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Council Building
2 High Street
Perth
PH1 5PH

Monday, 13 November 2017

A Meeting of the **Audit Committee** will be held in **the Council Chamber, 2 High Street, Perth, PH1 5PH** on **Wednesday, 22 November 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 electronic equipment is in silent mode.

Members:

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

Audit Committee

Wednesday, 22 November 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 MINUTE OF MEETING OF THE AUDIT COMMITTEE OF 27 SEPTEMBER 2017 5 - 10**
- 4 INTERNAL AUDIT FOLLOW UP 11 - 22**
Report by Chief Internal Auditor (copy herewith 17/383)
- 5 INTERNAL AUDIT UPDATE 23 - 34**
Report by Chief Internal Auditor (copy herewith 17/384)
- (i) EDUCATION AND CHILDREN'S SERVICES**
- (a) 17-24 - EARLY LEARNING AND CHILDCARE 35 - 42**
(copy herewith 17/385)
- (ii) THE ENVIRONMENT SERVICE**
- (a) 17-08 - LEADER 43 - 50**
(copy herewith 17/386)

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AUDIT COMMITTEE

Minute of meeting of the Audit Committee held in the Council Chambers, 2 High Street, Perth on Wednesday 27 September 2017 at 10.00am.

Present: Councillors E Drysdale, B Band, H Coates, S Donaldson, D Illingworth and X McDade.

In Attendance: J Clark, C Irons, S Mackenzie, M Morrison, S Richards and G Taylor (all Corporate and Democratic Services); A O'Brien and S Walker (both Corporate and Democratic Services - up to item 5); J Cockburn (Education and Children's Services); J Dixon and W Young (both Environment Service) and N Copland (Housing and Community Safety)

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

Councillor Drysdale, Convener, Presiding.

. **WELCOME AND APOLOGIES/SUBSTITUTIONS**

The Convener welcomed everyone to the meeting.

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

. **DECLARATIONS OF INTEREST**

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

. **MINUTE**

The minute of meeting of the Audit Committee of 14 June 2017 (Arts.332 - 337) was submitted and approved as a correct record and authorised for signature.

It was noted that in addition the development session on Treasury Management being held on 4 October 2017, the Head of Finance would take forward arrangements for a development session on local government finances.

. **DRAFT AUDITED ANNUAL ACCOUNTS 2016/17 AND DRAFT ANNUAL AUDIT REPORT TO THE MEMBERS OF PERTH AND KINROSS COUNCIL AND THE CONTROLLER OF AUDIT FOR THE YEAR ENDED 31 MARCH 2017**

There was submitted a report by the Head of Finance (17/306), presenting the Council's Draft Audited Annual Accounts for financial year 2016/17 in accordance with the Local Authority Accounts (Scotland) Regulations 2014 and including the Draft Annual Audit Report to the Members of Perth and Kinross Council and the Controller of Audit for the Year Ended 31 March 2017.

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S Mackenzie referred to the unaudited annual accounts which had been considered by Council on 28 June 2017 and to the unqualified audited annual accounts that would also be submitted to Council on 4 October 2017. S Mackenzie also referred to the positive working with KPMG in their first year as the Council's external auditors.

A Shaw confirmed that KPMG had issued an unqualified opinion on the Council's accounts and there were no outstanding issues. He thanked colleagues in the Council and in particular in the Finance Division, for their support during the audit.

M Wilkie referred to the wider scope and areas of best value detailed in the KPMG Annual Audit Report, which set a common framework for all audit work conducted for the Controller of Audit and the Accounts Commission. The four audit dimensions being financial sustainability; financial management; governance and transparency and value for money. KPMG performed a range of procedures to inform their work on best value such as discussion with officers and attendance at Committee meetings.

Councillor E Drysdale stated he was very pleased to note that in KPMG's first year of auditing Perth and Kinross Council they had issued an unqualified acceptance and that they had observed strong financial management in respect of monitoring of costs, forward planning and reporting to elected members. He added that relevant staff should be commended for their work.

In response to a question from Councillor S Donaldson, S Mackenzie advised that an employee survey was conducted annually and the results reported to senior and service managers.

G Taylor confirmed the results of the survey would be reported to Council in December 2017 as part of an annual report on the Council's workforce.

In response to a question from Councillor X McDade, S Walker confirmed that anticipated income from Council Tax was on track to be achieved for 2017/18.

Resolved:

- (i) The contents of KPMG's Draft Annual Audit Report to the Members of Perth and Kinross Council and the Controller of Audit for the year ended 31 March 2017 as detailed in Appendix 1 to Report 17/306, be noted.
- (ii) The 2016/17 Audited Annual Accounts be approved and the Leader of the Council, the Chief Executive and the Head of Finance be authorised to sign them.

A O'BRIEN, S WALKER AND M WILKIE LEFT THE MEETING AT THIS POINT

. INTERNAL AUDIT FOLLOW UP

There was submitted a report by the Chief Internal Auditor (17/307), presenting a current summary of Internal Audit's 'follow up' work.

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Resolved:

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

INTERNAL AUDIT UPDATE

There was submitted a report by the Chief Internal Auditor (17/308), presenting a summary of Internal Audit's work against the 2017/18 annual plan.

Resolved:

The progress of work against the 2017/18 annual plan, be noted.

The Committee considered the following final reports:-

(i) Education and Children's Services

(a) 17-02(b) – Financial Management of Schools – Kinross High School

There was submitted a report by the Chief Internal Auditor (17/309) on an audit to ensure that the school was managed in accordance with the financial procedures as laid down by Education and Children's Services.

