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Council Building
2 High Street
Perth
PH1 5PH

31/01/2022

A meeting of the **Audit Committee** will be held virtually on **Monday, 07 February 2022** at **09:30**.

If you have any queries please contact Committee Services on (01738) 475000 or email Committee@pkc.gov.uk.

THOMAS GLEN
Chief Executive

Those attending the meeting are requested to ensure that all notifications are silent on their device and other devices are in silent mode.

Please note that the meeting will be broadcast online and recorded. The recording will be publicly available on the Council's website following the meeting.

Members:

Councillor Eric Drysdale (Convener)
Councillor Stewart Donaldson (Vice-Convener)
Councillor Liz Barrett
Councillor Harry Coates
Councillor David Illingworth
Councillor Roz McCall
Councillor Xander McDade

Audit Committee

Monday, 07 February 2022

AGENDA

MEMBERS ARE REMINDED OF THEIR OBLIGATION TO DECLARE ANY FINANCIAL OR NON-FINANCIAL INTEREST WHICH THEY MAY HAVE IN ANY ITEM ON THIS AGENDA IN ACCORDANCE WITH THE COUNCILLORS' CODE OF CONDUCT.

- | | | |
|----------------|--|----------------|
| 1 | WELCOME AND APOLOGIES | |
| 2 | DECLARATIONS OF INTEREST | |
| 3 | MINUTE OF MEETING OF AUDIT COMMITTEE OF 8 DECEMBER 2021 FOR APPROVAL
(copy herewith) | 5 - 8 |
| 4 | INTERNAL AUDIT FOLLOW UP
Report by Chief Internal Auditor (copy to follow) | |
| 5 | INTERNAL AUDIT UPDATE
Report by Chief Internal Auditor (copy herewith 22/28) | 9 - 14 |
| 5(i) | COMMUNITIES | |
| 5(i)(a) | 21-10 LEADER
(copy herewith 22/29) | 15 - 22 |

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AUDIT COMMITTEE

Minute of Meeting of the Audit Committee held virtually via Microsoft Teams on Wednesday 8 December 2021 at 09.30am.

Present: Councillors E Drysdale, L Barrett, D Illingworth, G Laing (substituting for Councillor S Donaldson), R McCall and X McDade.

In Attendance: L Simpson, S Mackenzie, J Clark, K Molley, A Brown, M Pasternak, L McGuigan and B Parker (all Corporate and Democratic Services); F Crofts and F Robertson (Communities); and J Cockburn (Education and Children's Services).

Also in Attendance: W Anderson, Horsecross Arts Ltd.

Apologies: Councillors H Coates and S Donaldson

Councillor E Drysdale, Convener, Presiding.

1. WELCOME AND APOLOGIES/SUBSTITUTIONS

The Convener welcomed everyone to the meeting and apologies were noted above.

2. DECLARATIONS OF INTEREST

There were no declarations of interest made in terms of the Councillors' Code of Conduct.

3. MINUTE OF MEETING OF THE AUDIT COMMITTEE OF 20 SEPTEMBER 2021 FOR APPROVAL

The minute of meeting of the Audit Committee of 20 September 2021 was submitted and approved as a correct record.

4. INTERNAL AUDIT FOLLOW UP

There was submitted a report by the Chief Internal Auditor (21/228) presenting a current summary of Internal Audit's 'follow up' work relating to actions due for completion up to September 2021.

Resolved:

The completion of internal audit actions due within the period July-September 2021 and the current position in respect of the agreed actions arising from internal audit work, be noted.

5. INTERNAL AUDIT UPDATE

There was submitted a report by the Chief Internal Auditor (21/229) presenting a summary of Internal Audit's work undertaken as part of the Internal Audit Plans for 2019/20 and 2020/21.

Members thanked J Clark and her team for their efforts throughout 2020/21.

In response to a question from Councillor X McDade regarding staffing resources within the Internal Audit team, J Clark advised that currently three full time members of staff are employed, and plans are underway to expand staffing further.

Resolved:

The progress with Internal Audit activity, be noted.

