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Council Building
2 High Street
Perth
PH1 5PH

Tuesday, 06 June 2017

A Meeting of the **Audit Committee** will be held in **the Council Chamber, 2 High Street, Perth, PH1 5PH** on **Wednesday, 14 June 2017** at **10:00**.

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

BERNADETTE MALONE
Chief Executive

Those attending the meeting are requested to ensure that all mobile phones and other communication devices are in silent mode.

Members:

Councillor Eric Drysdale (Convener)
Councillor Bob Band (Vice-Convener)
Councillor Harry Coates
Councillor Stewart Donaldson
Councillor David Illingworth
Councillor Xander McDade
Councillor Callum Purves

Audit Committee

Wednesday, 14 June 2017

AGENDA

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

- 1 WELCOME AND APOLOGIES**
- 2 DECLARATIONS OF INTEREST**
- 3 MINUTES**
 - (i) MINUTE OF MEETING OF THE AUDIT COMMITTEE OF 22 MARCH 2017 5 - 8**
 - (ii) MINUTE OF SPECIAL MEETING OF THE AUDIT COMMITTEE OF 18 APRIL 2017 9 - 14**
- 4 INTERNAL AUDIT UPDATE 15 - 22**

Report by Chief Internal Auditor (copy herewith 17/201)

 - (i) EDUCATION AND CHILDREN'S SERVICES**
 - (a) 17-02(A) - PERTH ACADEMY 23 - 30**

(copy herewith 17/202)
 - (ii) THE ENVIRONMENT SERVICE**
 - (a) 17-03 - CAPITAL PROGRAMME 31 - 42**

(copy herewith 17/203)
- 5 INTERNAL AUDIT FOLLOW UP 43 - 58**

Report by Chief Internal Auditor (copy herewith 17/204)
- 6 EXTERNAL AUDIT - KPMG - PERTH AND KINROSS COUNCIL INTERIM MANAGEMENT REPORT AND AUDIT STATUS SUMMARY - 31 MARCH 2017 59 - 80**

Report by External Auditor, KPMG (copy herewith 17/205)

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All Council Services can offer a telephone translation facility.

AUDIT COMMITTEE

Minute of meeting of the Audit Committee held in the Council Chambers, 2 High Street, Perth on Wednesday 22 March 2017 at 2.00pm.

Present: Councillors D Cuthbert, B Vaughan, H Anderson, K Baird, W Wilson and A Younger.

In Attendance: J Clark, C Irons, M Morrison, L Potter, L Simpson, J Symon and G Taylor (all Corporate and Democratic Services); J Cockburn (Education and Children's Services); S MacKenzie (Environment Service) and N Copland (Housing and Community Care).

Also in Attendance: A Shaw and M Wilkie, KPMG, External Auditors.

Apologies: Councillor J Giacomazzi

Councillor Cuthbert, Convener, Presiding.

168. WELCOME AND APOLOGIES/SUBSTITUTIONS

The Convener welcomed everyone to the meeting. An apology was noted as above.

In terms of Standing Order 13 the Committee agreed that the meeting be recorded for use as part of the elected member development programme following the Local Government Elections in May 2017.

169. SPECIAL MEETING

It was noted that a special meeting of the Committee was required to consider the Audit Plan for 2017/18 and other audit reports from 2016/17.

Resolved:

Following discussion it was agreed that a special meeting of the Audit Committee be held on Tuesday 18 April 2017 at 2.00pm.

170. DECLARATIONS OF INTEREST

There were no Declarations of Interest made in terms of the Councillors' Code of Conduct.

171. MINUTE

The minute of meeting of the Audit Committee of 1 February 2017 (Arts.68 – 73) was submitted and approved as a correct record and authorised for signature.

172. INTERNAL AUDIT FOLLOW-UP

There was submitted a report by the Chief Internal Auditor (17/115), presenting the Committee with a current summary of Internal Audit's follow up work.

In response to a question from Councillor W Wilson, L Simpson advised that the revised Contract Rules would be included in the Annual Procurement report to a future meeting of the Strategic Policy and Resources Committee.

Resolved:

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

173. INTERNAL AUDIT UPDATE

There was submitted a report by the Chief Internal Auditor (17/116) presenting a summary of Internal Audit's work against the 2016/17 Annual Plan, together with a summary of the outcome of consultancy assignments and additional work undertaken by Internal Audit, where appropriate.

In response to a question from Councillor B Vaughan, L Simpson advised that the governance arrangements for Tayside Contracts had not yet been signed due to an outstanding property issue.

J Clark responded to a question from Councillor W Wilson and confirmed that a report would be submitted to Committee if it was identified during a whistleblowing investigation that an action plan to address control issues or improvement was required. However, if there was no evidence to substantiate the allegations, no report would be required.

L Simpson added that if the whistleblowing process was to be followed in the strictest legal sense then disclosures would be protected, however, the term whistleblowing can be used more generically.

J Clark agreed to look at categorising whistleblowing investigations in future reporting as proposed by Councillor H Anderson.

In respect of work for the Health and Social Care Partnership - Integrated Joint Board (IJB), J Clark advised that time would be allocated in next year's audit plan for the IJB but there would be no details of these audits as reporting would be directly to the IJB.

With regard to the Audit Plan from April 2017 as detailed in Appendix D to Report 17/116, Councillor B Vaughan asked about the inclusion of an audit on the Council's Capital Programme which had been raised as an area of concern by Audit Scotland and this would be a means of informing Councillors of progress.

PERTH AND KINROSS COUNCIL
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22 MARCH 2017

S MacKenzie advised workshops had been held for Councillors and the Capital Programme was given focus in terms of the Council's objectives and the most effective way of reporting had to be agreed.

J Clark confirmed that the reporting would include an audit of the programme.

Resolved:

- (i) The progress with work on the Internal Audit Plan for 2016/17 be noted.
- (ii) The outcomes from consultancy work completed since the last Audit Committee on 1 February 2017 be noted.
- (iii) The outcomes from additional work, as detailed in Report 17/116, be noted.
- (iv) The proposed work plan for Internal Audit, as detailed in Report 17/116, be approved until a fuller plan was available for consideration at a the Special meeting of this Committee to be held on 18 April 2017.

The Committee considered the following final reports:-

(i) Corporate and Democratic Services

(a) 16-13 – ICT Performance and Capacity Management

There was submitted a report by the Chief Internal Auditor (17/117) on an audit to ensure that (1) framework and processes were in place for managing core ICT assets for the Council's requirements; (2) performance and technology capacity management planning exists and were working adequately and (3) performance and technology capacity reporting and assessment were carried out for the Council's core IT assets.

Resolved:

Internal Audit's findings, as detailed in report 17/117, be noted.

(ii) Housing and Community Care

(a) 16-18 – Housing Rents

There was submitted a report by the Chief Internal Auditor (17/118) on an audit to ensure (1) the Council's housing rental charges were accurately identified, collected and credited to the correct account; (2) the housing rental charges were calculated correctly in accordance with the Council's Rent Strategy and Financial Regulations and (3) the Council's records of housing rental charges were accurate, up-to-date and secure.

Resolved:

Internal Audit's findings, as detailed in Report 17/118, be noted.

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(b) 16-19 – Rent Arrears

There was submitted a report by the Chief Internal Auditor (17/119) on an audit to ensure that (1) arrangements for the detection and recovery of housing rent arrears were appropriate and effective and in compliance with Financial Regulations and (2) the calculation and reporting of rent arrears and related bad debt provision were accurate and appropriate.

Resolved:

Internal Audit's findings, as detailed in Report 17/119, be noted.

174. EXTERNAL AUDIT – AUDIT STRATEGY 2016/17

There was submitted and noted a report by the External Auditor, KPMG, (17/120) presenting the Audit Strategy for 2016/17.

A Shaw and M Wilkie of KPMG gave a summary of their Audit Strategy as the Council's auditors for the period 2016-17 to 2020-21.

J Symon stated that accounting issues would be clarified and developed with the new auditors.

Councillor B Vaughan queried the relationship of Culture Perth and Kinross in Appendix 6 to Report 17/120 as they were shown differently to Live Active Leisure Ltd and Horsecross Arts Ltd.

J Symon advised it was due to the level of control by the Council, however, it was a provisional assessment which showed Culture Perth and Kinross as an associate and Live Active Leisure Ltd and Horsecross Arts Ltd as subsidiaries and further information would be provided to KPMG to determine the status.

Councillor W Wilson commented on the style of the reporting and M Wilkie confirmed clarification of acronyms would be added.

Resolved:

The Audit Strategy for 2016/17 be noted

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## **AUDIT COMMITTEE**

Minute of special meeting of the Audit Committee held in the Council Chamber, 2 High Street, Perth on Tuesday, 18 April 2017 at 2.00pm.

Present: Councillors D Cuthbert, B Vaughan and K Baird.

In Attendance: J Clark, C Flynn, C Irons, M Morrison and L Simpson (all Corporate and Democratic Services); J Cockburn, C Mackie and J Pepper (all Education and Children's Services); B Renton, S D'All and H Hope (all Environment Service) and N Copland (Housing and Community Care).

Apologies: Councillors H Anderson, J Giacomazzi, W Wilson and A Younger.

Councillor Cuthbert, Convener, Presiding.

### **. WELCOME AND APOLOGIES/SUBSTITUTIONS**

The Convener welcomed everyone to the meeting. Apologies and substitutions were noted as above.

In terms of Standing Order 13, the Committee agreed that the meeting be recorded for use as part of the elected member development programme after the elections in May 2017.

