings of Internal Audit work and there will be no direct impact, as a result of this report.

5.4 There are no staffing or financial implications arising directly from this report other than those implicit in the improvement of internal controls recommended in the Internal Audit reports.

5.5 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are detailed in the resultant Internal Audit reports. Recommendations are made to address the identified risks and Internal Audit follows up progress with implementing those that are agreed with management.

5.6 Recommendations are risk assessed and graded by Internal Audit as set out in Appendix E.

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 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.

CHIEF INTERNAL AUDITOR

Report prepared by Colin Harvey, Chief Internal Auditor (Interim).
31 August 2021.

List of Appendices:

- Appendix A** - Internal Audit Report 2120 – Recovery of Payroll Overpayments
- Appendix B** - Internal Audit Report 2123 – Mental Health and Substance Misuse
- Appendix C** - Internal Audit Report 2124 – Housing Purchasing and Creditors
- Appendix D** - Internal Audit Report 2127 – Procurement Compliance
- Appendix E** - Internal Audit Recommendation Grading Scheme

APPENDIX A

Recovery of Payroll Overpayments

Internal Audit Report 2120 – June 2021

Background

Aberdeenshire Council employs around 18,000 employees who occupy over 21,000 jobs. Staff costs in 2020/21 were approximately £433 million. As at 31 March 2021, there had been 120 overpayments identified and recorded for 2020/21, with an approximate net pay value of £107,000; this does not include overpayments settled entirely in the next month's salary. In 2019/20 98 overpayments were identified, totalling an approximate net pay value of £77,000. The increase in the value of reported overpayments in 2020/21 was largely due to two high value overpayments reported late by the respective Service, one of which was almost four years late resulting in an overpayment of approximately £19,500.

Payroll overpayments generally arise as a result of Service delays in submitting information or the submission of incorrect information. Overpayments are usually identified on an ad-hoc basis by Payroll staff, budget holders, employees or Internal Audit. Once identified, the Council's Payroll team calculate payroll overpayments and apply the necessary adjustments to the payroll system. Recovery of overpayments for continuing Council employees is usually via future payroll deductions whilst recovery for former employees and relief employees is by debtors invoice.

Objective

The objective of this audit was to provide assurance that identified overpayments are recovered consistently and timeously.

Assurance

Identified overpayments were generally recovered consistently and timeously and recovery action taken promptly by Payroll however some overpayments reviewed were incorrectly calculated and recovered. Recommendations were made in relation to: the calculation process; supporting documentation and review of overpayment calculations; reconciliations of payments to amounts owed; recovery of overpaid tax, national insurance and superannuation; and overpayments caused by Services.

Findings and Recommendations

The majority of overpayments are due to reporting delays by Services of employee changes in circumstance; this is a recurring problem. Recommendations graded Significant within the audited area were raised to ensure Service errors and reporting delays are reported regularly to management to enable corrective action to be taken.

Whilst the overpayment calculation process could be followed by Internal Audit, the source of figures was not detailed on the manual workings, meaning it may be more difficult for inexperienced members of Payroll staff to follow and complete the calculations. In addition, since only certain key figures change when recalculating amounts due to overpaid employees, it would be possible to automate the overpayment recalculation process, potentially saving time and acting as a control over the accuracy of figures recalculated. A recommendation graded Significant within the audited area was raised with the Service to automate the payroll overpayment recalculation process.

Some overpayments were not supported by Payroll calculations or supporting documentation e.g. employee change forms, timesheets etc. Where overpayments recovered are unsupported by relevant documentation and calculations there is an increased risk of unsuccessful recovery of amounts due to the Council in the event of default, or reputational damage should recovered amounts be subsequently found to be inaccurate. Payroll calculations also lacked evidence of review increasing the risk of error. In addition, it was noted that overpayments crossing financial years were not always applied to the payroll system correctly resulting in national insurance and tax being incorrectly calculated by the system and paid. Recommendations graded Significant within the audited area were raised with the Service to ensure overpayment recovery documentation includes calculations and adequate backup relating to the cause of the overpayment and to evidence review of overpayment calculations prior to updating the payroll system.

