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Council Building
2 High Street
Perth
PH1 5PH

28 January 2020

A Meeting of the **Audit Committee** will be held in **the Council Chamber, 2 High Street, Perth, PH1 5PH** on **Wednesday, 05 February 2020** at **10:00**.

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

KAREN REID
Chief Executive

Those attending the meeting are requested to ensure that all electronic equipment is in silent mode.

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

Members:

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

Audit Committee

Wednesday, 05 February 2020

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.

- | | | |
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| 1 | WELCOME AND APOLOGIES | |
| 2 | DECLARATIONS OF INTEREST | |
| 3 | MINUTE OF MEETING OF THE AUDIT COMMITTEE OF 20 NOVEMBER 2019 FOR APPROVAL AND SIGNATURE
(copy herewith) | 5 - 10 |
| 4 | PERTH AND KINROSS COUNCIL EXTERNAL AUDIT STRATEGY
(copy herewith 20/35) | 11 - 48 |
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Report by Chief Internal Auditor (copy herewith 20/36) | 49 - 58 |
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| 7(i) | CORPORATE AND DEMOCRATIC SERVICES | |
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| 7(ii)(b) | 19-09 - RECYCLING CENTRES
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IT IS RECOMMENDED THAT THE PUBLIC AND PRESS SHOULD BE EXCLUDED DURING CONSIDERATION OF THE FOLLOWING ITEM(S) IN ORDER TO AVOID

***THE DISCLOSURE OF INFORMATION WHICH IS EXEMPT IN TERMS OF
SCHEDULE 7A TO THE LOCAL GOVERNMENT (SCOTLAND) ACT 1973***

9(i) ALL SERVICES

9(i)(a) 19-10 CASH

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PERTH AND KINROSS COUNCIL
AUDIT COMMITTEE
20 NOVEMBER 2019

AUDIT COMMITTEE

Minute of meeting of the Audit Committee held in the Council Chamber, 2 High Street, Perth on Wednesday 20 November 2019 at 1.05pm.

Present: Councillors E Drysdale, S Donaldson, D Illingworth, R McCall, S McCole (substituting for M Williamson) and X McDade.

In Attendance: J Clark, C Irons, S Mackenzie, C Robertson and L Simpson (all Corporate and Democratic Services); G Boland, J Cockburn and B Martin-Scott (Education and Children's Services) and F Crofts (Housing and Environment).

Apologies: Councillors H Coates and M Williamson.

In the absence of the Convener, the Vice-Convener took the Chair.

Councillor S Donaldson, Vice-Convener, Presiding.

The Convener led discussion on Art. 588 and the Vice-Convener led discussion on Arts. 584-587 and 588(i) and (ii).

584. WELCOME AND APOLOGIES/SUBSTITUTIONS

The Vice-Convener welcomed everyone to the meeting. Apologies and a substitution were noted as above.

585. DECLARATIONS OF INTEREST

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

586. MINUTE

The minute of meeting of the Audit Committee of 18 September 2019 (Arts 445-451) was submitted and approved as a correct record and authorised for signature.

It was noted that a report on the Cultural Trusts Transformation Project would be submitted to this Committee in advance of a report to Council on 22 April 2020. (Art. 451)

Councillor S Donaldson advised that he had sent a follow-up letter to the Courts and Tribunal Service regarding a Perth Hearing Venue for welfare rights appeals following previous consideration of the matter and had no response so would contact the Ministry of Justice after the General Election on 12 December 2019. (Art 356)

587. INTERNAL AUDIT FOLLOW UP

There was submitted a report by the Chief Internal Auditor (19/336) presenting a summary of Internal Audit's follow up work relating to actions due for completion in July and August 2019.

It was noted that in respect of action plan 17-03 relating to the Capital Programme, that the draft Capital Programme Gateway Review Process had been considered by the Strategic Investment and Improvement Board in October 2019 and following consideration by the Executive Officer Team the Process would be rolled out in January 2020.

With regard to action plan 18-12 relating to the Management of Contracts, Councillor S McCole stated it would be good practice to align Finance and Human Resources systems to ensure that the authorised signatory database would be updated when an employee moved to a new role or left the Council.

It was noted that in respect of action plan 18-11 relating to the School Estate Strategy 2012-2017, that a new Perth and Kinross strategy was being drafted following the launch of a national strategy in September 2019 and would be submitted to the Lifelong learning Committee early next year.

Resolved:

- (i) The current position in respect of the agreed actions arising from the internal audit work, be noted.
- (ii) The action plans be progressed, taking into account the recorded audit opinions.

COUNCILLOR E DRYSDALE ARRIVED DURING CONSIDERATION OF THE ABOVE ITEM AND TOOK OVER THE CHAIR.

Councillor E Drysdale, Convener, presiding.

588. INTERNAL AUDIT UPDATE

There was submitted a report by the Chief Internal Auditor (19/337) presenting a summary of Internal Audit's work.

Resolved:

The completion of assignments since the last Audit Committee on 18 September 2019, be noted.

The Committee considered the following final reports:

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(i) Corporate and Democratic Services and Education and Children's Services

(a) 19-01 Live Active Leisure Income Collection and Reimbursement at Campus Sites

There was submitted a report by the Chief Internal Auditor (19/338) on an audit to ensure that (1) income due to Live Active Leisure was accurately collected and recorded at Community Campus Sites; and (2) all income belonging to Live Active Leisure was reimbursed in a complete and timely manner.

It was noted the audit covered Learning Community Campuses at Breadalbane, Aberfeldy; Strathearn, Crieff; Loch Leven, Kinross and North Inch, Perth.

The Community Campuses at Glenearn, Perth and Blairgowrie were not included as they operated separate arrangements for income collection.

J Clark stated that Education and Children's Services and Live Active Leisure (LAL) were aware of some issues prior to the audit and had been working to address these and although not all controls were yet in place there was no issues of particular concern.

J Cockburn advised the audit had galvanised the relevant staff into action and it had been acknowledged that there were weak controls, some of which had been caused by a change in staff. A Working Group had been established and held a positive meeting.

In response to a question from Councillor X McDade, J Clark confirmed that Internal Audit had been approached for advice prior to the audit.

Councillor E Drysdale stated it was important to recognise that findings of a weak control was testament to the work of Internal Audit for bringing this to light. Councillor E Drysdale asked if there was an estimate of the uncollected debt dating back to 2014.

J Cockburn advised a figure for older debt was not available but appropriate information will be extracted from the IT system, MRM, regarding aged debt.

Councillor S McCole noted that the existence and location of the centralised campus reception finance procedures manual were unknown to staff interviewed and queried if it had since been

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located. J Cockburn confirmed it had but staff had been unaware of its existence due to turnover of staff. Councillor X McDade asked why debt recovery had not been raised under a LAL audit and J Clark advised that the audit was on the Council's systems and did not include the LAL system.

In response to a question from Councillor E Drysdale regarding the removal of the supervisor role, J Clark advised that it was Internal Audit's view that the role of the supervisor in respect of controls and oversight had not been fully re-assigned. G Boland added that the removal of the supervisor was not fundamental as staff should have been able to undertake the duties required.

Councillor E Drysdale asked if there was a duplication of systems between the Council and LAL and G Boland advised duplication had not helped the situation, however, it had been the turnover of staff and inadequate training which had resulted in the problems.

Councillor S McCole queried if the issues were symptomatic of the procedure or were a result of organisational change across the Council and whether there was a system in place to record and advise of leavers and joiners to the Council.

G Boland stated it was isolated due to the complexity of the campus set up and that they would work to make sure that systems were adequate and effective so that this issue did not arise again.

J Cockburn assured members that the deadlines for the completion of the action points would be met as action was being taken as a matter of priority to strengthen the controls in the process.

Resolved:

- (i) Internal Audit's findings, as detailed in Report 19/338, be noted.
- (ii) An update be provided to the next Committee in February 2020.

(ii) Education and Children's Services

(a) 19-03 Ordering and Certification and Stock Control

There was submitted a report by the Chief Internal Auditor (19/339) on an audit to ensure that (1) controls over the ordering of goods were adequate; (2) controls over the receipting of delivery of goods were adequate and (3) controls over the safeguarding of resources were adequate.

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J Clark advised the audit had been undertaken after Internal Audit were contacted by the Service. A new Service Manager had recently been appointed and the audit looked at tightening controls; providing clarity in the processes and ensuring the assets held were safeguarded and the audit had been well received by the Service.

B Martin-Scott, Service Manager (Early Years and Primary) confirmed that action had been taken to improve the processes and the financial controls and most action points had been completed and the remaining action was near completion.

Resolved:

Internal Audit's findings, as detailed in Report 19/339, be noted.

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# Perth and Kinross Council

## Report to the Audit Committee

(Report No. 20/35)

**Audit strategy**

**Year ending 31 March 2020**

—

For Audit Committee consideration on 5 February 2020 (DRAFT)

# Introduction

## About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's Code of Audit Practice ("the Code").

This report is for the benefit of Perth and Kinross Council ("the Council") and is made available to Audit Scotland and the Controller of Audit (together "the Beneficiaries"). This report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, even though we may have been aware that others might read this report. We have prepared this report for the benefit of the Beneficiaries alone.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scoping and purpose section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Beneficiaries) for any purpose or in any context. Any party other than the Beneficiaries that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Beneficiary's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Beneficiaries.

## Complaints

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Michael Wilkie, who is the engagement leader for our services to Perth and Kinross Council, telephone 0141 300 5890 or email to michael.wilkie@kpmg.co.uk, who will try to resolve your complaint. If your problem is not resolved, you should contact Hugh Harvie, our Head of Audit in Scotland, either by writing to him at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG or by telephoning 0131 527 6682 or by emailing hugh.harvie@kpmg.co.uk.

We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Diane McGiffen, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.

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# Introduction (continued)

## To the Audit Committee of Perth and Kinross Council

2019-20 is the fourth year of our external audit appointment to Perth and Kinross Council ("the Council") and its group ("the Group"), having been appointed by the Accounts Commission as auditor of the Council under the Local Government (Scotland) Act 1973 ("the Act"). The period of appointment is 2016-17 to 2020-21, inclusive. Our appointment includes the audit of the Perth and Kinross Council Charitable Trusts.

### Our planned work in 2019-20 will include:

- an audit of the financial statements and provision of an opinion on whether the financial statements:
  - give a true and fair view in accordance with the applicable law and the Code of Practice on Local Council Accounting in the United Kingdom ("the 2019-20 Code") of the state of the affairs of the Council as at 31 March 2020 and of the income and expenditure of the Council for the year then ended; and
  - have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, as interpreted and adapted by the 2019-20 Code, the requirements of the Local Government (Scotland) Act 1973, The Local Council Accounts (Scotland) Regulations 2014 and the Local Government in Scotland Act 2003;
- participation in the shared risk assessment as part of the local area network;
- completion of returns to Audit Scotland and grant claims;
- a review and assessment of the Council's governance arrangements and review of the governance statement;
- a review of National Fraud Initiative arrangements;

- a review of arrangements for preparing and publishing statutory performance information; and
- contributing to the audit of wider scope and Best Value through performance of risk assessed work, and the follow up of recommendations made in the Best Value Assurance Report in respect of the Council.

### How we deliver audit quality

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

We define 'audit quality' as being the outcome when audits are:

- **executed consistently**, in line with the requirements and intent of **applicable professional standards** within a **strong system of quality controls**; and
- all of our related activities are undertaken in an environment of the outmost level of **objectivity, independence, ethics** and **integrity**.

### Adding value

Throughout the audit, we will consider opportunities to add value and will conclude on this in our annual audit report. We add value through:

- our experience, which brings insight and challenge;
- our tools and approach, which contribute to a world class audit; and
- transparency and efficiency, which improves value for money.

# Introduction (continued)

## **Our team**

The team has significant experience in the audit of local authorities, and is supported by specialists, all of whom work with a variety of local government and public sector bodies. All members of the team are part of our wider local government network. Senior members of the audit team and their relevant contact details are provided on the back page of this report. The senior team involved in the external audit benefits from continuity with Michael Wilkie continuing as the engagement leader, and Christopher Windeatt taking up the role of engagement manager.

Our work will be completed in four phases from December 2019 to September 2020. Our key deliverables are this audit strategy document, an interim report and an annual audit report.

## **Acknowledgements**

We would like to take this opportunity to thank officers and members for their continuing help and co-operation throughout our audit work.

# Headlines

## Materiality

Group materiality for planning purposes is based on last year's gross expenditure and is set at £9.8 million, which equates to 2% of gross expenditure. We will review gross expenditure on receipt of draft accounts for 2019-20, and assess whether we are required to update this calculated group materiality.

In line with the Code of Audit Practice, we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at £0.25 million.

## Page seven

### Audit risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

- management override of controls fraud risk (assumed risk per International Standards of Auditing ("ISA") (UK and Ireland) 240 *The auditor's responsibilities relating to fraud in an audit of financial statements*);
- fraud risk over expenditure recognition (assumed risk per ISA 240 and Practice Note 10 ("PN10"));
- retirement benefits obligations; and
- valuation of property and investment property.

The risk with less likelihood of giving rise to a material error, but which is nevertheless worthy of audit understanding, relates to capital expenditure, which is included as an other focus area. This is in respect of ensuring that the classification of costs between operating and capital expenditure is appropriate and in respect of capturing all relevant costs and contributions. We also consider that any large capital project inherently brings a fraud risk to an entity, which we consider appropriate for the Council.

## Pages eight - 13



## Financial statement audit

Our financial statements audit work follows a four stage audit process which is identified below. **Appendix three** provides more detail on the timeline of these activities. This report concentrates on the audit planning stage of the financial statements audit.



## Wider scope

Auditors are required to assess and provide conclusions in the annual audit report in respect of four wider scope dimensions:

- financial sustainability;
- financial management;
- governance and transparency; and
- value for money.

We test wider scope areas where there are identified risks. We consider that there are wider scope risks in respect of demand pressures and the transformation programme. As part of our year four Best Value work, we will consider Performance & Outcomes, and Partnership workings & empowering communities topics. While the above risks are a common theme across local authorities, we will focus on the specific circumstances of Perth and Kinross which includes a follow up of the Best Value Assurance Report ("BVAR") recommendations. We have not identified wider scope financial statement level risks.

## Pages 16 - 22

# Headlines (continued)

## Best Value

In June 2016, the Accounts Commission formally agreed the overall framework for the approach to auditing Best Value in councils. The framework introduced a five year approach to 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 workings & empowering communities topics as part of phased consideration over the term of appointment.

**Pages 16 - 22 provide more detail on our work over Best Value and wider scope areas.**

## Group audit

In addition to the Council, we deem the Perth and Kinross Integration Joint Board ("IJB") to be significant in the context of the group audit. KPMG is the auditor of the IJB. Further details regarding our approach can be found at page 15.

**Page 15 and Appendix six**

## Independence

In accordance with ISA 260 *Communication of audit matters with those charged with governance* and the Financial Reporting Council's ("FRC") Ethical Standards, we are required to communicate to you all relationships between KPMG and the Group that may be reasonably thought to have bearing on our independence both:

- at the planning stage; and
- whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.

Appendix two contains our confirmation of independence and any other matters relevant to our independence.

Total fees charged by us for the period ended 31 March 2019 were communicated in our Annual Audit Report issued in September 2019. Total fees for 2019-20 will be presented in our Annual Audit Report issued on completion of the audit. The proposed audit fee for 2019-20 is £284k (inc VAT) as explained in **Appendix five**.

