



## REPORT TO INFRASTRUCTURE SERVICES COMMITTEE – 6 OCTOBER 2016

### INTERNAL AUDIT REPORTS

#### 1 Recommendation

- 1.1 **The Committee is requested to discuss and comment on the issues raised within this report and the attached appendix.**

#### 2 Discussion

- 2.1 This report advises the Committee of the results of completed audits (paragraphs 2.4 and 2.5), and of progress made by Infrastructure Services with implementing agreed recommendations (paragraph 2.6 and Appendix A).
- 2.2 Appropriate officers agreed the factual accuracy of the Internal Audit report prior to issue and action has been agreed to address the issues identified. Assurances have been sought from officers regarding the implementation of agreed recommendations.
- 2.3 The Head of Finance and the Monitoring Officer within Business Services have been consulted and any comments made have been incorporated into this report.
- 2.4 Roads Year End Stocks (Internal Audit Report 1706 – August 2016)**
- 2.4.1 The Roads Service operates eleven depots, three quarries and two sign shops in order to facilitate the supply of materials for construction and repair, lighting maintenance and the production of road signs. The movement of materials and stock balances are recorded in the Service's SAVE job control system. At the end of every year all physical stocks are fully counted or estimated, and reconciled to the system balance.
- 2.4.2 At the end of the 2015/16 financial year the system showed a balance of over £1.3 million of stocks held. Of this total £725,000 relates to salt held for winter maintenance and £579,000 relates to road and street lighting maintenance materials and protective clothing.
- 2.4.3 The objective of this audit was to ensure that adequate procedures are in place and being followed to ensure the count process is accurate. Year-end counts at a selection of locations were attended, and procedures and stock adjustments reviewed. In general, procedures are in place and are typically well adhered to, although some variations were identified and have been discussed with the Service, which will remind relevant staff of the

requirements. Minor improvements to processes for stock control have been recommended and the Service has agreed to review these.

- 2.4.4 The Service regularly uses quarry stocks within the quarries e.g. for drainage works, or writes off stock which can no longer be used. In contrast to other stocks which are either issued to a job, or formally authorised for write off, the use of this stock is not being recorded except as an adjustment to the total stock level and valuation. The Service will develop a system for recording and authorising use of these materials.

## **2.5 Aberdeenshire European Fisheries Fund (Internal Audit Report 1710 – August 2016)**

- 2.5.1 European Fisheries Fund (EFF) Axis 4 is an area based programme to support sustainable development delivered locally through Fisheries Local Action Group (FLAG) partnerships. The EFF Axis 4 programme aims to promote economic diversification and build capacity of fisheries communities across the European Union through local projects that build knowledge and skills and in turn facilitate innovation and cooperation in fisheries areas. EFF Axis 4 funds are not available to support any increases in catching effort.
- 2.5.2 Aberdeenshire Council is the lead partner in the Aberdeenshire EFF (AEFF) FLAG and provides the Chair, meeting space and the European Projects Team to administer grant applications and claims, and supports applicants through the process. Funds are made available through the EU, which provides funding to Marine Scotland through the Scottish Government, for eligible grant payments and a proportion of administration costs for the lead partner. The current programme is coming to an end, and its replacement is to be administered by Marine Scotland.
- 2.5.3 The objective of this audit was to ensure that there are robust procedures in place to operate the grant scheme. In general this was the case, although a small number of variations from procedure were identified and have been highlighted to the Service. As no further transactions are to take place, no recommendations have been made in respect of improvements to internal controls and governance.
- 2.5.4 A small number of omissions from files need to be rectified in order to preserve an appropriate audit trail for European funds. All projects funded are subject to an audit and inspection regime until the EFF programme is closed off. Visits can be carried out by the Scottish Government and European Union. Whilst the Service has stated that any repayment of grant arising from these would be recovered from the end beneficiary, there remains a risk to the Council as the body which administered the payments. The Service will therefore obtain and file the missing documentation.
- 2.5.5 A balance of £44,000 relating to payments made in 2013 has not yet been recovered from Marine Scotland. The Service will continue to seek recovery of these funds.

## **2.6 Progress with agreed recommendations**

- 2.6.1 Appendix A shows progress made by the Service with completing agreed

recommendations contained in Internal Audit reports that were previously reported to Committee. Where these have not been completed by their original due date, reasons are provided along with the grading applied to the recommendation in the original Internal Audit report. An explanation of the gradings used is shown at appendix B.

- 2.6.2 Where it has been confirmed that all actions contained in reports issued before April 2016 have been fully completed, these reports are no longer shown.

