

PERTH AND KINROSS COUNCIL**Audit Committee****18 April 2017****INTERNAL AUDIT ANNUAL REPORT 2016/17****Report by the Chief Internal Auditor****PURPOSE OF REPORT**

This report presents the year-end report and audit opinion of the Chief Internal Auditor for 2016/17, as set out in Section 7.

1. BACKGROUND / MAIN ISSUES

- 1.1 The Public Sector Internal Audit standards (PSIAS) require the Chief Internal Auditor to provide an annual opinion which must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The report must incorporate the opinion, a summary of the work that supports this opinion, a statement on conformance with the PSIAS and the results of the quality assurance and improvement programme. This report fulfils this requirement.
- 1.2 Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. In accordance with the PSIAS, it helps the council accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.
- 1.3 Perth & Kinross Council's internal controls include the full range of policies, procedures and practices intended to ensure the proper conduct of its operations and the achievement of its objectives. They include processes and procedures, organisational structures, job descriptions, authorisation limits, management supervision, risk management processes, reports and decisions.
- 1.4 It is the responsibility of management to devise, implement and maintain appropriate controls over the activities for which they are responsible. The role of Internal Audit is to provide an opinion to the Council as to the effectiveness of the controls that have been put in place by management in order to ensure that the organisation achieves its objectives. Internal Audit is thus a key part of the process by which the Council ensures the management of the risks that threaten the achievement of its objectives.

- 1.5 Internal Audit's work is planned in such a way as to take account of these risks. Prioritising work towards the areas of highest assessed risk enables the Council to identify and remedy the most material weaknesses in its framework of internal controls.
- 1.6 In line with the PSIAS, Internal Audit undertakes a process of planning resulting in an annual plan. For 2016/17, the Internal Audit Plan covered the period from April 2016 to March 2017. It was approved by the Audit Committee on 30 March 2016 [report 16/1456 refers]. All Perth & Kinross Council's activities are reviewed as part of the planning process. The plan for 2016/17, taken as a whole, aimed to cover the most significant areas of risk within the resources available whilst ensuring that there was a balance of coverage for all Services. The Internal Audit Plan also included a protocol with Services for the delivery of the plan.
- 1.7 The Internal Audit Plan for 2016/17 incorporated two assignments which were delivered through a service level agreement with Highland Council. This augmented Internal Audit capacity for the year and ensured that there was coverage of IT risks.
- 1.8 This report summarises the audit work carried out in 2016/17 and presents the Chief Internal Auditor's opinion on the effectiveness of the Council's internal control environment for that year.

2. INTERNAL AUDIT'S WORK IN 2016/17

- 2.1 This section presents an overview of Internal Audit's work during 2016/17 in its role as independent reviewer of the Council's systems of internal control.
- 2.2 The Internal Audit Plan approved in April 2016 included 34 planned internal audits. Of these, 27 were assurance audits and 7 were consultancy / enabling assignments. In addition, resources were included within the Plan to certify grant claims within the year.
- 2.3 During the year there was one change to planned work which was approved by Audit Committee. The proposed follow up of the consultancy work undertaken in 2015/16 of the Named Person Service was deferred from the 2016/17 Internal Audit Plan and will be considered for inclusion within a future audit plan, if appropriate.
- 2.4 All planned assignments, covering the period from April 2016 to March 2017, have been completed and reports issued. 36 Internal Audit reports have been issued for 34 planned assignments and 4 grants have been certified, representing 100% of the anticipated reports arising from Internal Audit work connected with the approved plan.
- 2.5 Unplanned assignments, as a result of investigations or additional requests from Services, have been undertaken during the year. Where appropriate, control issues highlighted as a result of this work are reported to the Audit Committee.

- 2.6 The results detailed in this report relate to all audit reports issued relating to Internal Audit's work during the period from April 2016 to March 2017, both planned and unplanned.
- 2.7 All findings detailed within the reports issued during the year were accepted by management. These reports contain a total of 188 agreed actions, compared with 147 actions in 2015/16. The table below details the rating of the importance of these actions. The figures in brackets relate to the rating of individual actions for the financial year 2015/16:

Critical Risk	0 (3) agreed actions
High Risk	30 (27) agreed actions
Medium Risk	89 (61) agreed actions
Low Risk	69 (56) agreed actions

- 2.8 This represents a decrease in the proportion of critical-, high- and low-risk actions from 2%, 18% and 38% respectively in 2015/16 to 0%, 16% and 37% in 2016/17. There was a corresponding increase in the proportion of medium-risk actions from 42% in 2015/16 to 47% for 2016/17.
- 2.9 Appendix A shows a summary of Internal Audit's work for Perth & Kinross Council during 2015/16 compared with the original plan as approved by the Audit Committee in March 2016 along with the current status of each assignment. The Appendix details additional work, such as internal investigations or non-audit tasks undertaken during the year, where this has resulted in a report to Audit Committee. Internal Audit was actually involved with 46 assignments consisting of 33 planned audits, 4 grant certifications, 8 investigations and one request for advice.