### **. DECLARATIONS OF INTEREST**

There were no Declarations of Interest made in terms of the Councillors' Code of Conduct.

### **. INTERNAL AUDIT UPDATE**

There was submitted a report by the Chief Internal Auditor (17/142) presenting a summary of Internal Audit's work against the 2016/17 annual plan.

#### **Resolved:**

The completion of the Internal Audit plan for 2016/17 be noted.

The Committee considered the following final reports:-

#### **(i) Education and Children's Services**

##### **(a) 16-23 – Personalisation**

There was submitted a report by the Chief Internal Auditor (17/143) on an audit to ensure the adequacy of arrangements to support personalisation through Self-Directed Support (SDS).

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In response to a question from Councillor B Vaughan, J Pepper confirmed that lessons would be learned from the work undertaken by colleagues in Housing and Community Safety and that one Council-wide policy would be created instead of having two separate policies, J Pepper confirmed that the Scottish Government target date of 2020 would be met and the policy would be reported to the appropriate Council committee.

Councillor D Cuthbert asked about completion of the Audit Scotland matrix showing the self-evaluation of SDS and C Mackie advised this would take time as each team would need to be consulted to ensure that the needs of the service were matched. C Mackie also confirmed that the SWIFT Computer system currently used should accommodate future needs.

**Resolved:**

Internal Audit's findings, as detailed in report 17/143, be noted.

J Pepper and C Mackie left the meeting at this point.

**(ii) Environment Service**

**(a) 16-27 – Events and Festivals**

There was submitted a report by the Chief Internal Auditor (17/144) on an audit to ensure that there were adequate arrangements in place regarding events and festivals.

B Renton confirmed that there was currently a register of all events with details of both internal and external partners. The Events and Festivals Strategy focuses on small and larger scale events and it was noted that small events could still present a high risk. It was also noted that the information on the Council's website relating to holding events would be revised to provide clearer information.

**Resolved:**

Internal Audit's findings, as detailed in report 17/144, be noted.

**(b) 16-25 – Parking Services**

There was submitted a report by the Chief Internal Auditor (17/145) on an audit to ensure that (1) there were adequate controls in place over the collection, recording and monitoring of parking services income and (2) there were adequate arrangements in place in respect of the management of parking services.

Councillor D Cuthbert noted the short timescales for completion of the actions and Councillor B Vaughan noted that testing had

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confirmed the reputational risk was being managed as per the Parking Services Reputational Management Plan.

H Hope acknowledged that a comprehensive audit had been carried out and Parking Services were pleased that the controls had been determined as moderately strong.

With regard to the use of body-worn cameras, audio and video footage had been used to ensure the safety of parking attendants as well as the public. Following changes in national guidance, the cameras would not be used continually but only when attendants consider there would be an advantage to recording proceedings, such as when a penalty notice was being issued or they feel an incident may arise.

A Privacy Impact Assessment being undertaken on the use of the cameras would be concluded by the end of April 2017.

**Resolved:**

Internal Audit's findings, as detailed in report 17/145, be noted.

**(c) 16-22 – Roads Maintenance Partnership**

There was submitted a report by the Chief Internal Auditor (17/146) on an audit to ensure the adequacy of the ongoing monitoring and delivery of the Roads Maintenance Partnership Improvement Plan and the relevant files.

B Renton referred to the previous audit report and follow-up and confirmed improvements had been made, although there was one outstanding action relating to electronic file management. Discussions had taken place with another authority on purchasing a file management system, however, the other authority was unable to proceed.

It was noted that the Roads Maintenance Partnership was a shared service arrangement comprising elements of the Council and Tayside Contracts and was understood to be the only example of collaboration in Roads Maintenance.

B Renton advised that the governance arrangements were those approved in 2012 and J Valentine and herself met monthly with Tayside Contracts to ensure everything was in order.

B Renton concluded that significant improvements had been made but there was further work to do.

Councillor B Vaughan referred to a previous report which advised that there would be visits to other areas to see their electronic file

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management system, and S D'All confirmed visits had taken place with Dundee City and Angus Councils, however, none of the systems were robust enough to take on the three authorities.

Councillor D Cuthbert queried the expiry of the Road Maintenance Partnership Agreement and it was noted that there was a Memorandum of Understanding for the contract and staff were still working to the previous terms.

B Renton confirmed that independent monitoring of the arrangements was undertaken two or three times a year and while written feedback took a little longer, verbal feedback was provided quickly.

**Resolved:**

Internal Audit's findings, as detailed in report 17/146, be noted.

**(d) 16-16 – Transformation**

There was submitted a report by the Chief Internal Auditor (17/147) on an audit to ensure that there were adequate processes for the oversight of the transformation programme.

It was noted that the highlight report referred to would provide the discipline for monthly reporting and any slippage in the programme would be highlighted.

**Resolved:**

Internal Audit's findings, as detailed in report 17/147, be noted.

B Renton, S D'All and H Hope left the meeting at this point.

**(iii) Housing and Community Safety**

**(a) 16-24 – Commissioned Services – Care at Home**

There was submitted a report by the Chief Internal Auditor (17/148) on an audit to ensure (1) the Council's strategy on the commissioning of contracts for Care at Home Services was up-to-date and complied with current legislation, Financial Regulations and the Corporate Plan; (2) that Care at Home Services contract commissioning procedures (a) were in line with approved strategy and support changing user needs and the Council's improvement priorities and (b) included appropriate and effective contract monitoring and control provisions.

**Resolved:**

Internal Audit's findings, as detailed in Report 17/148, be noted.

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**(b) 16-04 – Swift System**

There was submitted a report by the Chief Internal Auditor (17/149) on an audit to ensure that (1) support and maintenance arrangements were in place for the SWIFT system; (2) adequate physical and logical access controls were in place for SWIFT; (3) there were adequate controls for data input and data integrity in SWIFT and (4) there were adequate retention and output controls applied to SWIFT data.

Councillor D Cuthbert queried the level of risk for data transfer when providing a replacement system and also when the current system would cease to be supported.

N Copland advised a three year period of de-commissioning the current system had been offered, however, all authorities involved have requested a five year period. A report on the new system was to be provided to the internal management team in autumn 2017, and it would be ensured that data migration and security arrangements were in place, and the transfer would be on a phased and prioritised basis.

Councillor B Vaughan asked about alternative systems as only a minority of Local Authorities were using SWIFT.

N Copland confirmed there were two options, the alternative was a MIS system which was being developed by NHS Tayside which was also looked at.

With regard to Action Point 3, Councillor B Vaughan referred to password authentication and as there had been issues with this in other audits, requested that this be escalated to make all Services aware of this practice. J Clark advised she would raise this with the Information Compliance Manager to ensure that all Services were made aware.

**Resolved:**

Internal Audit's findings, as detailed in Report 17/149, be noted.

**INTERNAL AUDIT STRATEGY AND PLAN 2017/18**

There was submitted and noted a report by the Chief Internal Auditor (17/150) presenting the Audit Strategy for the delivery of Internal Audit and the proposed Internal Audit Plan for April to September 2017.

J Clark confirmed that a protocol was to be established on audit work for the Integrated Joint Board (IJB) as some reports would be submitted to the Council while others would be submitted to the IJB.

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18 APRIL 2017

**Resolved:**

The Internal Audit plan from April to September 2017 be approved.

**INTERNAL AUDIT ANNUAL REPORT 2016/17**

There was submitted a report by the Chief Internal Auditor (17/151) presenting the year-end report and audit opinion of the Chief Internal Auditor for 2016/17, as set out in section 7 of Report 17/151.

Councillor D Cuthbert commended the Audit Team for completing the 2016/17 Audit Plan on time and within budget. Councillor B Vaughan added that it was the third year this had been achieved and whilst it was unfortunate some controls were still weak or moderately weak, 86% of the actions had been completed within the year. J Clark confirmed that of 188 agreed actions, 114 had a completion date within 2016/17.

**Resolved:**

The Audit Opinion at section 7 of Report 17/151, be noted.

**VALEDICTORY**

As this was the last meeting of the Audit Committee prior to the Local Government Elections on 4 May 2017, Councillor D Cuthbert thanked the Audit Team, all staff and Committee members for their contribution to the Committee. In particular he thanked Councillor B Vaughan for her huge contribution over the last ten years.

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PERTH AND KINROSS COUNCIL**Audit Committee****14 June 2017****INTERNAL AUDIT UPDATE****Report by the Chief Internal Auditor****PURPOSE OF REPORT**

This report presents a summary of Internal Audit's work against the 2017/18 annual plan.

1. BACKGROUND / MAIN ISSUES

- 1.1 The Public Sector Internal Audit Standards (PSIAS) require that the Chief Internal Auditor reports periodically to the Audit Committee on internal audit activity and on performance relative to the approved plan.
- 1.2 Work has been commenced on assignments included within the Internal Audit Plan for 2017/18.
- 1.3 Since April 2017, Internal Audit have been contacted on two occasions to provide advice and assurance to services regarding specific issues. Internal Audit will follow up on these areas during the year. This unplanned workload is contained within the resources allocated as part of the Internal Audit Planning process. The Audit Committee will be informed if there is any change to this situation.
- 1.4 Internal Audit has continued to work with colleagues in NHS Tayside to support the Audit and Performance Committee of the Integrated Joint Board.
- 1.5 Internal Audit has continued to facilitate the National Fraud Initiative to ensure that Services are investigating relevant data matches appropriately.
- 1.6 Appendix A details those assignments where work has been completed since the last report to the Audit Committee. Where appropriate, Internal Audit Reports for these assignments will be presented to the Audit Committee.
- 1.7 Appendix B shows a summary of each audit previously approved as part of the 2016/17 plan, along with the date that the outcome has been considered by Audit Committee.