It was noted that previous internal audits had shown a lack of internal procedures in other schools and accordingly this had been brought to the attention of all schools to be addressed.

It was also noted that there was not a specified frequency for undertaking audits in schools, however, in addition to audits there were internal inspections by the Education and Children's Services Finance Team at least twice a year and continuous communication between schools and the Team.

Resolved:

Internal Audit's findings, as detailed in Report 17/309, be noted.

(ii) Housing and Community Safety

(a) 17-04 – Partnership Working – Community Justice Partnership

There was submitted a report by the Chief Internal Auditor (17/310) on an audit to provide assurance over the Community Justice arrangements in place within Housing and Community Safety following the implementation of the Community Justice (Scotland) Act 2016.

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Resolved:

Internal Audit's findings, as detailed in Report 17/310, be noted.

(iii) All Services

(a) 17-05 – Management of Contracts

There was submitted a report by the Chief Internal Auditor (17/311) on an audit to ensure there was adequate and effective management of contracts within Services.

J Clark advised that a sample of contracts had been taken across all Services for a detailed review of management arrangements.

Councillor S Donaldson expressed concern that from the sample of eight contracts, three of the contract award letters had been signed by officers who did not have the appropriate financial authority to do so and asked the value of those three contracts. J Clark advised she would pass that information to Councillor Donaldson.

It was noted that the work was ongoing to compile a database to replace authorised signatory lists which would provide further clarity as to who has authorisation to enter into contracts. However, officers should still comply with their financial authorisation limits.

Councillor S Donaldson considered that the audit should have examined a larger sample and Councillor E Drysdale agreed with this due to the total number of contracts awarded. J Clark advised the sample size could be increased in next year's annual plan.

Councillor H Coates asked if the financial level of a contract triggered an audit but J Clark clarified that a risk-based approach was taken to selecting contracts for audit, ensuring that there was a spread across services and values of contracts.

Councillor E Drysdale asked about the use of Internal Audit's new software system, IDEA, and J Clark confirmed the new system could be used to allow a random selection of contracts in different areas of risk.

Councillor E Drysdale referred to the aim of the audit which was to ensure adequate and effective management of contracts within Services and whether the use of a performance dashboard could limit cost overruns. J Clark advised that a performance dashboard could be used to look at non-financial, qualitative indicators.

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S Mackenzie advised he would confirm to Councillor E Drysdale that the Chief Accountant had raised with the Financial Controllers the issues highlighted by the audit regarding the levels of authority to enter into contracts to reiterate the importance of officers operating within agreed authority limits.

Resolved:

Internal Audit's findings, as detailed in Report 17/311, be noted.

INTERNAL AUDIT STRATEGY & PLAN 2017/18

There was submitted a report by the Chief Internal Auditor (17/312), presenting the strategy for the delivery of Internal Audit and the proposed Internal Audit Plan for October 2017 to March 2018.

J Clark advised that normally an annual plan was prepared, however, due to revised arrangements for the corporate management of risk and taking account of the Annual Governance Statement earlier this year two six monthly reports had been prepared.

J Clark highlighted that Internal Audit had acquired a data analytics tool to assist in some assurance audits – IDEA. This tool would enable Internal Audit to analyse large volumes of data across all Services and target resources appropriately, as well as facilitating further data matching and counter-fraud work. Development time had been included in the plan to ensure the tool would be utilised to the greatest benefit of the Council.

Councillor E Drysdale referred to the total of forty days allocated for grant certification, supporting the National Fraud Initiative and audit work for the Perth and Kinross Integration Joint Board and asked how many days would be allowed for the Board work. J Clark confirmed it would be twenty days and the work would be agreed with the Board's internal auditor.

In response to a question from Councillor X McDade, J Clark advised that while Internal Audit have a high degree of specialism in IT, Perth and Kinross Council do not have a computer auditor and would not have sufficient work to warrant the appointment of a dedicated resource. Accordingly, a computer auditor from Highland Council had been commissioned to undertake IT audits for the Council which allows the audit to be undertaken at a more detailed level.

There followed some discussion on the development of the Internal Audit Plan for the period beyond March 2018. It was noted that whilst it was useful to have input from Councillors on suggested areas, if Councillors had a particular concern about controls in any area they should raise that concern with the relevant Director or Head of Service prior to referring the matter to Internal Audit.

Resolved:

The Internal Audit Plan be approved for the period October 2017 to March 2018.

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INTERNAL AUDIT GOVERNANCE

There was submitted a report by the Chief Internal Auditor (17/313), presenting the reviewed and revised Internal Audit Charter, in line with the Public Sector Internal Audit Standards.

J Clark highlighted that a self-assessment of Internal Audit would be led by the Chief Internal Auditor of the City of Edinburgh Council with the outcome of the exercise to be reported to the Audit Committee early in 2018.

Resolved:

- (i) The updated Public Sector Internal Audit Standards (PSIAS) be noted as the relevant standard for Internal Audit in Perth and Kinross Council.
- (ii) The Internal Audit Charter be approved as the purpose of and authority and responsibility for internal audit activity in Perth and Kinross Council.
- (iii) A report be submitted to the Audit Committee early in 2018 on the self-assessment outcomes.