## Quality

International Standard on Quality Control (UK and Ireland) 1 ("ISQC1") requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

Our Audit Quality Framework and KPMG Audit Manual comply with ISQC1. Our UK Senior Partner has ultimate responsibility for quality control. Operational responsibility is delegated to our Head of Quality & Risk who sets overall risk management and quality control policies. These are cascaded through our Head of Audit in Scotland and ultimately to Michael Wilkie as the Director leading delivery of services to the Council.

The nature of our services is such that we are subject to internal and external quality reviews. KPMG's annual financial statements include our transparency report which summarises the results of various quality reviews conducted over the course of each year.

We also provide Audit Scotland with details of how we comply with ISQC1 and an annual summary of our achievement of key performance indicators and quality results.

We welcome your comments or feedback related to this strategy and our service overall.



# Financial statements audit planning

## Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

In respect of the Council's standalone accounts, materiality for planning purposes has been set at £9.5 million, and at £9.8 million for the group accounts, which in both cases equates to 2% percent of an adjusted 2018-19 gross expenditure. We adjusted gross expenditure for plant and property revaluations, to 'smooth' the impact of these movements by taking a five year rolling average of revaluation movements in line with the Council's five year revaluation policy. In addition, expenditure relating to the IJB is removed from our calculation, as income and expenditure is grossed up for presentational purposes within the consolidated income and expenditure account.

We design our procedures to detect errors in specific accounts at a lower level of precision, which is set at 75% of materiality. For the group, this equates to £7.35 million, and £7.1 million for the Council.

## Charitable funds Materiality

In respect of the Charitable funds, materiality for planning purposes has been set at £47,000 (2018-19: £157,000), performance materiality set at £35,000 (2018-19: £117,750) and reporting threshold was set at £2,300 (2018-19: £7,500). The reduction in materiality is as a result of changes to KPMG's internal acceptable ranges, and not as a result of the statutory audit in 2018-19.

## Materiality



## Reporting to the audit committee

Under ISA 260, we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

In the context of the Council and its Group, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.25 million.

If management has corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

# Significant risks

## Significant risks and other focus areas

**Risk assessment:** Our planning work takes place during December 2019 to February 2020. This involves: risk assessment; determining the materiality level; and issuing this audit plan to communicate our audit strategy. We use our knowledge of the Council, discussions with management and review of Council papers to identify areas of risk and audit focus categorised into financial risks and wider dimension risks as set out in the Code.

### Significant audit risk

#### The risk

Fraud risk from management override of controls

#### Why

A presumed risk we are required to consider covers fraud risk from management override of control.

Management is typically in a position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk.

This is a presumed risk per ISA 240.

#### Audit approach

- Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to the audit of the Council.
- We will consider the level of oversight of finances by management which provides additional review of potential material errors caused by management override of controls.
- In line with our methodology, we will carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the Council's normal course of business, or are otherwise unusual.

# Significant risks (continued)

| Significant audit risk                                                           |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Audit approach                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
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| <p><b>The risk</b></p> <p>Fraud risk from income recognition and expenditure</p> | <p><b>Why</b></p> <p>Under ISA 240 there is a presumed risk that income may be misstated due to improper recognition of income. This requirement is modified by PN10, issued by the FRC, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p><b>Income</b></p> <p>We consider that the Council's significant income streams, which include taxation and non-specific grant income are free of management judgement or estimation. We do not consider recognition of the remaining income sources to represent a significant risk for the Council as there are limited incentives and opportunities to manipulate the way income is recognised, and these are not likely to be materially inappropriate. We did not identify any such errors or manipulation in the prior year. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area beyond our standard fraud procedures.</p> <p><b>Expenditure</b></p> <p>We consider that there is not a risk of improper recognition of expenditure in respect of payroll costs, financing and investment expenditure, or depreciation. These costs are routine in nature and not at risk of manipulation. This relates to a significant proportion of council expenditure. As other operating expenditure is unlikely to be material, we also rebut the assumed risk in respect of this account.</p> <p>We have not rebutted the assumed risk in respect of the remaining expenditure of £210 million.</p> | <p>In respect of material income:</p> <ul style="list-style-type: none"> <li>— non-ringfenced government grants are agreed in advance of the year, with any changes requiring government approval. There is no estimation or judgement in recognising this stream of income and we do not regard the risk of fraud to be significant. We will agree significant grants to supporting documentation.</li> <li>— the other major sources of income are from annual local taxes and rental income (council tax, non-domestic rates and housing incomes). These incomes are prescribed by law and other specific regulations, which prescribe the period in which annual local taxes and rental income is recognised as income. We will perform tests of detail and substantive analytical procedures in our audit of these sources of income.</li> </ul> <p>We will include procedures to:</p> <ul style="list-style-type: none"> <li>— compare the outturn with the in year budget monitoring, considering variances;</li> <li>— test controls specific to confirm correct capital vs revenue allocation;</li> <li>— test expenditure cut-off including a search for unrecorded liabilities;</li> <li>— test transactions focusing on the areas of greatest risk, including debtors, creditors, accruals, prepayments and provisions to challenge completeness and existence of these balances; and</li> <li>— review and challenge of management in respect of estimates for evidence of bias.</li> </ul> |

# Significant risks (continued)

| Significant audit risk                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
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| <p><b>The risk</b></p> <p>Valuation of property and investment property</p> | <p><b>Why</b></p> <p><b>Assets revalued in the year:</b></p> <p>The 2019-20 Code requires that where assets are subject to revaluation, their year-end carrying value should reflect the appropriate fair value at that date. In common with other councils, the Council has adopted a five year rolling revaluation model where all land and buildings are revalued. In 2019-20 council dwellings, industrial and business investment properties, shops, common good properties, other miscellaneous non-operational properties, and assets with significant capital investment will be subject to revaluation and we expect movements to be material.</p> <p>The Council uses a valuation date of 1 April 2019 for the 31 March 2020 year end, and 1 August 2019 for all investment properties. We consider there to be a risk of material movement between these dates.</p> <p>Given the quantum of the asset carrying values and the inherent use of assumptions in their valuation, we consider there to be a significant risk of misstatement.</p> <p><b>Assets not revalued in the year:</b></p> <p>The 2019-20 Code also requires consideration that the carrying amount of assets do not differ materially from the current value at the end of the reporting period. Therefore, we consider there to be a risk in relation to the assets not revalued in the year, as their current value at year end may be materially different.</p> | <p><b>Audit approach</b></p> <p><b>Assets revalued in the year:</b></p> <p>A number of the Council's assets are revalued on an annual basis, including investment properties. In relation to those assets which have been revalued during the year we will assess the valuer's qualifications, objectivity and independence to carry out such valuations. We will test the accounting treatment for assets revalued to challenge whether the accounting treatment is appropriate and consider valuation inputs and assumptions using the approach below.</p> <p>We will also assess the risk of the valuation changing materially during the year, or between the date of valuation and the year end.</p> <p><b>Assessing methodology choice and benchmarking assumptions:</b></p> <p>We will review management's assessment of impairment indicators and assess for completeness.</p> <p>We will utilise our internal specialist to assess the methodology used including testing the underlying data inputs and assessing the assumptions used in comparison to available market information.</p> <p>We will select a representative sample of revalued assets to agree calculation inputs to supporting evidence, consider in detail the revaluation calculations and challenge the underlying assumptions.</p> <p><b>Assets not revalued in the year:</b></p> <p>We will review the approach that the Council has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach, including any indicators of impairment.</p> |

# Significant risks (continued)

| Significant audit risk                                       |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|--------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>The risk</b></p> <p>Retirement benefit obligations</p> | <p><b>Why</b></p> <p>The net pension liability (£118.5 million as at 31 March 2019, including assets of £787 million) represents a material element of the Council's Balance Sheet. The Council is an admitted body of Tayside Pension Fund, which has its next triennial valuation due 31 March 2020. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council's overall valuation.</p> <p>There are financial assumptions and demographic assumptions used in the calculation of the Council's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Council's employees, and should be based on appropriate data. The basis of the assumptions should be derived on a consistent basis year to year, or updated to reflect any changes.</p> <p>There is a risk that the assumptions and methodology used in the valuation of the Council's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.</p> | <p><b>Audit approach</b></p> <p>Our planned audit approach includes:</p> <p><b>Control design:</b></p> <p>Testing the design and operating effectiveness of controls over the provision of membership information to the actuary who uses it, together with management's review of assumptions, to calculate the pension obligation.</p> <p><b>Benchmarking assumptions:</b></p> <p>Challenging, with the support of our own actuarial specialists, the key assumptions applied, being: the discount rate; inflation rate; and mortality/life expectancy against externally derived data.</p> <p>Challenging the rate of increase in pensionable salaries assumption, by comparing it to other evidence such as business and transformation plans and our understanding of Government and staff expectations.</p> <p><b>Assessing transparency:</b></p> <p>Considering the adequacy of the disclosures in respect of the sensitivity of the deficit to these assumptions.</p> <p>Assessing if the disclosures within the financial statements are in accordance with the 2019-20 Code's requirements.</p> |

# Significant risks (continued)

| Significant audit risk                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                             |
|--------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>The risk</b></p> <p>Retirement benefit obligations (continued)</p> | <p><b>Why</b></p> <p><b>Guaranteed minimum pensions (“GMP”) equalisation</b></p> <p>Following a UK High Court judgement on 26 October 2018, the Government published the outcome to its Indexation and equalisation of GMP in public service pension schemes consultation, concluding that the requirement for public service pension schemes to fully price protect the GMP element of individuals’ public service pension would be extended to those individuals reaching State Pension Age (“SPA”) before 6 April 2021.</p> | <p><b>Audit approach</b></p> <p>We will discuss with management any updates regarding this matter, and how these will impact the audit.</p> |



# Other focus area

| Other focus area                             | <b>Why</b> <p>The Council has a revised ten year £633 million net capital plan, which includes the Cross Tay Link Road, A9/A85 road junction improvement project and Perth City Hall upgrade. The expected net expenditure in 2019-20 is £68.2 million based on the most recent revised budget approved in November 2019.</p> <p>Due to the significance of this capital investment programme and complexity of some of the projects, we consider there to be a risk of misstatement. This is in respect of ensuring that the classification of costs between operating and capital expenditure is appropriate and in respect of capturing all relevant costs and contributions.</p> <p>We also consider that any large capital project inherently brings a fraud risk to an entity, which we consider appropriate for the Council.</p> | <b>Audit approach</b> <p>Our audit approach includes:</p> <p><b>Control design:</b></p> <ul style="list-style-type: none"><li>– Testing the design and operating effectiveness of controls in respect of the review of costs allocated to capital and income projects.</li></ul> <p><b>Control re-performance:</b></p> <ul style="list-style-type: none"><li>– Comparing the total capital expenditure reported in the financial statements with that reported in reports to those charged with governance.</li></ul> <p><b>Tests of detail:</b></p> <ul style="list-style-type: none"><li>– Use of substantive sampling methods to evaluate the appropriateness of capital or income accounting classification by reference to supporting documentation.</li><li>– Assessing a sample of items allocated to income or expenditure to determine whether they are correctly classified.</li></ul> |
|----------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>The focus area</b><br>Capital expenditure |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |

# Other matters

## Accounting framework update

The Code of Practice on Local Authority Accounting in the United Kingdom is revised each year, incorporating selected changes to the underlying IFRSs, and key accounting changes include:

- Updates to reflect 2018 IASB Conceptual Framework and provides details of improvements and updates;
- Guidance on the Code's adoption of the amendments to IFRS 9 Financial Instruments relating to prepayment features with negative compensation;
- Updates to reflect the Code clarifications relating to contracts with lender option borrower option clauses;
- New guidance on the group accounts scope clarification for the disclosure requirements with respect to interests in entities within the scope of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (introduced by the Annual Improvements to IFRSs 2014 to 2016 Cycle);
- Explanation of the Code approach to drafting amendments;
- Removal of references to Carbon Reduction Commitment Scheme following the Scheme closure;
- A new section has been added on the accounting treatment for the apprenticeship levy; and
- Updates for the new voluntary transfers presentation (for Scottish local authorities only) in the movement in reserves statement and expenditure and funding analysis. This includes the treatment within the reserves.

From 2020-21, IFRS 16 Leases will supersede IAS 17 Leases. IFRS 16 introduces a single lessee accounting model. The Council will be more likely to account for operating leases in a similar way to the current IAS 17 treatment for finance leases. A significant volume of leases which are currently accounted for as operating leases will become financial leases and will be recognised within the Council's Balance Sheet.

These changes are significant, and where the 2019-20 balances will form the comparatives in future accounts, we will consider the Council's arrangements for complying with the forthcoming changes.

## Revision to the Going Concern Standard

In September 2019 the FRC published a revised UK auditing standard for Going Concern ISA UK 570. This responds to recent enforcement cases and well-publicised corporate failures where the most recent auditor's report had not included a material uncertainty on going concern. The revised standard is applicable for periods commencing on or after 15 December 2019, including short periods.

Given the funding, nature and legislation in respect of the Council, we do not anticipate significant changes to the approach of management regarding going concern.

## Controls testing

In respect of the financial statements, we identify the constituent account balances and significant classes of transactions and focus our work on identified risks. Determining the most effective balance of internal controls and substantive audit testing enables us to ensure the audit process runs smoothly and with the minimum disruption to the Council's finance team.

In 2018-19 we identified two recommendations in relation to the control environment, and two relating to financial statement audit findings. We will follow-up progress in implementing these recommendations and report any new recommendations arising from our work and report our view of progress. **Appendix three** details our approach across each phase of the audit.



# Other matters (continued)

## Internal audit

ISA 610 *Considering the work of internal audit* requires us to:

- consider the activities of internal audit and any impact on our audit;
- obtain an understanding of internal audit activities to assist in planning the audit and developing an effective audit approach;
- perform a preliminary assessment of the internal audit function when it appears that internal audit is relevant to our audit of the financial statements in specific audit areas; and
- evaluate and test the work of internal audit, where use is made of that work, in order to confirm its adequacy for our purposes.

We will continue liaising with internal audit and update our understanding of its approach and conclusions where relevant. The general programme of work will be reviewed for significant issues to support our work in assessing the statement of internal control.

## Group audit considerations

**Appendix six** sets out our understanding of the Group structure and nature of each associated entity.

Perth and Kinross Council, Tactran and the IJB are audited by the same audit team within KPMG. Both the Council and the IJB are consolidated into the group accounts. Tactran is not consolidated on the grounds of materiality.

Perth and Kinross Council Charitable Funds are also audited by KPMG from the same office. Michael Wlikie will be the engagement leader in their respect. We do not intend to issue group instructions in respect of the Charitable Funds.

We reviewed the remaining components within the group structure, and did not deem any other component significant. We therefore do not intend to issue group audit instructions to any component.

We also consider that the Council is responsible for approximately 97% of the group's activities, for which we are responsible for providing an opinion.

# Wider scope and Best Value

## Approach

We are required to assess and provide conclusions in the Annual Audit Report in respect of four wider scope dimensions: financial sustainability; financial management; governance and transparency; and value for money. We set out below an overview of our approach to wider scope and Best Value requirements of our annual audit. We provide on pages 18 - 22 our risk assessment in respect of these areas. We will provide narrative on these and other areas in the Annual Audit Report where relevant.