Areas for Significant Improvement in Controls

- 2.10 During 2016/17, each audit report was assigned an overall rating, summarising the strength of internal controls in the area under review. These ratings were intended to provide a guide to management in setting priorities for action and to inform the Audit Committee in their scrutiny role. The number of areas where controls have been described as 'moderately weak' or 'weak' have increased on those reported last year from 2 to 5. There are no areas where controls have been described as 'unacceptably weak'.
- 2.11 Issued reports during this period contain an assessment of the control environment for a total of 47 control objectives. This compares with 69 control objectives assessed during 2015/16. These assessments of control at the time audits took place are broken down as follows, with the relevant figures for 2015/16 being recorded in brackets:

Strong	8 (25) Control Objectives
Moderately Strong	21 (22) Control Objectives
Moderate	14 (17) Control Objectives
Moderately Weak	1 (3) Control Objectives
Weak	3 (2) Control Objectives
Unacceptably Weak	0 (0) Control Objectives

- 2.12 Overall, this represents a decrease in the proportion of strong- and moderately strong- rated control objectives over the two years, , these being 62% for 2016/17 compared with 68% for 2015/16. The proportion of moderately weak- and weak-rated control objectives is broadly similar over the two years, these being 8% for 2016/17 compared with 7% for 2015/16. However, in 2016/17, three control objectives (6%) were rated as weak, whereas there were two control objectives (3%) rated as weak in 2015/16.
- 2.13 During 2016/17, the Council has revised its approach to risk management in line with best practice following Internal Audit involvement in this area in 2015/16. A revised risk management strategy was approved by the Strategic Policy and Resources Committee in February 2017 (Report 17/63 refers) and is yet to be fully embedded. Internal Audit has worked closely with the Head of Legal and Governance Services with this and will continue to support Services as these arrangements are embedded.

Follow Up of Action Plans

- 2.14 The responsibility for considering (and accepting or rejecting) Internal Audit's findings rests with management. Final audit reports record the agreed plan of action, including the individual(s) responsible; the planned timescales for completion; and the evidence required by Internal Audit to verify completion of the action. The audit process is of little value unless action is taken to remedy deficiencies in internal control where these are identified. Hence, a significant part of Internal Audit's role is the following-up of progress with these action plans in line with the requirements of the Public Sector Internal Audit Standards.
- 2.15 A database for recording agreed actions is maintained for this purpose. Services are routinely requested to provide the agreed evidence of completion for actions which are due to have been completed. Where actions have not been completed, an update on progress is requested along with the reason for non-completion and a revised date for completion. The Audit Committee is informed of all actions which have not been completed, along with an Internal Audit opinion on the acceptability or otherwise of the response received from management.
- 2.16 The support of the Chief Executive, Depute Chief Executives, Directors and Senior Management Teams in ensuring that agreed actions are completed has continued during the year.

- 2.17 Of the 188 actions agreed with management (see 2.7 above) 114 had a completion date within 2016/17. Of these 114, 98 have been verified by Internal Audit as having been completed. This represents 86% of actions having been implemented within the year.
- 2.18 In the Chief Internal Auditor's opinion, the procedures in place provide a sound basis for ensuring that progress against the agreed plans is exposed to the proper level of scrutiny.

3 THE AUDIT COMMITTEE

- 3.1 The Audit Committee operates within an approved 'Role and Remit' and, as a formally constituted Committee of the Council. The Committee conducts its meetings in public, thus ensuring a high degree of accountability for its activities.
- 3.2 The Audit Committee reviews its effectiveness on an annual basis and highlights any development requirements. The specific area identified for development by the Committee in March 2016 related to the appropriate level of scrutiny of the final accounts and associated reports. This was provided during the year.

4 RESOURCES

- 4.1 Internal Audit's budget for 2016/17 was £235,573. Whilst the final outturn figures are not yet available, it is projected that expenditure for 2016/17 on Internal Audit will be in the region of £230,000.
- 4.2 Recent trends in internal audit staffing are as shown below:

	April 2015		April 201		April 2016	
	No. (FTE)		No. (FTE)		No. (FTE)	
Qualified Staff	2.8	60%	1.9	39%	1.7	37%
Unqualified Staff	1.9	40%	3.0	61%	2.9	63%
Total	4.7	100%	4.7	100%	4.6	100%

5 ANTI-FRAUD ACTIVITY

- 5.1 The responsibility for preventing and detecting fraud and corruption rests with management; it is the responsibility of management to take into account the risks arising from fraud and corruption and to devise and maintain the appropriate internal controls to provide a reasonable level of assurance that the Council's resources are being protected from loss and misappropriation.
- 5.2 Nevertheless, Internal Audit has a number of responsibilities regarding the Council's anti-fraud and anti-corruption arrangements. The year 2016/17 saw a moderate level of audit activity in this area as described below.