Two net pay overpayments reviewed had been recovered in line with the calculated overpayment, however, the related overpayments were overstated in the ledger. A recommendation graded Significant within the audited area was raised with the Service to ensure control account reconciling differences highlighted through the monthly reconciliation process are investigated, explained and corrected as appropriate.

Tax, national insurance (NI) and superannuation (SA) reporting processes enable current year overpayments of tax, NI and SA to be recovered through amendments to subsequent payments to HMRC and the relevant pension fund. However, when an overpayment is identified that relates to a prior financial year a refund must be requested. Due to resource constraints Payroll has not recovered prior year tax, national insurance and superannuation related to payroll overpayments. A recommendation graded Significant within the audited area was raised to ensure overpayments of tax, NI and SA are recorded and recovered once identified.

Management Response

The Service has agreed to: improve procedures and train staff where required (a process that had commenced at the time of the audit); automate the overpayment calculation process where practicable; evidence review for more complex overpayment calculations; ensure reconciling differences highlighted through the monthly reconciliation process are investigated, explained and corrected as appropriate; record and recover tax, national insurance and superannuation owed to the Council; and report overpayments regularly to management to enable corrective action to be taken.

APPENDIX B

Mental Health and Substance Misuse

Internal Audit Report 2123 – August 2021

Background

Aberdeenshire Health & Social Care Partnership (AHSCP) supports a multitude of service users, including those identified as requiring mental health support, and those requiring assistance due to drug and alcohol use. For 2020/21 these services had a budget of £7.3 million, of which £6.5 million was spent.

Objective

The objective of this audit was to provide assurance that appropriate processes are in place to manage and record support arrangements and that expenditure is adequately controlled, including approval / management of discretionary support.

Assurance

In general there are appropriate systems and processes to manage and record support arrangements, including expenditure and discretionary support. However, recording practice varies, authorisations have been recorded retrospectively in the majority of cases, and have not always been reviewed as frequently as required. Actions have been agreed with the Service to address these points.

Findings and Recommendations

Regular service user contact is clearly evidenced. However, formal care reviews had not always taken place as planned. Recommendations graded Significant within audited area have been made to ensure these are completed and recorded timeously; and performance monitored using care system reports.

Whilst all recurring service agreement costs for cases reviewed had been authorised by an officer of the appropriate level, the majority of authorisations had been recorded retrospectively. It is acknowledged that due to the nature of the service and where emergency situations arise, prior approval is not always possible, however it should be obtained and recorded promptly thereafter - which was not always the case.

For paid mental health support arrangements, delegated authority should be reviewed within 8 to 12 weeks depending on value and authorising officer. In the cases reviewed these had not been confirmed within this period.

In three cases, payments were made in excess of the amounts or dates agreed.

Recommendations graded as Significant within audited area have been raised to ensure payments are not made without authorisation; and that delegated authorisations are reviewed at the required frequency.

Variations were identified in care management system recording of discretionary expenditure or one-off support arrangements. Recommendations graded at Significant within audited area were made to ensure consistent records, cross-referenced to the service user, are maintained.

Management Response

The Service has acknowledged that current performance will have been impacted negatively by the Covid19 pandemic as teams were directed to critical activities only. Team Managers have been reminded of various requirements including the need to undertake and record reviews, and how to monitor performance using the system.

In respect of recording and authorisations, in addition to reminders to Care and Finance Teams, training needs will be identified and specific FIS training provided by Finance Officers where needed.

Delegated authority guidance is undergoing review and consideration will be given as to whether the current levels are still appropriate. A short-life working group will be established to facilitate this.

APPENDIX C

Housing Purchasing and Creditors

Internal Audit Report 2124 – August 2021

Background

In 2020/21 Housing raised 21,057 orders to 289 suppliers totalling £14.97 million through Council procurement systems. In the same period, Housing made payments of £9.35 million for invoices in respect of Repairs, and £5.92 million for Supplies and Services. Analysis of the total spend by the Service with suppliers over the current plus previous three years identified 80 suppliers with procurement spend exceeding £50,000 and thereby requiring to be included on a formal procurement plan, and application of various other requirements, in line with the Council's Scheme of Governance.