### Risk assessment

We consider the relevance and significance of the potential business risks faced by local authorities, and other risks that apply specifically to the Council. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the *Code of Audit Practice*.

In doing so we consider:

- The Council's own assessment of the risks it faces, and its arrangements to manage and address its risks.
- Evidence gained from previous audit work, including the response to that work.
- The work of other inspectorates and review agencies, through the Local Area Network ("LAN") which is established for each council.
- Discussion with Audit Scotland and the LAN over the scope of the BVAR on Perth and Kinross Council.

The LAN brings together local scrutiny representatives in a systematic way to agree a shared risk assessment. Michael Wilkie from KPMG is the LAN lead for the shared risk assessment process for the Council. For 2019-20 there is no additional scrutiny required by external audit.

The shared risk assessment process across Scotland has changed for 2020-21 and no local scrutiny plans are prepared. We use the shared risk assessment process to consider if there are wider scope risks relevant to the Annual Audit Report.

### Linkages with other audit work

There is a degree of overlap between the work we do as part of the wider scope and Best Value audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Council's organisational control environment, many aspects of which are relevant to our wider scope and Best Value audit responsibilities.

We have always sought to avoid duplication of audit effort by integrating our financial statements and wider scope and Best Value work, and this will continue. We consider information gathered through the shared risk assessment and the Audit Commission's five strategic priorities when planning and conducting our work.

# Wider scope and Best Value (continued)

## Approach (continued)

### Identification of significant risks

The Code identifies a matter as significant 'if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.'

If we identify significant wider scope and Best Value risks, we will highlight the risk to the Council and consider the most appropriate audit response in each case, including:

Considering the results of work by the Council, inspectorates and other review agencies.

Carrying out local risk-based work to form a view on the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

### Concluding on wider scope and Best Value

At the conclusion of the wider scope and Best Value audit we will consider the results of the work undertaken and assess the assurance obtained against each of the wider scope audit dimensions and Best Value, regarding the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources.

If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our wider scope and Best Value conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.

### Reporting

We have completed our initial wider scope and Best Value risk assessment and have not identified any significant risks. We will update our assessment throughout the year and should any issues present themselves we will report them in our Annual Audit Report.

We will report on the results of the wider scope and Best Value audit through our Annual Audit Report. This will summarise any specific matters arising, and the basis for our overall conclusion.

# Wider scope and Best Value (continued)

## Risk assessment (continued)

| Wider scope area         | Why                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Audit approach                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|--------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Financial sustainability | <p><b>Financial sustainability</b> looks forward to the medium and longer term to consider whether the Council is planning effectively to continue to deliver its services or the way in which they should be delivered.</p> <p><b>Specific identified focus area:</b></p> <p><b><i>Demand pressures</i></b></p> <p>The Council faces growing demand pressures, both from the increasing elderly population and increasing number of young people living in Perth and Kinross. Each subset brings unique challenges to services, for healthcare, social care and education.</p> <p>This comes at a time when the workforce is decreasing, which adds pressure to ongoing workforce planning. There are a number of “hard to fill” posts for teachers in rural areas and social care workers, which add to the pressure on the growing demand for service provision.</p> <p>We consider there to be a resultant risk to the sustainability of delivering services with increasing demand and a decreasing workforce.</p> | <ul style="list-style-type: none"><li>– We will consider the Council’s long term financial plans and its ability to adapt to the changing landscape in local government funding. This will involve consideration of the 2020-21 budget and longer term financial plans from 2021-22 and beyond.</li><li>– We will monitor the Council’s key performance indicators and performance reporting, to identify any movements requiring further investigation. We will consider any overspends against budget where demand has caused a significant strain on funding, as well as underspends against budget due to staff slippages where roles have been hard to fill.</li></ul> |

# Wider scope and Best Value (continued)

## Risk assessment (continued)

| Wider scope area     | <b>Why</b> <p>Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p> <b>Specific identified focus area:</b><br><b><i>Medium and long term planning</i></b> <p>The Council has historically considered the medium-term financial plan in October for the proceeding five financial years. The uncertainty generated by Brexit and the General Election will result in the MTFP being presented as part of the Council's budget in late February.</p> <p>Owing to the wide range in the estimated savings requirements identified in the previous year's MTFP, we consider this to be continue to be an area of focus.</p> <b><i>Transformation programme</i></b> <p>The Council has an ambitious five year transformation programme from 2015-20. The programme provides a framework for innovation, creativity, flexibility and greater entrepreneurship to meet future challenges.</p> <p>The transformation programme supports identifying savings through redesigning service delivery to maximise efficiencies and support change</p> <p>We consider there to be a risk around delivering the level of planned savings over the next five years, and what impact this may have on service delivery.</p> | <b>Audit approach</b> <ul style="list-style-type: none"><li>— We will consider how the Council's transformation programme is progressing and any potential impact on financial and service planning.</li><li>— We will review the financial results to 31 March 2020 compared to budget to consider if there are indications that savings are not being delivered as planned.</li><li>— We will consider the Council's approach to setting a balanced budget for 2020-21, and considering implications and delivery of the budget in our Annual Audit Report.</li></ul> |
|----------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Financial management |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |

# Wider scope and Best Value (continued)

## Risk assessment (continued)

| Wider scope area                    | Why                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Audit approach                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|-------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Financial management<br>(continued) | <p><b>Specific identified focus area (continued):</b></p> <p>Audit Scotland planning guidance requires us to consider the following matters which are potential risks to all Public Sector bodies.</p> <p><b>EU withdrawal</b></p> <p>The Bill covering the UK's withdrawal from the European Union was passed in January 2020, effective 31 January 2020. There is now a transition period in place until 31 December 2020 which will require management to consider the impact on Council operations.</p> <p><b>Partnership working and empowering communities</b></p> <p>As part of our year four Best Value work, we will consider Partnership working and empowering communities.</p> | <ul style="list-style-type: none"><li>— We will consider how the Council reports its funding arrangements, responsibilities and performance through the audit of its management commentary and financial statements.</li><li>— We will remain alert to the impact of the EU withdrawal on the Council's operations and the environment within which it operates as part of our risk assessment procedures and wider scope responsibilities.</li><li>— We will consider the appropriateness of management's risk assessment and planning for both matters with reference to guidance provided by Audit Scotland.</li><li>— We will consider how the Council works with other bodies and local communities to effectively manage its finances.</li></ul> |

# Wider scope and Best Value (continued)

## Risk assessment (continued)

| Wider scope area            | Why                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Audit approach                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|-----------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Governance and transparency | <p><b>Governance and transparency</b> is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p> <p><b>Specific identified focus area:</b></p> <p>Audit Scotland planning guidance requires us to consider the following matters which are potential risks to all Public Sector bodies.</p> <p><b><i>Fraud and corruption in procurement</i></b></p> <p>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.</p> | <ul style="list-style-type: none"><li>– We will consider the effectiveness of scrutiny and governance arrangements, by evaluating the challenge and transparency of the reporting of financial and performance information.</li><li>– We will update our understanding of the controls and processes around capturing officers' and members' interests.</li><li>– We will obtain and review minutes of meetings of the various committees to assess the level of transparency, and consider the Council's plan for enhancing transparency.</li><li>– We 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.</li><li>– We will assess whether there are controls around the procurement process, including segregation of duties, and if these are adequate, followed and enforced.</li><li>– We will 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.</li><li>– Ensure that internal audit coverage of procurement systems is adequate and proportionate to the risks faced by the body.</li></ul> |



# Wider scope and Best Value (continued)

## Risk assessment (continued)

| Wider scope area | Why                                                                                                                                                                                                                                                                                     | Audit approach                                                                                                                                                                                                                                             |
|------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Value for money  | <p><b>Value for money</b> is concerned with how effectively resources are used to provide services.</p> <p><b>Specific identified focus area:</b></p> <p><b>Performance and outcomes</b></p> <p>As part of our year four Best value work, we will consider Performance and outcomes</p> | <ul style="list-style-type: none"><li>— We will specifically consider statutory performance indicators, performance reporting and arrangements to provide for continuous improvement in respect of the Performance and outcomes audit programme.</li></ul> |



# Appendices

# Mandated communications with the Audit Committee

| Matters to be communicated                                                                                                                                                                                                                  | Link to Audit Committee papers                                                                                                                                                                                                                                       |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Independence and our quality procedures ISA 260.                                                                                                                                                                                            | <b>Page 25</b>                                                                                                                                                                                                                                                       |
| The general approach and overall scope of the audit, including levels of materiality, fraud and engagement letter ISA 260.                                                                                                                  | Main body of this paper.                                                                                                                                                                                                                                             |
| Disagreement with management about matters that, individually or in aggregate, could be significant to the entity's financial statements or the auditor's report, and their resolution (AU 380).                                            | In the event of such matters of significance we would expect to communicate with the Audit Committee throughout the year.<br><br>Formal reporting will be included in our ISA 260 report for the Audit Committee meeting, which focuses on the financial statements. |
| Significant difficulties we encountered during the audit.                                                                                                                                                                                   |                                                                                                                                                                                                                                                                      |
| Significant matters discussed, or subject to correspondence, with management (ISA 260).                                                                                                                                                     |                                                                                                                                                                                                                                                                      |
| Our views about the qualitative aspects of the entity's accounting and financial reporting.                                                                                                                                                 |                                                                                                                                                                                                                                                                      |
| The potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements (ISA 260 and ISA 540).                                      |                                                                                                                                                                                                                                                                      |
| Audit adjustments, whether or not recorded by the entity, that have, or could have, a material effect on its financial statements. We will request you to correct uncorrected misstatements (including disclosure misstatements) (ISA 450). |                                                                                                                                                                                                                                                                      |
| The selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the entity's financial statements (ISA 570).                                                                  |                                                                                                                                                                                                                                                                      |
| Material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern (ISA 570).                                                                                   |                                                                                                                                                                                                                                                                      |
| Expected modifications to the auditor's report (ISA 705).                                                                                                                                                                                   |                                                                                                                                                                                                                                                                      |
| Related party transactions that are not appropriately disclosed (ISA 550).                                                                                                                                                                  |                                                                                                                                                                                                                                                                      |

## Appendix two

# Confirmation of independence

### Assessment of our objectivity and independence as auditor of the Perth and Kinross Council ("the Council")

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed. This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

### General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings.

Our ethics and independence policies and procedures are fully consistent with the requirements of the APB Ethical Standards. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability

- Internal accountability
- Risk management
- Independent reviews

We are satisfied that our general procedures support our independence and objectivity.

### Independence and objectivity considerations relating to the provision of non-audit services

We have considered the fees charged by us to the council and its affiliates for professional services provided by us during the reporting period.

### Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit Committee.

### Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

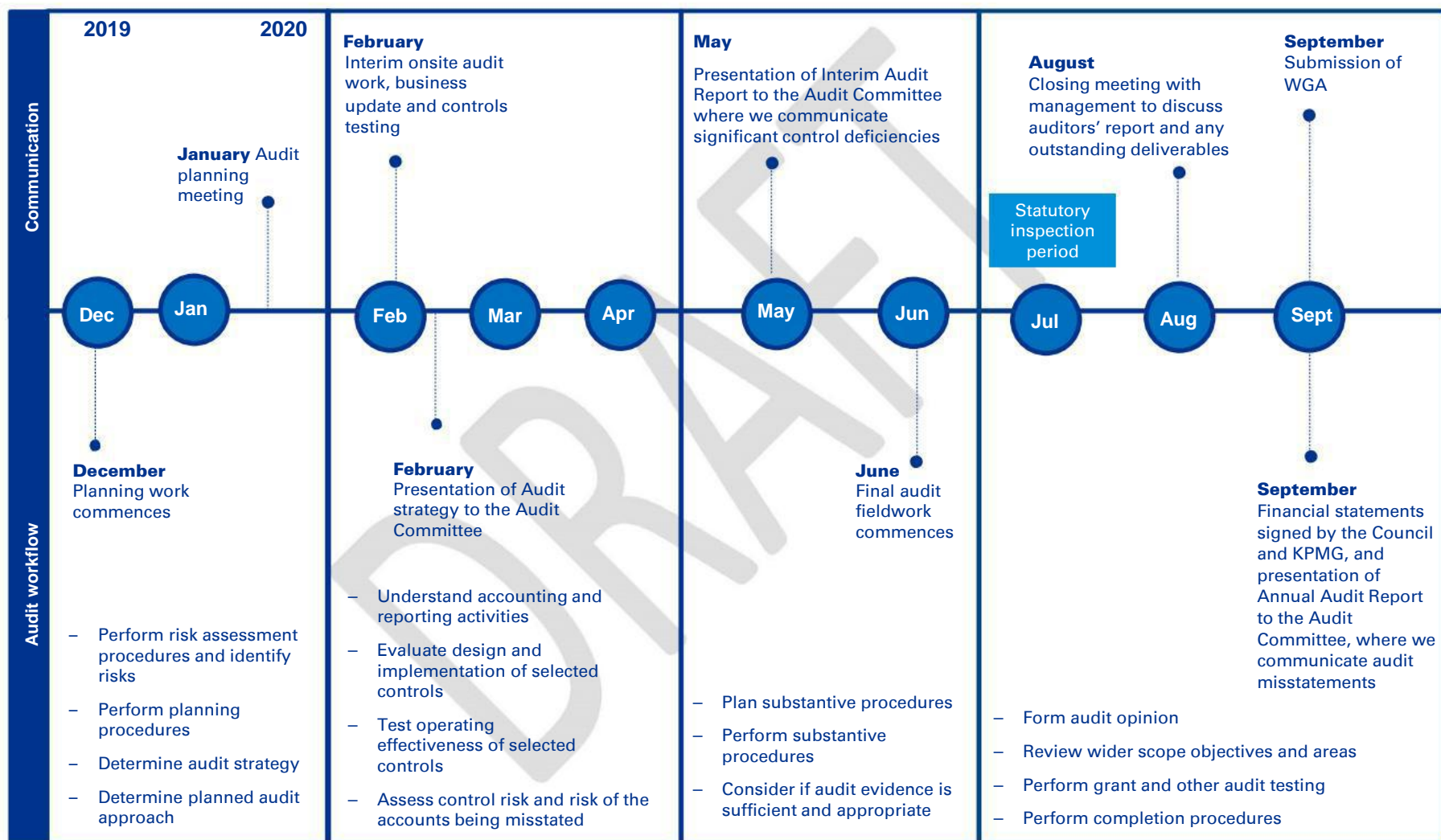
Yours faithfully

KPMG LLP



## Appendix three

# Timeline



# Audit outputs

| Output                                | Description                                                                                                                                                                  | Report date                                                                                                   |
|---------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|
| <b>Audit strategy</b>                 | Our strategy for the external audit of the Council and its group, including significant risk and audit focus areas.                                                          | By 5 February 2020                                                                                            |
| <b>Interim audit report</b>           | We summarise our findings from our interim audit work.                                                                                                                       | By 31 May 2020                                                                                                |
| <b>Independent auditor's report</b>   | Our opinion on the Council's financial statements.                                                                                                                           | By 30 September 2020                                                                                          |
| <b>Annual audit report</b>            | We summarise our findings from our work during the year.                                                                                                                     | By 1 October 2020                                                                                             |
| <b>NFI report</b>                     | We report on the Council's actions to investigate and follow-up NFI matches.                                                                                                 | By 28 February 2020                                                                                           |
| <b>Whole of Government Accounts</b>   | We report on the pack prepared for consolidation and preparation of the Whole of Government Accounts.                                                                        | By 28 September 2020                                                                                          |
| <b>Audit reports on other returns</b> | We will report on the following returns: <ul style="list-style-type: none"> <li>– Current issues return.</li> <li>– Technical database.</li> <li>– Fraud returns.</li> </ul> | January, March, July and October 2020<br>May and August 2020<br>December 2019, February, May, and August 2020 |
| <b>Grant claim audits</b>             | We provide an opinion on: <ul style="list-style-type: none"> <li>– Education maintenance allowance, housing benefit, and non-domestic rates.</li> </ul>                      | To submit by:<br>July 2020, November 2020 and August 2020                                                     |

## Appendix five

# Fees

Audit Scotland has completed a review of funding and fee setting arrangements for 2019-20. An expected fee is calculated by Audit Scotland to each entity within its remit. This expected fee is made up of four elements:

- Auditor remuneration
- Pooled costs
- Contribution to Audit Scotland's Performance Audit and Best Value ("PABV") team
- Contribution to Audit Scotland costs

The expected fee for each body assumes that it has sound governance arrangements in place and operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for the audit.