5(i). COMMUNITIES

(a) 19-12 ALEO's - Horsecross

There was submitted a report by the Chief Internal Auditor (21/230) on an audit to review evidence for improvement to areas highlighted in the Audit Glasgow report and general oversight of Horsecross throughout 2020-21 and to date.

J Clark advised that under section 9 of report 21/230, action point 1 with a high risk, had been completed.

In response to question from Councillor L Barrett regarding the table under 4.1 and assurance can be provided that the control objective assessment will increase to substantial over reasonable regarding the necessary outstanding actions, J Clark advised that there is confidence that substantial assurance would be met once actions are completed, assuming that no other changes are made to the control environment.

In response to a question from Councillor X McDade regarding staff structure and free-lance staff at Horsecross, W Anderson advised that all three free-lancers had been assessed using the HMRC tool to see if they were subject to IR35 and should be treated like employees, but evidence shows they were not related, and therefore no risk was associated. W Anderson added that the number of direct reports to the Chief Executive have been reduced.

In response to a question from Councillor G Laing, F Robertson advised that reasonable progress had been made at Horsecross since 2019, regarding areas that raised significant concern. She added that there is a clear framework in place for monitoring the three ALEO's operationally and strategically. With a strong Board now in place at Horsecross, the aim is that progress continues as restrictions of the covid pandemic start to ease.

In response to a question from Councillor E Drysdale regarding lack of internal audit activity prior to 2019, F Robertson advised that Horsecross had been the subject of internal audit between 2013-2019 and Horsecross has also been assessed under thematic reviews carried out by Audit Scotland.

In response to a question from Councillor L Barrett regarding an update under section 9, action point 4, on the 6 areas where Glasgow Audit considered further review should be undertaken, but which were outside Glasgow Audit's scope, F Robertson advised that at the point when Glasgow Audit were commissioned, the new Chief Executive was not long in post at Horsecross and there focus needed to be on the areas identified as requiring urgent action. W Anderson added that the 6 areas previously mentioned are still important and are part of everyday management. He added that he is satisfied with the progress that had been made and evidence around those areas will be formally met and provided to the Board within the set timescales of March 2022.

In response to a question from Councillor X McDade regarding the issue of cyber security, F Robertson advised that Glasgow Audit did not uncover any specific issues or threats in relation to cyber security at Horsecross in 2019 but it continues to be an important issue that is monitored carefully. Councillor X McDade added that it would be beneficial for an update to be brought to a future meeting of the Audit Committee.

F Robertson clarified that PKC cannot direct an ALEO as an ALEO is an independent charity but as the sole member, PKC have the right to intervene and offer advice where there is significant failure, which was shown in 2019 and previously in 2013. The role of the Scrutiny Committee, Audit Committee and the quarterly monitoring of the contract are the key tools to ensure best practice.

Members thanked F Robertson, Internal Audit, and officers at Horsecross for progress made in terms of the significant issues raised from the Glasgow Audit report in 2019.

Resolved:

The contents of report 21/230, be noted.

F ROBERTSON AND W ANDERSON LEFT THE MEETING AT THIS POINT.

5(ii). ALL SERVICES

(a) 20-04 Contracting (incorporating 19-06 Contracting)

There was submitted a report by the Chief Internal Auditor (21/131) on an audit of Contracting which was undertaken as part of the Internal Audit Plans which were approved by the Audit Committee in June 2019 and September 2020 and the report covers the audit work for both years.

In response to a question from Councillor L Barrett regarding the level of risk associated with the weakness identified in the management action plan, J Clark advised that activity was carried out at a contract level. S Mackenzie explained that the documentation was currently lagging behind the operational practice. He explained by way of

assurance that in terms of procurement activity there is a high level of transparency and scrutiny and confirmed that no major concerns have been identified from our auditors, internal or external. He advised that public sector procurement is one of the most regulated activities that the Council undertake.

In response to a question from Councillor X McDade regarding action owners, J Clark advised that officers identified as action owners are the primary contact within a service and would be responsible for addressing the actions identified in the report and creating appropriate frameworks. These frameworks would then be endorsed by Executive Directors or the relevant Chief Officer.

In response to a question from Councillor D Illingworth regarding different contracts, J Clark advised these 7 contracts were chosen due to risk of outcomes and finances. She added that it was important to take on contracts that cover different services, a wide range of spend and involve different officers to analyse consistency across the organisation.