Objective

The objective of this audit was to provide assurance that robust documented purchasing procedures are in place and are satisfactorily complied with throughout Housing and to consider whether Value for Money is being achieved.

Samples of orders raised covering each of the expenditure thresholds within Financial Regulations and high value aggregate spend made to suppliers was selected to ensure that the requirements of the Scheme of Governance had been complied with and appropriate arrangements were in place. In addition, an analysis was undertaken of areas where purchase orders were not raised or raised retrospectively.

Assurance

Whilst procedures and training are in place, these are not always being demonstrably complied with. Where procurement requirements are not adhered to, there is a risk that Value for Money may not have been obtained and awarded contracts could be challenged by unsuccessful suppliers.

Findings and Recommendations

Corporate procedures and training are in place, however a substantial proportion of staff involved in the procurement journey within Housing had not been registered as having completed relevant training. A recommendation graded Significant within audited area has been raised to ensure this takes place.

Areas of non-compliance were identified in respect of: obtaining requisite quotations in line with Financial Regulations; obtaining Committee approvals for extensions to contracts and aggregate expenditure exceeding relevant thresholds in line with the Scheme of Governance; keeping the contracts register complete and up to date; and advertising contract opportunities and awards in line with Council policy and Scottish procurement regulations. Six recommendations graded Significant within audited area were made regarding these points.

In breach of Financial Regulations, 264 invoices totalling £865,604, relating to 99 suppliers had no matching PO details recorded in the system, indicating orders may not have been raised. Whilst the number of retrospective orders has reduced since the last audit of this area, plans for the Service to review this area were suspended during the Covid 19 response. 25 of 40 orders over £10,000 did not include a contract reference number to provide assurance to the authorising officer that Scheme of Governance requirements had been adhered to. Recommendations graded Significant within audited area have been made to ensure orders

are raised, in advance, and are not authorised without assurance over compliance with the Scheme of Governance.

Management Response

The Service has highlighted that Covid 19 has impacted on the urgency and nature of some procurement activity, however acknowledges the audit findings and has agreed to implement actions in response. Staff will be required to update their training, and will be reminded of specific requirements where these have been identified through the audit.

APPENDIX D

Cross – Service:

Compliance with Procurement Related Legislation and Council Regulations

Internal Audit Report 2127 – August 2021

Background

In January 2017, the Council approved a new Scheme of Governance which incorporated a refreshed set of Financial Regulations to match changes to delegations in the Scheme of Governance. There have been subsequent revisions to the Scheme of Governance since: Lists of Officer and Committee powers were updated in February 2021 and Financial Regulations were updated in April 2021. The Scheme of Governance delegates procurement authority to the Council's Policy and Area committees, and Chief Officers, based on defined criteria.

Objective

The objective of this audit was 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.

A sample of payments made to 20 suppliers paid, in total, £157 million in the four years to 31 March 2021, was analysed to ensure that the requirements of the Scheme of Governance had been complied with and appropriate arrangements were in place. Housing procurement compliance has been covered recently in Internal Audit report 2124, Housing Purchasing and Creditors.

Assurance

Whilst 16 of 20 procurements reviewed had been procured appropriately in general, areas of non-compliance with the Council's Scheme of Governance were identified as set out below, including procurements which had been awarded without adequate planning or advertisement or had been undertaken by officers who had not completed the necessary training. Multiple breaches of the Council's Financial Regulations have been identified.

Reasons for failing to comply with the Scheme of Governance varied but generally it was due to a lack of understanding of the requirements of the Scheme of Governance and the processes to follow to ensure Best Value and compliance with Procurement Legislation.