We are in discussions with management regarding the auditor remuneration for 2019-20. Should we be required to undertake significant additional audit work in respect of any of the areas of audit focus or other matters arise, we will discuss with management the impact of this on our proposed fee.

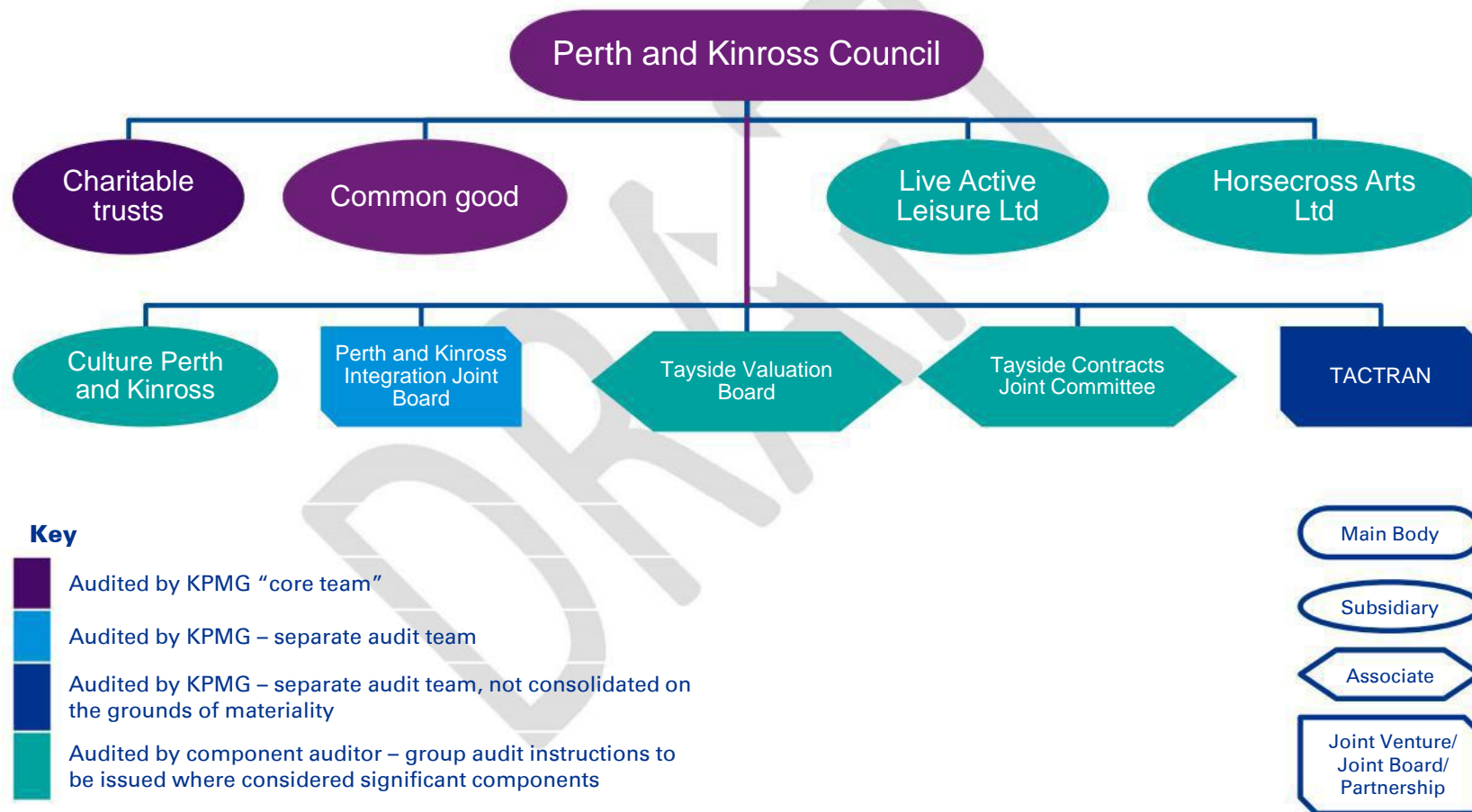
As part of our discussion with management, we highlighted the additional audit work to be carried out in relation to IFRS 16 and the Best value recommendations follow up. We will discuss any proposed changes to the fee when we plan to carry out our work.

| 2019-20 £ (incl. VAT)                                      |                |
|------------------------------------------------------------|----------------|
| <b>Auditor remuneration</b>                                | 167,700        |
| <b>Pooled costs</b>                                        | 16,210         |
| <b>Contribution to PABV</b>                                | 86,660         |
| <b>Contribution to Audit Scotland costs</b>                | 10,020         |
| <b>Total Council audit fee</b>                             | 280,590        |
| <b>Audit of Perth and Kinross Council Charitable Funds</b> | 3,500          |
| <b>Total fee</b>                                           | <b>284,090</b> |

## Appendix six

# Group financial statements

The below diagram sets out our scoping of group entities in relation to the group financial statements, and related group audit instructions:



# Responsibility in relation to fraud

We are required to consider fraud and the impact that this has on our audit approach. We will update our risk assessment throughout the audit process and adapt our approach accordingly.

| Management responsibilities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | KPMG's identification of fraud risk factors                                                                                                                                                                                                                                                                                                                                                               | KPMG's response to identified fraud risk factors                                                                                                                                                                                                                                                                                                                                               | KPMG's response to identified fraud risk factors                                                                                                                                                                                                                                                                                                                                                                                    |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>– Adopt sound accounting policies, with oversight from those charged with governance, establish and maintain internal control, including controls to prevent, deter and detect fraud;</li> <li>– Establish proper tone, culture and ethics;</li> <li>– Require periodic confirmation by employees of their responsibilities;</li> <li>– Take appropriate action in response to actual, suspected or alleged fraud;</li> <li>– Disclosure to audit committee and auditors;</li> <li>– Any significant deficiencies in internal control; and</li> <li>– Any fraud involving those with a significant role in internal controls.</li> </ul> | <ul style="list-style-type: none"> <li>– Review of accounting policies;</li> <li>– Results of analytical procedures;</li> <li>– Procedures to identify fraud risk factors;</li> <li>– Discussion amongst engagement personnel;</li> <li>– Enquiries of management, to audit committee and others; and</li> <li>– Evaluate broad programmes and controls that prevent, deter, and detect fraud.</li> </ul> | <ul style="list-style-type: none"> <li>– Accounting policy assessment;</li> <li>– Evaluate design of mitigating controls;</li> <li>– Test effectiveness of controls;</li> <li>– Address management override of controls;</li> <li>– Perform substantive audit procedures;</li> <li>– Evaluate all audit evidence; and</li> <li>– Communicate to the audit committee and management.</li> </ul> | <ul style="list-style-type: none"> <li>– Whilst we consider the risk of fraud at the financial statement level to be low for the Council, we will monitor the following areas throughout the year and adapt our audit approach accordingly:</li> <li>– Income recognition;</li> <li>– Cash;</li> <li>– Procurement;</li> <li>– Management control override; and</li> <li>– Assessment of the impact of identified fraud.</li> </ul> |



# Audit Scotland code of audit practice – responsibility of auditors and management

## Responsibilities of management

### Financial Statements

Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for:

- preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation;
- maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support their financial statements and related reports disclosures;
- ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate Council;
- maintaining proper accounting records; and
- preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also clearly address the longer- term financial sustainability of the body.

Further, it is the responsibility of management of an audited body, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.

Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.

Audited bodies are responsible for providing the auditor with access to all information relevant to the preparation of the financial statements, additional information requested and unrestricted access to persons within the entity.

# Audit Scotland code of audit practice – responsibility of auditors and management (continued)

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Responsibilities of management</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>Prevention and detection of fraud and irregularities</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.                                                                                                                                                                                                                                                                                                                                                                                      |
| <b>Corporate governance arrangements</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Each body, through its chief executive or accountable officer, is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies should involve those charged with governance (including Audit Committees or equivalent) in monitoring these arrangements.                                                                                                                                                                                                                                                        |
| <b>Financial position</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <p>Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> <li>– such financial monitoring and reporting arrangements as may be specified;</li> <li>– compliance with any statutory financial requirements and achievement of financial targets;</li> <li>– balances and reserves, including strategies about levels and their future use;</li> <li>– how they plan to deal with uncertainty in the medium and longer term; and</li> <li>– the impact of planned future policies and foreseeable developments on their financial position.</li> </ul> |
| <b>Best Value, use of resources and performance</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| The Scottish Public Finance Manual sets out that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specific responsibility to ensure that arrangements have been made to secure best value.                                                                                                                                                                                                                                                                                                                                                                                                                                    |

# Audit Scotland code of audit practice – responsibility of auditors and management (continued)

## Responsibilities of auditors

### Appointed auditor responsibilities

Auditor responsibilities are derived from statute, this Code, ISAs, professional requirements and best practice and cover their responsibilities when auditing financial statements and when discharging their wider scope responsibilities. These are to:

- undertake statutory duties, and comply with professional engagement and ethical standards;
- provide an opinion on audited bodies' financial statements and, where appropriate, the regularity of transactions;
- review and report on, as appropriate, other information such as annual governance statements, management commentaries, remuneration reports, grant claims and whole of government returns;
- notify the Auditor General when circumstances indicate that a statutory report may be required;
- participate in arrangements to cooperate and coordinate with other scrutiny bodies (local government sector only);
- demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies:
  - effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets;
  - suitability and effectiveness of corporate governance arrangements; and
  - financial position and arrangements for securing financial sustainability.

Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work in accordance with the Code, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

This report communicates how we plan to identify, assess and obtain sufficient appropriate evidence regarding the risks of material misstatement of the financial statements due to fraud and to implement appropriate responses to fraud or suspected fraud identified during the audit.

# Audit Scotland code of audit practice – responsibility of auditors and management (continued)

| <b>Responsibilities of auditors</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>General principles</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
| This Code is designed such that adherence to it will result in an audit that exhibits these principles.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <b>Independent</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <p>When undertaking audit work all auditors should be, and should be seen to be, independent. This means auditors should be objective, impartial and comply fully with the FRC ethical standards and any relevant professional or statutory guidance. Auditors will report in public and make recommendations on what they find without being influenced by fear or favour.</p> <p>Our independence confirmation letter (<b>Appendix two</b>) discloses matters relating to our independence and objectivity including any relationships that may bear on the firm's independence and the integrity and objectivity of the audit engagement partner and audit staff.</p> <p>We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the Director and audit staff is not impaired.</p> |
| <b>Proportionate and risk based</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Audit work should be proportionate and risk based. Auditors need to exercise professional scepticism and demonstrate that they understand the environment in which public policy and services operate. Work undertaken should be tailored to the circumstances of the audit and the audit risks identified. Audit findings and judgements made must be supported by appropriate levels of evidence and explanations. Auditors will draw on public bodies' self-assessment and self - evaluation evidence when assessing and identifying audit risk.                                                                                                                                                                                                                                                                                                                                              |
| <b>Quality focused</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Auditors should ensure that audits are conducted in a manner that will demonstrate that the relevant ethical and professional standards are complied with and that there are appropriate quality-control arrangements in place as required by statute and professional standards.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |

# Audit Scotland code of audit practice – responsibility of auditors and management (continued)

| <b>Responsibilities of auditors</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Coordinated and integrated</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| It is important that auditors coordinate their work with internal audit, Audit Scotland, other external auditors and relevant scrutiny bodies to recognise the increasing integration of service delivery and partnership working within the public sector. This would help secure value for money by removing unnecessary duplication and also provide a clear programme of scrutiny activity for audited bodies.                                                                                                                                                                  |
| <b>Public focussed</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| The work undertaken by external audit is carried out for the public, including their elected representatives, and in its interest. The use of public money means that public audit must be planned and undertaken from a wider perspective than in the private sector and include aspects of public stewardship and best value. It will also recognise that public bodies may operate and deliver services through partnerships, arm's-length external organisations (ALEOs) or other forms of joint working with other public, private or third sector bodies.                     |
| <b>Transparent</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Auditors, when planning and reporting their work, should be clear about what, why and how they audit. To support transparency the main audit outputs should be of relevance to the public and focus on the significant issues arising from the audit.                                                                                                                                                                                                                                                                                                                               |
| <b>Adds value</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| It is important that auditors recognise the implications of their audit work, including their wider scope responsibilities, and that they clearly demonstrate that they add value or have an impact in the work that they do. This means that public audit should provide clear judgements and conclusions on how well the audited body has discharged its responsibilities and how well they have demonstrated the effectiveness of their arrangements. Auditors should make appropriate and proportionate recommendations for improvement where significant risks are identified. |



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# **PERTH AND KINROSS COUNCIL**

## **Audit Committee**

**5 February 2020**

### **INTERNAL AUDIT FOLLOW UP**

#### **Report by Chief Internal Auditor (Report No. 20/36)**

#### **PURPOSE OF REPORT**

This report presents a current summary of Internal Audit's 'follow up' work relating to actions due for completion in September to November 2019.

#### **1. BACKGROUND AND MAIN ISSUES**

- 1.1 The Public Sector Internal Audit Standards (PSIAS) require the Chief Internal Auditor to establish a follow-up process to monitor and ensure that management actions have been effectively implemented. Internal Audit request evidence from Services which confirms that actions have been implemented and, therefore, controls have been improved.
- 1.2 There were 50 actions arising from Internal Audit reports. Of these, 18 had a completion date of September to November 2019. 14 of these actions have been completed and details of the 4 actions which have yet to be completed are included within Appendix 1.

#### **2. PROPOSALS**

- 2.1 It is recommended that the Committee seeks assurance that there are clear and achievable action plans for completing the agreed actions noted above.

#### **3 CONCLUSION AND RECOMMENDATIONS**

- 3.1 The Audit Committee is asked to consider the most appropriate action to be taken to progress the agreed Action Plans.
- 3.2 It is recommended that the Audit Committee:
  - (i) Note the current position in respect of the agreed actions arising from internal audit work; and
  - (ii) Consider the most appropriate action to be taken to progress the agreed action plans, taking into account the recorded audit opinions.