The National Fraud Initiative

- 5.3 The National Fraud Initiative (NFI) is a large-scale 'data-matching' exercise that takes place every two years and takes place over two financial years. Perth & Kinross Council is participating in the 2016/17 exercise. The NFI involves the comparison of personal data held by public authorities in order to identify anomalies that may indicate fraud or error. This output then forms the basis for a process of investigation within each authority, in order to ensure that errors are recognised and corrected and that, where cases of possible fraud are identified, they are pursued appropriately.
- 5.4 This investigative process, which is driven by Audit Scotland, is co-ordinated by Internal Audit and includes overseeing Services' arrangements for uploading the data securely and the checking of a sample of identified anomalies within the period of the exercise, on the basis of an assessment of risk. Internal Audit facilitates the reporting of progress to Audit Scotland. There has been, and continues to be, an allocation of audit resources towards the completion of this task.
- 5.5 The 2016/17 exercise has continued during the year and the Audit Committee have been informed of progress (Report 16/412 refers).

Anti-Fraud and Anti-Corruption Policies

- 5.6 The Council's Counter-Fraud and Corruption Strategy, along with associated policies, were presented to and approved by the Strategic Policy and Resources Committee in February 2015. Senior Management Teams have been supported in completing risk assessments for their functions and have identified relevant areas of their business where risks require to be managed. Further development has been identified for 2017/18.
- 5.7 The Chief Internal Auditor is the Council's nominated Money Laundering Reporting Officer. There has been no relevant activity during the year.

'Whistleblowing' Arrangements

- 5.8 In order to ensure that the Council meets the standards set out in its counter-fraud and corruption arrangements, some aspects of the Council's 'whistle-blowing' arrangements are managed by Internal Audit. This includes the maintenance of a dedicated e-mail address and telephone line for employees with concerns at work, which is routed to Internal Audit. The Council also supports the national charity 'Public Concern at Work' that upholds the rights of those who raise concerns about wrongdoing at their place of work and which operates a free legal advice 'hotline'.
- 5.9 Four contacts were made with Internal Audit of a 'whistleblowing' nature within the year. These cases were resolved and, as there were no control implications arising, reports were not provided to the Audit Committee. The outcomes have fed into the updating of the Audit Universe and in the planning exercise for the 2017/18 Internal Audit Plan.

- 5.10 Whistleblowing arrangements have been in place throughout 2016/17 and are supported by a Whistle-blowing Policy, which is included within the Counter-Fraud and Corruption Strategy.
- 5.11 Further training will be rolled out to all staff and elected members within 2017/18, along with other aspects of the Counter-Fraud and Corruption Strategy, as detailed in 5.6 above.

Investigations

- 5.12 Internal Audit's role includes the assessment of any concerns that are raised through the above arrangements and the conduct of internal investigations where appropriate. A small time allowance is made for work of this sort within the audit plan. As highlighted in 2.5 above, the time spent on investigations was contained within the existing resources in the Internal Audit team.
- 5.13 The year 2016/17 saw a number of investigations requiring input from Internal Audit. Investigative work undertaken within the year has resulted in agreed improvements which will enhance the Council's internal control environment. Where there is scope for improvement to the control environment identified by investigations, this is reported to the Audit Committee.

6 COMPLIANCE WITH AUDITING STANDARDS

- 6.1 The Public Sector Internal Audit Standards have been adopted by Perth & Kinross Council as the relevant professional standards. The outcome of a review of the Standards was reported to Audit Committee and this report remains current [Report 13/147 refers].
- 6.2 The Chief Internal Auditor has undertaken a self-assessment of compliance with the PSIAS and has concluded that the function is generally compliant with the PSIAS. This view is supported by Audit Scotland, the appointed external auditors, who concluded that Internal Audit operates generally in accordance with the PSIAS and has sound documentation standards and reporting procedures in place. [Reports 15/395 and 16/158 refer].

Code of Ethics

- 6.3 Internal Auditors must conform to the Code of Ethics included within the Standards. This Code incorporates the principles and rules of conduct for Internal Auditors' integrity, objectivity, confidentiality and competency.

Public Sector Internal Audit Standards

- 6.4 The Standards are separated into Attributable Standards (including requirements for the establishment of the internal audit function) and performance standards (including the management and execution of internal audit activity)

Performance Measures

- 6.5 Internal Audit's prime performance measure is the completion of the approved audit plan. Performance against the approved audit plan has been highlighted in Section 2 of this report. As at 31 March 2017, all assignments from the 2016/17 plan had been completed. This is the third year where there has been 100% completion within the year.