Findings and Recommendations

Since 22 November 2019, under Financial Regulation 5.3.4, Council officers undertaking procurement activity including placing orders must be designated a Procuring Officer, and to do so, must complete ALDO Delegated Procurement Authority (DPA) training to the appropriate level. The Council's Procurement Guidance requires officers to complete DPA training level 1 before they may approve orders on the Council's electronic purchase ordering system (iProcurement). 4 of 20 Procuring Officers for the 20 procurements reviewed had not been designated Procuring Officers by the Head of C&PSS in advance of undertaking their respective procurement. During 2020/21, 800 Council staff approved orders totalling £82.3million, yet 554 order approvers had not undertaken the required training. In addition, seven orders relating to four out of twenty invoices reviewed by Internal Audit were approved by an officer who had not been delegated authority to do so by a Chief Officer as required by Financial Regulation 5.3.43.

Where procurement training is not completed there is an increased risk Procuring Officers and officers approving purchase orders will be unaware of their responsibilities and will not meet the requirements of the Scheme of Governance and Procurement Legislation. A recommendation graded Major at a Corporate Level was raised with Services to ensure that only officers with Delegated Procurement Authority, who have completed the required training, carry out procurement activity including approving purchase orders.

All procurements of £50,000 or more must be included in annual Procurement Plans reported to, and approved by, the relevant Committee (Financial Regulation 5.2.2) in advance of the financial year commencing, and before any procurement activity commences. Exceptionally procurements may be submitted at a later date on a Supplementary Procurement Plan, in the event of an emergency or unforeseeable circumstance. In breach of this Financial Regulation one of the 20 procurements reviewed had not been included on a Procurement Plan or Supplementary Procurement Plan. Whilst the individual payment was less than £50,000 it related to a recurring requirement. It is a requirement of Financial Regulation 5.3.10 for Heads of Service to review contract expenditure at least every four years to ensure the procurement route is followed. This had not taken place representing a further breach of Financial Regulations.

The content of Supplementary Procurement Plans indicates poor planning, as they contained foreseeable requirements, and limited explanations for exceptions. If Council procurement activity is not adequately planned there is an increased risk of 'off-contract' expenditure, or failure to demonstrate Best Value through exposing supplies to competitive tender, which could result in Council Scheme of Governance and Procurement Legislation breaches. Recommendations graded Significant within the audited area were raised for Services to work with C&PSS to ensure that Procurement Plans presented to Committee contain all planned procurement activity for the financial year ahead and for Supplementary Procurement Plan covering reports to explain the circumstances causing supplementary procurements to be unexpected or an emergency.

Three instances were identified where authorisation to procure either through a Procurement Plan or Procurement Approval Form had not been obtained. In one case, the Award Report justifying the contract had not been considered and approved as required by Chief Officers and the Service Management Team. In two cases where contracts had been directly awarded without competition, Head of Procurement approval had not been recorded. A recommendation graded as Significant within the audited area was raised with Services to establish systems of control to ensure procurements are authorised as required by the Scheme of Governance.

In response to Covid-19, the Health and Social Care Partnership procured personal protective equipment for staff working in care homes. Whilst a direct award on the grounds of 'extreme urgency' was likely to have been appropriate in the circumstances, the Council's Scheme of Governance was not complied with as Head of Procurement and Head of Finance approval was not obtained and the procurement was not reported promptly thereafter to the appropriate Committee. A recommendation graded Significant within the audited area was raised for procurement extreme urgency powers to be authorised in line with the Council's Scheme of Governance and reported to the appropriate Committee as required.

The Procurement Reform (Scotland) Act 2014 requires that local authorities publish a Contracts Register online for all "Regulated Contracts". Regulated Contracts include public contracts other than public works contracts of £50,000 or more and public works contracts of £2,000,000 or more. However, it is the Council's intention that the Contracts Register will be used to record all contracts of £10,000 and over so that it can be used to manage the Council's contractual

arrangements. The Council's Procurement Manual also requires procurement related documentation to be stored in the Contract Register system. However, entries were missing or inaccurate, framework agreement adoption reports and call-offs from framework agreements were not recorded, and procurement documentation was not held, on the system. Recommendations graded Significant within the audited area were raised to ensure contract entries in the contracts register system are supported by appropriate governance documentation; missing Framework agreement adoption reports and evidence of their approval by the Head of Procurement are retained whilst framework agreements are in use by the Council; and for Services to ensure the Contracts Register is updated to accurately record Council contracts in accordance with Financial Regulations and Procurement Legislation.