**Author**

| <b>Name</b>  | <b>Designation</b>     | <b>Contact Details</b>                                                 |
|--------------|------------------------|------------------------------------------------------------------------|
| Jackie Clark | Chief Internal Auditor | <a href="mailto:InternalAudit@pkc.gov.uk">InternalAudit@pkc.gov.uk</a> |

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## 1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

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

### 1. Strategic Implications

#### 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 There is a risk to the strength of the control environment if the agreed action plans are not carried out in a timely manner.

### **3. Consultation**

#### Internal

- 3.1 The Depute Chief Executive and the Executive Directors 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 – Actions with a completion date up to November 2019 which have yet to be completed

## Appendix 1

Actions with a completion date up to November 2019 which have yet to be completed

| Finding                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Action                                                                                                                                                                                                                                                                                                                                                                    | Action owner & Service                         | Date(s)                                      | Current status                                                                                                                                                                                                                                                                                                                                                                           | Internal Audit Opinion |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------|----------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|
| <a href="#">16-22 - Roads Maintenance Partnership</a><br>Action Point : 7b - Road Maintenance Partnership Agreement<br>Importance: Medium<br>Audit Committee Date:<br><br>An Enterprise and Infrastructure Committee (EIC) report of 21 January 2015 reported that the initial Road Maintenance Partnership (RMP) agreement was for a three year period expiring 31 March 2015. The relevant minutes contain a resolution for an extension for a further year and also that the agreement be subject to an ongoing review to ensure it continues to be fit for purpose. The agreement also seeks to develop systems and procedures that ensure compliance with BS EN ISO | Once the above RMP plan has been clarified the Deputy Manager, RMP will review and update the "Obtaining Best Value in Works Contracts" procedure taking cognisance of agreed way forward in providing the service. Any reference to BS EN ISO 9001/9002 and/or the quality principles will be dependent on the outcome of the review by the collaborative working group. | S D'All, Roads Maintenance Partnership Manager | Apr 2018<br>Jan 2019<br>Nov 2019<br>Nov 2020 | A report on the Roads Maintenance Partnership Agreement was submitted to the Environment & Infrastructure Committee in May 2019 (Report <a href="#">19/134</a> and <a href="#">Appendix</a> refer). Progress has yet to be made on updating the Obtaining Best Value in Works Contracts document due to resourcing issues, however this has now been scheduled for completion next year. | Accepted.              |

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                  |                                                                              |                                             |                                                                                                                                |                 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------|---------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------|-----------------|
| <p>9001/9002. At the date of audit testing no update report had been presented to the EIC and the partnership agreement had expired.</p> <p>The partnering arrangements are supported by the “Obtaining Best Value in Works Contracts” procedures that do not refer to BS EN ISO 9001/9002. The procedures are also in need of review as the document is dated 2005 and stipulate a review period of 12 months and the approval section states “await SMT authorisation”.</p> |                                                                                                                                                                                                                  |                                                                              |                                             |                                                                                                                                |                 |
| <p><a href="#">16-23 - Personalisation</a><br/> Action Point : 1.2 – Self Directed Support (SDS)<br/> Strategy/Policy &amp; Evaluation<br/> Importance: High<br/> Audit Committee Date: April 2017</p> <p>Statutory Guidance refers throughout to Local Authority strategy/policy for the implementation of SDS. This strategy/policy should address matters such as eligibility, allocation of resources and</p>                                                             | <p>Following receipt of the guidance from the Scottish Government, the outcomes from the above will be used to inform the Council-wide strategy, which will then be considered at the appropriate Committee.</p> | <p>S Cooper,<br/> Service Manager,<br/> Children &amp; Families Services</p> | <p>Oct 2018<br/> Nov 2019<br/> May 2020</p> | <p>The Implementation Plan has been prepared and is awaiting presentation for approval to the Lifelong Learning Committee.</p> | <p>Accepted</p> |

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |  |  |  |  |  |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--|--|--|--|
| <p>integration with any other relevant plans.</p> <p>Whilst the Service is aware of current arrangements and plans for the delivery and monitoring of SDS, these have yet to be formalised in a strategic document and presented for approval at an appropriate level. The Service stated that further guidance is anticipated from the Scottish Government which will assist in the development of a Council-wide strategy along with colleagues from Housing &amp; Community Safety.</p> <p>In line with recommendations from an Audit Scotland report in 2014, the Service may benefit from completing a self-evaluation of arrangements using the appropriate matrix from either CIPFA or Audit Scotland. Outcomes from this could be used to inform, and facilitate discussion about, an appropriate documented framework and strategy.</p> |  |  |  |  |  |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--|--|--|--|

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |                                                                                                                                                                                                                                                                                                                                                           |                                                                                     |                                             |                                                                                                                                                                                                                                                                                                                                   |                     |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|---------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|
| <p><a href="#"><u>17-03 - Capital Programme</u></a><br/> Action Point : 5 - Evaluation<br/> Importance: Low<br/> Audit Committee Date: June 2017</p> <p>Lessons learned and benefits realisation is defined as part of the project journey within the project management toolkit. In addition, one of the reportable key milestones is in respect of completing lessons learned documentation and audit has observed examples of paperwork in regards to this. The Service recognise, however, that further work is required to ensure that information from these is communicated at the appropriate level to inform best practice, measure the benefits of capital expenditure and link evaluation information to initial stages of future programmes.</p> | <p>The Capital Programme Office will continue to develop systems in regards to evaluation. This will include documenting a template benefits realisation report, agreeing a process and format for reporting and follow up of evaluation outcomes at the appropriate levels and building systems to link this to initial stages of future programmes.</p> | <p>N Ballantine,<br/> Capital Programme Manager,<br/> Housing &amp; Environment</p> | <p>Dec 2018<br/> Oct 2019<br/> Apr 2020</p> | <p>Arrangements for the evaluation of the Capital Programme has been subsumed within a broader piece of work in connection with the Strategic Improvement and Investment Board (SIIB). The SIIB has drafted a discussion paper covering these areas and the broader approach, for the Executive Officer Team's consideration.</p> | <p>Accepted</p>     |
| <p><a href="#"><u>18-11 - School Estate Strategy</u></a><br/> Action Point : 5.2 - Governance Arrangements<br/> Importance: High</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | <p>The Service Asset Management Plan will be updated and reported to Lifelong Learning Committee.</p>                                                                                                                                                                                                                                                     | <p>C Taylor,<br/> Service Manager<br/> (Resource Management)</p>                    | <p>Nov 2019<br/> Mar 2020</p>               | <p>The Service Asset Management Plan is being finalised along with the School Estate Strategy. These are</p>                                                                                                                                                                                                                      | <p>Satisfactory</p> |



|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |  |  |  |                                                                           |  |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--|--|---------------------------------------------------------------------------|--|
| <p>Audit Committee Date:<br/>January 2019</p> <p>The annual Service Asset Management Plan (SAMP), incorporating the School Estate Management Plan (SEMP), is identified within the School Estate Strategy and subsequent documents as being a key component to planning for the school estate. The SAMP provides Lifelong Learning Committee (LLC) with information on the overall position of the property assets used by Education and Children's Services to deliver services, alongside setting out developments which have been achieved and outlining future plans. However, since the commencement of the transformation review in 2016, a SAMP has not been completed. LLC has only received specific reports pertaining to individual schools and has not been provided with a recurrent overview of all matters relevant to planning for the school estate.</p> |  |  |  | <p>due to be considered by Lifelong Learning Committee in March 2020.</p> |  |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--|--|---------------------------------------------------------------------------|--|



# PERTH AND KINROSS COUNCIL

## Audit Committee

5 February 2020

### INTERNAL AUDIT UPDATE

#### Report by Chief Internal Auditor (Report No. 20/37)

#### PURPOSE OF REPORT

This report presents a summary of Internal Audit's work.

#### 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 Since April 2019, Internal Audit has been contacted 23 times for advice/guidance. Internal Audit will follow up on these areas during the year, where necessary. Where control issues arise as a result of this work, Internal Audit will provide the Audit Committee with a report.
- 1.3 Internal Audit has continued to work with Council Services for the completion of the 2018/19 National Fraud Initiative exercise. This is now concluded and a separate report on the outcomes for Perth & Kinross Council is in the agenda for this Committee.
- 1.4 In addition, the Chief Internal Auditor has continued to undertake work in connection with the Integration Joint Board, including overseeing the completion of assignments from previous years' plans and the commencement of work from the current Internal Audit Plan for the Board.
- 1.5 Appendix 1 shows the areas of work which have been undertaken since the last Audit Committee.

#### 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 the assignments undertaken by Internal Audit since the last meeting of the Audit Committee.

#### Author(s)

| Name         | Designation            | Contact Details                                                          |
|--------------|------------------------|--------------------------------------------------------------------------|
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## 1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

| <b>Strategic Implications</b>                       | <b>Yes / None</b> |
|-----------------------------------------------------|-------------------|
| Community Plan / Single Outcome Agreement           | None              |
| Strategic Plan                                      | Yes               |
| <b>Resource Implications</b>                        |                   |
| Financial                                           | None              |
| Workforce                                           | None              |
| Asset Management (land, property, IST)              | None              |
| <b>Assessments</b>                                  |                   |
| Equality Impact Assessment                          | Yes               |
| Strategic Environmental Assessment                  | None              |
| Sustainability (community, economic, environmental) | None              |
| Legal and Governance                                | None              |
| Risk                                                | Yes               |
| <b>Consultation</b>                                 |                   |
| Internal                                            | Yes               |
| External                                            | None              |
| <b>Communication</b>                                |                   |
| 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 2019/20

| Audit No. | Title                                 | Service(s)                                                         | Status as at January 2020 | Audit Committee |
|-----------|---------------------------------------|--------------------------------------------------------------------|---------------------------|-----------------|
| A19-01    | ALEOs: Community Campus Income        | Corporate & Democratic Services<br>Education & Children's Services | Complete                  | November 2019   |
| A19-02    | Digital Strategy                      | Corporate & Democratic Services                                    | Complete                  | September 2019  |
| A19-03    | Early Years Ordering & Stock Controls | Education & Children's Services                                    | Complete                  | November 2019   |
| A19-04    | Transformation                        | All Services                                                       | Report in discussion      | April 2020      |
| A19-05    | LEADER                                | Housing & Environment                                              | Complete                  | February 2020   |
| A19-06    | Contracting                           | All Services                                                       | In progress               | April 2020      |
| A19-07    | Workforce Planning                    | Corporate & Democratic Services                                    | In progress               | April 2020      |
| A19-08    | Withdrawal from the European Union    | Corporate                                                          | Complete                  | February 2020   |
| A19-09    | Recycling Centre                      | Housing & Environment                                              | Complete                  | February 2020   |
| A19-10    | Cash                                  | All Services                                                       | Complete                  | February 2020   |
| A19-11    | Tay Cities Deal                       | Corporate                                                          | Being scoped              | June 2020       |
| A19-12    | ALEOs: Horsecross                     | Corporate & Democratic Services                                    | In progress               | April 2020      |
| C19-30    | Inclusion Services                    | Education & Children's Services                                    | In progress               | April 2020      |
| C19-31    | Risk Management                       | All Services                                                       | In progress               | April 2020      |
| C19-32    | IDEA                                  | All Services                                                       | In progress               | April 2020      |
| C19-33    | ALEOs: Culture Perth & Kinross        | Corporate & Democratic Services                                    | Complete                  | Not Required    |
| G19-40    | Bus Service Operators Grant           | Housing & Environment                                              | Complete                  | Not Required    |
| I19-50    | Payment of Duplicate Invoices         | Corporate & Democratic Services                                    | Complete                  | Not Required    |





## Internal Audit Report



Internal Audit Report  
Corporate Services  
EU Withdrawal  
Assignment No.19-08  
January 2020

## Final Report

(Report No. 20/38)

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

### Internal Audit

“Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”. Public Sector Internal Auditing Standards (PSIAS). The Council’s Audit Committee approved the PSIAS as the relevant standard for its Internal Audit activity.

### Background and Introduction

This audit was carried out as part of the audit plan for 2019/20, which was approved by the Audit Committee on 26<sup>th</sup> June 2019. Audit testing was carried out during November 2019.

At the time of this review, the UK and European Union [EU] had agreed a ‘flexextension’ to 31 Jan 2020 for negotiating terms of UK leaving the EU. This flexextension is the third extension following others agreed on 22 March 2019 and 11 April 2019. A pre-election period commenced on 6 November 2019 delaying decision making until the next UK government was established in December 2019. These events create areas where, although some risks and opportunities are known, there are many others where they are, as yet, unknown. Key issues for the public sector when the country leaves the EU were reported by Audit Scotland in October 2018 under themes - People; Finance; Rules and Regulations. These themes are referred to in this high-level review in addition with other key activity areas, including partnership working and resilience planning.

Known unknown areas include planned new legislation, rules and regulations, such as details within the UK Migration Policy after leaving EU. Other draft Bills associated with the UK exit from the EU relate to the type of withdrawal from the EU including the Withdrawal Agreement Bill in January 2020. Finance unknowns include replacement proposals for the EU funding received to support local economic development and the Council’s budget for the coming year 2020-21.

### Scope and Limitations

The scope of this review examines the preparedness for known factors relating to EU withdrawal. The audit review considers the Council’s plans to manage short term change resulting from both withdrawal from Europe with terms and conditions and transition date to be agreed; and also withdrawal from Europe with no agreed terms and conditions.

The scope includes the Council’s preparations for change with its partners - commercial and third sector organisations and Health and Social Care Partnership’s work with NHS Tayside.

Reference is made to the self-assessment process that has been carried out by Council staff for the key themes highlighted in the Audit Scotland guidance from 2018. Managers and Officers named for these areas were contacted and documentation reviewed, including understanding the Council’s approach to managing change.

## Control Objectives and Opinions

This section describes the purpose of the audit and summarises the results. A 'control objective' is a management objective that requires the maintenance of adequate and effective internal controls to ensure that it is achieved. Each control objective has been given a rating describing, based on the audit work done, the actual strength of the internal controls found to be in place. Areas of good or poor practice are described where appropriate.

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |        |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|
| Control Objective [1]: To ensure that people and people skills are considered when managing change as UK leaves the EU                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |        |
| <p>Internal Audit Comments:</p> <p>Substantial work has been carried out to review and manage risks and opportunities for Council staffing, long term workforce planning, and workforce implications for key partners and contractors of the Council. Senior staff via EOT and all Service Management Teams are named as taking forward key actions to maximise preparedness for change. Recent actions in 2019 have included –</p> <ul style="list-style-type: none"> <li>• a review of Council wide service areas to identify any potential skill gaps in staffing;</li> <li>• a review of trends to understand if EU withdrawal is affecting staff movement;</li> <li>• regular input to and review of statistics shared with central government to identify local trends against the national picture, for example take-up of EU Settlement Scheme and applications for UK citizenship;</li> <li>• the provision of an open day drop-in event in October 2019 for non-UK EU nationals in the Council area;</li> <li>• updating of all Council Services Senior Management Teams [SMTs] of findings so these can be noted and acted upon as necessary;</li> <li>• Senior Management Teams are factoring in Brexit risk profiles and workforce implications;</li> <li>• EU staff advice sessions have been offered from the Ethnic Minorities Law Centre</li> <li>• Working alongside partners who may be affected</li> <li>• An update was provided by the Brexit Officer Working group to an Elected Member Workshop in October 2019.</li> </ul> <p>The Council's latest self-assessment to September 2019 of key areas identified by Audit Scotland for the theme of People is ranked as 'well prepared' and is being acted upon with information currently available. This shows improvement from the earlier self-assessment provided to the Full Council in February 2019, with areas predominantly assessed as 'partly prepared'.</p> <p>There is also an awareness that future policy as the UK leaves the EU may influence trends for people in the years ahead, for example plans to introduce a new immigration system from 2021.</p> |        |
| Strength of Internal Controls:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Strong |

Control Objective [2]: To ensure that the Council is prepared for financial change at withdrawal from EU.

