

PERTH AND KINROSS COUNCIL**Audit Committee****29 June 2016****INTERNAL AUDIT ANNUAL REPORT 2015/16****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 2015/16, 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 2015/16, the Internal Audit Plan covered the period from April 2015 to March 2016. It was approved by the Audit Committee on 1 April 2015 [report 15/144 refers]. All Perth & Kinross Council's activities are reviewed as part of the planning process. The plan for 2015/16, 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 2015/16 incorporated some assignments which were delivered through a co-sourced agreement with Scott Moncrieff. This augmented Internal Audit capacity for the year and ensured that there was coverage of IT risks for which the Internal Audit team does not have the capability.
- 1.8 This report summarises the audit work carried out in 2015/16 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 2015/16

- 2.1 This section presents an overview of Internal Audit's work during 2015/16 in its role as independent reviewer of the Council's systems of internal control.
- 2.2 The Internal Audit Plan approved in April 2015 included 33 planned internal audits. Of these, 23 were assurance audits and 10 were consultancy / enabling assignments. Resources were included within the Plan to certify three grant claims within the year.
- 2.3 During the year there was one change to planned work which was approved by Audit Committee. This additional assignment was a follow up of the Roads Maintenance Partnership Action Plan (Report 15/374 refers), considered by the Audit Committee in response to Audit Scotland's Roads Maintenance Partnership Investigation at the meeting of 16 September 2015. In addition, there was a requirement to certify an additional grant, Superconnected Cities, which had not been included within the approved Audit Plan resources.
- 2.4 All planned assignments, covering the period from April 2015 to March 2016, 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 have been reported to the Audit Committee. Six such reports have been issued during the year and considered by Audit Committee. This work was contained within the existing resources of the team.
- 2.6 The focus of the audit of Corporate Risk Management changed during the year from being an assurance audit to a consultancy / advisory audit. The Service identified scope for improvement and the audit therefore focussed on supporting the Service in identifying improvement actions and best practice. The outcomes have therefore impacted on the opinion detailed in section 7 of this report.
- 2.7 The results detailed in this report relate to all audit reports issued relating to Internal Audit's work during the period from April 2015 to March 2016, both planned and unplanned.
- 2.8 All findings detailed within the reports issued during the year were accepted by management. These reports contain a total of 147 agreed actions, compared with 111 actions in 2014/15. 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 2014/15:

Critical Risk	3 (0) agreed actions
High Risk	27 (7) agreed actions
Medium Risk	61 (58) agreed actions
Low Risk	56 (46) agreed actions

- 2.9 This represents an increase in the proportion of critical- and high-risk actions from 0% and 6% respectively in 2014/15 to 2% and 18% in 2015/16. There was a corresponding decrease in the proportion of medium- and low-risk actions from 52% and 41% in 2014/15 to 42% and 38% respectively for 2015/16.
- 2.10 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 April 2015 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 52 assignments consisting of 34 planned audits, 4 grant certifications, 9 investigations and 5 requests for advice.

Areas for Significant Improvement in Controls

- 2.11 During 2015/16, 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'.

- 2.12 Issued reports during this period contain an assessment of the control environment for a total of 69 control objectives. This compares with 40 control objectives assessed during 2014/15. These assessments of control at the time audits took place are broken down as follows, with the relevant figures for 2014/15 being recorded in brackets:

Strong	25 (14) Control Objectives
Moderately Strong	22 (12) Control Objectives
Moderate	17 (12) Control Objectives
Moderately Weak	3 (2) Control Objectives
Weak	2 (0) Control Objectives
Unacceptably Weak	0 (0) Control Objectives

- 2.13 Overall, this represents a similar picture to the proportion of strong- and moderately strong-rated control objectives over the two years, these being 68% for 2015/16 compared with 65% for 2014/15, and also for proportion of moderately weak- and weak-rated control objectives, these being 7% for 2015/16 compared with 5% for 2014/15. However in 2015/16, two control objectives (3%) were rated as weak whereas there were no control objectives rated as weak in 2014/15.
- 2.14 As highlighted in 2.6 above, a review of the Council's approach to risk management is underway. Internal Audit has assisted the Service in identifying improvements and best practice, which should result in improved arrangements being in place during 2016/17.

Follow Up of Action Plans

- 2.15 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.
- 2.16 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.

