



Perth and Kinross Council

Interim management report and audit status summary
Year ending 31 March 2020

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For Audit Committee consideration on 22 July 2020

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Introduction

Purpose of document

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In line with our audit strategy document, we have completed an interim audit. Key activities performed included the testing of a selection of system controls, holding discussions with management to update our understanding of the Council's activities and our assessment of the key risks and audit focus areas.

This report provides the Audit Committee with an update on:

- The results of the control testing (pages four to seven).
- Best Value and wider scope (page eight).
- Action plan (page nine).

Significant risks in relation to the audit of the financial statements remain as identified in our audit strategy document, dated 5 February 2020, and are:

- fraud risk from management override of controls;
- fraud risk from income and expenditure recognition;
- valuation of property and investment property; and
- retirement benefit obligations.

The other focus area identified was:

- capital expenditure.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and cooperation throughout our audit work.

Control Framework

System Controls

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In accordance with ISA 330 *The auditor's response to assessed risks*, we designed and performed tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls over the main financial systems. Interim audit testing took place during February 2020. Overall we concluded that the control environment is effective.

Test	Description	Results
Bank reconciliations	Bank reconciliations are prepared monthly by a member of the income team and reviewed by a more senior officer. We tested a sample of two months for each of the eight bank accounts to verify they had been completed and reviewed on a timely basis. A further test of control will be completed in respect of the year end reconciliations. This control was tested in response to the presumed fraud risk over expenditure.	The December reconciliations were not completed within a month of the period end. This resulted in one unreconciling item not being identified until both December and January bank reconciliations were completed mid-February. Bank reconciliations are a key anti-fraud control and should be fully reconciled on a regular basis. Therefore, it is recommended that management ensures the timely reconciliation of all bank accounts. Recommendation one
Capital budget monitoring	Management and elected members monitor capital expenditure on all projects throughout the year. Performance of all large projects and any smaller projects nearing their approved spend will be considered by the Strategic Investments Group ("SIG") and then by the Strategic Policy and Resource committee ("SP&R") via the budget monitoring reports in September, November, January and April. Approval is required for any overspends or adjustments against original budgets. We considered the November 2019 report to conclude whether a sufficient level of detail was presented to and considered by the committees and that a level of precision is used to determine which variances require further analysis and discussion.	Our testing concluded that budget monitoring arrangements over capital expenditure are designed and implemented effectively. Satisfactory

Control Framework (continued)

System Controls (continued)

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Test	Description	Results
Revenue budget monitoring	The Council has a robust revenue budget setting process, with involvement of key members of staff across the Council. Performance against revenue budget is monitored on a regular basis and formally reported to the SP&R via budget monitoring reports in September, November, January and April. We considered whether the January 2020 report included a sufficient level of detail, and was presented to and considered by the committees and that a level of precision was used to determine which variances require further analysis and discussion. This control was tested in response to the presumed fraud risk over expenditure.	Our testing concluded that budget monitoring arrangements over the revenue budget are designed and implemented effectively. Satisfactory As a result of Covid-19, revenue and capital budget monitoring remains increasingly important, both in the short and medium term. We will consider revisions to the budget and future budgets as part of the year-end audit.
Review of cost of services expenditure	The Council has a well-defined process covering the payment of services provided. We considered and tested management's review and authorisation of payments to an individual supplier that exceed £75,000 as required by Council policy. A sample of 40 payments were tested. This control was tested in response to a presumed fraud risk over expenditure.	Our testing of the 40 payments indicated that there is adequate segregation of duties between those entering data, and those authorising the payment. Satisfactory
Authorisation over procurement contracts	The Council has defined processes for the awarding of contracts, with written procedures to be followed for each contract type and value. Procurement testing of a sample of 15 contracts awarded in the year, split between those which required completion of a quotation and those which required to be tendered was undertaken. Our approach was designed to test whether correct procurement route had been followed based on value and reviewed the evidence of the tender evaluation process. This control was tested in response to a presumed fraud risk over expenditure.	Our testing concluded that the selected contracts had followed the appropriate procurement route based on value. Satisfactory

Control Framework (continued)

System Controls (continued)