Internal Audit Comments:

During 2019, the Council's approved 10-year Treasury Strategy and the Investment and Property Strategy for 2019-20 in February 2019 considered prospects for interest rates and forecasts against economic uncertainty during departure from the EU. This was based on the national Monetary Policy Committee forward guidance and assumption at the time that the UK would have an orderly departure from the EU. It also noted that the prospect of leaving with 'no deal' could affect interest rates and in turn affect borrowing and investments. The forecast for interest rates at February 2019 estimated a gradual increase for all Public Works Loan Board [PWLb] Fixed Maturity Interest rates.

The Council's Annual Treasury Report 2019-20 in June 2019 referred to 'Brexit' negotiations and uncertainties making it difficult to forecast interest rates and investment yields with certainty. The second quarterly Treasury Activity Report to full Council on 18 December 2019 detailed uncertainty and volatility in financial markets including low interest rates, with the UK Treasury issuing amended lending arrangements and 1% increase in PWLB rates. The 'cost of carry'<sup>1</sup> is estimated for 12 months ahead as providing a net saving over the 50-year life of new borrowing and is committed funding for the Council's approved Capital Programme over the next 2 years.

Government decision making was on hold from November 2019 for the general election on 12 December 2019, therefore budget figures for the coming year and the medium-term Finance Plan were not available. This uncertainty of funding will delay the Council's budget which is not expected to be produced until March 2020.

Key risks in the self-assessment for EU Exit preparedness remain the same, although the dates have moved forwards from 31 October 2019 to 31 January 2020 for terms and condition of leaving to be agreed. Medium term financial planning considers potential challenges that may impact on the Council's budget in the Council's Strategy for managing Reserves and Balances.

The Council has identified financial risks for funding streams as UK leaves the EU and Services are reviewing the budgetary impact of any potential rise in costs, for example labour costs in key service areas. Elected Members have been kept informed in briefings during 2019. The Scottish Cities Alliance defined values of EU Structural Funds in Scotland by Local Action Group for a Scottish Parliament briefing in April 2019; Rural Perth and Kinross was reported to have spent or committed 84% of indicative budget £3.8m to March 2019.

Replacement funding when EU funding ends through the UK Shared Prosperity Fund has still to be realised. The value of EU funding streams in the 2013-2020 programme was identified for Council Members in March 2019. Central government have confirmed £8.4m will be guaranteed, however arrangements for any replacement funding remained unclear.

<sup>1</sup> 'Cost of carry' is the difference between borrowing and investment rates

## Internal Audit Report

The Council's self-assessment for September 2019 of key areas identified by Audit Scotland for the theme of Finance was ranked as 'well prepared' and is being acted upon with information currently available. This is moving forwards positively from earlier self-assessments.

Strength of Internal Controls:

Strong

Control Objective [3]: To ensure that the Council is prepared for changes to rules and regulations when the UK leaves the EU

### Internal Audit Comments:

Two of the five areas assessed for preparedness for EU Withdrawal are marked as 'partly prepared' in September 2019. This is a positive move forwards from February 2019 which had all areas assessed as 'partly prepared'. Substantial work has been carried out with officers from Services with assistance from partners for social care contingency planning for vital products and services normally sourced from the EU in line with Scottish Government guidance. Continuing engagement with Local Resilience Partnership planning groups has included review of potential impact on vulnerable groups and continuation of food supplies.

The regulatory framework that applies to Council services is understood to initially remain, with EU legislation being transcribed into UK legislation. The national body, Food Standards Scotland [FSS] are consulting with food authorities to prepare a suite of legislative packages to accommodate the potential of any 'no deal' outcome. A briefing session by FSS is planned in January 2020 to advise on the impact of Export Certificates which may add to staffing requirements. The Scottish Government requested Councils submit an estimate of any additional resource requirements in the event of a 'no deal' EU exit for increased inspections of foodstuffs needed prior to export, which Perth and Kinross Council has done. The Scottish Food Enforcement Liaison Committee is involved in the consideration of a national unified charge in this event. Perth and Kinross Council area has no border inspection post for imports of animals and animal products.

The Council has been part of a national network of resilience planning and actively planned for events including a 'No deal' exit. A fortnightly pan-Scotland conference call, facilitated by COSLA started in September 2019, in anticipation of the earlier planned withdrawal date of 31<sup>st</sup> October 2019. Through having prepared for two earlier potential EU Withdrawal leaving dates, 31 March 2019 and 31 October 2019, the Council has in effect acted on plans for leaving EU twice already.

The Procurement Team have reviewed supply chains and looked at substitution of products to ensure continued supply. Assurances have been sought regarding partnership working and supply chain to confirm contingency arrangements are in place for food supplies. Scotland Excel has provided assurance at a COSLA workshop that key suppliers have mitigating actions available in event of shortages of fresh products. Contact has been made with local food banks to support them for any impact from increased pricing and/or food shortages and monitoring of vulnerable groups is included as a further action to be carried out.

## Internal Audit Report

|                                                                                                                                                                                                                                                                                                                                  |                   |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|
| As all EU Nationals will still be entitled to health, housing, education and social security until December 2020 without permanent settled status, the longer-term effects of EU Withdrawal are still to be identified. Health and Social Care Partnership is planning to continue to monitor and plan for future uncertainties. |                   |
| Strength of Internal Controls:                                                                                                                                                                                                                                                                                                   | Moderately Strong |

Control Objective [4]: To ensure that other relevant factors, such as partnership activity, are taken into account change as the UK leaves the EU,

### Internal Audit Comments:

Since 2016, the Council has worked along with its partners and contractors to identify its preparedness for leaving EU. Reporting has been made to the EOT since 2018 and the Full Council was given an update in 2018 when collaboration with neighbouring planning authorities in planning for Brexit was agreed. At that time, EU withdrawal was expected to have significant economic and demographic consequences for the authority area. Partnership activity carried out included -

- a Brexit Business Survey took place in September 2019
- attendance of events with EU Citizens Rights Project Scotland
- review of resilience planning with the Tayside Local Resilience Partnership
- discussions with neighbouring local authorities and NHS Tayside to share information
- A workshop on BREXIT preparedness was held in April 2019 with all Community Planning Partners and the Council's Arms' Length Organisations
- A dedicated page on the Council's website offers advice and information for community members, businesses and partner organisations around the UK's withdrawal from the EU.

Next steps include further engagement with ALEOS and Community Planning Partnership partners to share readiness.

Following the UK general election in December 2019 and flexextension date in January 2020, the potential risk of a tight 'turn-around time' for planning for continuity for EU Withdrawal in 2020 is still unknown.

Working in partnership is an area assessed as 'partly prepared' as at September 2019. This includes reviewing the impact on vulnerable people for food, fuel, medical and healthcare in rural locations which was underway. Under local resiliency planning, for example, any potential fuel disruption is to be managed with supplies to 'all local authority logo-ed vehicles' noted under the priority users' scheme. This could therefore include Council minibuses and most pool cars for essential services, with partnership transport vehicles to be confirmed. Tayside Contracts assist with important Council services and undertake work for several Councils including Perth & Kinross.

A complete review of the risk log and business continuity plans for all services is planned, with engagement with Arm's Length External Organisations and Community Planning Partners.

## Internal Audit Report

The Council has worked with national government departments to identify local statistics against national average figures for take-up of the EU Settled Status Scheme. This showed an uptake of approximately 50% of estimated total potential EU migrant residents as at Sept 2019.

Significant work was reported to have been carried out to assess potential impacts on the Council and the Council area, however the nature and extent of some impacts remain uncertain. Therefore, regular monitoring and review through the EU Exit Working Group and collaborative work with others to update the self-assessment processes offer a practical way for identifying new impacts as they appear.

Strength of Internal Controls:

Moderately Strong

### Management Action and Follow-Up

Responsibility for the maintenance of adequate and effective internal controls rests with management.

Where the audit has identified areas where a response by management is required, these are listed in Appendix 1, along with an indication of the importance of each 'action point'. Appendix 2 describes these action points in more detail and records the action plan that has been developed by management in response to each point.

It is management's responsibility to ensure that the action plan presented in this report is achievable and appropriate to the circumstances. Where a decision is taken not to act in response to this report, it is the responsibility of management to assess and accept the risks arising from non-implementation.

Achievement of the action plan is monitored through Internal Audit's 'follow up' arrangements.

Management should ensure that the relevant risk profiles are reviewed and updated where necessary to take account of the contents of Internal Audit reports. The completeness of risk profiles will be examined as part of Internal Audit's normal planned work.

### Acknowledgements

Internal Audit acknowledges with thanks the co-operation of all who assisted during this audit, especially Service Manager, Employability, Skills & Special Projects.

### Feedback

Internal Audit welcomes feedback, in connection with this audit or with the Internal Audit service in general.

## Internal Audit Report

### Distribution

This Final Report will be distributed to:

K Reid, Chief Executive

J Valentine, Depute Chief Executive (Chief Operating Officer)

B Renton, Executive Director (Housing & Environment)

S Devlin, Executive Director (Education & Children's Services)

K McNamara, Depute Director Housing and Environment

J Pepper, Depute Director, Education & Children's Services and Chief Social Work Officer

K Donaldson, Depute Director of Corporate & Democratic Services [Interim]

G Paterson, Chief Officer, HSCP

S MacKenzie, Head of Finance, CDS

L Simpson, Head of Legal and Governance Services

A Seggie, Service Manager, Employability, Skills & Special Projects

External Audit

### Authorisation

The auditor for this assignment was N Duncan.

This report is authorised for issue:

---

J Clark

Chief Internal Auditor

Date: 9 January 2020



Appendix 1: Summary of Action Points

| No. | Action Point                            | Risk/Importance |
|-----|-----------------------------------------|-----------------|
| 1   | <a href="#">Supply chain resiliency</a> | Low             |

## Appendix 2: Action Plan

### Action Point 1 - Supply chain and resiliency

Management of essential services including cost and availability of products and supply chains are included in national and local resiliency planning ahead of the UK leaving the EU. Government managed contracts and briefing papers by Scotland Excel offered guidance at November 2018 and this is planned to be updated in February 2020.

Tayside Contracts assists with Council catering (school meals) provision, roads maintenance, janitorial services, cleaning services, winter maintenance and provides some fuel. Vehicles with the Council's logo may allow for priority should fuel supply be disrupted for essential services. Clarification of the status of Tayside Contracts logo and access to fuel for essential Council Services is not confirmed.

### Management Action Plan

At the next review of arrangements for potential fuel disruption in 2020, Tayside Contracts logo status is clarified for provision of fuel for essential Council Services and fuel resilience arrangements

|                                     |                                                                                      |
|-------------------------------------|--------------------------------------------------------------------------------------|
| Risk/Importance:                    | Low                                                                                  |
| Responsible Officer:                | K Colville, Corporate Emergency Planning and Business Continuity Officer             |
| Lead Service:                       | Housing & Environment                                                                |
| Date for Completion (Month / Year): | Nov 2020                                                                             |
| Required Evidence of Completion:    | Clarification of Tayside Contracts logo for arrangements in event of fuel disruption |

### Auditor's Comments

Satisfactory

## Internal Audit Report



Internal Audit Report  
Housing & Environment  
LEADER  
Assignment No 19-05  
October 2019

## Final Report

(Report No. 20/39)

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

### Internal Audit

“Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”. Public Sector Internal Auditing Standards (PSIAS)

The Council’s Audit Committee approved the PSIAS as the relevant standard for its Internal Audit activity.

### Background and Introduction

This audit was carried out as part of the audit plan for 2019/20, which was approved by the Audit Committee on 26 June 2019. LEADER is a programme funded by the European Union 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. Internal Audit have carried out four previous assignments in respect of LEADER ([Report 16/310](#), [Report 17/57](#) and [Report 17/386](#) and [Report 19/30](#) refers) in which we have undertaken audit and consultancy work.

The Council has agreed to act as the ‘Lead Partner’ or ‘Accountable Body’ (AB) on the LEADER project for the rural Perth & Kinross (RPK) area. Officers from Housing & Environment’s Investment team undertake this role. This involves working with, and for, a community-led Local Action Group (LAG) which awards funding to projects to support the delivery of a Local Development Strategy (LDS).

The LEADER LAG is an unincorporated body whose membership includes representatives from 21 public and voluntary bodies in the RPK area including the Council. It has accepted approximately £4 million of funding from Europe and the Scottish Government for the period to December 2020.

As lead partner the Council has signed a Service Level Agreement (SLA) with the Scottish Government in August 2015. 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.

The agreement further states that if the Scottish Government faces disallowance of the EU contribution as a result of the Council failing to observe any requirements of the agreement, that the Council will recompense it.

The Scottish Government has issued guidance on the internal audit work required. It states that internal audit should review the systems in place to deliver LEADER as well as the financial processes to ensure they meet Regulatory requirements. It should assess compliance with the SLA and conduct a review of a selection of LEADER projects. This audit has been carried out in accordance with guidance.

## Internal Audit Report

This report is the result of our audit work for the 2018/19 LEADER year covering the period 16 October 2018 to 15 October 2019. At the time of testing the total number of applications was 100 of which 92 had been approved by the LAG. This audit includes a review of the following listed projects that are being supported by the 2014-2020 programme and four projects were reviewed. The projects were:-

| No | Organisation                                                                    | Project Name                                 | Award (£) |
|----|---------------------------------------------------------------------------------|----------------------------------------------|-----------|
| 1  | Perth Autism Support SCIO<br>[Scottish Charitable<br>Incorporated Organisation] | Rural Perthshire Autism<br>Outreach Services | 142,312   |
| 2  | Enterprising Eastern<br>Perthshire Ltd (Growbiz)                                | Enterprising Rural<br>Perthshire             | 320,419   |
| 3  | Hilton Estates                                                                  | Blue Skies                                   | 74,000    |
| 4  | The Tiny Tea Factory                                                            | Tiny Tea Factory                             | 25,561    |

In addition, one project which was reviewed at the previous audit and is now complete was subject to a further review

| No | Organisation                         | Project Name               | Award (£) |
|----|--------------------------------------|----------------------------|-----------|
| 1  | Perth & Kinross<br>Countryside Trust | Cateran's Common<br>Wealth | 41,761    |

### Scope and Limitations

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.

### Control Objectives and Opinions

This section describes the purpose of the audit and summarises the results. A 'control objective' is a management objective that requires the maintenance of adequate and effective internal controls to ensure that it is achieved. Each control objective has been given a rating describing, on the basis of the audit work done, the actual strength of the internal controls found to be in place. Areas of good or poor practice are described where appropriate.