2. CONCLUSION AND RECOMMENDATIONS

- 2.1 This report presents a summary of Internal Audit's work against the 2017/18 annual plan.
- 2.2 It is recommended that the Committee notes the progress of work against the plan for 2017/18.

Author(s)

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

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

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

1. Strategic Implications

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.

2.2 Risk

- 2.2.1 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**

3.1 Internal

- 3.1.1 The Chief Executive and 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 – Audit Activity Completed Since The Last Report To Audit Committee

Appendix B – Progress With Assignments Approved In The Internal Audit Plan for 2016/17

INTERNAL AUDIT UPDATE**Internal Audit Activity Completed Since The Last Report To Audit Committee**

Audit No.	Audit Title	Service
17-02	Financial Management of Schools: Perth Academy	Education & Children's Services
17-03	Capital Programme	The Environment Service

Progress With Assignments Approved In The Internal Audit Plan for 2017/18 as at May 2017

Audit No.	Audit Title	Original Anticipated Audit Committee	Assignment brief approved	Factual accuracy confirmed	Draft Report issued	Final Report issued	Audit Committee Date ^
17-01	General Outcome Focussed Assessment	September 2017					
17-02	Financial Management of Secondary Schools: Perth Academy Kinross High School	June 2017 September 2017	April 2017 April 2017	May 2017	May 2017	May 2017	June 2017
17-03	Capital Programme	June 2017	April 2017	May 2017	May 2017	May 2017	June 2017
17-04	Partnership Working – Community Justice Partnership	November 2017					
17-05	Management of Contracts	September 2017					
17-06	Northgate Housing	November 2017					
17-07	Financial Assessment and Charging Follow Up	November 2017					
17-08	Integrated Adult & Social Care	Not applicable. Outcomes will be reported directly to the Integrated Joint Board					
17-09	Child's Plan	September 2017					
17-10	Embedding new Risk Management Arrangements	March 2018					

Audit No.	Audit Title	Original Anticipated Audit Committee	Assignment brief approved	Factual accuracy confirmed	Draft Report issued	Final Report issued	Audit Committee Date ^
17-11	IR35	September 2017					
17-12	Arms Length External Organisations	November 2017					
17-13	Transformation	March 2018					
17-14	Corporate Governance	March 2018					
17-15	Community Empowerment	November 2017					
17-16	New Process Development	November 2017					
17-17	Bus Service Operators Grant	September 2017	It is not anticipated that reports will be required to be issued for the certification of grant claims. Reports will only be issued where weaknesses in controls are identified which require action.				

It is not anticipated that reports will be required to be issued for the certification of grant claims. Reports will only be issued where weaknesses in controls are identified which require action.



Internal Audit Report
Education & Children's Service
Financial Management of Schools
Perth Academy 17-02(a)
May 2017

Final Report

Legal & 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)

On 27th March 2013, 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 2017/18, which was presented to the Audit Committee on 18 April 2017.

Financial Policies and Procedures have been prepared by the Education & Children’s Services (ECS) Finance Support Team. They provide the framework for financial management in establishments within the Service.

Perth Academy is one of the oldest schools in Scotland, situated at Viewlands serving secondary pupils within a small catchment area.

Scope and Limitations

In order to arrive at an opinion on the achievement of the control objectives, the audit included interviews with the staff in ECS’s Finance Support Team and visits to Perth Academy to review and test Financial Policies and Procedures. Visits to the school took place during April 2017 and May 2017.

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 that the school is managed in accordance with the Financial Procedures as laid down by Education and Children’s Service.
Audit Comments: The Council’s Financial Regulations are supplemented by Education & Children’s Services, Financial Policies and Procedures which support financial management of schools and are published on Eric. Audit review highlighted that some of the Financial Policies and Procedures would benefit from being reviewed and updated to reflect current good practices.
The school did not have specific written procedures for the daily office routines/duties to be followed, for use in the event of unplanned staff absences. However, the service advised that procedures were being progressed.
Professional Electronic Commerce on Line System (PECOS) is used for ordering goods and services. Audit confirmed that purchases were carried out in accordance with procedural requirements

Internal Audit Report

The financial management information was up to date. Monthly monitoring statements were being prepared, reflecting the current budget, committed and spend to date with the projected outturn highlighting any over/under spends. These statements are reviewed by the Business Manager, and the school's financial management system is updated to reflect current spend and out turn.

The petty cash was found to be held securely, controlled and authorised adequately with proof of purchases available for transactions; in accordance with procedural requirements.

The ECS finance support team carried out a School Fund compliance visit at Perth Academy in April 2017. The visit confirmed that financial policies and procedures were, overall being adhered to in respect of School Funds. ECS finance has confirmed that the actions arising from the compliance visit have since been completed.

Audit confirmed that overall the school is being managed well and in accordance to the available/published ECS Financial Policies and Procedures.

Strength of Internal Controls:	Moderately Strong
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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 Education and Children's Services Finance Support Team and the staff at St Johns RC Academy 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:

B Malone, Chief Executive

J Fyffe, Senior Depute Chief Executive, ECS (Equality, Community Planning and Public Service Reform)

S Devlin, Director, Education & Children's Services

R Hill, Head of Education (Secondary & Inclusion)

S Johnston Head of Education (Early Years & Primary)

K McNamara, Head of Strategic Commissioning and Organisational Development

L Simpson, Head of Legal Services

J Lothian, Rector, Perth Academy

G Boland, Senior Business and Resources Manager

J Cockburn, Finance and Governance Manager

G Taylor, Head of Democratic Services

J Symon, Head of Finance

M Mitchell, Corporate Procurement Manager

External Audit

Authorisation

The auditor for this assignment was J O'Connor. The supervising auditor was M Morrison.

This report is authorised for issue:

Jacqueline Clark
Chief Internal Auditor
Date:

Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1	Internal procedures	Low
2	Financial Policies & Procedures	Low

Appendix 2: Action Plan

Action Point 1 - Internal Procedures

It was noted that there was a lack of documented internal procedures. Whilst staff are aware of their day to day duties, in the event of absence of a member of staff, the daily routines may not be followed in their entirety and as such, control checks may not be carried out correctly.

There is a risk that without the required level of guidance daily routines will not be carried out in an efficient manner particularly if there is an unplanned staff absence

Management Action Plan

Daily routines will be documented providing clear actions to be taken in the event of the absence of a member of clerical staff.

Importance:	Low
Responsible Officer:	C Leishman, Business Manager
Lead Service:	Education & Children's Services
Date for Completion (Month / Year):	August 2017
Required Evidence of Completion:	Documented daily routines

Auditor's Comments

Satisfactory

Action Point 2 – Financial Policies & Procedures

Audit review highlighted that the Financial Policies and Procedures would benefit from being updated to reflect current financial regulations.

In addition, there is scope to review and revise procedures in respect of grants, inventory, insurance and purchases of supplies and services to reflect current good practises.

Management Action Plan

- a) The Financial Policies and Procedures will be reviewed and updated to reflect the current financial regulations and the updated procedures detailed below
- b) Procedures in respect of grants and inventory will be reviewed and updated
- c) Procedures in respect of insurance will be reviewed and updated
- d) Procedures in respect of purchases of supplies and services will be reviewed and updated.

Importance:	Low
Responsible Officer:	a) and b) L Oswald, Assistant Finance Manager c) B Wilson, Senior Corporate & Insurance Claims Officer d) L Prentice, Project Manager (Procurement)
Lead Service:	a) and b) Education and Children's Services c) and d) Corporate and Democratic Services
Date for Completion (Month / Year):	a) and b) July 2017 c) and d) June 2017
Required Evidence of Completion:	a),b) c) and d)Updated Financial Policies and Procedures

Auditor's Comments

Satisfactory



Internal Audit Report
The Environment Service
Capital Programme
17-03
May 2017

Final Report

Legal & 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)

On 27th March 2013, 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 2017/18, which was presented to the Audit Committee on 22nd March 2017.

The Council’s Capital Programme funds expenditure on the purchase, improvement and enhancement of assets which provide long term benefit to the community, such as schools, roads and housing. It is made up of a series of individual projects and works programmes.

The current approved budget for the Capital Programme is approx. £660.1m gross and the budget is managed as two separate packages; the composite capital programme (circa £558.5m), which deals with the funding of capital expenditure on general fund services; and the housing investment programme (circa £101.6k), which deals with the funding of capital expenditure on the Housing Revenue Account.

Arrangements in place regarding capital investments has been the subject of scrutiny and review over the last 5 years from both internal and external sources, including an Accounts Commission report in March 2013. The Council has developed a range of measures in 2013 and beyond to improve governance, procedures and reporting, including the creation of a Capital Programme Office in 2014.

Audit testing was carried out in April and May 2017

Scope and Limitations

The audit considered arrangements in place to support the delivery of the Capital Programme.

The review consisted of analysis of documentation, governance arrangements and interviews with relevant officers.

The audit did not examine expenditure in relation to the housing investment programme at this time.

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.

Internal Audit Report

Control Objective: To ensure that there is adequate consideration of budget and strategy when planning the Capital Programme

Audit Comments:

Internal Audit testing confirmed that there is adequate consideration of budget and strategy when planning the Capital Programme.

A Treasury and Investment Strategy is approved by Council on an annual basis. This details considerations in regards to investment planning and outlines the borrowing strategy for future years. This is supplemented by a Composite Capital Budget report which details the proposed programme. This gives information on the process and rationale for Composite Capital Programme budget allocation.