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Test	Description	Results
BACS authorisation	BACS payment runs must be approved by an authorised member of the finance team. We tested a sample of 20 BACS payments to verify they had been authorised. Management enhanced controls in respect of BACS payments following fraud identified at another local authority. While the control environment has been strengthened, we consider that a weakness remains in respect of the ability of a small number of senior staff to modify the BACS payment file and override the detection control which has been implemented.	All sample items were correctly signed and authorised by the appropriate officer. Satisfactory It is recommended that the detective control is redesigned to mitigate the risk that it is subject to management override by the privileged system users it is designed to monitor. Recommendation two
Transfer of pensionable data, and management review of assumptions	We furthered our understanding of the process management undertake to transfer data to Tayside Pension Fund, and its assessment of the actuarial assumptions. We tested the annual management review of pension assumptions. These controls were tested in response to the significant risk over retirement benefit obligations.	We discussed and walked through the process undertaken by Management during the January 2020 payroll and pension processes. We were satisfied that the following controls are designed and implemented appropriately: – transfer of new starts, leavers, and other changes to employee data to the Tayside Pension Fund; and that – authorisation of the payment of pension contributions to the Tayside Pension Fund. Our testing indicated that an appropriate officer had reviewed the assumptions in line with our expectation. Satisfactory
Authorisation of payroll, and service establishment approval	A sample of two months control sheets were tested, which record that the stages of the payroll process have been completed, before authorising the payroll and completing the BACS runs. This includes a key control over any exceptions or variances in net pay. A sample of two months' BACS runs were reviewed to test the payment schedule was reconciled to the net pay analysis report and appropriately authorised. The annual service establishment report was reviewed to determine whether it had been reviewed by each service to confirm all employees are still actively employed by the Council.	Those controls sheets tested recorded key stages of the pay run and had been marked as completed, with the pay run being marked as ready for processing. The sample of exception reports tested were marked as reviewed and investigated. Both BACS runs subject to testing had been reconciled and authorised by an authorised signatory in advance of the pay run. Our testing indicated that all four services had completed and signed the service establishment report as expected. Satisfactory

Control Framework (continued)

System Controls (continued)

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Test	Description	Results
Housing rents system	We tested a sample of two months' reconciliations between the housing rents system (Northgate) and the general ledger (Integra) to determine whether officers completed this reconciliation on a timely basis and any reconciling items were followed up and investigated.	Both reconciliations have been performed on a timely basis and any reconciling items were followed up and investigated. Satisfactory However, in line with best practice, we recommend that the reconciliations are reviewed by an authorised senior member of staff, and that this review is appropriately documented. Recommendation three
Council Tax and Non-Domestic Rates	For each of Council Tax and Non-Domestic Rates discounts and rebates, we tested 25 applications from account holders to test whether applications had been reviewed by an appropriate officer within the Local Taxes team. For each of Non-Domestic Rates and Council Tax, we tested a sample of five reconciliations of the Council's valuation roll against the valuation roll provided by the Tayside Valuation Joint Board.	In two cases there was no evidence of segregation of duties in terms of staff recording Non-Domestic Rates relief applications. There is a deficiency in the control as the system does not prevent one person from being able to complete the relief application form, and then assess and grant the same claim. Recommendation four In respect of both Non-Domestic Rates and Council Tax, we were unable to verify a formal approach in respect of how the Council considered reliefs spanning multiple years. For best practice, it is recommended that the Council adapts a formal process to consider the continued validity of such multi-year reliefs. Recommendation five Our testing concluded that Council Tax and Non-Domestic Rates reconciliations over are designed and implemented effectively. Satisfactory
Review of valuations	We will review management's assessment of impairment indicators and assess for completeness. For a sample of 15 properties revalued for 2019-20, we tested whether valuations had been independently reviewed by an appropriate officer within the Estates team.	We will report our findings over the operating effectiveness of this control in our annual audit report once management completes its annual review in line with the year end timetable. For property valuations, our testing demonstrated that all samples had been appropriately reviewed.

Wider Scope and Best Value

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The Code of Audit Practice sets out four audit dimensions which, alongside Best Value, set a common framework for all audit work conducted for the Accounts Commission. These areas are: governance and transparency, financial management, financial sustainability and value for money. During our interim audit we considered these areas and will conclude our assessment in our Annual Audit Report. We provide an update below of work carried out so far on Best Value.

Test	Audit update
Best Value	2019-20 represents year four of the Best Value plan for the Council during which we shall complete a follow up of the Best Value Assurance Report ("BVAR") recommendations and will consider Performance & Outcomes and Partnership Working & Empowering Communities topics as part of phased consideration over the term of appointment. We also consider that there are wider scope risks in respect of demand pressures, the transformation programme and EU withdrawal. Audit Scotland planning guidance also requires us to consider fraud and corruption in procurement. Illicit rebates, kickbacks and false invoicing are potential risks across the public sector. For all bodies other than those where the full wider scope is not judged to be appropriate, auditors should assess the risk of fraud and corruption in the procurement function. We have held planning discussions with various stakeholders to obtain an understanding of the Council's arrangements in terms of Procurement. Our planned approach in respect of procurement will : - assess whether the risk of procurement fraud is acknowledged on the body's risk register, and whether reasonable policies are in place and enforced to prevent unacceptable instances taking place as well as systems to ensure all acceptable instances are recorded in a register. - assess whether there are controls around the procurement process, including segregation of duties, and if these are adequate, followed and enforced. - assess whether staff involved in procurement-related decisions are adequately trained and that the Council has arrangements in place to encourage and protect whistle-blowers. - ensure that internal audit coverage of procurement systems is adequate and proportionate to the risks faced by the body. We will continue to gather information and meet with officers to build our knowledge of Best Value in order to conclude on the two focus areas in our Annual Audit Report in September.