Quality Assurance of Internal Audit

- 6.6 There is a requirement for the annual report to contain a statement on conformance with the PSIAS and the results of the quality assurance and improvement plan.
- 6.7 An External Quality Assessment of the Internal Audit function is due to be completed in 2017/18. In the interim, the Chief Internal Auditor has undertaken a self-assessment of compliance with the PSIAS.
- 6.8 A quality assurance system was in place in Internal Audit throughout 2016/17 which ensured the quality of Internal Audit work was of a consistent and professional standard.
- 6.9 Improvements highlighted as required by the Chief Internal Auditor as part of the Quality Assurance and Improvement Plan for 2016/17 have been addressed as follows:
- The Audit Committee has been informed of the approach taken for consultancy assignments (Report 17/58 refers) and work has been undertaken during the year to document this approach;
 - The audit manual continues to be reviewed and updated; and
 - Identified training needs are documented as part of the Employee Review and Development process.
- 6.10 Further improvements will continue into 2017/18 regarding the formalising of professional development records, and conflicts of interest. In addition, a review of the revised PSIAS will be undertaken to ensure that Internal Audit is in conformance with these revised Standards. A report on the outcome of this review will be prepared for considering at a future Audit Committee meeting.

7 AUDIT OPINION

- 7.1 **In the Chief Internal Auditor's opinion, reasonable reliance can be placed on the Council's governance arrangements and systems of internal control for 2016/17, subject to management implementation of the agreed actions detailed in Internal Audit reports and summarised at Section 2 above. Whilst limited reliance can be placed on the corporate risk management arrangements in place for 2016/17, the ongoing implementation and embedding of the corporate risk management strategy should enable reasonable reliance for 2017/18.**

8. CONCLUSION AND RECOMMENDATION

- 8.1 It is recommended that the Committee notes the content of this report and specifically the Audit Opinion at Section 7.

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1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

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

1. Strategic Implications

1.1 Corporate Plan

1.1.1 The Council's Corporate Plan 2013 – 2018 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.

1.1.2 This report relates to all of these objectives.

2. Assessments

2.1 Equality Impact Assessment

2.1.1 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.

- 2.1.2 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.

3. Consultation

3.1 Internal

- 3.1.1 The Chief Executive and the Head of Finance 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 A – The 2016/17 Internal Audit Summary

APPENDIX A – THE 2016/17 INTERNAL AUDIT SUMMARY

Audit Subject	2016/17 Audit Plan	2016/17 Status
Debt Recovery and Write Off	Planned	Completed
Credit Cards	Planned	Completed
Sales Ledger	Planned	Completed
Information Sharing	Planned	Completed
Financial Management of All-Through Schools	Planned	Completed
Financial Assessment & Charging	Planned	Completed
Adult Protection	Planned	Completed
Housing Options	Planned	Completed
Charging for Services	Planned	Completed
Management of the Relationship with Horsecross	Planned	Completed
Procurement	Planned	Completed
IT Performance & Capacity Management	Planned	Completed
Named Person Follow Up	Planned	Removed from Audit Plan (Report 16/518 refers)
Fuel Management	Planned	Completed
Transformation	Planned	Completed
Pupil Support	Planned	Completed
Housing Rents	Planned	Completed
Rent Arrears	Planned	Completed
LEADER	Planned	Completed
Property Maintenance	Planned	Completed
Roads Maintenance Partnership	Planned	Completed
Personalisation	Planned	Completed
Commissioned Services: Care at Home	Planned	Completed
Parking Services	Planned	Completed
Events and Festivals	Planned	Completed
Childs Plan	Planned	Completed
European Social Fund	Planned	Completed
Tayside Contracts	Planned	Completed

Transformation	Planned	Completed
Corporate Governance	Planned	Completed
Universal Credit	Planned	Completed
Housing Technology Improvement Plan	Planned	Completed
Bus Service Operators Grant (6 monthly)	Planned	Completed
Bus Service Operators Grant (6 monthly)	Planned	Completed
Superconnected Cities Grant	Planned	Completed
Bereavement Services	Unplanned	Completed
Housing & Community Care Internal Controls	Unplanned	Completed
Housing Repairs & Improvement Service	Unplanned	Completed
Whistleblowing: Corporate & Democratic Services	Unplanned	Completed
The Environment Service correspondence	Unplanned	Completed
Whistleblowing: The Environment Service	Unplanned	Completed
Education & Children's Services advice	Unplanned	Completed
Whistleblowing: The Environment Service	Unplanned	Completed
Whistleblowing: The Environment Service	Unplanned	Completed