### **3 Equalities, Staffing and Financial Implications**

- 3.1 An equality 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 differential impact, as a result of this report, on people with protected characteristics.
- 3.2 There are no staffing or financial implications arising directly from this report other than those implicit in the tightening of internal controls recommended in the Internal Audit reports.

#### **CHIEF INTERNAL AUDITOR**

Report prepared by David Hughes, Chief Internal Auditor.  
26 September 2016.

**APPENDIX A**

**POSITION WITH AGREED RECOMMENDATIONS AS AT 26 SEPTEMBER 2016**

Report Number	Report Title	Date Issued	Agreed in Report	Number of Recommendations			Grading of overdue recommendations
				Due for implementation by 31.08.16	Confirmed Implemented by Service	Not implemented by original due date	

1426	Street Cleansing and Waste Management	June 2014	16	15	1	1	Important
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As reported previously, the overdue recommendation (**graded "important within audited area"**) was due to be implemented by the end of April 2015. It relates to the Service developing the Confirm system to maintain records of job requests, completion and invoicing, and reconciling these to ensure all income due has been invoiced / recovered. The Service had stated that work had commenced on developing the Confirm system to support delivery of waste services in a prioritised way. This required building the asset database (which has been achieved as it was a priority for the delivery of the new collection service) and then putting in place the mechanisms for dealing with customer enquiries; this was being done for the trade waste service. Following completion and implementation of the Waste Review (which was due for summer 2015) the plan would be looked at and re-developed by December 2015, working with the customer services and ICE teams. The biggest issues which affect customers would help prioritise the plan once issues with Trade Waste had been resolved by the end of December 2015. The Service has advised that now the Waste Review has been implemented progress has continued with the transition onto Confirm. This was on track to have customer enquiries and trade waste into the system by the end of March 2016, the Confirm team have liaised directly with the Customer Service team to ensure they are on board with the effect this will have on their workload. Progress has been made with this with all service requests that do not require a payment being managed through the Confirm System. Work continues to develop the system to allow it to handle requests which attract a payment and this was due to be concluded by end of August 2016. However, there have been further delays in the implementation of the system and the Service now intends to use alternative methods, as agreed with Internal Audit, to effect the required reconciliations. These will now be in place by December 2016.

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 31.08.16	Confirmed Implemented by Service	Not implemented by original due date	
1516	Central Energy Efficiency Fund	October 2014	4	4	3	1	1 Significant
<p>As reported previously, the overdue recommendation (<b>graded "significant within audited area"</b>) was due to be implemented by the end of November 2015 and relates to the Energy Management Team complying with the CEEF grant agreement and ensuring that the Fund is fully reported to Committee on a regular basis. The Service has stated that this will not now be completed until November 2016 for the following reasons.</p> <p>It has always been the intention to report works carried out through the central energy efficiency fund as part of the Climate Change Action Plan. The action plan is being updated and has not been reported this year. The Sustainability Coordinator left this year and has only recently been replaced. An opportunity to report was missed when a recent Sub-Committee meeting was cancelled. Measures that will reduce energy consumption have been carried out as part of new building and refurbishment projects, but not funded through the CEEF. The appointment of a contractor to provide energy services was approved by Policy and Resources Committee but has been delayed for a year due to legal issues. The contract has however recently been awarded and is due to start early in the new year. The contract includes the identification of further energy efficiency measures. It is therefore suggested that it would be more appropriate to include the CEEF report with the updated Climate Change Action Plan and energy service works to be reported to the sub-committee in November 2016.</p>							
1623	Building Standards Income	January 2016	8	8	7	1	1 Significant
<p>The overdue recommendation (<b>graded "significant within audited area"</b>) was due to be implemented by the end of June 2016 and relates to the Service periodically reconciling income recorded in the financial ledger with applications. This was contingent on the implementation of a new national e-building system which was delayed until the end of August 2016. This has now been implemented and the Service is working on the reconciliation which will be passed to Internal Audit for review once complete.</p>							
1626	Support for Small Businesses	April 2016	13	12	12	0	0
1628	Burial Grounds	April 2016	8	7	7	0	0

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 31.08.16	Confirmed Implemented by Service	Not implemented by original due date	
1637	Waste Collection and Disposal	June 2016	21	11	11	0	0
1706	Roads Year End Stocks	August 2016	14	0	0	0	0
1710	Aberdeenshire European Fisheries Fund	August 2016	4	0	0	0	0

**APPENDIX B**

**Grading of Recommendations**

<b>GRADE</b>	<b>DEFINITION</b>
<b>Major at a Corporate Level</b>	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.
<b>Major at a Service Level / within audited area</b>	<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>
<b>Significant within audited area</b>	<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>
<b>Important within audited area</b>	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.