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**PERTH AND KINROSS COUNCIL****Audit Committee****22 November 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 90.
  - Table 2 shows the number of agreed actions that have been reported as incomplete as at their original agreed completion date. These total 35, of which 5 had a completion date of July and August 2017 and are therefore detailed in the following Appendices B to D.
  - A further 30 actions not completed by their original date have been allocated revised dates for completion after 31 August 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 August 2017 is 55.
- 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 D present detailed follow-up information in respect of actions agreed for completion in the period of July and August 2017. The appendices also record service management's explanations of the status of each action point and internal audit comments where relevant. There are no actions with a completion date of July and August that have not been completed for Housing & Community Safety.
- 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. Five of these actions relate to actions arising for Services from the Information Sharing audit and one is from the Self-Directed Support Internal Audit report and relates to the Scheme of Administration. The final action relates to the audit on LEADER and is included on Appendix D.

## **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**

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

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## 1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

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

### 1. Strategic Implications

#### 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 The Environment Service

## Appendix A: Summary of Agreed Actions

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

| Service                         | Importance   |                |                |                |              |                |
|---------------------------------|--------------|----------------|----------------|----------------|--------------|----------------|
|                                 | Critical     | High           | Medium         | Low            | Not Rated    | Total          |
| Corporate & Democratic Services | 0 (0)        | 3 (3)          | 6 (8)          | 7 (8)          | 1 (1)        | 17 (20)        |
| Education & Children's Services | 0 (0)        | 4 (6)          | 10 (10)        | 8 (8)          | 0 (0)        | 22 (24)        |
| Housing & Community Safety      | 0 (0)        | 1 (1)          | 8 (8)          | 5 (10)         | 0 (0)        | 14 (19)        |
| The Environment Service         | 0 (0)        | 3 (3)          | 18 (16)        | 16 (16)        | 0 (0)        | 37 (35)        |
| <b>All Services</b>             | <b>0 (0)</b> | <b>11 (13)</b> | <b>42 (42)</b> | <b>36 (42)</b> | <b>1 (1)</b> | <b>90 (98)</b> |

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 (1)        | 3 (3)          | 4 (3)          | 1 (1)        | 9 (8)          |
| Education & Children's Services                                                                                                  | 0 (0)        | 2 (2)        | 1 (2)          | 5 (2)          | 0 (0)        | 8 (6)          |
| Housing & Community Care                                                                                                         | 0 (0)        | 1 (1)        | 2 (1)          | 2 (3)          | 0 (0)        | 5 (5)          |
| The Environment Service                                                                                                          | 0 (0)        | 3 (2)        | 7 (6)          | 3 (3)          | 0 (0)        | 13 (11)        |
| <b>All Services</b>                                                                                                              | <b>0 (0)</b> | <b>7 (6)</b> | <b>13 (12)</b> | <b>14 (11)</b> | <b>1 (1)</b> | <b>35 (30)</b> |
| Actions with a completion date of July and August 2017 which have not been completed and therefore included on Appendices B to D |              |              |                |                |              | 5              |
| Those actions where the agreed date is not July and August 2017 which have been previously reported to Audit Committee           |              |              |                |                |              | 30             |





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

| <b>Action Plan</b>                                                                                                                                                                                                                                                                                                                | <b>Dates</b>                 | <b>Status/Explanation</b>                                                                                                                                                                                               |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>17-02(a) - Financial Management of Schools - Perth Academy<br/>Action Point : 5 - Financial Policies &amp; Procedures<br/>Importance: Low</p> <p>Audit Committee Date: June 2017</p> <p>Procedures in respect of insurance will be reviewed and updated</p> <p>(B Wilson, Senior Corporate Insurance &amp; Claims Officer)</p> | <p>Jun 2017<br/>Dec 2017</p> | <p>The Service is awaiting new Schedules from our Insurers, Zurich Municipal in order to update the Manual. Once these have been received, the action can be completed.</p> <p>Internal Audit Opinion: Satisfactory</p> |



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

| Action Plan                                                                                                                                                                                                                                                                                                                             | Dates                         | Status/Explanation                                                                                                                                                                                                                                                                                |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>17-02(a) - Financial Management of Schools - Perth Academy<br/> Action Point : 4 - Financial Policies &amp; Procedures<br/> Importance: Low</p> <p>Audit Committee Date: June 2017</p> <p>Procedures in respect of grants and inventory will be reviewed and updated.</p> <p>(L Oswald, Assistant Finance Manager)</p>               | <p>Jul 2017<br/> Dec 2017</p> | <p>A review of the Financial Policies and Procedures is underway and is due to be completed by December 2017. This action forms part of this wider project.</p> <p>Internal Audit Opinion: Satisfactory</p>                                                                                       |
| <p>17-02(a) - Financial Management of Schools - Perth Academy<br/> Action Point : 6 - Financial Policies &amp; Procedures<br/> Importance: Low</p> <p>Audit Committee Date: June 2017</p> <p>Procedures in respect of purchases of supplies and services will be reviewed and updated.</p> <p>(L Oswald, Assistant Finance Manager)</p> | <p>Jun 2017<br/> Dec 2017</p> | <p>The eProcurement Manager provided the updated procedure for inclusion within the Financial Policies &amp; Procedures. This will be included within the updated Financial Policies and Procedures which is due for completion in December 2017.</p> <p>Internal Audit Opinion: Satisfactory</p> |