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |        |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|
| Control Objective: To ensure Regulatory requirements are met by reviewing the systems in place to deliver LEADER as well as the financial processes                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |        |
| <p>Audit Comments: Testing confirmed that there are systems in place to deliver LEADER.</p> <p>There is evidence that the LAG is leading on the delivery of the LDS in supporting the priority projects which will deliver the key elements of the strategy. As set out in the business plan the LAG is monitoring the programme, which was confirmed when reviewing projects. Testing confirmed that there are regular LAG meetings with project assessments being carried out and decisions being minuted. Minutes confirm that meetings are quorate and there is appropriate membership from both private and public bodies.</p> <p>Financial returns are sent to the Scottish Government requesting reimbursement for administrative and animation costs. Testing confirmed that these payments were subject to internal supervisory checks with separation of duties and supporting documentation. The payments were appropriately recorded in the Council's financial records and a reconciliation has been carried out between the Council's general ledger and the claims. The claim to the Scottish Government through the Scottish Government Local Actions in Rural Communities IT system (LARCs) for reimbursement of administration and animation costs, known as a drawdown, has been submitted monthly, up to and including September 2019, as requested by the Scottish Government, which is more frequently than the quarterly submission in accordance with the timetable outlined in the SLA.</p> <p>The LEADER team monitors amounts: paid to projects; submitted for reimbursement by the Scottish Government, also known as a drawdown, through LARCs; and subsequently received from the Scottish Government. The SLA between the Council and the Scottish Government states that the Scottish Government will pay 90% of claims within three months.</p> <p>As at 15 October 2019, the accumulated amount paid out for administrative and animation costs for the programme was £505,289. The Scottish Government has repaid £416,194 worth of drawdowns.</p> <p>As at 15 October 2019, the accumulated amount paid out to applicants for their projects is £1,831,736. There is evidence from testing that when each payment is made to an applicant, once evidence from the Council's systems has been obtained, the LEADER team submits a drawdown timeously to the Scottish Government through LARCs. The Scottish Government has paid £1,233,778 worth of drawdowns. It is expected that outstanding drawdowns will be received, subject to Scottish Government's standard financial scrutiny.</p> <p>The LEADER Co-ordinator pursues payment of drawdowns via regular communication with the Scottish Government LEADER Delivery Team.</p> |        |
| Strength of Internal Controls:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Strong |

## Internal Audit Report

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|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|
| Control Objective: Assess compliance with the SLA and conduct a review of a selection of LEADER projects                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |        |
| <p>Audit Comments: The Business Plan has been updated and these changes have been approved by the Scottish Government. The Business plan will continue to be updated and refreshed to reflect current processes. A current register of interests of LAG members is maintained, a data sharing agreement is in place with the Scottish Government, as is a user access control policy. It has been recognised that LEADER will follow any changes to Council processes as a result of GDPR requirements.</p> <p>A review of four LEADER projects was undertaken which confirmed that appropriate records have been maintained. The LEADER team review applications and complete project assessments. A decision on the approval of a project is made by each LAG member submitting his/her decision by e-mail to the LEADER team. If a majority, in line with the Business Plan stipulations, approve, it is normally ratified at the next meeting of the LAG. Meetings are held in line with the frequency set out in the Business Plan ('on a quarterly basis as a maximum'). However, the decision on approval of a project can be taken at a meeting of a LAG, rather than just be ratified. Updates on budgets are also discussed at meetings of the LAG.</p> <p>There is evidence of financial scrutiny of project claims in respect of expenditure eligibility, match funding and supporting documentation.</p> <p>The four projects that were subject to review in last year's audit are all now complete. Claims have been paid to the applicants and the drawdowns submitted to the Scottish Government.</p> <p>Audit undertook a review of one of these completed files to ensure that appropriate processes were followed prior the claim being submitted.</p> <p>Testing showed documentation required to support items on the application form is on LARCs as required by the Scottish Government guidance. The LEADER team supply any additional information, required for clarification when asked or to complete a project for final claims drawdown. Audit has been informed that the LEADER team will continue to add to the documentation to end of 2020 to ensure all documentation required by the Scottish Government or to comply with additional EU regulations is on LARCs.</p> |        |
| Strength of Internal Controls:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Strong |

### Management Action and Follow-Up

Responsibility for the maintenance of adequate and effective internal controls rests with management.

Management should ensure that the relevant risk profiles are reviewed and updated where necessary to take account of the contents of Internal Audit reports. The completeness of risk profiles will be examined as part of Internal Audit's normal planned work.

## Acknowledgements

Internal Audit acknowledges with thanks the co-operation of the RPK LEADER staff during this audit.

## Feedback

Internal Audit welcomes feedback, in connection with this audit or with the Internal Audit service in general.



## Internal Audit Report

### Distribution

This report has been distributed to:

K Reid, Chief Executive

J Valentine, Depute Chief Executive

B Renton, Executive Director (Housing & Environment)

K McNamara, Depute Director (Housing & Environment)

D Littlejohn, Head of Planning & Development

J McCrone, Economic Development Manager – Place Development

S Rice-Jones, LEADER Coordinator

S Mackenzie, Head of Finance

L Simpson, Head of Legal & Governance Services

External Audit

### Authorisation

The auditor for this assignment was M Stewart. The supervising auditor was J Clark.  
This report is authorised for issue

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Jacqueline Clark

Chief Internal Auditor

Date: 30 October 2019



## Internal Audit Report



Internal Audit Report  
Housing and Environment  
Recycling Centres  
Assignment No 19 - 09  
January 2020

## Final Report

(Report No. 20/40)

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

### Internal Audit

“Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”. Public Sector Internal Auditing Standards (PSIAS)

The Council’s Audit Committee approved the PSIAS as the relevant standard for its Internal Audit activity.

### Background and Introduction

This audit was carried out as part of the audit plan for 2019/20, which was approved by the Audit Committee on 26<sup>th</sup> June 2019. Audit testing was carried out in September 2019.

The audit review looked at arrangements for recycling centres management of re-saleable goods. This included key areas – security controls; collection and separation of materials for re-sale; permit checks and personnel controls.

The Waste (Scotland) Regulations 2012 require organisations to separate key materials for recycling and the Council plays a primary role in providing collections for household waste and recycling. There are nine manned recycling centres and one weighbridge at Friarton, all accessible by vehicle only.

Recycling centres facilities accept different types of material with conditions for accepting these advertised. Domestic exemption permits are required by householders who access recycling centres using large commercial type vehicles for example. Permits are also required for Perth and Kinross businesses and landlords to dispose of some materials at recycling centres, chargeable by the load or tonne.

Reducing, reusing and recycling materials reduce the Council’s landfill tax costs, minimise the need for raw materials and assist towards achieving the national Scottish Government targets in the Zero Waste Plan<sup>1</sup>. In 2018/19, the Council paid £3,413,080 in landfill tax for a total amount of 38,370 tonnes. Over 10,800 tonnes of material were diverted from landfill to other resource streams including re-sale and re-use of some materials. The Council’s also has community re-use projects with partner organisations for re-useable materials publicised on the website. Income is raised from re-sale of materials like glass and scrap metal. Other separated materials cost to dispose of, such as engine oil, garden waste, light bulbs and tyres, however value in reduction of environmental pollution is achieved through separating and disposing of these.

---

<sup>1</sup> <https://www.sepa.org.uk/environment/waste/>

## Scope and Limitations

The audit review included visits to a sample of four recycling centres in September 2019 to observe procedures and controls for recycling materials for re-use / re-sale. Centres visited were Auchterarder, Blairgowrie, Friarton and Inveralmond. The first three sites accept commercial as well as household materials with an appropriate permit for disposing of some materials at no charge. For other materials - general, garden, inert timber, commercial permit holders have to use the Friarton weighbridge at the Depot, not the Recycling Centre and payment for disposal is required in advance. Charges for disposal at other sites are defined by vehicle type and material load size. Income management at Friarton weighbridge was excluded as this may be included within the scope of other internal audit work.

Two unmanned recycling points near one centre were observed as comparators for recycle centre security and re-saleable items.

Testing included interviews with Operatives, Environment Services Managers and the Environment Services Waste Team.

Re-saleable goods include materials donated to Council's recycling areas to be separated, recycled, sorted and processed in such a way that value is preserved in some other form or raw material. For example, cardboard and small electrical goods can be sold on to contractors at a set rate per tonne. Re-saleable materials in the review also include donations to Council re-cycling centres for collection by re-use projects and charity organisations to provide new value.

## Control Objectives and Opinions

A 'control objective' is a management objective that requires the maintenance of adequate and effective internal controls to ensure that it is achieved. Each control objective has been given a rating describing, on the basis of the audit work done, the actual strength of the internal controls found to be in place. Areas of good or poor practice are described where appropriate.

|                                                                                                                                    |
|------------------------------------------------------------------------------------------------------------------------------------|
| Control Objective [1]: To ensure there are adequate site security controls at recycling centres which accept materials for re-sale |
|------------------------------------------------------------------------------------------------------------------------------------|

### Internal Audit Comments:

Security controls varied across sites, but all four visited reported break-ins after staff had locked up. The Inveralmond recycle centre, a new site, has barriers and the Operatives' office at the entrance, with sufficient space for vehicles, including heavy goods vehicles to access as required. This purpose-built centre has more bays for skips if needed, clear signage and security warnings for visitors. Other sites visited had less space for site-planning. One centre has the Operatives' office at the exit and no barrier at the entrance, making the checking process of deliveries entering the site very difficult. At another, the entrance barrier is yards before the Operatives office, so the barrier is kept open. Auchterarder recycle had a double entrance and clear site plan with substantial signage to advise visitors where to donate materials.

Although manned recycle centre sites had fences, locked entrances and locked areas, all four sites reported break-ins through these perimeter controls, with wire fences scaled or cut through and locks broken with bolt-cutters. Neighbours to sites reported intruders entering centres soon after Operatives had left at end of day to the Council and the police were notified. Locks did not deter intruders from gaining access. Some site perimeters were found to have some security issues.

## Internal Audit Report

For example one site had a lower wall area to neighbouring land with a boundary gap; a high free-standing ladder was positioned near the recycling centre fence making access simple. Site observations confirmed where perimeter wire fences had been cut open by intruders and then patched by the Council.

CCTV is not installed at all sites however all sites have a body-cam device for Operatives to use for improved personal security. Body-cams were introduced to evidence any sustained or repeated threatening behaviour experienced by Operatives. Although audit observed polite and helpful members of the public visiting sites, Operatives reported experiencing occasional threatening behaviour. Any incidents are noted and those of most concern reported to the Police. Lone working Operatives are at higher risk. All sites had clear warning signs advising a zero tolerance to abusive language or threatening behaviour towards staff.

An Environment Officer reported that thefts appeared to fluctuate in response to changing values of recycled materials. Most popular thefts currently are metal & Waste Electrical and Electronic Equipment [WEEE] with higher value.

Unauthorised access included not only theft but also vandalism. Reporting of materials being removed from skips and left on site or thrown over fences were common and evidence of this was observed during the review. Outside one site, a nearby unmanned recycle point had materials reportedly set alight by vandals.

All recycle centres had fire extinguishers to manage fire risk from flammable recycled materials in storage. However, in the event of a fire, Operatives are trained to call emergency services.

On-sites, some skips with inadequate locks were found to contain higher value materials such as TV screens and small electrical items. There were reports of these items being stolen on a large scale previously.

The office cabins for Operatives all appeared reasonably secured, providing shelter for staff who work long shifts. Nothing of any value was reported to be left in these offices.

All sites had signage advising visitors of site safety, including child safety and awareness of hazards.

Strength of Internal Controls:

Moderate

Control Objective [2]: To confirm separation and collection controls on materials for re-sale are adequate

Internal Audit Comments:

All sites had clear signage advising visitors of where different materials should be separated and placed. There are also hazard warning signs.

Operatives check regularly but cannot sift through all the materials donated to ensure they have been correctly separated into the different material collection areas. Risks at separation and collection stages include inadequate separation and storage areas having insufficient space, with skips becoming overfull.

## Internal Audit Report

Contamination of materials may also occur when the wrong material is left in a skip, and signs and guidance are not followed. Visitors are advised to remove batteries from items donated to skips for example. Lithium batteries are potentially explosive and 9V batteries have exposed terminals which can start a fire. Items were observed lying in open skips that may have had batteries but were too difficult to retrieve and check. Car batteries can also have residual power; these were all found to be stored separately. An Operative was seen to check and remove an appliance from an open skip which still had fuel in it.

Members of the public were observed to offer assistance to Operatives during site visits. For example, they reported contamination in donations of garden waste to an Operative. However, the size and position of the skip was such that it was impossible for this contamination to be safely cleared. Another incident reported that when a small animal was seen to have entered a cardboard skip, the contractor collecting skip contents was notified and the pet was retrieved before materials were processed.

Agreements for recycled materials include clauses and responsibilities if contamination is found when transported to a contractor. When this occurred in December 2018 the Council was required to pay a contamination fee per tonne plus transport costs to dispose of a rejected load instead of receiving income from sale of materials.

Larger items like white goods and collection of re-saleable items are logged in recycle centre site diaries for reference on a daily basis. This data is used to provide information to the national Regulator, the Scottish Environment Protection Agency for annual recycle returns.

Collection by partner organisations were observed and matched to Memo of Understanding agreements, some of which specify collections policy for re-usable items. Timing and regularity of collections of materials are defined; for example, the WEEE materials left in the Re-Use container at Friarton could be accessed by Perth College (WEEE Centre). During the site visits, the PUSH organisation representatives were clearly identifiable as they checked materials to collect and transport off-site.

|                                |          |
|--------------------------------|----------|
| Strength of Internal Controls: | Moderate |
|--------------------------------|----------|

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Control Objective [3]: To confirm permit checks and personnel controls at recycling centres managing re-saleable goods are adequate                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <p>Internal Audit Comments:</p> <p>All sites had signage advising visitors of ownership of materials and also requirements needed in the form of permits when donating certain materials.</p> <p>It can be difficult for Operatives to enforce permit requirements as they do not have access to a complete list of permit holders, but depend upon local knowledge and visitors keeping a copy of their permits in their vehicles. It is especially difficult when the office has closed and cannot be contacted by site Operatives to verify permit queries. Smaller recycle centres have only one Operative working on site and when a centre is busy it is difficult to check all permits.</p> |

## Internal Audit Report

The current list of commercial permit holders includes contractors with addresses out-with the Council area that may be working in the area or nearby. Allowance is also made for some people in specific neighbouring areas to apply for a Perth and Kinross Council domestic permit. Neighbouring Councils have similar recycling centre processes with different opening hours and permit costs.

Operatives reported noting details of any suspicious activity; they do not investigate these.

There is currently one weighbridge in the Council area. The alternative method for estimating weights of recycled loads brought in sites is by size of van / trailer. Waste Team advised that plans are underway to improve on this by procuring a second weighbridge facility in the future.

The Re-Use container at Friarton has a sign visible at the entry point saying '*This container is for donation only. Removal of items from this container will be considered theft*'. Cases were reported of unauthorised people taking donations out of the Friarton re-use container, before being stopped by Operatives. Observations from site visits to Friarton found that the site was too busy for Operatives to see all who entered the Re-Use container and removed materials. Not all the re-use partner organisations were found to have a commercial permit to dispose of materials found to be unacceptable later than a specified time in the agreement.

|                                |          |
|--------------------------------|----------|
| Strength of Internal Controls: | Moderate |
|--------------------------------|----------|

## Management Action and Follow-Up

Responsibility for the maintenance of adequate and effective internal controls rests with management.