In response to a question from Councillor G Laing regarding monitoring the delivery of contracts if there are no performance indicators to reference, J Clark advised that whilst key performance indicators were not articulated, there are contract terms and conditions which determine contract performance. She advised that there was a clear framework in place for monitoring the delivery of contracts, which provided evidence to internal audit that contracts were being managed appropriately and delivering the outcomes that were required. She added that as specific contracts were delivering, the lack of performance indicators did not cause significant concern, but it is important that governance procedures are tightened and documented for future activity.

By way of further assurance L Simpson advised that contract management processes, and procedures are scrutinised in depth on an annual basis through the annual governance statement process, and through internal and external audit. S Mackenzie added that there is continued engagement with contractors to manage performance

In response to a question from Councillor L Barrett regarding contracts that are not run within PKC and assurance around management of these contracts, J Clark advised that this was not within the scope of the original audit but that an update would be brought to audit members in due course.

Resolved:

The contents of report G/21/78, be noted.

PERTH AND KINROSS COUNCIL

Audit Committee

7 February 2022

INTERNAL AUDIT UPDATE

Report by Chief Internal Auditor (Report No. 22/28)

PURPOSE OF REPORT

This report presents a summary of Internal Audit's work undertaken as part of the Internal Audit Plans for 2019/20 and 2020/21.

1. BACKGROUND / MAIN ISSUES

- 1.1 The Public Sector Internal Audit Standards (PSIAS) require that the Chief Internal Auditor reports periodically to the Audit Committee on internal audit activity and on performance relative to the approved plan.
- 1.2 Work has continued on assignments from approved Internal Audit Plans. In addition, the National Fraud Initiative process continues to be supported and a report on outcomes will be submitted for consideration at a future meeting of the Audit Committee.
- 1.3 The team are also involved in a whistleblowing disclosure and any relevant outcomes may be considered by a future meeting of the Audit Committee.
- 1.4 Appendix 1 shows the status of audits arising from the 2020-21 and 2021-22 Internal Audit Plans. Anticipated Committee dates are subject to review as Internal Audit is undertaking further recruitment activity. These dates will be dependent upon successful recruitment to vacant posts.

2. CONCLUSION AND RECOMMENDATIONS

- 2.1 This report presents a summary of Internal Audit's work.
- 2.2 It is recommended that the Committee notes progress with Internal Audit activity.

Author(s)

Name	Designation	Contact Details
Jackie Clark	Chief Internal Auditor	Internal.Audit@pkc.gov.uk

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1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

Strategic Implications	Yes / None
Community Plan / Single Outcome Agreement	None
Strategic Plan	Yes
Resource Implications	
Financial	None
Workforce	None
Asset Management (land, property, IST)	None
Assessments	
Equality Impact Assessment	Yes
Strategic Environmental Assessment	None
Sustainability (community, economic, environmental)	None
Legal and Governance	None
Risk	Yes
Consultation	
Internal	Yes
External	None
Communication	
Communications Plan	None

1. Strategic Implications

Community Plan/Single Outcome Agreement

Corporate Plan

- 1.1 The Council's Corporate Plan 2018 – 2022 lays out five outcome focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:

- (i) Giving every child the best start in life;
- (ii) Developing educated, responsible and informed citizens;
- (iii) Promoting a prosperous, inclusive and sustainable economy;
- (iv) Supporting people to lead independent, healthy and active lives; and
- (v) Creating a safe and sustainable place for future generations.

- 1.2 This report relates to all of these objectives.

2. Assessments

Equality Impact Assessment

- 2.1 Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.
- 2.2 The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

Risk

- 2.3 The risks are associated with the level of assurance provided on the control environment in the event that Internal Audit's planned work is not completed on time.

3. Consultation

Internal

- 3.1 The Chief Executive and Head of Legal and Governance have been consulted in the preparation of this report.

2. BACKGROUND PAPERS

No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above report.