**Appendix D - Internal Audit Follow-up**  
**The Environment Service**  
**(Reporting for All dates on or before: August 2017)**

| Action Plan                                                                                                                                                                                                                                                                                                                                                                                                                           | Dates                         | Status/Explanation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>15-13 - School Transport Contracts<br/> Action Point : 8 - Contract Oversight &amp; Performance Monitoring<br/> Importance: Medium</p> <p>Audit Committee Date: March 2016</p> <p>The Public Transport Manager will liaise with the Procurement Manager to develop appropriate contract &amp; supplier management plans for future awards.</p> <p>(A Warrington, Public Transport Manager)</p>                                     | <p>Aug 2017<br/> Apr 2018</p> | <p>The Public Transport Unit and the Council's Procurement Team are jointly progressing the retendering of all transport contracts utilising a new procurement methodology established this year. This includes the completion of a contract strategy evidencing consideration of contract performance measures.</p> <p>Work is ongoing to identify the most appropriate contract management system to be employed for future contracts awarded. It is anticipated that tender and contract award activity will be completed by April 2018 following the budget setting processes.</p> <p>Internal Audit Opinion: Satisfactory</p> |
| <p>16-20 - LEADER<br/> Action Point : 1 - Business Plan Update<br/> Importance: High</p> <p>Audit Committee Date: June 2016</p> <p>The Accountable Body is currently reviewing the Business Plan and the Local Development Strategy. Once further guidance has been received these will be finalised and presented for approval by the Local Action Group and the Scottish Government.</p> <p>(S Rice-Jones, LEADER Co-ordinator)</p> | <p>Aug 2017<br/> Feb 2018</p> | <p>An updated Business Plan was submitted to the Local Action Group on the 21 September 2017 for approval. This will then be sent to the Scottish Government, although approval timescales can be up to 4 months to facilitate any necessary rework required.</p> <p>Internal Audit Opinion: Satisfactory</p>                                                                                                                                                                                                                                                                                                                      |



**PERTH AND KINROSS COUNCIL****Audit Committee****22 November 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 continued on assignments included within the Internal Audit Plans for 2017/18, as approved by Audit Committee in April 2017 (report 17/150) and September (report 17/312).
- 1.3 Since April 2017, Internal Audit has been contacted on 11 occasions to provide advice, assurance and / or assistance to services regarding specific issues. Internal Audit will follow up on these areas during the year, where necessary. 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 There are changes in staffing within the Internal Audit team which will impact on Internal Audit's ability to deliver the Internal Audit plans approved by Audit Committee in April and September 2017. As such, these plans have been reviewed. Whilst it is anticipated that the majority of these plan can be delivered, two assignments have been identified where Internal Audit involvement will no longer add value and it is proposed that these assignments are removed from the Internal Audit Plans.
- 1.5 The first assignment which is proposed to be removed is 17-16 New Process Development within Education & Children's Services. This assignment was included in the Internal Audit Plan approved in April 2017. The subsequent Internal Audit Plan approved in September identified two specific areas within the Service with a focus on the provision of assurance, advice and guidance relating to new process development, these being 17-24 Early Learning and Childcare and 17-30 Commissioning Strategy.
- 1.6 The second assignment which is proposed to be removed from the Internal Audit Plan is 17-31 General Outcome Focussed Assessment (GOFA). An

assurance review of GOFA has been undertaken and the assignment which is proposed to be removed relates to the provision of advice and support to the Business Improvement Team in developing improvements to the automation of the GOFA process. Consideration will be given to including some work in this area for future Internal Audit Plans in line with the risk-based methodology in place for devising future plans.

- 1.7 Internal Audit works in collaboration with Highland Council to deliver audits where a higher level of IT audit skills are required than are held within the team. A specialist IT auditor is currently on site delivering the audit on the Northgate Housing system. Reports arising from this work will be considered by Audit Committee in line with all Internal Audit Reports on Council activity.
- 1.8 Internal Audit has continued to work with colleagues in NHS Tayside to support the Audit and Performance Committee of the Integrated Joint Board. In addition, Internal Audit has continued to facilitate the National Fraud Initiative to ensure that Services are investigating relevant data matches appropriately. A separate report will be provided to the next Audit Committee on the outcomes for this exercise.
- 1.9 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.
- 1.10 Appendix B shows a summary of each audit previously approved as part of the 2017/18 plan, along with the date that the outcome has been considered by Audit Committee.

## **2. OUTCOMES FROM CONSULTANCY WORK**

- 2.1 Within Appendix A, there are a number of assignments which were identified as 'consultancy' within the Internal Audit Plan (reports 17/150 and 17/312 refer). Following approval from the Audit Committee of a revised reporting process for consultancy assignments (report 16/306 refers), this report provides a summary of the completed work with regard to such assignments, where appropriate.
- 2.2 The scope of 17-15 Community Empowerment was to provide a consultancy resource to support the process. Internal Audit has worked with the Service and reviewed documentation and highlighted that there is scope for the Service to review published information regarding Outcome Delivery Groups and consider progressing a Community Planning Constitution which may assist in clarifying the role and remit of relevant parties. The Service has indicated that any further consultancy in this area would be more beneficial in 2018/19, by which point working arrangements in relation to the new Community Plan, Outcome Delivery Group work and Local Action Plans will be more embedded. This assignment is therefore complete and the area will be considered for inclusion in future Internal Audit plans.



- 2.3 The scope of assignment 17-18, Contract Rules, was to review the Contract Rules prior to their publication with a view to ensuring their adequacy. This review will also form part of the evidence for the review of Corporate Governance which is undertaken to support the year end reporting. This assignment is complete.
- 2.4 The outcomes from consultancy assignments are taken into consideration when considering the Internal Audit universe, from which future Internal Audit plans are derived.