Both of these documents are completed annually and outline the strategy for a rolling 7-year programme. For the year 2024/25 the Council deferred this budget setting process until February 2018, as referred to within the 2017 Treasury and Investment Strategy report to Council on 22nd February 2017.

There is a defined application, assessment and approval process for inclusion in the Composite Capital Programme. This has been developed in recent years and includes scoring criteria for ranking capital bids, standardised business case documentation and a process framework. The culmination of these demonstrates consideration and scrutiny to ensure that the most appropriate projects and programmes, linked to Council objectives, are approved and included.

The Capital Programme Office recognises that there were a small number of strategically aligned proposals approved by Council in 2016 which were not subject to the full application and assessment process. The Service advises that these are reflective of changes to local economic priorities which arose during the application and assessment timeframe. In advance of the next budget setting exercise, processes will be reviewed to take account of such inclusions.

Strength of Internal Controls:

Strong

Control Objective: To ensure that there are effective controls in place to monitor, report and deliver the Capital Programme

Audit Comments:

Internal Audit testing confirms that overall there are effective controls in place to monitor, report and deliver the Capital Programme.

The Capital Programme Office has developed an informative intranet site and project management toolkit to assist with consistent delivery of the Capital Programme. This contains relevant information, templates and links detailing project development, management and monitoring expectations. Training has been carried out with project personnel and elected members and future training needs will continue to be identified and supported.

There is a clearly documented governance framework in place and appropriate reports are being submitted to Committees and Officers in line with this. However, the service acknowledges that there is scope to further improve governance

through the introduction of a programme-wide risk register.

There is evidence of relevant financial and performance scrutiny of the Capital Programme. This is supported by; standardised key milestones, monitoring by Finance officers, and the role performed by the Capital Programme Office in relation to information collation, liaison and reporting. There may be benefit, however, in introducing a control check to ensure financial information provided to Senior Managers and the Strategic Policy & Resources Committee is reported consistently.

Audit confirmed that the Capital Programme Office is continuing to develop management systems which will further improve the control environment and assist in evaluating outcomes and informing future programmes. This includes digitising information to improve assurance in reporting, key stage assessment for project assurance and reporting of project evaluation to inform best practice and measure the benefits of capital expenditure.

A small number of areas where documentation would benefit from revision have also been identified.

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 the Capital Programme Office and Finance Officers 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:

B Malone, Chief Executive

J Valentine, Depute Chief Executive Sustainability, Strategic and Entrepreneurial Development

B Renton, Director (Environment)

S MacKenzie, Head of Performance and Resources

L Simpson, Head of Legal and Governance Services

J Symon, Head of Finance

K McNamara, Head of Strategic Commissioning and Organisational Development

G Taylor, Head of Democratic Services

N Ballantine, Capital Programme Manager

J Jennings, Senior Accountant

External Audit

Authorisation

The auditor for this assignment was L Ferguson. The supervising auditor was M Morrison.

This report is authorised for issue:

Jacqueline Clark
Chief Internal Auditor
Date: 18 May 2017

Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1	Inclusion Process	Medium
2	Programme-wide Risk Register	Medium
3	Manual Recording	Low
4	Project Assurance	Low
5	Evaluation	Low
6	Documentation	Low

Appendix 2: Action Plan

Action Point 1 - Inclusion Process

There is a defined application, assessment and approval process for project inclusion within the Capital Programme.

A small number of proposals approved by Council in 2016 were not subject to this full process. The Capital Programme Office recognises this and has worked with Services to develop relevant documentation to support these projects and programmes.

Management Action Plan

The Capital Programme inclusion process will be reviewed to take account of those strategic projects added to the programme in accordance with Council's agreed priorities.

Importance:	Medium
Responsible Officer:	N Ballantine, Capital Programme Manager
Lead Service:	The Environment Service
Date for Completion (Month / Year):	December 2017
Required Evidence of Completion:	Updated capital programme inclusion process

Auditor's Comments

Satisfactory

Action Point 2 - Programme-wide Risk Register

The Capital Programme Office has developed processes to ensure that risks to individual projects and programmes are captured and reviewed.

However, in line with recommendations from external scrutiny, there is scope to introduce a programme-wide risk register. Documentation, and systematic reporting, of this would assist the Council and Senior Managers in assessing risks which may impact upon successful delivery of the Capital Programme.

Management Action Plan

A Capital Programme-wide risk register will be documented and approved to ensure that all risks are captured and assessed on a timely basis.

Importance:	Medium
Responsible Officer:	N Ballantine, Capital Programme Manager
Lead Service:	The Environment Service
Date for Completion (Month / Year):	December 2017
Required Evidence of Completion:	Capital programme-wide risk register detailing review frequency

Auditor's Comments

Satisfactory

Action Point 3 - Manual Recording

There is evidence of a governance structure, appropriate reports being reviewed and scrutiny of the Capital Programme. There is, however, a risk of data error due to the manual recording systems in place.

Internal Audit identified 2 instances where financial expenditure information provided to the Corporate Resource and Strategic Investment Groups differed from that provided to the Strategic Policy and Resources Committee.

Therefore, there is scope to introduce a control check to ensure consistency of financial information within reporting until a fully digitised system is in place.

Management Action Plan

- a) Options for digitising information are being progressed.
- b) A control check will be introduced to ensure financial information provided to Strategic Policy and Resources Committee is consistent to that provided to Corporate Resource and Strategic Investment Groups.

Importance:	Low
Responsible Officer:	a) N Ballantine, Capital Programme Manager b) J Jennings, Senior Accountant
Lead Service:	a) The Environment Service b) Corporate and Democratic Service
Date for Completion (Month / Year):	a) December 2018 b) September 2017
Required Evidence of Completion:	a) Contract evidencing digital system in place b) Evidence of control check

Auditor's Comments

Satisfactory

Action Point 4 - Project Assurance

There is evidence of project assurance being trialled for newer projects and programmes. However, the scope and format of key stage evaluation has yet to be fully determined.

Management Action Plan

The Capital Programme Office has been consulting with relevant Heads of Service and Senior Managers to identify the most appropriate form of key stage evaluation. Once an appropriate format has been determined this will be incorporated into the project management toolkit and procedures for the Capital Programme Office.

Importance:	Low
Responsible Officer:	N Ballantine, Capital Programme Manager
Lead Service:	The Environment Service
Date for Completion (Month / Year):	December 2017
Required Evidence of Completion:	Procedure outlining gateway/project assurance review

Auditor's Comments

Satisfactory

Action Point 5 - Evaluation

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.

Management Action Plan

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.

Importance:	Low
Responsible Officer:	N Ballantine, Capital Programme Manager
Lead Service:	The Environment Service
Date for Completion (Month / Year):	a) May 2018 b) December 2018
Required Evidence of Completion:	a) Progress report on the agreed action b) Approved process for reporting of lessons learned and benefits realisation, including sample reports

Auditor's Comments

Satisfactory

Action Point 6 - Documentation

Internal Audit has identified a small number of areas where Capital Programme documentation may benefit from revision and application of version control.

These include:

- defining the categories used to segment and inform the reporting structure of the projects within the Capital Programme
- updating the Capital Programme Office Team Plan to reflect all ongoing developments

Management Action Plan

Documentation will be updated as per the minor issues log provided by Internal Audit.

Importance:	Low
Responsible Officer:	N Ballantine, Capital Programme Manager
Lead Service:	The Environment Service
Date for Completion (Month / Year):	December 2017
Required Evidence of Completion:	Confirmation that areas outlined on minor issues log have been addressed

Auditor's Comments

Satisfactory

PERTH AND KINROSS COUNCIL

Audit Committee

14 June 2017

INTERNAL AUDIT FOLLOW UP

Report by Chief Internal Auditor

PURPOSE OF REPORT

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

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. To assist the Audit Committee, the appendices to this report provide information on those actions that have not been implemented in accordance with the original agreed timetable, or where there is insufficient information on the current situation. Some dates have been revised and agreed with Services in recognition of the need for more time to complete the actions.
- 1.2 Appendix A presents a summary of the number of actions arising from internal and external audit reports.
- Table 1 shows the total number of agreed actions which Internal Audit will be following up even where the originally agreed completion dates have not yet been reached; the total number of actions is 115.
 - Table 2 shows the number of agreed actions that have been reported as incomplete as at their original agreed completion date. These total 27, of which 13 had a completion date of January to March 2017 and are therefore detailed in the following Appendices B to E.
 - A further 14 actions not completed by their original date have been allocated revised dates for completion after 31 March 2017 and progress will be reported on these at a future Committee.
 - The number of agreed actions which have yet to be followed up as the date for completion is after 31 March 2017 is 88.
- 1.3 In both tables, the actions are grouped by Service and reported by 'importance' of the agreed actions. The importance of each action is documented in the original Internal Audit reports considered by the Audit Committee. Reported importance ratings range from 'critical', where there are significant financial, reputation, legal, performance, or safety issues, to 'low', where the risks are lower but there may be opportunities for improving processes and procedures. Reports produced by Audit Scotland do not explicitly state the importance of each individual action and are therefore included in the tables as 'not rated'.

- 1.4 Appendices B to E present detailed follow-up information in respect of actions agreed for completion in the period of January to March 2017. The appendices also record service management's explanations of the status of each action point and internal audit comments where relevant.
- 1.5 The Audit Committee has requested information regarding any action with a 'critical' or 'high' risk rating which has not been completed on its originally agreed date. Table two highlights seven such instances of 'high' risk actions. Six of these actions relate to actions arising for Services from the Information Sharing audit. Progress on these were reported to Audit Committee in March 2017 (Report 17/115 refers). The further action relates to The Environment Service's LEADER audit and appears on Appendix E.

