

Internal Audit Report



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

Final Report

(Report No. 20/38)

Legal and Governance
Corporate and Democratic Services
Perth & Kinross Council
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Internal Audit

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

Background and Introduction

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

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

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

Scope and Limitations

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

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

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

Internal Audit Report

Control Objectives and Opinions

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

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

Internal Audit Report

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

Internal Audit Comments:

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

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

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

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

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

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

¹ 'Cost of carry' is the difference between borrowing and investment rates

Internal Audit Report

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

Strength of Internal Controls:

Strong

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

Internal Audit Comments:

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

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

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

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

Internal Audit Report

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

Strength of Internal Controls:

Moderately Strong

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

Internal Audit Comments:

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

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

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

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

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

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

Internal Audit Report

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

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

Strength of Internal Controls:

Moderately Strong

Management Action and Follow-Up

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

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

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

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

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

Acknowledgements

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

Feedback

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

Internal Audit Report

Distribution

This Final Report will be distributed to:

K Reid, Chief Executive

J Valentine, Depute Chief Executive (Chief Operating Officer)

B Renton, Executive Director (Housing & Environment)

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

K McNamara, Depute Director Housing and Environment

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

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

G Paterson, Chief Officer, HSCP

S MacKenzie, Head of Finance, CDS

L Simpson, Head of Legal and Governance Services

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

External Audit

Authorisation

The auditor for this assignment was N Duncan.

This report is authorised for issue:

J Clark

Chief Internal Auditor

Date: 9 January 2020

Internal Audit Report

Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1	Supply chain resiliency	Low

Appendix 2: Action Plan

Action Point 1 - Supply chain and resiliency

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

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

Management Action Plan

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

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

Auditor's Comments

Satisfactory