3. APPENDICES

Appendix 1 – Internal Audit Activity

Appendix 1

INTERNAL AUDIT UPDATE

Internal Audit Activity

Audit No.	Title	Service(s)	Status as at December 2020	Audit Committee
2020/21				
A20-04 (inc A19-06)	Contracting	All Services	Completed	December 2021
A20-07	Violence & Aggression	Education & Children's Services	In progress	March 2022
A20-10	Horsecross Arts	Corporate & Democratic Services	Completed	December 2021
2021/22				
A21-01	Child Protection	Education & Children's Services	In progress	March 2022
C21-02	Climate Change	All Services	In progress	March 2022
A21-03	Welfare Rights	Corporate & Democratic Services	Planned	
A21-04	Partnership Working	All Services	Planned	
A21-05	Tay Cities Deal	Communities	In progress	March 2022
A21-06	IT Assets	All Services	In progress	March 2022
A21-07	Agency Workers	Communities	In progress	March 2022
A21-08	Payroll	Corporate & Democratic Services	Planned	
G21-09	LEADER	Communities	Completed	February 2022
G21-10	BSOG	Communities	Completed	N/a



Internal Audit Report
Communities
21-10 - LEADER
November 2021

Final Report
(Report No. 22/29)

Legal and Governance
Corporate and Democratic Services
Perth & Kinross Council
Council Offices
2 High Street
Perth
PH1 5PH

21-10 LEADER

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1. Introduction

- 1.1 The audit of LEADER was undertaken as part of the Internal Audit Plan for 2021/22, which was approved by the Audit Committee on 30 June 2021.
- 1.2 The indicative scope was to review regulatory compliance for the LEADER projects.

2. Audit Background Information

- 2.1 LEADER is a community-led funding programme aimed at increasing support to local, rural community and business networks to build knowledge and skills and encourage innovation and cooperation in order to tackle local development objectives. It is funded by the Scottish Government and the European Union, as part of the Scottish Rural Development Programme, with other contributions from local partners and organisations. Grants are awarded by [Local Action Groups](#) (LAG) to projects that support delivery of a Local Development Strategy (LDS).
- 2.2 Perth & Kinross Council (PKC) have agreed to act as the 'Lead Partner' or 'accountable body' on the LEADER project, whereby they have entered into a Service Level Agreement with the Scottish Government on behalf of the LAG. The purpose of the agreement is to define the obligations, duties and accountabilities of both parties in regard to the Scotland Rural Development Programme. Included within Annex A of the agreement is the undertaking that the Council will provide internal audit coverage of the functions undertaken on behalf of the Scottish Government and will submit as part of an annual report, confirmation there has been compliance with applicable Regulations.
- 2.3 Internal Audit have carried out six previous assignments in respect of LEADER in which we have undertaken consultancy and audit work (Committee [reports 16/310](#) and [17/57](#) consultancy and [17/386](#), [19/30](#), [20/39](#) and [20-237](#) refers).
- 2.4 This report is the result of our audit work covering the LEADER year ended 15 October 2021.

3. Scope and Limitations

- 3.1 The Service Level Agreement refers to the requirement to comply with all EU regulatory requirements but in particular 1306/2013, 907/2014, 259/2008, 1305/2013 and 1303/2013. The Scottish Government has issued guidance which is based on the Regulations. Internal Audit have limited their assurance to compliance with that guidance and the service level agreement.

4. Assessment of the Control Environment

- 4.1 The table below contains a summary of the findings against each control objective and Internal Audit's assessment of the adequacy and effectiveness of the controls in place to meet each of the objectives agreed for this audit. Further details, including any improvement actions, are set out in the Management Action Plan.

No.	Control Objective	Action Rating					Control Objective Assessment
		5	4	3	2	1	
1	To ensure Regulatory requirements are met by reviewing the systems in place to deliver LEADER as well as the financial processes	No actions					Substantial
2	Assess compliance with the SLA and conduct a review of a selection of LEADER projects.	No actions					Substantial

- 4.2 The auditor has assessed that substantial assurance can be placed on controls overall in relation to LEADER from the audit. Meaning:
A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
- 4.3 A summary of the key findings are provided in section 5, please note however, the following areas of good practice which have been highlighted during the audit:
- 4.4 The LEADER team have a two-person independent review process, using a checklist, to ensure all documents required are filed on the Scottish Government IT system, Local Actions in Rural Communities system (LARCs). Any omissions are corrected. The completion of each stage for a project is recorded on a control spreadsheet. As at 15 October, 34 of the 70 projects have been through this double review. An additional 21 projects have been subject to the first-person review, however the second stage has not yet been concluded.