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 and external 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

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

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

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.

2.2 Risk

2.2.1 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**

3.1 Internal

3.1.1 The Chief Executive and all 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 A - Summary of Agreed Actions

Appendix B - Audit Follow-Up Corporate & Democratic Services

Appendix C - Audit Follow-Up Education & Children's Services

Appendix D – Audit Follow Up Housing & Community Safety

Appendix E - Audit Follow-Up The Environment Service

Summary of Agreed Actions

Table 1: All Agreed Actions for Follow-Up as at 31 March 2017 (figures in brackets reported in March 2017). This table includes actions not yet due for completion.

Service	Importance					
	Critical	High	Medium	Low	Not Rated	Total
Corporate & Democratic Services	0 (0)	1 (0)	9 (15)	13 (15)	2 (2)	25 (32)
Education & Children's Services	0 (0)	7 (4)	6 (4)	7 (8)	0 (0)	20 (16)
Housing & Community Care	0 (0)	4 (5)	7 (8)	9 (9)	0 (0)	20 (22)
The Environment Service	0 (0)	5 (6)	22 (12)	23 (2)	0 (0)	50 (20)
All Services	0 (0)	17 (15)	44 (39)	52 (34)	2 (2)	115 (90)

Table 2: All Actions Reported as Incomplete on their Original Agreed Date

Service	Importance					
	Critical	High	Medium	Low	Not Rated	Total
Corporate & Democratic Services	0 (0)	1 (0)	3 (4)	4 (3)	2 (2)	10 (9)
Education & Children's Services	0 (0)	2 (2)	2 (2)	0 (0)	0 (0)	4 (4)
Housing & Community Care	0 (0)	2 (2)	1 (3)	2 (0)	0 (0)	5 (5)
The Environment Service	0 (0)	3 (4)	5 (3)	0 (0)	0 (0)	8 (7)
All Services	0 (0)	8 (8)	11 (12)	6 (3)	2 (2)	27 (25)
Actions with a completion date of January to March 2017 which have not been completed and therefore included on Appendices B to E						13
Those actions where the agreed date is not January to March 2017 which have been previously reported to Audit Committee						14

**Audit Follow-up
Corporate & Democratic Services
(Reporting for All dates on or before: March 2017)**

Action Plan	Dates	Status/Explanation
<p>15-35 - Optimum Action Point : 1 - Review of Standing Data Importance: Low</p> <p>Audit Committee Date: March 2016</p> <p>The Service were aware of the complexities of the standing data with regard to work patterns. Once the final phase of the migration of Education & Children's Services staff onto Leave Management, there will be a housekeeping exercise undertaken to ensure that only those work patterns which are current are retained. This will avoid the need to remove standing data which may be subsequently required in the final phase</p> <p>(S Liston, ISD Team Leader)</p>	<p>Feb 2017 July 2017</p>	<p>Work Patterns in Optimum will be updated to obsolete any redundant patterns in excess of 36 hours per week for single status staff by 31 July 2017.</p> <p>Internal Audit Opinion: Satisfactory</p>
<p>16-02 – Credit Cards Action Point: 9 - In-house Catering and Corporate Hospitality Importance: Medium</p> <p>Audit Committee Date: September 2016</p> <p>The Head of Legal and Governance Services will review the relevant Gifts and Hospitality policy to ensure that there is clarity regarding the provision of corporate hospitality.</p> <p>(L Simpson, Head of Legal & Governance Services)</p>	<p>Mar 2017 Sep 2017</p>	<p>Draft Amendment to the Gifts and Hospitality policy currently under consideration by officers..</p> <p>Internal Audit Opinion: Satisfactory</p>

Action Plan	Dates	Status/Explanation
<p>16-02 – Credit Cards Action Point: 10 – In-house Catering and Corporate Hospitality Importance: Medium</p> <p>Audit Committee Date: September 2017</p> <p>The credit card guidelines will subsequently be linked to the revised Gifts and Hospitality Policy</p> <p>(R Goldby, Senior Incomes Officer)</p>	<p>Mar 2017 Sep 2017</p>	<p>This action can only be completed upon the completion of the above action.</p> <p>Internal Audit Opinion: Satisfactory</p>
<p>16-03 - Sales Ledger Action Point : 6 - Credit Note Authority Importance: Medium</p> <p>Audit Committee Date: November 2016</p> <p>The e-form for Credit Notes has been developed and is currently being piloted with one of the Services. It is anticipated that the form will be fully developed and implemented by March 2017.</p> <p>(E Sturgeon, Chief Exchequer Officer)</p>	<p>Mar 2017 Jun 2017</p>	<p>The Service states that a pilot has taken place within one Service, which accounts for 61% of all credit notes raised. The pilot highlighted changes which are necessary. However, the Financial Systems Team, who will be heavily involved with the roll out of the new process, are unable to progress this due to critical year end processes and the roll out will be delayed until June 2017.</p> <p>Internal Audit Opinion: Satisfactory</p>
<p>16-03 - Sales Ledger Action Point : 7 – Reasons for Raising Credit Notes Importance: Low</p> <p>Audit Committee Date: November 2016</p> <p>The credit note e-form currently being piloted, as discussed in Action Point 6 includes explanations for the raising of the credit notes identifying the</p>	<p>Jan 2017 Jun 2017</p>	<p>The response to action point 6 above identifies a delay in roll out to all remaining Services to June 2017.</p> <p>The system recording of a more detailed reason for the issue of a credit note, the subject of this action point, is currently being used for 61% of all Council credit notes, i.e. those raised through the e-form pilot in Community Care.</p>

Action Plan	Dates	Status/Explanation
<p>error in the original invoice. The effective implementation of these controls will ensure that the reason for raising the credit note is held on the system.</p> <p>(E Sturgeon, Chief Exchequer Officer)</p>		<p>Internal Audit Opinion: Satisfactory</p>
<p>16-17 - Pupil Support Action Point : 4 - Arrangements Under Review Importance: Medium</p> <p>Audit Committee Date: February 2017</p> <p>HR will document procedures aligning to the process of allocation of PSA and PST resource. This will include reference to responsibilities in relation to managing mileage claim length and contract terms and changes; systems of version control and improved record keeping relating to the PSA transfer process.</p> <p>(S McLeod, Senior HR Officer)</p>	<p>Feb 2017 June 2017</p>	<p>The PSA allocation exercise is currently underway for this year. This is the first year that HR has led this exercise. The procedures will be reviewed and finalised thereafter.</p> <p>Internal Audit Opinion: Satisfactory</p>
<p>Audit Scotland 6 - Annual report on the 2011/12 audit Action Point : 11 - Action point 4.1</p> <p>Audit Committee Date: January 2013</p> <p>The Head of Legal Services will review the Minute of Agreement for Tayside Contracts.</p> <p>(L Simpson, Head of Legal & Governance Services)</p>	<p>Jun 2013 Oct 2013 Apr 2014 Dec 2014 Jun 2015 Oct 2015 Apr 2016 Mar 2017 Sep 2017</p>	<p>The Minute of Agreement is still awaiting signing by Angus and Dundee City Councils.</p> <p>Internal Audit Opinion: Accepted</p>

**Audit Follow-up
Education & Children's Services
(Reporting for All dates on or before: March 2017)**

Action Plan	Dates	Status/Explanation
<p>16-06(b) - Financial Management - St Johns RC Academy Action Point : 1 - Internal Procedures Importance: Low</p> <p>Audit Committee Date: November 2016</p> <p>Daily routines relating to financial management to be documented so that it is clear what actions are to be taken in the event of the absence of a member of clerical staff.</p> <p>(S McIntosh, Business Manager)</p>	<p>Mar 2017 Aug 2017</p>	<p>Work has commenced to document the daily procedures however this has yet to be completed. It is anticipated that this can be in place for the new academic year.</p> <p>Internal Audit Opinion: Satisfactory</p>
<p>16-11 - Management of the Relationship with Horsecross Art Action Point : 1 - Key Person Dependency Importance: Medium</p> <p>Audit Committee Date: February 2017</p> <p>The situation regarding key person dependency will be reviewed to ensure the risk is addressed.</p> <p>(J Fyffe, Senior Depute Chief Executive)</p>	<p>Feb 2017 Aug 2017</p>	<p>The revised Service Level Agreement has yet to be finalised. Once it is finalised, it will include contingency arrangements to manage the risk of key person dependency.</p> <p>Internal Audit Opinion: Satisfactory</p>

