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Council Building
2 High Street
Perth
PH1 5PH

26 November 2018

A Meeting of the **Audit Committee** will be held in **the Council Chamber, 2 High Street, Perth, PH1 5PH** on **Wednesday, 07 November 2018** at **14:00**.

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

KAREN REID
Chief Executive

Those attending the meeting are requested to ensure that all electronic equipment is in silent mode.

Please note that the meeting will be recorded and will be publicly available on the Council's website following the meeting.

Members:

Councillor Eric Drysdale (Convener)
Councillor Bob Band (Vice-Convener)
Councillor Audrey Coates
Councillor Stewart Donaldson
Councillor David Illingworth
Councillor Xander McDade
Councillor Willie Wilson

Audit Committee

Wednesday, 07 November 2018

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 26 SEPTEMBER 2018** **5 - 8**
(copy herewith)
- 4 INTERNAL AUDIT FOLLOW UP** **9 - 18**
Report by Chief Internal Auditor (copy herewith 18/357)
- 5 INTERNAL AUDIT UPDATE** **19 - 26**
Report by Chief Internal Auditor (copy herewith 18/356)
- 6 EXTERNAL QUALITY ASSESSMENT** **27 - 40**
Report by Chief Internal Auditor (copy herewith 18/358)
- 7 CORPORATE AND DEMOCRATIC SERVICES**
- 7(i) 18-37 - CASH OFFICE REVIEW**
- 8 HOUSING AND ENVIRONMENT**
- 8(i) 18-12 MANAGEMENT OF CONTRACTS** **41 - 52**
(copy herewith 18/360)

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PERTH AND KINROSS COUNCIL
AUDIT COMMITTEE
26 SEPTEMBER 2018

AUDIT COMMITTEE

Minute of meeting of the Audit Committee held in the Council Chamber, 2 High Street, Perth on Wednesday 26 September 2018 at 2.00pm.

Present: Councillors E Drysdale, B Band, C Ahern (substituting for A Coates), S Donaldson, D Illingworth, X McDade and W Wilson.

In Attendance: G Taylor, J Clark, C Irons, S Mackenzie, M Morrison, A O'Brien and S Walker (all Corporate and Democratic Services); A Thomson (Housing and Environment)

Also in Attendance: A Shaw and C Windeatt, KPMG, External Auditors.

Apologies: Councillor A Coates.

Councillor Drysdale, Convener, Presiding.

. **WELCOME AND APOLOGIES/SUBSTITUTIONS**

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

. **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 27 June 2018 (Arts.400 - 406) was submitted and approved as a correct record and authorised for signature.

It was noted that the external validation of the self-assessment of Internal Audit's compliance with the Public Sector Internal Audit Standards would be reported to the next Audit Committee on 7 November 2018.

. **DRAFT AUDITED ANNUAL ACCOUNTS 2017/18 AND DRAFT ANNUAL REPORT TO THE MEMBERS OF PERTH AND KINROSS COUNCIL AND THE CONTROLLER OF AUDIT FOR YEAR ENDED 31 MARCH 2018**

There was submitted a report by the Head of Finance (18/301), presenting the Council's Draft Audited Annual Accounts for financial year 2017/18 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 2018 by the External Auditors (KPMG); and the Letter of Representation to the External Auditors from the Head of Finance.

PERTH AND KINROSS COUNCIL
AUDIT COMMITTEE
26 SEPTEMBER 2018

S Mackenzie referred to KPMG's annual report to 31 March 2018 which was submitted to the Audit Committee for approval and signature and would be submitted to the Council meeting on 3 October 2018 for noting.

S Mackenzie advised adjustments had been identified but these would have no impact on the resources available to the Council and advised that the Council was in a strong financial position.

S Mackenzie thanked Finance staff, relevant staff in each Service and KPMG for their support in the completion of the annual report and accounts.

A Shaw, KPMG, referred to the key messages in the unqualified report which would be finalised once signed. He also referred to the six control recommendations which had been accepted by the Council.

The Convener thanked KPMG and the Finance Team.

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 2018 as detailed in Appendix 1 to Report 18/301, be noted.
- (ii) The 2017/18 Audited Annual Accounts be approved and the Leader of the Council, the Chief Executive and the Head of Finance be authorised to sign them.
- (iii) The Letter of Representation be approved and the Head of Finance be authorised to sign the Letter.

S WALKER, A O'BRIEN AND A THOMSON LEFT THE MEETING AT THIS POINT.

INTERNAL AUDIT FOLLOW UP

There was submitted a report by the Chief Internal Auditor (18/291) presenting a current summary of Internal Audit's follow up work.