- 4.5 Subsequently, a third LEADER team officer will print all documentation from LARCs for the project, which will be given to a representative of the project to retain, thus giving the project all documentation for it filed on LARCs. This is recorded on a control spreadsheet. As at 15 October, documentation for six projects has been printed. It should be noted that this officer only took up this role on 1 October.
- 4.6 There is segregation of duties over the submission of a claim form for drawdown from the Scottish Government. It is compiled by a LEADER team Finance Claims & Admin Officer, checked by a PKC Communities Finance Officer, authorised by the Accountable Body (PKC)'s representative, PKC Place Manager, and certified on behalf of the Accountable Body by the PKC Head of Finance.
- 4.7 The LEADER team monitors drawdowns claimed and the amounts received. As at 11/11/21, claims submitted from September to be paid amount to £118.5k. It is expected that these amounts will be received imminently.

5. Summary of Findings

- 5.1 Below is a summary of key findings. There are no actions arising from this audit.
- 5.2 The systems in place to deliver LEADER, as well as the financial processes, were reviewed. There has been no change in systems from last year. There is no evidence that regulatory requirements are not being met.
- 5.3 Compliance with the Service Level Agreement was reviewed. There is no change in systems from last year. There has been no change to the SLA since 2015. There is no evidence that the SLA was not complied with.
- 5.4 Areas of good practice were found during the audit. These are documented in section 4 above.

6. Conclusion

- 6.1 The Internal Audit review is able to place substantial assurance on the overall control environment for LEADER.

7. Acknowledgements

- 7.1 Internal Audit would like to thank the RPK LEADER Co-Ordinator for who was involved in this audit.

8. Authorisation

- 8.1 The auditor for this assignment was M Stewart. The supervising auditor was J Clark.

This report is authorised for issue:

9. Distribution

- 9.1 This report has been distributed to:
- T Glen, Chief Executive
 - B Renton, Executive Director (Communities)
 - D Littlejohn, Head of Planning & Development
 - J McCrone, City Development Manager
 - S Rice-Jones, RPK LEADER Coordinator
 - K Donaldson, Chief Operating Officer
 - S Mackenzie, Head of Finance
 - L Simpson, Head of Legal & Governance Services
 - External Audit

10. Assessment Definitions

10.1 The following table contains the definitions of the control objective assessment.

Control Objective Assessment	
Level of assurance	Definition
Substantial Assurance	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
Reasonable Assurance	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
Limited Assurance	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
No Assurance	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

10.2 The following table contains the definitions applied by Internal Audit in rating audit findings/actions.

Risk Rating for Individual Findings		
Rating	Rating description	Definition
5	Critical	Significant observations / major concerns which require immediate action. Management will need to add these to the appropriate Service risk register <i>Issue represents a control weakness which could cause, or is causing, severe disruption of the process or severe adverse effect on the ability to achieve process objectives</i>
4	High	Significant observations regarding the absence / failure of key controls requiring urgent action. Management should consider adding these to the appropriate Service / divisional risk register <i>Issue represents a control weakness which could have, or is having, major adverse effect on the ability to achieve process objectives</i>
3	Medium	Observations regarding the effectiveness of key controls requiring reasonably urgent action. Management should consider these when updating any divisional / team risk registers <i>Issue represents a control weakness which could have, or is having, significant adverse effect on the ability to achieve process objectives</i>

Risk Rating for Individual Findings		
Rating	Rating description	Definition
2	Low	Minor observations regarding the adequacy of controls which require action to improve the efficiency, effectiveness, or economy of operations or which otherwise require to be brought to the attention of Senior Management <i>Issue represents a minor control weakness with minimal but reportable impact on the ability to achieve process objectives</i>
1	Trivial / Minor	Very minor observations which will be raised during the audit and may not be included within the final report <i>Issue represents a very minor control weakness with negligible impact on the ability to achieve process objectives. The issue will be raised during the audit and may not be included within the final report.</i>