**Internal Audit Follow-up
Housing & Community Care
(Reporting for All dates on or before : March 2017)**

Action Plan	Dates	Status/Explanation
<p>14-16 - Housing Repairs Action Point : 10 - Verification: timeliness and meeting the specification of emergency Importance: Medium</p> <p>Audit Committee Date: March 2015</p> <p>HRIS is already in close contact with the Council's IT Service in order to improve the capability of our mobile technology, in accordance with Housing's Technology and Improvement Plan.</p> <p>(J Beverley, Housing Repairs Service Manager)</p>	<p>Dec 2015 Mar 2017 Oct 2017</p>	<p>The Service states that as part of the corporate IT Transformation project, Housing Repairs is to be an early adopter of the corporate IT mobile working solution; this has resulted in working with a different system and supplier from that anticipated at the last update.</p> <p>The date for this project has been delayed due to integration issues with Total Mobile and therefore it is not anticipated that this action point will be completed until October 2017.</p> <p>Audit Opinion: Accepted</p>
<p>16-09 - Housing Options Action Point: 3 - Training Toolkit Importance: Low</p> <p>Audit Committee Date: September 2016</p> <p>The Service will continue to be involved in the Training Toolkit Steering Group to ensure that the toolkit is piloted in the first quarter of 2017.</p> <p>(E Ritchie, Service Manager)</p>	<p>Mar 2017 Sep 2017</p>	<p>The Service states that the toolkit roll out is being extended by the Scottish Government. Additional funding will provide for all 32 local authorities and 1 housing association. As a result and following changes to legislation, the project will not now meet its anticipated timescales. Project milestones will include the successful tender, before the supplier can build the toolkit. Following this, a pilot toolkit is to be trialled at the end of the year/beginning of 2018 and PKC will be part of this pilot.</p> <p>Internal Audit recommends that this situation is reviewed in September 2017 to monitor progress with the project.</p>

Action Plan	Dates	Status/Explanation
		Revised Completion Date: March 2017 Review Date: September 2017

Audit Follow-up
The Environment Service
(Reporting for All dates on or before: March 2017)

Action Plan	Dates	Status/Explanation
<p>16-02 - Credit Cards Assignment Action Point : 21 - Incomes Team Credit Card Management Importance: Medium</p> <p>Audit Committee Date: September 2016</p> <p>Each Service's Operational Financial Regulations will subsequently require to be updated for this and other changes arising from the review of the Financial Regulations</p> <p>(F Crofts, Finance & Resources Manager)</p>	<p>Mar 2017 June 2017</p>	<p>The Service has provided updated Operational Financial Regulations. The first credit card control check is scheduled for June 2017, after the completion of Financial Year-end.</p> <p>Internal Audit Opinion: Satisfactory</p>
<p>16-20 - LEADER Action Point : 2 – Local Action Group Documentation Importance: High</p> <p>Audit Committee Date: February 2017</p> <p>The Accountable Body will ensure all documentation relating to the Local Action Group is completed as required. The Accountable Body will liaise with the Scottish Government where forms may differ from those indicated within the Business Plan.</p> <p>(S Rice-Jones, LEADER Co- ordinator)</p>	<p>Mar 2017 June 2017</p>	<p>Work is progressing in this area but has taken longer than expected. 16 out of 20 Local Action Group members have signed a Memo of Understanding and a nominated representative form.</p> <p>The last declarations of interest are expected imminently.</p> <p>Internal Audit Opinion: Satisfactory</p>



Perth and Kinross Council

Interim management report and audit status summary

For the year ended 31 March 2017

17 May 2017

For Audit Committee consideration on 14 June 2017

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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 introduction and responsibilities section of this report.

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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 Andy Shaw, who is the engagement leader for our services to the Council, telephone 0131 527 6673, email: andrew.shaw@kpmg.co.uk who will try to resolve your complaint. If your problem is not resolved, you should contact Alex Sanderson, 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 6720 or email to alex.sanderson@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 Russell Frith, Assistant Auditor General, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.

Introduction

Purpose of document

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

This report provides the Audit Committee with an update on:

- 1) Significant risks and other focus areas (pages four and five).
- 2) The results of the control testing (pages six to nine).
- 3) Best Value approach for years one and two of the five year programme (page 10).
- 4) Update on prior year recommendations (appendix one).
- 5) Action plan from results of controls work carried out (appendix two).

Significant risks and other focus areas in relation to the audit of the financial statements as identified in our audit strategy report, dated 24 February 2017:

The significant risks identified were:

- fraud risk from management override of controls;
- fraud risk from income recognition;
- retirement benefits; and
- valuation of property plant and equipment.

The other focus areas identified were:

- presentation of financial statements 'telling the story';
- capital expenditure;
- highway network asset readiness; and
- consolidation of integration joint board.

Acknowledgements

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

Significant risks and other focus areas

Update: significant risks

We outline below updates on significant risk areas included within the Audit Strategy report. We will conclude on these areas in the Annual Audit Report.

Significant risk	Update from strategy
<p>Fraud risk from management override of controls</p> <p>This is an assumed risk from ISA 240 "The auditors responsibilities relating to fraud in an audit of financial statements" on which we are required to report.</p>	<p>We have performed controls testing over expenditure, bank reconciliations, budget monitoring, journal authorisation and general IT controls. We did not identify instances where management override of control had occurred.</p> <p>Substantive procedures will be performed during the year end audit, including testing journal entries, assessing accounting estimates and significant transactions that are out with the Council's normal course of business or are otherwise unusual.</p>
<p>Fraud risk from income recognition</p> <p>This is an assumed risk from ISA 240. We consider the fraud risk from other income such as charges or service income to be significant.</p>	<p>Testing over higher level controls are set out on page seven and eight, with no exceptions identified. We discussed sources of other income with officers across different services to develop our understanding of the service income which is received.</p> <p>Substantive procedures will be performed during the year end audit. We will consider each source of income and analyse results against budgets and forecasts, performing substantive analytical procedures and tests of details.</p>
<p>Revaluation of property, plant and equipment</p> <p>There is a five year rolling valuations programme with this year's main category being schools. Valuing tangible fixed assets is an inherently judgemental area for all local authorities.</p>	<p>We met with the valuations team and discussed the areas being revalued in 2016-17 as well as reviewing the five year rolling programme. The valuation date is 1 April 2016 as in prior years, with management performing an assessment of whether the valuations as at that date remain appropriate as at 31 March 2017.</p> <p>As part of our year end audit, KPMG's in-house valuer will review the assumptions used to confirm they are reasonable and in line with the Code. A sample of revaluations will be considered in more detail, including the roll forward to 31 March 2017, where all assets need to be held at market value in line with the Code. We will also consider the 31 March 2016 carrying values, as required for our audit of opening balances.</p> <p>We will verify that the revaluation has been correctly disclosed in the accounts and that the accounting entries are correct.</p>

Significant risks and other focus areas

Update: significant risks (cont.)

Significant risk	Update from strategy
Retirement benefits The Council is a member of the Tayside Pension Fund and recognised a defined benefit liability on its balance sheet of £161.821 million as at 31 March 2016. The determination of the net deficit is inherently judgemental given assumptions are used to derive the value.	<p>For our assessment of opening balances, we performed a review of the 2015-16 assumptions provided within the actuary's report. These are in line with the KPMG acceptable range of assumptions for 2015-16.</p> <p>The Council is participating in a pilot scheme which began in February 2016 and requires all data including starters, leavers and changes of hours to be uploaded to an online system. This data is then taken directly from this system by Tayside Pension Fund administrator. This generates a time saving for the team involved in uploading the data and the pilot has so far received positive feedback. We will consider the results of the scheme after the year end.</p> <p>The remaining procedures will be performed during our year end audit. Prior to our field work beginning in July, we will request the agreed assumptions for 2016-17 from management to facilitate consideration and benchmarking by our internal actuary.</p>

Significant risks and other focus areas

Update: other focus areas

Focus area	Update from strategy
<p>Presentation of the financial statements – ‘telling the story’</p> <p>CIPFA issued changes to the Code to make the financial statements more understandable and transparent to the reader.</p>	<p>We have discussed with the finance team the revised disclosures and this was presented to Strategy Policy and Resources Committee on 19 April 2017.</p> <p>We will review pro forma financial statements before our field work starts to confirm they are in line with expectations.</p> <p>We will continue to work with officers to ensure the presentational changes made reflect the objectives of the ‘telling the story’ project.</p>
<p>Highways network assets</p> <p>CIPFA planned to introduce a requirement in the Code to recognise all highway network assets owned by the Council on the balance sheet at depreciated replacement cost. This would result in a material increase in assets.</p>	<p>An announcement was made on 8 March 2017 by the CIPFA/LASAAC Code Board that the introduction of the Highway Network Asset Code into the financial reporting requirements for local authorities would no longer occur. We therefore no longer consider highways network assets to be an area of audit focus.</p>
<p>Capital expenditure</p> <p>There is a capital budget of £100 million for 2016-17 and an inherent risk of delivering projects in line with budget.</p>	<p>We tested controls over capital monitoring and how it is reported to committees, the findings of which are outlined on page nine.</p> <p>We reviewed the capital budget and plan for both 2016-17 and further ahead and will carry out substantive procedures over capital spend at the year end.</p>
<p>Consolidation of the Integration Joint Board (‘IJB’)</p> <p>The IJB assumed full delegated functions on 1 April 2016. The consolidation of the new entity will have a material impact on the 2016-17 financial statements.</p>	<p>The Council’s share of the IJB’s results and balances will be included in the Council’s consolidated accounts. As this is the first year, we held discussions with officers at any early stage about how the consolidation adjustments will be made and how the results will be treated in the Council’s financial statements</p> <p>We presented our audit strategy document to the IJB Audit Committee and have commenced planning work for the IJB audit.</p> <p>We will confirm the accounting treatment and disclosures are in line with guidance in the unaudited financial statements.</p>

Control framework

System controls

In accordance with ISA 330 “the auditor’s response to assessed risks”, we designed and performed tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls over the man financial systems. Interim audit testing took place during February and March 2017. Overall we concluded that the control environment is effective.