### **3 FINANCIAL ASSESSMENT AND CHARGING FOLLOW UP**

- 3.1 Work is continuing on assignment 17-07 Financial Assessment and Charging Follow Up. In September 2016, the Audit Committee requested that an extended follow up of assignment 16-07 Financial Assessment and Charging be undertaken and a report on the implementation of actions be provided to a future meeting of the Committee. Internal Audit has reviewed the actions agreed as part of the 16-07 report and has concluded that many of the control issues highlighted have not been addressed. In addition, where evidence of implementation of agreed actions has been provided to Internal Audit, these controls were not fully implemented or continued.
- 3.2 The Service has commissioned a wholesale review of the financial assessment and charging arrangements and has requested the assistance of Internal Audit. Therefore it is proposed to provide Audit Committee with a full report of this extended follow-up at the conclusion of this review, which is anticipated to be in mid 2018.

### **4. CONCLUSION AND RECOMMENDATIONS**

- 4.1 This report presents a summary of Internal Audit's work against the 2017/18 annual plan.
- 4.2 It is recommended that the Committee:
- 4.2.1 notes the progress of work against the plan for 2017/18;
- 4.2.2 approves the removal of assignments 17-16 New Process Development, and 17-31 GOFA, from the Internal Audit Plans for 2017/18, as detailed in section 1.5 to 1.7 of this report;
- 4.2.3 notes the outcome from consultancy work; and
- 4.2.4 notes that Internal Audit will continue to engage with Housing & Community Safety to deliver improvements in the management of the financial assessment and charging function and will provide Audit Committee with a full report on the extended follow up of 16-07 in mid 2018.

#### **Author(s)**

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

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You can also send us a text message on 07824 498145.

All Council Services can offer a telephone translation facility.

## 1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

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

### 1. Strategic Implications

#### 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**

| <b>Audit No.</b> | <b>Audit Title</b>           | <b>Service</b>                  |
|------------------|------------------------------|---------------------------------|
| 17-08            | LEADER                       | The Environment Service         |
| 17-15            | Contract Rules               | Corporate & Democratic Services |
| 17-18            | Community Empowerment        | Corporate & Democratic Services |
| 17-24            | Early Learning and Childcare | Education & Children's Services |



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

| <b>Audit No.</b> | <b>Audit Title</b>                                                                 | <b>Original Anticipated Audit Committee</b> | <b>Assignment brief approved</b> | <b>Factual accuracy confirmed</b> | <b>Draft Report issued</b> | <b>Final Report issued</b> | <b>Audit Committee Date ^</b>       |
|------------------|------------------------------------------------------------------------------------|---------------------------------------------|----------------------------------|-----------------------------------|----------------------------|----------------------------|-------------------------------------|
| 17-01            | General Outcome Focussed Assessment                                                | September 2017                              | August 2017                      | November 2017                     |                            |                            |                                     |
| 17-02            | Financial Management of Secondary Schools:<br>Perth Academy<br>Kinross High School | June 2017<br>September 2017                 | April 2017<br>April 2017         | May 2017<br>August 2017           | May 2017<br>August 2017    | May 2017<br>August 2017    | <b>June 2017<br/>September 2017</b> |
| 17-03            | Capital Programme                                                                  | June 2017                                   | April 2017                       | May 2017                          | May 2017                   | May 2017                   | <b>June 2017</b>                    |
| 17-04            | Partnership Working – Community Justice Partnership                                | November 2017                               | July 2017                        | August 2017                       | August 2017                | August 2017                | <b>September 2017</b>               |
| 17-05            | Management of Contracts                                                            | September 2017                              | May 2017                         | August 2017                       | August 2017                | August 2017                | <b>September 2017</b>               |
| 17-06            | Northgate Housing                                                                  | November 2017                               | October 2017                     | November 2017                     |                            |                            |                                     |
| 17-07            | Financial Assessment and Charging Follow Up                                        | November 2017                               | July 2017                        | September 2017                    |                            |                            |                                     |
| 17-08            | LEADER                                                                             | November 2017                               | August 2017                      | October 2017                      | November 2017              | November 2017              | <b>November 2017</b>                |
| 17-09            | Child's Plan                                                                       | September 2017                              | June 2017                        | August 2017                       | August 2017                | August 2017                | <b>September 2017</b>               |
| 17-10            | Embedding new Risk Management Arrangements                                         | March 2018                                  |                                  |                                   |                            |                            |                                     |