Where the audit has identified areas where a response by management is required, these are listed in Appendix 1, along with an indication of the importance of each 'action point'. Appendix 2 describes these action points in more detail and records the action plan that has been developed by management in response to each point.

It is management's responsibility to ensure that the action plan presented in this report is achievable and appropriate to the circumstances. Where a decision is taken not to act in response to this report, it is the responsibility of management to assess and accept the risks arising from non-implementation.

Achievement of the action plan is monitored through Internal Audit's 'follow up' arrangements.

Management should ensure that the relevant risk profiles are reviewed and updated where necessary to take account of the contents of Internal Audit reports. The completeness of risk profiles will be examined as part of Internal Audit's normal planned work.

## Acknowledgements

Internal Audit acknowledges with thanks the co-operation of The Environment Service staff during this audit.



## Feedback

Internal Audit welcomes feedback, in connection with this audit or with the Internal Audit service in general.

## Distribution

This report has been distributed to:

K Reid, Chief Executive

J Valentine, Depute Chief Executive (Chief Operating Officer)

B Renton, Executive Director, Housing & Environment

K McNamara, Depute Director, Housing & Environment

M Butterworth, Head of Environmental & Consumer Services, Housing & Environment

N Taylor, Direct Service Manager, Operations, Housing & Environment

P Garden, Assistant Operations Manager, Housing & Environment

L Simpson, Head of Legal and Governance Services

External Audit

## Authorisation

The auditor for this assignment was N Duncan. The supervising auditor was J Clark.

This report is authorised for issue:

---

J Clark

Chief Internal Auditor

Date: January 2020

## Appendix 1: Summary of Action Points

| No. | Action Point                                      | Risk/Importance |
|-----|---------------------------------------------------|-----------------|
| 1   | <a href="#">Security, vandalism and theft</a>     | Medium          |
| 2   | <a href="#">Hazards for personnel</a>             | High            |
| 3   | <a href="#">Higher value and re-use materials</a> | Medium          |
| 4   | <a href="#">Contamination and value</a>           | Medium          |
| 5   | <a href="#">Weighbridge and loads</a>             | Low             |
| 6   | <a href="#">Permits and income</a>                | Low             |

## Appendix 2: Action Plan

## Action Point 1 - Security, vandalism and theft

All manned sites visited reported break-ins. These involved vandalism and thefts. Perimeter fences are breached or cut open, materials removed from skips and stolen or scattered across sites and thrown over fences.

It was reported that neighbouring premises had commented and reported to police there had been unauthorised entry at Friarton, Blairgowrie & Auchterarder once the centre had closed for the day. Not all recycle sites have close neighbours with visibility. CCTV is installed at most sites and other evidence confirmed break-ins and unauthorised entry. Body cams are offered to Operatives working on-site.

## Management Action Plan

1. In order to improve security measures, the Service will review the option of having an Operative with authority to visit all sites as required to assist with any need for support, particularly for single manned sites
2. The Service will review the frequency of uplifts of the most valuable materials for resale from recycle centres to ensure they are carried out as regularly as possible to reduce the potential of theft.

|                                     |                                              |
|-------------------------------------|----------------------------------------------|
| Risk/Importance:                    | Medium                                       |
| Responsible Officer:                | N Taylor, Direct Service Manager, Operations |
| Lead Service:                       | Housing and Environment                      |
| Date for Completion (Month / Year): | 1. April 2020<br>2. February 2020            |
| Required Evidence of Completion:    | Evidence of reviews                          |

## Auditor's Comments

Satisfactory

## Action Point 2 - Hazards for personnel

Re-saleable materials can be hazardous. Flammable materials were reported to have been set alight in unmanned skips and had caught fire at other sites. Fire controls varied across recycle centres; Operatives all reported having fire extinguishers on site and were advised to call Emergency Services when fire occurred.

There was a general awareness of chemical hazards at sites visited; some materials for resale contain chemicals, for example car batteries and light bulbs. When they leak, there is a risk of irritation or harm to people and these materials are stored separately. However, they were found near containers which contained flammable material.

An Operative reported that he had once checked a vehicle bringing materials to the recycle centre for disposal in bags and found it contained asbestos, so refused access to the vehicle.

Operatives and visitors to recycle centres were advised of most hazards as many signs were found on site advising of these. However, no sign warned of insect hazards; wasps were seen in bottle-banks and food packaging skips.

Whilst Operatives reported having had health and safety training, some had completed this some time ago.

## Management Action Plan

1. The Service will review signs and controls for managing other risk areas on site such as chemical spills, risks from broken light bulbs and insect bites/stings
2. The Service will ensure basic training for Operatives on first aid every year and will review all first aid boxes on site to ensure they are correctly stocked.

|                                     |                                                                                                           |
|-------------------------------------|-----------------------------------------------------------------------------------------------------------|
| Risk/Importance:                    | High                                                                                                      |
| Responsible Officer:                | N Taylor, Direct Service Manager, Operations                                                              |
| Lead Service:                       | Housing and Environment                                                                                   |
| Date for Completion (Month / Year): | 1. September 2020<br>2. March 2020                                                                        |
| Required Evidence of Completion:    | 1. Evidence of reviews<br>2. Schedule of first aid training and confirmation of review of first aid boxes |

## Auditor's Comments

Satisfactory

## Action Point 3 - Higher value and re-use materials

Waste Electrical and Electronic Equipment (WEEE) currently achieves a higher re-sale value and has been the target of thefts. Copper wire on materials donated to small electrical open skips has also been targeted.

All four recycle centres sites visited have WEEE Skips which are easy to access and remove material from. The lock at front is effectively redundant as they are insecure. One site has the skip very close to perimeter fence, making access easy.

High value materials are also left at unmanned recycle points.

The Re-Use container at Friarton was reported to have been accessed by unauthorised personnel and Operatives were aware of the need to monitor this.

## Management Action Plan

The Service will review security of skips at recycle centres containing higher value materials, especially skips with tvs, circuit boards & copper cables, and strengthen skips for WEEE and small electricals with metal containers which are better for locking as resources permit.

|                                     |                                              |
|-------------------------------------|----------------------------------------------|
| Risk/Importance:                    | Medium                                       |
| Responsible Officer:                | N Taylor, Direct Service Manager, Operations |
| Lead Service:                       | Housing and Environment                      |
| Date for Completion (Month / Year): | September 2020                               |
| Required Evidence of Completion:    | Evidence of review                           |

## Auditor's Comments

Satisfactory

## Action Point 4 - Contamination and value

Operatives check but cannot sift through all donated materials to reduce contamination before collection for processing and re-sale elsewhere. Contamination can include the wrong material left in skips; black bags left in garden waste skips; batteries and even fuel left in small items donated to skips and containers.

In addition to the health and safety risks, there are risks to the quality of recycled materials for re-sale when contamination occurs that cannot be rectified. Contaminated loads have resulted in the Council paying the Service Provider a contamination fee per tonne and disposal costs of a full load, rejected in entirety.

## Management Action Plan

1. The Service will review the resources in place and if more is needed for ensuring contamination of materials is minimised and best value for recycled materials is achieved.
2. The Service will review signage of terms and conditions and responsibilities for not contaminating materials taken to recycle centres as required.

|                                     |                                              |
|-------------------------------------|----------------------------------------------|
| Risk/Importance:                    | Medium                                       |
| Responsible Officer:                | N Taylor, Direct Service Manager, Operations |
| Lead Service:                       | Housing and Environment                      |
| Date for Completion (Month / Year): | May 2020                                     |
| Required Evidence of Completion:    | Evidence of reviews                          |

## Auditor's Comments

Satisfactory

## Action Point 5 - Weighbridge and loads

There is currently one weighbridge in the Council area. The alternative method for estimating weight of recycled materials brought into sites that do not have a weighbridge is to estimate loads by van / trailer size.

The Waste Team advised that plans are underway to improve on accuracy for identifying weights of materials by procuring a second weighbridge facility.

## Management Action Plan

The Service will continue to progress plans to procure a second weighbridge to assist in identifying material loads brought to recycle centres and a more accurate measure of income due to the Council.

|                                     |                                              |
|-------------------------------------|----------------------------------------------|
| Risk/Importance:                    | Low                                          |
| Responsible Officer:                | N Taylor, Direct Service Manager, Operations |
| Lead Service:                       | Housing and Environment                      |
| Date for Completion (Month / Year): | September 2020                               |
| Required Evidence of Completion:    | Evidence of plan                             |

## Auditor's Comments

Satisfactory

## Action Point 6 - Permits and income

Access to the full list of all current Permits is not available to Operatives on site. It can be difficult for an Operative to challenge permits particularly at single manned sites when they are busy or when the office is closed. Operatives reported keeping logs of unusual activity but do not investigate these.

Furthermore, the detail in agreements on collections of re-saleable materials varied. Memoranda of Understanding were found for some organisations, which specified procedures and responsibilities for donated materials later found to be unacceptable for re-use / re-sale. For example, the PUSH agreement states that items collected from the Re-use container and later found to be unacceptable are the responsibility of that approved organisation, with the exception of WEEE. WEEE materials can be returned within one week without charge and disposed of in the appropriate skip. Memoranda of Understanding were not found for Home Economics and Perth College. Therefore responsibilities when recycle items are found to be unsuitable after collection are not consistently documented. A check confirmed that some of these organisations did not have a current commercial permit with the Council.

## Management Action Plan

If Memoranda of Understanding documents for the two organisations cannot be located, the Service will review and draft revised ones accordingly. These will include reference to the procedures when donated materials are found to be unsuitable and if a permit is needed to return these into the recycle process.

|                                     |                                                                                                           |
|-------------------------------------|-----------------------------------------------------------------------------------------------------------|
| Risk/Importance:                    | Low                                                                                                       |
| Responsible Officer:                | N Taylor, Direct Service Manager, Operations                                                              |
| Lead Service:                       | Housing and Environment                                                                                   |
| Date for Completion (Month / Year): | September 2020                                                                                            |
| Required Evidence of Completion:    | Evidence of Memoranda of Understanding for two organisations with details of returns process as required. |

## Auditor's Comments

Satisfactory



# PERTH AND KINROSS COUNCIL

## Audit Committee

5 February 2020

### NATIONAL FRAUD INITIATIVE 2018/19 OUTCOMES

#### Report by the Chief Internal Auditor (Report No. 20/41)

#### PURPOSE OF REPORT

This report outlines the action that has been taken by Perth & Kinross Council in response to the requirements of the National Fraud Initiative for 2018/19.

#### 1. BACKGROUND / MAIN ISSUES

- 1.1 The National Fraud Initiative constitutes a sophisticated data matching exercise matching electronic data within and between participating public bodies to assist in the prevention and detection of fraud. The NFI exercise in Scotland is Audit Scotland's data matching exercise that runs every two years in line with the published timetable. The Cabinet Office administers the NFI and processes the data on behalf of Audit Scotland. This 2018/19 exercise represents the seventh NFI data matching to be undertaken in Scotland.
- 1.2 The overall aims of the NFI are to serve the public interest by safeguarding public money against losses from fraud or misappropriation and to contribute towards the fight against fraud. It improves the use made of public resources by identifying anomalies in the data held by different authorities and by ensuring that these are highlighted for further investigation. Whilst it is designed to detect fraud, it may also identify instances of administration error or inaccurate data.
- 1.3 The NFI exercise helps participating bodies (such as Local Authorities, Police Scotland, Scottish Fire and Rescue and the other public sector bodies) to identify possible cases of fraud and detect and correct any consequential under or overpayments. The NFI also helps Auditors in assessing the Council's arrangements for preventing, deterring and detecting fraud.
- 1.4 There are broadly three stages in the NFI process:
  - 1 the submission of the required datasets by public authorities and other organisations;
  - 2 the processing of the data (data matching) in order to identify anomalies; and
  - 3 the investigation of the highlighted and reported anomalies.

- 1.5 The Council is responsible for stages 1 and 3; processing of the data (stage 2) is carried out under arrangements put in place by the Cabinet Office. A report on the Council's involvement and responsibilities has previously been presented to the Audit Committee in September 2018 ([Report 18/293](#)) and regular updates have been provided through routine reporting. The reported findings of the 2016/17 exercise was presented to Audit Committee in March 2018 (report [18/108](#) refers)
- 1.6 Internal Audit acts as a facilitator within the Council and maintains regular contact with Services and external audit to ensure that the former are progressing investigations in accordance with the NFI timetable and guidance.
- 1.7 The Audit Committee is aware that Perth & Kinross Council is one of two local authorities which do not provide the Electoral Roll for the NFI. Legislation to allow Audit Scotland to require Councils to provide information for NFI purposes was introduced after the 2008/09 exercise, subject to any sharing being compliant with data protection legislation. However, the advice from Legal Services is that this does not permit the Council to submit the Electoral Register as there are specific legal restrictions in place which limit the Council's ability to share the Electoral Register. Audit Scotland is aware of the Council's position.
- 1.8 Consequently, Perth & Kinross Council does not use the NFI model for checking eligibility to Council Tax's single occupancy discount. As an alternative to manage risks associated with not providing this information we engage an external agency to carry out such checks on our behalf. The Council's Revenues and Benefits Service is in the process of procuring this Service.
- 1.9 This report presents a summary of progress and the outcomes of the Perth and Kinross Council NFI 2018/19 exercise.

## **2. 2018/19 OUTCOMES FOR PERTH & KINROSS**

- 2.1 A total of 92 reports detailing different data matches were received in respect of Perth and Kinross Council. As at 7 January 2020, these reports contained 4,868 matches, of which 338 matches were regarded as high risk. In addition to investigating these matches, Services have reviewed the remaining matches and investigated a proportion of these using a risk based approach. In total, 2,689 matches have been investigated. Progress has been made with investigating matches, with the exercise concluded and no matches requiring further investigation.
- 2.2 Of the 2,689 fully investigated matches, the level of overpayments identified was £6,625.67, all of which related to Benefits matches. Action is taking place, where possible, to ensure that the Benefits outcomes are recovered or reported to the DWP for appropriate action. The comparable overpayments in respect of the outcomes for the 2016/17 exercise totalled £33,475 and comprised overpayments for Benefits of £19,444; Creditors of £8,909; and care home payments of £5,122.

- 2.3 Information relating to the national outcomes will be made available later in the year by Audit Scotland.

### 3. CONCLUSION AND RECOMMENDATIONS

- 3.1 Perth & Kinross Council takes seriously its obligations for taking part in the NFI exercise and the 2018/19 exercise is now completed.
- 3.2 The Committee is asked to note this report, which outlines the action taken by Perth & Kinross Council in response to the requirements of the National Fraud Initiative and the outcomes for the 2018/19 exercise.
- 3.3 The Committee is also asked to note the actions taken by the Revenues & Benefits Service as a result of the non-provision of electoral register information

#### Author(s)

| Name         | Designation            | Contact Details                                                        |
|--------------|------------------------|------------------------------------------------------------------------|
| Jackie Clark | Chief Internal Auditor | <a href="mailto:InternalAudit@pkc.gov.uk">InternalAudit@pkc.gov.uk</a> |

If you or someone you know would like a copy of this document in another language or format, (on occasion only, a summary of the document will be provided in translation), this can be arranged by contacting *Jackie Clark*



Council Text Phone Number 01738 442573

## 1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

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

### 1. Strategic Implications

#### 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 controls in place for Single Occupancy Discounts.

### **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.