Test	Description	Results
Bank reconciliations	<p>Bank reconciliations are prepared monthly by the income team and reviewed by a more senior officer.</p> <p>We tested a sample of two months for each of the eight bank accounts to verify they had been authorised and completed on a timely basis.</p>	<p>All reconciliations were completed and authorised as expected.</p> <p>Satisfactory</p>
Budget monitoring	<p>The Council has a robust budget setting process, with involvement of key members of staff. Performance against budget is monitored on a regular basis and formally reported to the Strategic Policy and Resources Committee via the budget monitoring reports.</p> <p>Two months’ reports were considered to confirm a sufficient level of detail was presented to and considered by the Strategic Policy and Resources Committee.</p>	<p>Testing confirmed that budget monitoring arrangements are designed, implemented and operating effectively.</p> <p>Satisfactory</p>
BACS authorisation	<p>BACS payment runs must be signed off by an authorised member of the Financial Systems team. A further check is made on individual payments over £75,000.</p> <p>15 weekly BACS runs were tested to verify they had been approved by an authorised signatory.</p>	<p>All BACS runs had been approved by an authorised officer.</p> <p>Satisfactory</p>
Journals authorisation	<p>A sample of 25 journals were selected and checks carried out to confirm there is segregation of duties exist in who raises and who authorises journal entries.</p> <p>We also considered the back up available for each journal to verify the authoriser could carry out an appropriate review and conclude the journal is correct.</p>	<p>All journals selected were raised and approved by a different officer, however there is no guidance of who can approve journals.</p> <p>Recommendation one</p>

Control framework

System controls (continued)

Test	Description	Results
Payroll	<p>A sample of 16 exception reports were reviewed to confirm investigation and explanation of variances.</p> <p>A sample of two months' BACS runs were reviewed to confirm the payment schedule was reconciled to the net pay analysis report and appropriately authorised.</p> <p>The annual Service Establishment report was reviewed to confirm it has been signed off by each service.</p>	<p>All reports had been reviewed and exceptions investigated.</p> <p>Both BACS runs had been reconciled and authorised</p> <p>The annual report had been reviewed by each service as being accurate.</p> <p>Satisfactory</p>
Cost of services	<p>A sample of 25 purchase orders were tested and agreed to invoice. It was also checked they had been stamped with a goods received note.</p> <p>Procurement testing covered a sample of five contracts. These were checked to verify they had followed the correct tender route based on value. The tender evaluation was also considered.</p>	<p>All purchase orders could be matched to invoice or system for procurement cards.</p> <p>Each contract tested had followed the correct procedures.</p> <p>Satisfactory</p>
Financial reporting	<p>The financial statements are prepared using financial packs from 16 departments. These are consolidated into an extended trial balance and post closing adjustments are then made.</p> <p>We tested controls over the accounts preparation process in relation to these packs. We tested a sample of two packs to verify they had been signed as prepared as well as signed by the person authorising. A management checklist is also required to be completed for each service.</p>	<p>While some of the packs had been authorised, one of the packs had not and when the sample size was increased more were identified that had not been authorised. In several cases the management checklist was incomplete or missing.</p> <p>Recommendation two</p>

Control framework

System controls (continued)

Test	Description	Results
Capital expenditure	<p>Capital expenditure is monitored throughout the year via capital monitoring reports which are reported to the Strategic Policy and Resources Committee each month.</p> <p>Two reports were reviewed to confirm a sufficient level of scrutiny took place over variances and reasons were given for slippage and movements from budget.</p>	<p>Variances in capital projects are reviewed in sufficient detail.</p> <p>Satisfactory</p>
Polices and procedures	<p>Staff have access to a number of polices and procedures through the Council's intranet system, 'eric'.</p> <p>Policies include the Communications Security Policy, Conflict of Interest Procedure and the Employee Code of Conduct.</p> <p>We carried out a review of the key documents to ensure they covered all expected information and were updated within the prescribed timeframe.</p>	<p>All expected polices and procedures were available to staff on eric.</p> <p>Out of date polices were found on the system, which have been superseded.</p> <p>The most recent policy in some cases was from 2010 with no evidence of review since this date.</p> <p>The Whistleblowing policy did not contain some best practice areas identified in the Public Concern at Work Whistleblowing code of practice 2013.</p> <p>Recommendation three</p>
General IT controls	<p>We performed testing over key IT systems will place reliance on as part of our audit. This included Integra and Resource Link and considered:</p> <ul style="list-style-type: none"> — programme changes were authorised and requested by the appropriate officers; — user access was authorised over starters and amendments; — leavers access was removed timeously; and — appropriate users were assigned system administrator user access. 	<p>Overall controls were found to be operating effectively within IT, however one weakness was identified;</p> <p>Three leavers had not had their access removed from the Council network at the time of testing. It was however noted they had not accessed the system.</p> <p>Recommendation four</p>

Wider Scope and Best Value

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

Area	Audit update
Best Value	<p>In year one (2016-17), in line with guidance from the Accounts Commission, we will report on the areas of Financial Governance and Resource Management and Financial Planning. This will be concluded in our Annual Audit Report. We have held planning discussions with officers to obtain an understanding of the Council's approach to Best Value and how this is embedded within the Council's culture. We have reviewed publically available evidence across these two Best Value areas and discussed with management, requesting further support or explanation for us perform the review of Best Value. We will continue to gather information and meet with officers to build or knowledge of Best Value in order to conclude on the two year one areas in our annual audit report.</p> <p>In year two (2017-18) we will consider the Best Value areas of Leadership, Scrutiny and Governance and Improvement.</p>



Appendices

Prior year recommendations

This section provides an update on prior year external audit recommendations, to determine whether they have been addressed. The table below summarises the recommendations made during the 2015-16 by Audit Scotland.

Original finding and risk	Recommendation	Original management actions	Status
Treasury management			
<p>Only authorised amendments to standing data (e.g. bank account details) should be processed. Within the treasury management section these changes have been rare however there are no system controls to ensure that only authorised changes to standing data are processed and therefore fraudulent changes could be made.</p> <p>Risk: Payments are made to the wrong individuals.</p>	<p>A review of changes to standing data should be evidenced to confirm only authorised amendments are made.</p>	<p>There are procedures to ensure that requests from third parties to change their bank details for future payments are genuine.</p> <p>In the case of new counterparties being used for the first time, external confirmation of the bank account details are supplied to the Income Team with the payment request, providing evidence that the payment request and bank details are genuine and correct. Such evidence could be in the form of the counterparties own deal confirmation, and/or the brokers confirmation (where applicable).</p> <p>There are no available controls within the Treasury Management system ('STM') to prevent changes to counterparty bank details. PSTM only gives two levels of access, read-only or full access rights, and all staff involved in Treasury need full access rights. However PSTM does maintain an audit log so transactions on the system can be reviewed.</p> <p>The Senior Accountant will liaise with the systems suppliers to determine whether improved access controls can be implemented.</p> <p>Implementation date: June 2016</p>	<p>Implemented but with further improvement suggested</p> <p>A systems administrator has been set up who is independent from the treasury team and is the only individual who can amend bank details. There is no procedure for when the systems administrator is unavailable. It is recommended that another person is given this access as a contingency.</p> <p>Implementation date: April 2017</p>

Prior year recommendations (continued)

Original finding and risk	Recommendation	Original management actions	Status
Trade receivables			
<p>Authorised signatories are maintained to ensure only appropriate credit notes are processed. During the testing Audit Scotland noted two officers had been authorising credit notes although their authorisation limits excluded credit notes. Neither the officers authorising nor the officers processing the credit notes were aware of this omission. The authorised signatory forms have subsequently been amended.</p> <p>Risk: Errors/manipulation is undetected</p>	<p>Officers should confirm that credit notes are appropriately authorised prior to processing.</p>	<p>As noted the remedial action required to rectify this instance has been undertaken to resolve the operational issue. In terms of strengthening our internal controls, the possibility of creating a standard Integra e-form is being investigated that, it is hoped, will allow a user to raise a credit note and automatically workflow the authorisation to a nominated officer with a credit note authorisation profile.</p> <p>Implementation date: 31 August 2016</p>	<p>Ongoing</p> <p>As of October 2016, an Integra e-form has been piloted with Health and Social care, to replace the previous manual system. In the new system, a request for a credit note is raised electronically on Integra: the form includes selecting an authoriser from a pre-set drop down list. The authoriser is notified by email of the request to electronically approve the credit note on Integra. It is hoped that the e-form will be implemented across the organisation in Summer 2017.</p> <p>We will follow this up in 2017-18 to assess the impact of the form being rolled out on the control environment.</p> <p>Implementation date: August 2017</p>

Prior year recommendations (continued)

Original finding and risk	Recommendation	Original management actions	Status
SWIFT			
<p>To ensure the validity of information in the SWIFT system various exception reports are considered by officers. For instance short break and crisis admissions with no end date; client died-service not ended etc. Audit Scotland's sample covered five weeks and included forty six exception reports within this period, however, thirty of these exception reports were either unavailable or there was no evidence of review.</p> <p>Risk: Errors in or manipulation of the SWIFT system is undetected.</p>	<p>Exception reports should evidence the checks undertaken and should be retained for the appropriate period.</p>	<p>Although there were some reports which showed no evidence of review, our validation reports work on an exceptions basis so blank reports will not show any evidence of having been reviewed. If any cases highlighted on a validation report are not corrected when the report is reviewed, they would continue to show on future reports until they have been.</p> <p>Going forward however, all validation reports will be printed, signed, dated and stored for a period of 18 months. This will ensure that evidenced reports are available for any future audit reviews.</p> <p>Implementation date: 9 May 2016</p>	<p>Implemented</p> <p>All exception reports are now being printed, signed and dated and stored in hard copy.</p> <p>It is recommended that to reduce the amount of staff time and printing required and improve the efficiency within the department, exception reports are stored electronically.</p> <p>Recommendation five</p>
Non domestic rates			
<p>Accuracy checks on the processing of changes to the NDR system are run daily and officers undertake checks on a number of the claims. As at April 2016, however, the accuracy checks from December 2015 had yet to be undertaken.</p> <p>Risk: Errors in or manipulation of the NDR system is not detected timeously.</p>	<p>Accuracy checks should be undertaken timeously.</p>	<p>The audit finding is accepted and understood.</p> <p>Renewed effort will be made to rectify this matter by ensuring the outstanding checks are completed and ongoing checks are carried out timeously.</p> <p>Implementation date: June 2016</p>	<p>Implemented</p> <p>Checks are now being completed on time and now more accurately reflect the circumstances of the service (i.e. new staff or those returning from long term absence have their work checked more than others).</p>