| <b>Audit No.</b> | <b>Audit Title</b>                 | <b>Original Anticipated Audit Committee</b>                                      | <b>Assignment brief approved</b>                                                                                                                                                                      | <b>Factual accuracy confirmed</b> | <b>Draft Report issued</b> | <b>Final Report issued</b> | <b>Audit Committee Date ^</b> |
|------------------|------------------------------------|----------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|----------------------------|----------------------------|-------------------------------|
| 17-11            | IR35                               | September 2017                                                                   | Not applicable. General advice provided at the start of the financial year.                                                                                                                           |                                   |                            |                            | <b>September 2017</b>         |
| 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                                                                    | August 2017                                                                                                                                                                                           | October 2017                      | October 2017               | October 2017               | <b>November 2017</b>          |
| 17-16            | New Process Development            | November 2017                                                                    | Proposed for removal from the Internal Audit Plan                                                                                                                                                     |                                   |                            |                            |                               |
| 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. |                                   |                            |                            |                               |
| 17/18            | Contract Rules                     | November 2017                                                                    | September 2017                                                                                                                                                                                        | September 2017                    | September 2017             | September 2017             | <b>November 2017</b>          |
| 17/19            | Integrated Adult & Social Care     | Not applicable. Outcomes will be reported directly to the Integrated Joint Board |                                                                                                                                                                                                       |                                   |                            |                            |                               |
| 17/20            | Creditors                          | March 2018                                                                       |                                                                                                                                                                                                       |                                   |                            |                            |                               |
| 17/21            | IR35 – part 2                      | June 2018                                                                        |                                                                                                                                                                                                       |                                   |                            |                            |                               |
| 17/22            | Elected Members Allowances         | January 2018                                                                     |                                                                                                                                                                                                       |                                   |                            |                            |                               |
| 17/23            | IT Change Management               | March 2018                                                                       |                                                                                                                                                                                                       |                                   |                            |                            |                               |
| 17/24            | Early Learning and Child Care      | November 2017                                                                    | September 2017                                                                                                                                                                                        | October 2017                      | October 2017               | October 2017               | <b>November 2017</b>          |
| 17/25            | Pupil Equity Fund                  | June 2018                                                                        |                                                                                                                                                                                                       |                                   |                            |                            |                               |
| 17/26            | Council Tax                        | January 2018                                                                     |                                                                                                                                                                                                       |                                   |                            |                            |                               |



|       |                                                            |              |                                                                                                                                                                                                       |  |  |  |  |
|-------|------------------------------------------------------------|--------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--|--|--|
| 17/27 | Housing Repairs & Improvement Service's Financial Controls | March 2018   |                                                                                                                                                                                                       |  |  |  |  |
| 17/28 | Corporate Health & Safety                                  | March 2018   |                                                                                                                                                                                                       |  |  |  |  |
| 17/29 | European Social Fund                                       | January 2018 |                                                                                                                                                                                                       |  |  |  |  |
| 17/30 | Commissioning Strategy                                     | March 2018   |                                                                                                                                                                                                       |  |  |  |  |
| 17/31 | GOFA Consultancy                                           | June 2018    | Proposed for removal from the Internal Audit Plan                                                                                                                                                     |  |  |  |  |
| 17/32 | Bus Service Operators Grant                                | March 2018   | 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 and Children's Services  
Early Learning and Childcare  
17-24  
October 2017

## Final Report

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

## Internal Audit

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

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

## Background and Introduction

This audit was carried out as part of the audit plan for 2017/18, which was presented to the Audit Committee on 27 September 2017. Audit testing was carried out in October 2017.

The Children and Young People (Scotland) Act 2014 became law on 27 March 2014. This act contained provisions designed to strengthen the role of early years support in children’s and families’ lives by increasing the amount and flexibility of free early learning and childcare.

From August 2014, entitlement rose from 475 hours per year to 600 hours per year for three and four year olds and some two year olds. Eligibility for identified two year olds’ was extended further in August 2015.

In March 2017 the Scottish Government confirmed its intention to further increase entitlement of free early learning and childcare for eligible children to 1,140 hours by 2020. At this time, local authorities were requested to draft initial expansion plans and provide these to the Scottish Government by 29 September 2017. Financial provisions have not yet been confirmed so initial plans may be subject to change.

## Scope and Limitations

The audit considered preparations by the Service to ensure that the Council can deliver the expansion of early learning and childcare hours from 600 to 1140 by 2020, in line with the principles set by the Scottish Government.

The review consisted primarily of analysis of documentation, alongside interviews with relevant Officers.

## 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 the Council is preparing adequately for the implementation of 1140 hours of early learning and childcare |
| Audit Comments:<br>Internal Audit’s opinion is that the Service is preparing appropriately for the                                    |

implementation of 1140 hours of Early Learning and Childcare.

There is evidence of draft expansion plan having been devised in line with the Scottish Governments Expansion Planning Guidance. This was approved by the Lifelong Learning Committee prior to submission to the Scottish Government by the requested deadline. It is recognised within the draft expansion plan that proposals and timelines are still being developed and will evolve, following further consultations and engagement activity.

Testing confirmed consideration of relevant information contributing to the creation of the plan. This includes, but is not limited to: current and projected population demographics; existing and future infrastructure; workforce; and financial forecasting.

There are governance, communication planning and risk management documents in place which demonstrate consideration of key matters. It is recognised that there is scope to review these to ensure that they fully reflect current arrangements and accountabilities, e.g. with reference to the departure of the Business Change Manager. Furthermore, it is acknowledged that two of the key documents defined within the governance framework, in respect of budget and benefits monitoring, are yet to be developed.

Planning is being progressed through a project team, divided into area-focused work streams. The Internal Audit review confirms discussion of relevant information at the appropriate forums as defined within the governance structure.

The Service advises that activity up until this point has been largely focussed on completing the work required to draft the initial expansion plans. This is reflected within the Service Business Management Improvement Plan also. A Project Officer has recently been appointed and work which is currently being progressed includes: reviewing and refining the implementation and communications plans in relation to key milestones and tasks; investigating the use of a management reporting tool; and further consultations with stakeholders. A highlight report template has also been drafted as an interim performance reporting tool.

|                                |        |
|--------------------------------|--------|
| Strength of Internal Controls: | 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.

## Internal Audit Report

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 members of the Early Learning and Childcare Expansion Project Team during this audit.