- 2.17 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.
- 2.18 Of the 147 actions agreed with management (see 2.8 above) 93 had a completion date within 2015/16. Of these 93, 83 have been verified by Internal Audit as having been completed. This represents 89% of actions having been implemented within the year.
- 2.19 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 related to the appropriate level of scrutiny of the final accounts and associated reports. This will be taken forward through elected members' personal development programmes within the year.

4 RESOURCES

- 4.1 Expenditure for 2015/16 on Internal Audit was £230,914 against a budget of £248,406.
- 4.2 Recent trends in internal audit staffing are as shown below:

	April 2014		April 2015		April 2016	
	No. (FTE)		No. (FTE)		No. (FTE)	
Qualified Staff	2.8	67%	2.8	60%	1.9	60%
Unqualified Staff	1.9	33%	1.9	40%	3.0	40%
Total	4.7	100%	4.7	100%	4.9	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 2015/16 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 2014/15 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 2014/15 exercise has concluded during the year and the Audit Committee have been informed of the outcomes (Reports 15/272 and 16/159 refer).

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. The roll-out of relevant training to all staff and elected members will continue into 2016/17.
- 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 Five contacts were made with Internal Audit of a ‘whistleblowing’ nature within the year. These cases were fully resolved and, where necessary, the outcomes have been reported to Audit Committee. The outcomes have also fed into the updating of the Audit Universe and in the planning exercise for the 2016/17 Internal Audit Plan.
- 5.10 Whistleblowing arrangements have been in place throughout 2015/16 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 2016/17, 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 2015/16 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 2016, all assignments from the 2015/16 plan had been completed. This is the second 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 at the end of 2016/17. 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 2015/16 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 2015/16 have been addressed as follows:
- The Internal Audit Charter was considered and approved by Audit Committee on 25 November 2015 (Report 15/545 refers);
 - The audit manual has been updated;
 - Conflicts of interest declarations, where required, are now retained, which demonstrates the integrity and objectivity of the internal audit team; and
 - The lack of technical expertise has been addressed by the implementation of a Service Level Agreement for 2016/17 and beyond with Highland Council to provide this expertise.

- 6.10 Further improvements will continue into 2016/17 regarding the formalising of professional development records. In addition, the processes and procedures for undertaking consultancy work will be developed and documented.

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 2015/16, 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 for 2015/16, the implementation of the identified improvements should enable reasonable reliance for 2016/17.

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 2015/16 Internal Audit Summary

APPENDIX A – THE 2015/16 INTERNAL AUDIT SUMMARY

Audit Subject	2015/16 Audit Plan	2015/16 Status
Following the Public Pound	Planned	Completed
Establishment Approval Process	Planned	Completed
Complaints	Planned	Completed
Fostering - Kinship Care	Planned	Completed
Corporate Health and Safety	Planned	Completed
LEADER	Planned	Completed
Reablement	Planned	Completed
Reserves Strategy	Planned	Completed
New School Governance	Planned	Completed
Modernising the School Office	Planned	Completed
Financial Management of Community Care Establishments	Planned	Completed
Housing Service Consultancy – Buy Backs	Planned	Completed
School Transport Contracts	Planned	Completed
Payroll	Planned	Completed
Integrated Assessment – Named Person Service	Planned	Completed
Financial Management of Schools: Early Years and Primary	Planned	Completed
IT Disaster Recovery	Planned	Completed
Planning Applications	Planned	Completed
Homelessness Service	Planned	Completed
Housing Investment Programme	Planned	Completed
Perth City Campus	Planned	Completed
Self-Directed Support	Planned	Completed
Place Based Scrutiny	Planned	Completed
Health & Social Care integration	Planned	Completed
Property System	Planned	Completed
Universal Credit	Planned	Completed
Transformation	Planned	Completed
Sport & Leisure Provision	Planned	Completed

Corporate Governance	Planned	Completed
Job Evaluation & Design	Planned	Completed
Corporate Risk Management	Planned	Completed
Optimum	Planned	Completed
SEEMIS	Planned	Completed
Roads Maintenance Partnership Action Plan Follow Up	Addition to Plan	Completed
Cycling Walking Safer Streets Grant	Planned	Completed
Bus Service Operators Grant (6 monthly)	Planned	Completed
Bus Service Operators Grant (6 monthly)	Planned	Completed
Superconnected Cities Grant	Addition to Plan	Completed
Assessment and Charging: Community Meals	Unplanned	Completed
Blue Badge Misuse Procedures	Unplanned	Completed
Supported Living Team	Unplanned	Completed
Crieff Primary School	Unplanned	Completed