Prior year recommendations (continued)

Finding(s) and risk(s)	Recommendation(s)	Original management actions	Status
Non domestic rates			
<p>State Aid is any advantage granted by public authorities through state resources on a selective basis to any organisations that could potentially distort competition and trade in the European Union. There is a de-minimis of 200,000 euros (or Sterling equivalent) for State Aid purposes that can be granted over a rolling three year period. Audit Scotland's testing highlighted one case in relation to renewable energy generation relief where an award was granted on the basis of a three year fixed period rather than a three year rolling period. This resulted in a payment in excess of the State Aid de minimus of approximately £0.022 million.</p> <p>Risk: The council fails to comply with State Aid requirements and may be unable to recover the costs from the recipient.</p>	<p>State Aid for renewable energy requires to be considered on a three year rolling basis to ensure breaches are avoided.</p>	<p>Officers will:</p> <ul style="list-style-type: none"> — seek advice from the State Aid team in order to properly deal with these instances; — ensure these cases are reviewed annually; and — enter a diary event date on the Northgate System. <p>Implementation date: ongoing</p>	<p>Implemented</p> <p>As a result of the matter in 2015-16, a training programme has been rolled out to appropriate staff to make them aware of the State Aid regulations. This includes how to calculate the total award given, to assess if this breaches the de minimis.</p>

Current year action plan

This is the current year action plan based on the findings from our controls work. We set out the finding, risk and recommendation. We provide a priority grading for recommendations which is set out below;

Priority rating for recommendations

Grade one (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the Council or systems under consideration. The weaknesses may therefore give rise to loss or error.

Grade two (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.

Grade three (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the control to meet their objectives in any significant way. These are less significant observations than grades one or two, but we still consider they merit attention.

Finding and risk	Recommendation	Agreed management actions
1. Journals review		Grade three
<p>Controls testing was performed over journals by selecting a sample of 25 journal entries and checking the review. In all cases a different officer had reviewed the journal compared to who had raised it, therefore the segregation of duties control is operating effectively.</p> <p>However there is no documentation of who has the authority to review journals, therefore we cannot assess it will always be an officer with sufficient experience who is carrying out this review.</p>	<p>It is recommended that controls over journals are strengthened:</p> <ul style="list-style-type: none"> the general ledger procedures manual should be updated to give clearer description of who can review journals. This should include a description of officer grade and journal value. individuals involved in preparing and reviewing journals should be reminded of the procedures manual and the importance of complying with this. 	<p>ACCEPTED</p> <p>Management response</p> <p>General ledger manual will be updated to provide guidance on the roles and responsibilities of officers involved in checking journals. It shall provide a checklist for authorisers and examples of which officers should be reviewing / approving journals.</p> <p>Implementation date</p> <p>30 September 2017</p> <p>Responsible officer</p> <p>General Ledger Controller</p>

Current year action plan (continued)

Finding and risk	Recommendation	Agreed management actions
2. Service pack authorisation		Grade two
<p>The financial statements are prepared using information from a number of departments. There are five service packs from the main divisions with an additional 11 corporate packs such as loans fund and general fund. These packs are consolidated into an extended trial balance and post closing adjustments are then made to derive the final accounts.</p> <p>The service packs are required to be signed by a preparer and authoriser, who is responsible for checking that these are complete and accurate. A management checklist is also required to be prepared for service packs, to show which checks the authoriser has performed.</p> <p>From testing carried out on the 2015-16 service and corporate packs, we identified three that had not been authorised, while several had a missing or incomplete management checklist. In an number of cases questions had been raised on the management checklist but no follow up had been documented and it is unclear if the issue had been resolved.</p> <p>There is a risk that the information used to prepare the financial statements is not complete or accurate or fully reconciled to supporting documentation.</p>	<p>It is recommended the controls over the authorisation of service packs are strengthened by:</p> <ul style="list-style-type: none"> — ensuring all packs are signed as having been reviewed by the responsible officer for that service; — completing management checklists for each service pack, marking any questions that are not applicable as such, rather than leaving them blank; — reminding staff which, if any, corporate packs require a management checklist. — ensuring questions raised on the management checklist show evidence of follow up to ensure issues are resolved and there is a clear audit trail. 	<p>ACCEPTED</p> <p>Management response</p> <p>An instruction will be issued to all reviewers to ensure that accounts pack include an Accounts Preparation Certificate which is completed by preparers and reviewers. The instruction will also remind officers of the importance of completing the managers checklist and documenting issues that are identified during the review process</p> <p>Implementation date</p> <p>Complete – 9 May 2017</p> <p>Responsible officer</p> <p>Chief Accountant</p>

Current year action plan (continued)

Finding and risk	Recommendation	Agreed management actions
3. Checklist for updating policies		Grade three
<p>Polices and procedures are held on the Council's intranet which is available to all staff.</p> <p>From a review of key policies we identified that a number had not been updated on a timely basis. Two versions of the communications security policy were found. The most up to date version of this policy was dated 2010, however it states it is required to be reviewed every three years.</p> <p>The most up to date whistleblowing policy is not easily accessible to staff and also does not contain all information outlined in the Public Concern at Work's whistleblowing code of practice.</p> <p>There is a risk employees access policies and procedures which are not relevant to the current risk environment or contain out of date information therefore causing error or breach of laws and regulations.</p>	<p>It is recommended that:</p> <ul style="list-style-type: none"> — a review is carried out of existing policies on the intranet and any old or superseded policies are removed; — the whistleblowing policy is made available on the intranet and is updated to contain all items required by the whistleblowing code of practice; and — a checklist should be kept of the key policies and when these were last updated, with evidence of review within the required timescale. 	<p>ACCEPTED/NOT ACCEPTED</p> <p>Management response</p> <p>Services will be reminded of the need to ensure all policies are reviewed in line with agreed timescales, to document the review and to amend the date of policy to reflect the review.</p> <p>Services will also be reminded of the need to ensure that old or superseded policies on the intranet are either clearly marked as such or are removed from the intranet.</p> <p>The whistleblowing policy is available on the intranet and is maintained appropriately.</p> <p>Consideration will be given to creating and maintaining an appropriate checklist of Council policies.</p> <p>Implementation date</p> <p>30 May 2017</p> <p>Responsible officer</p> <p>Information Compliance Manager</p>

Current year action plan (continued)

Finding and risk	Recommendation	Agreed management actions
4. GITCs - leavers		Grade three
<p>During testing of general IT controls it was identified that some staff members who had left the Council had not had their user access removed (three from a sample of 16). Whilst there was evidence that these individual staff members had not accessed the system since their departure date, it highlights a control deficiency over removal of user access rights.</p> <p>The risk of unauthorised access to Integra and Resource Link was countered by mitigating controls at the system specific level. However there is a risk that former members of staff may access the Council's computer systems after their departure date. Depending on their access levels they would therefore potentially be able to make fraudulent or malicious use of council IT systems.</p>	<p>It is recommended that controls over the removal of leaving staff members' access are strengthened:</p> <ul style="list-style-type: none"> — monthly reports of all leavers received from HR should be printed off or saved electronically; — each leaver on the report should be marked as having had their access removed; — the report should be signed and dated by the person performing the control to confirm completion, and — a designated member of IT management should regularly review the existence of the monthly leaver reports to confirm the control has been performed. 	<p>ACCEPTED</p> <p>Management response</p> <p>From discussion with the IT department the leavers report was not being processed correctly during the first half of 2016. This was due to staffing issues and has now been corrected. Our testing of January 2017 confirmed all leavers had been removed.</p> <p>Implementation date</p> <p>Complete – April 2017</p> <p>Responsible officer</p> <p>Corporate IT Manager</p>

Current year action plan (continued)

Finding and risk	Recommendation	Agreed management actions
5. SWIFT exception reports efficiency		Grade three
<p>Exception reports are produced each week on data held in the SWIFT system relating to residential care homes. At present, and in line with prior year recommendation, all 14 of these reports are printed, dated, signed and held for 18 months.</p> <p>While this is helpful for audit evidence it creates a large amount of paperwork and takes up officers time in printing and documenting these reports.</p> <p>There is an opportunity to use staff time more efficiently.</p>	<p>It is recommended that a control sheet is put in place listing the 14 exception reports and whether any exceptions were noted. If there were no exceptions for a specific report this should be documented, initialled and dated by the officer who checked the report. An exception report with zero entries does not have to be printed, however this should still be held electronically.</p> <p>For cases where exceptions do exist these could be evidenced and stored electronically.</p>	<p>ACCEPTED</p> <p>Management response</p> <p>The service accept the recommended changes to the recording of SWIFT exception reports and the efficiency that the changes will bring.</p> <p>Implementation date</p> <p>Complete - April 2017</p> <p>Responsible officer</p> <p>Business and Resource Manager</p>



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