### Feedback

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

### Distribution

This report has been distributed to:

B Malone, Chief Executive

S Devlin, Executive Director Education and Children's Services

S Johnston, Head of Education (Early Years & Primary)

L Simpson, Head of Legal & Governance

S Mackenzie, Head of Finance

K McNamara, Head of Strategic Commissioning and Organisational Development

G. Taylor, Head of Democratic Services

G Boland, Senior Business and Resources Manager

F Easton, Change and Improvement Team Leader

External Audit

### Authorisation

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

This report is authorised for issue:

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Jacqueline Clark

Chief Internal Auditor

Date: 27 October 2017

## Appendix 1: Summary of Action Points

| No. | Action Point                             | Risk/Importance |
|-----|------------------------------------------|-----------------|
| 1   | <a href="#">Governance Arrangements</a>  | Medium          |
| 2   | <a href="#">Monitoring and Reporting</a> | Low             |

## Appendix 2: Action Plan

### Action Point 1 - Governance Arrangements

There is a documented governance framework in place, outlining key roles, responsibilities and documents utilised to ensure project delivery. However, there are some areas relating to governance where there is scope for review, as detailed below:

Presently there are 2 officers named within governance documentation as the Senior Responsible Owner for the project. There is benefit in this being assigned to one individual, in line with standard project guidance, to ensure that there is clarity of accountability.

A key role referred to within the framework is that of the Business Change Manager. Responsibilities of this individual include benefits realisation design and tracking, stakeholder engagement and transitioning change. The Business Change Manager has recently left the Council. There is, therefore, scope for the Service to review arrangements, considering impacts and mitigating actions as required. It may be best practice to document this within the risk register also.

### Management Action Plan

1. The Governance Framework has been revised to name the Head of Education (Early Years & Primary) as the sole Senior Responsible Owner.
2. The Service will review and update project documentation and plans to ensure that all responsibilities and tasks currently allocated to the Business Change Manager have been reassigned.

|                                     |                                                                                                                                                                                                                                    |
|-------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Risk/Importance:                    | Medium                                                                                                                                                                                                                             |
| Responsible Officer:                | S Johnston, Head of Early Years and Primary                                                                                                                                                                                        |
| Lead Service:                       | Education and Children's Services                                                                                                                                                                                                  |
| Date for Completion (Month / Year): | 1. Completed<br>2. October 2017                                                                                                                                                                                                    |
| Required Evidence of Completion:    | 2. Confirmation that a review has been carried out and sample of project documents, including the revised communications plan and Governance Framework, detailing responsibility for benefits realisation and transitioning change |

### Auditor's Comments

Satisfactory



## Action Point 2. Monitoring and Reporting

The Service advises that activity up until this point has been largely focussed on completing the work required to draft the initial expansion plans.

There is therefore acknowledgement that two of the key documents referred to within the governance framework have yet to be developed; namely the benefits realisation plan and budget monitoring report.

## Management Action Plan

1. A budget monitoring sheet will be further developed for future monitoring.
2. A Benefits Realisation Plan will be prepared on the basis of the Scottish Government Blueprint ready for future monitoring and will be fluid throughout the lifecycle of the project.

|                                     |                                                            |
|-------------------------------------|------------------------------------------------------------|
| Risk/Importance:                    | Low                                                        |
| Responsible Officer:                | F Easton, Change and Business Manager                      |
| Lead Service:                       | Education and Children's Services                          |
| Date for Completion (Month / Year): | 1. October 2017<br>2. November 2017                        |
| Required Evidence of Completion:    | 1. Budget Monitoring sheet<br>2. Benefits Realisation Plan |

## Auditor's Comments

Satisfactory





Internal Audit Report  
The Environment Service  
LEADER Assignment No A17-08  
November 2017

## Final Report

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

### Internal Audit

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

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

### Background and Introduction

This audit was carried out as part of the audit plan for 2017/18, which was presented to the Audit Committee on 27<sup>th</sup> September 2017. LEADER is a programme funded by the European Union aimed at increasing support to local, rural community and business networks to build knowledge and skills, and encourage innovation and cooperation in order to tackle local development objectives. Internal Audit have carried out two previous assignments in respect of LEADER (Report 17/57 and 16/310 refers) in which we have undertaken audit and consultancy work.

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

The LEADER LAG is an unincorporated body whose membership includes representatives from 21 public and voluntary bodies in rural RPK area including the Council. It has accepted approximately £3.8 million of funding from Europe and the Scottish Government over six years.

As lead partner the Council has signed a Service Level Agreement (SLA) with the Scottish Government in August 2015. The purpose of the agreement is to define the obligations, duties and accountabilities of both parties in regard to the Scotland Rural Development Programme. Included within Annex A of the agreement is the undertaking that the Council will provide internal audit coverage of the functions undertaken on behalf of the Scottish Government, and will submit as part of an annual report, confirmation there has been compliance with applicable Regulations.

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

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

This report is the result of our audit work for 2016-17 and covers the period 16 October 2016 to 15 October 2017. At the time of testing there were 51 projects being

## Internal Audit Report

supported by the 2014-2020 programme and 6 projects were reviewed. The projects were:-

| No | Organisation                       | Project Name                                           | Award (£) |
|----|------------------------------------|--------------------------------------------------------|-----------|
| 1  | Highland Safaris                   | Loch Tay Safari's                                      | 74,000    |
| 2  | St Fillans Community Trust         | Loch Earn Railway Path                                 | 60,000    |
| 3  | St Madoes & Kinfauns Parish Church | Madoch Centre                                          | 138,700   |
| 4  | RSPB                               | Loch Leven All Access Underpass Design Phase           | 8,775     |
| 5  | The Birks Cinema Trust             | The Birks Cinema Trust - Our First Community Programme | 30,750    |
| 6  | Strathearn Cider Company           | Cider Shed, Equipment & Brand Development              | 32,500    |

### Scope and Limitations

The Service Level Agreement refers to the requirement to comply with all EU regulatory requirements but in particular 1306/2013, 907/2014, 259/2008, 1305/2013 and 1303/2013. The Scottish Government has issued guidance which is based on the Regulations. Internal audit have limited their assurance to compliance with that guidance and the service level agreement.