Financial Regulations 5.3.14 and 5.3.15 require all contracts equal to or exceeding £10,000 to be advertised on the Public Contracts Scotland (PCS) website unless the Head of Procurement has given express permission otherwise. The Procurement Reform (Scotland) Act 2014 also requires the seeking of offers through a 'contract notice' and the award of contracts through an 'award notice', for all Regulated Procurements, to be published on the PCS website. In accordance with the Procurement Scotland Regulations 2016, the award notice must be published not later than 30 days after the award of the contract. 4 of the 20 procurements had not been advertised in this way, in addition to not being published on the Contracts Register, in breach of Financial Regulations and Procurement Legislation. Recommendations graded Significant within the audited area were raised for PCS contract notices and award notices to be published where required and within required timescales and for their respective notice references to be recorded on the contract register system as a record of what has been published.

Financial Regulation 5.3.43 requires that contract references be recorded on purchase orders providing assurance a Council contract is in place for goods / services ordered. However, a review of 773 sampled orders relating to procurements of £10,000 or more showed that 392 orders (50.7%) did not exhibit a Council contract reference number. In one case an alternative unrelated contract reference was used. Despite there being insufficient evidence on the purchase order request that the procurements related to a particular contract, the orders were nevertheless authorised. This increases the risk that the requirements of the Scheme of Governance have not been complied with, and the findings are similar to those identified in the previous review of this area (Internal Audit report 2037 completed May 2020). A recommendation graded Major at a Corporate level was raised with Services for officers authorising purchase orders which are for £10,000 or more to only authorise them when they are satisfied that the Council's Scheme of Governance (including Financial Regulations) have been fully complied with.

Financial Regulation 5.3.41 requires that all works, goods, or services be ordered using an official purchase order unless a dispensation has been approved by the Head of Finance. 30,671 invoices totalling approximately £169 million relating to 2,388 suppliers had no matching PO details recorded in the system, and they did not have an approved dispensation. This indicates purchase orders are either not being raised or are not being recorded in the Council's Accounts Payable system. A recommendation graded Significant within the audited area was made for Services to ensure purchase orders are raised for all expenditure in a timely manner where dispensations do not apply.

Management Response

Services will work with the Commercial & Procurement Shared Service (C&PSS) to ensure Procuring Officers and purchase order approvers are trained where required. In addition, Services have agreed to work with C&PSS to adequately plan procurements and develop

systems of control to ensure they are authorised as required by the Scheme of Governance. C&PSS has developed compliance reporting processes to identify missing PCS award notices and will complement this by developing processes to identify procurements that have not been advertised on the PCS website where required by Procurement Legislation and Financial Regulations.

Services have agreed to remind Procuring Officers of the requirement to maintain the Contract Register system with accurate contract data and related documentation. In addition, C&PSS has agreed to expand monthly validation checks of missing Contract Register system entries to include a review of documents saved against a sample of entries each month with inaccuracies highlighted to users for correction. In addition, a one-off exercise to review all existing contract entries and documentation stored within each will be completed by 31 December 2021, and a detailed summary of missing items sent to each responsible officer.

Services will remind Procuring Officers of their responsibility to ensure purchase orders are only approved where a Council contract is in place and they are satisfied the Council's Scheme of Governance has been complied with.

APPENDIX E

Grading of Recommendations

GRADE	DEFINITION
Major at a Corporate Level	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the Council.
Major at a Service Level / within audited area	<p>The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited.</p> <p>Financial Regulations have been consistently breached.</p>
Significant within audited area	<p>Addressing this issue will enhance internal controls.</p> <p>An element of control is missing or only partial in nature.</p> <p>The existence of the weakness identified has an impact on a system's adequacy and effectiveness.</p> <p>Financial Regulations have been breached.</p>
Important within audited area	Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control.