Appendix one

Action Plan

The action plan summaries specific recommendations arising from our work, together with related risks and management's responses.

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Priority rating for recommendations			
Grade one (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the Council or systems under consideration. The weaknesses may therefore give rise to loss or error.	Grade two (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.	Grade three (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the control to meet their objectives in any significant way. These are less significant observations than grades one or two, but we still consider they merit attention.	
Finding and risk		Recommendation	Original actions
1. (Grade three) Bank Reconciliations			
The December 2019 reconciliations were not completed within one month of the period end. This meant that one reconciling item was not identified or corrected until both December and January bank reconciliations were completed mid-February.		It is a key anti-fraud control for bank balances to be fully reconciled on a regular basis. It is recommended that management ensures the timely reconciliation of all bank accounts.	Management response: The outstanding unreconciled item referred to was for around £90. Due to a period of staff absence, priority was given to higher volume / value bank accounts which were kept up to date throughout the year. The Incomes Team are now carrying out timeous bank reconciliations. Implementation date: n/a Responsible officer: n/a

Appendix two

Action Plan (continued)

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Finding and risk	Recommendation	Original actions
2. (Grade two) BACS payment process As part of our audit, we remain alert to the susceptibility of fraud within the audit entity, using our existing knowledge from other entities and sectors. Management enhanced controls in respect of BACS payments following fraud identified at another local authority. While the control environment has been strengthened, we consider that a weakness remains in respect of the ability of a small number of senior staff to modify the BACS payment file and override the detection control which has been implemented. We note that our sample testing on page six in respect of BACS payment authorisation process did not identify any errors, and management have not identified any errors in relation to this weakness.	It is recommended that the detective control is redesigned to mitigate the risk that it is subject to management override by the privileged system users it is designed to monitor.	Management response: The Council has implemented a number of controls in this area. Any amendments to the BACS payment file automatically generate an email to a number of senior members of Finance to allow for scrutiny and challenge. A central record is kept of any changes. Finance officers do not consider that this control can be reasonably strengthened any further. Implementation date: n/a Responsible officer: n/a
3. (Grade three) Housing rents system We tested a sample of two months' reconciliations between the housing rents system (Northgate) and the general ledger (Integra). There was no documented review of these reconciliations by an authorised senior member of staff.	We recommend that the reconciliations are reviewed by an authorised senior member of staff, and that this review is appropriately documented.	Management response: The monthly reconciliation will be reviewed and authorised by the Finance & Governance Manager and copies will be held on file. Implementation date: April 2020 Responsible officer: Finance & Governance Manager

Action Plan (continued)

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Finding and risk		Recommendation	Original actions
4. (Grade three) Non-Domestic Rates We have tested the design and implementation of the controls around Non-Domestic Rates. In two cases there was no clear segregation of duties in terms of staff recording and authorising Non-Domestic Rates relief applications.		We recommend that management implements a process to ensure segregation of duties when completing and authorizing Non-Domestic Rates relief applications. Update: In respect of management's response, we understand that detective controls are in place, we will consider their design and implementation as part of our year-end audit and will report on our findings in our Annual Audit Report. We do not plan to test the operating effectiveness to the extent we are not relying on IT based system controls.	Management response: The Local Taxes Management Team does not consider that there is a need for a clear segregation between accepting and processing information as it views this as one single customer interaction. They view the ability to make amendments, including those made at the point of contact, by an experienced member of staff to be beneficial in terms of customer service, and in achieving Best Value through effective use of staff resources rather than the recommended two-tiered approach. There is a very minor risk that staff could enter invalid information into the system, but this applies whether there is the existence of an application form or not. Furthermore, they strongly consider that satisfactory arrangements are in place through login control, system permissions, audit trails, accuracy checking and review processes to identify and mitigate any potential such actions occurring. Therefore, the Local Taxes Management Team are comfortable with existing processes and are accepting of any minor risks that current arrangements may bring. Implementation date: n/a Responsible officer: n/a

Appendix two

Action Plan (continued)

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Finding and risk		Recommendation	Original actions
5. (Grade two) Council Tax and Non-Domestic Rates			
In respect of both Non-Domestic Rates and Council Tax, we were unable to verify a formal approach in respect of how the Council considered reliefs spanning multiple years.		For best practice, it is recommended that the Council undertakes its formal process to consider these reliefs and discounts that span multiple years.	Management response: The Council recognises the need to regularly review discounts and exemptions awards that cross multiple financial years. To do this, each year a review timetable is created detailing the awards that we intend to review in the coming year. For Financial Year 2019/20, although such a timetable was created the reviews were not carried out as originally scheduled due to other work priorities. It is anticipated that a full review programme will be carried out during Financial Year 2020/21, although this may be impacted by Covid-19. The Local Taxes management team are content with this situation and will, as far as possible manage the risks of any delay in carrying out reviews. Implementation date: 31 March 2021 Responsible officer: Principal Officer (Local Taxes)



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