### Control Objectives and Opinions

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

Control Objective: To ensure Regulatory requirements are met by reviewing the systems in place to deliver LEADER as well as the financial processes

Audit Comments: Testing confirmed that there are systems in place to deliver LEADER.

There is evidence that the LAG is leading on the delivery of the LDS in supporting the priority projects which will deliver the key elements of the strategy. As set out in the business plan the LAG is monitoring the programme, which was confirmed when reviewing projects. Testing confirmed that there are regular LAG meetings with project assessments being carried out and decisions being minuted. Minutes confirm that meetings are quorate and there is appropriate membership from both private and public bodies. LAG minutes are being displayed on the LEADER website.

Financial returns are sent to the Scottish Government requesting reimbursement for administrative and animation costs. Review of 4 returns was carried out and no discrepancies identified. Testing confirmed that these payments were subject to

## Internal Audit Report

internal supervisory checks with adequate segregation of duties and supporting documentation. The payments were appropriately recorded in the Council's financial records and a reconciliation carried out between the Council's general ledger and the claims. The claims were not aligned to quarters and were not submitted within the 20 days as outlined in the SLA.

At the time of the audit although payments had been issued to applicants, no claims had been submitted to the Scottish Government. The service advises that these will be submitted shortly.

Strength of Internal Controls:

Moderately Strong

Control Objective: Assess compliance with the SLA and conduct a review of a selection of LEADER projects

Audit Comments: The Service has reviewed and updated the Business Plan to reflect current processes. These include documentation of procedures to support separation of duties in claims processing and scrutiny of capital projects in line with requirements defined within the SLA. A current register of interests of LAG members is maintained, a data sharing agreement is in place with the Scottish Government, as is a user access control policy.

A review of 6 Leader projects was undertaken which confirmed that appropriate records have been maintained. This included completed signed application forms for all sampled projects in accordance with the guidance. LAG members review applications and complete project assessments. There was evidence that projects were appropriately discussed at LAG meetings and decisions being made by the majority of the quorate board of the LAG.

LEADER staff use Scottish Government Technical Checklists to ensure that all relevant information is documented and processes adhered to. There is evidence of financial scrutiny of project claims in respect of expenditure eligibility, match funding and supporting documentation.

There is scope to streamline processes for managing records relating to individual projects to ensure that all information is readily accessible.

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

## Internal Audit Report

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 PK LEADER staff during this audit.

### Feedback

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

### Distribution

This report has been distributed to:

B Malone, Chief Executive

J Valentine, Depute Chief Executive Environment (Sustainability, Strategic & Entrepreneurial Development)

B Renton, Director (Environment)

T Flanagan, Interim Head of Economic Development

SMackenzie, Head of Finance

S Merone, Investment Manager

F McGowan, Investment Team Leader

S Rice-Jones, LEADER Co-ordinator

L Simpson, Head of Legal and Governance Services

K McNamara, Head of Strategic Commissioning and Organisational Development

G Taylor, Head of Democratic Services

External Audit

### Authorisation

The auditors for this assignment were J O'Connor and M Morrison. The supervising auditor was J Clark

This report is authorised for issue:

---

Jacqueline Clark

Chief Internal Auditor

Date: 6 November 2017

Appendix 1: Summary of Action Points

| No. | Action Point                     | Risk/Importance |
|-----|----------------------------------|-----------------|
| 1   | Business Plan Change Control Log | Medium          |
| 2   | Record Management                | Medium          |



## Appendix 2: Action Plan

### Action Point 1. Business Plan Change Control Log

The Service has recently updated the Business Plan and it has been presented to the LAG for approval. There is benefit in recording any further changes to the Business Plan on a Change Control Log. The Business Plan could then be updated on an annual basis.

### Management Action Plan

Service will prepare a Change Control Log and will update it to reflect any changes in processes.

|                                     |                                    |
|-------------------------------------|------------------------------------|
| Risk/Importance:                    | Medium                             |
| Responsible Officer:                | S Rice-Jones, LEADER Co-ordinator  |
| Lead Service:                       | The Environment Service            |
| Date for Completion (Month / Year): | March 2018                         |
| Required Evidence of Completion:    | Copy of updated Change Control Log |

### Auditor's Comments

Satisfactory

## Action Point 2. Record Management

There is scope to review the way in which records are held to support progress with each of the projects. According to guidance all information should be held on LARCs, however this has not been possible given the level of applications that have been received and the difficulties experienced uploading information on to LARCs.

### Management Action Plan

Service has advised that once the team is full resourced, it will ensure that all information is centrally held and uploaded to LARCS where possible.

|                                     |                                                           |
|-------------------------------------|-----------------------------------------------------------|
| Risk/Importance:                    | Medium                                                    |
| Responsible Officer:                | S Rice-Jones, LEADER Co-ordinator                         |
| Lead Service:                       | The Environment Service                                   |
| Date for Completion (Month / Year): | March 2018                                                |
| Required Evidence of Completion:    | Confirmation that all information is uploaded on to LARCS |

### Auditor's Comments

Satisfactory