With regard to Appendix B to Report 18/291, it was noted that the review of the IR35 processes had now been received and procedures would be finalised.

Councillor C Ahern advised that the report on Criminal Justice, as referred to in Appendix C to Report 18/291, had been signed on 19 September 2018.

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.

PERTH AND KINROSS COUNCIL
AUDIT COMMITTEE
26 SEPTEMBER 2018

. **INTERNAL AUDIT UPDATE**

There was submitted a report by the Chief Internal Auditor (18/292) presenting a summary of Internal Audit's work.

J Clark advised that two staff had been recruited to the Internal Audit Team with one now in post and the other to start mid-October, and that these appointments would add valuable experience to the Team, including IT expertise.

Resolved:

- (i) The completion of work against the 2017/18 audit plan , be noted.
- (ii) The progress with assignments against the 2018/19 Audit Plan, be noted.

. **THE NATIONAL FRAUD INITIATIVE 2016/17 AND 2018/19**

There was submitted a report by the Chief Internal Auditor (18/293) presenting the findings of the 2016/17 National Fraud Initiative exercise as reported by Audit Scotland in July 2018, including a self-appraisal checklist for those charged with governance; and outlining the preparations underway in respect of the 2018/19 exercise.

J Clark advised that the 2018/19 Initiative would start in October 2018 and one optional dataset on Social Care Payments would be added.

L Simpson confirmed the legal position taken regarding the Council not sharing information on the Electoral Register for the purposes of the National Fraud Initiative. It was also noted that the Council was able to fully participate in the Initiative which included national bodies as well as Local Authorities.

It was noted that the data on Housing Waiting Lists was a mandatory dataset.

Resolved:

- (i) The outcomes within the National Audit Scotland report on the National Fraud Initiative exercise 2016/17 , be noted.
- (ii) The work being undertaken for the 2018/19 exercise, be noted.
- (iii) The Audit Scotland's self-appraisal checklist relating to those charged with governance and attached at Appendix B to report 18/293, be approved.

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# PERTH AND KINROSS COUNCIL

## Audit Committee

7 November 2018

### INTERNAL AUDIT FOLLOW UP

Report by Chief Internal Auditor (Report No. 18/357)

#### 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 1 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 39.
  - Table 2 shows the number of agreed actions that have been reported as incomplete as at their original agreed completion date. These total 27, of which 2 had a completion date of August 2018 and are therefore detailed in the following Appendices 2 and 3.
  - A further 25 actions not completed by their original date have been allocated revised dates for completion after 31 August 2018 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 2018 is 12.
- 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 external audit do not explicitly state the importance of each individual action and are therefore included in the tables as 'not rated'.

- 1.4 Appendices 2 and 3 present detailed follow-up information in respect of actions agreed for completion in the period of August 2018. There are no actions outstanding for this period for Corporate & Democratic Services and the Health & Social Care Partnership. Internal Audit's opinion on the implementation of the actions is that, whilst the actions have not been undertaken within the originally agreed timeframe, satisfactory progress is being made.
- 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 one such instance of 'high' risk actions and relates to the audit on Personalisation in respect of monitoring risk.

## 2. PROPOSALS

- 2.1 It is recommended that the Committee seeks assurance that there are clear and achievable action plans for completing the agreed actions noted above.

## 3 CONCLUSION AND RECOMMENDATIONS

- 3.1 The Audit Committee is asked to consider the most appropriate action to be taken to progress the agreed Action Plans.
- 3.2 It is recommended that the Audit Committee:
- (i) Note the current position in respect of the agreed actions arising from internal and external work; and
  - (ii) Consider the most appropriate action to be taken to progress the agreed action plans, taking into account the recorded audit opinions.

### Author

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

#### Corporate Plan

- 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.

- 1.2 This report relates to all of these objectives.

### 2. Assessments

#### Equality Impact Assessment

- 2.1 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.

- 2.2 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.

#### Risk

- 2.3 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**

#### Internal

- 3.1 The Chief Executive and the Executive 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 1 – Summary of Agreed Actions

Appendix 2 – Audit Follow-Up Education & Children's Services

Appendix 3 – Audit Follow-Up Housing & Environment

## Appendix 1

## Summary of Agreed Actions

Table 1: All Agreed Actions for Follow-Up as at 31 August 2018. This table includes actions not yet due for completion.

| Service                          | Importance   |              |                |                |                |
|----------------------------------|--------------|--------------|----------------|----------------|----------------|
|                                  | Critical     | High         | Medium         | Low            | Total          |
| Corporate & Democratic Services  | 0 (0)        | 0 (0)        | 9 (6)          | 7 (4)          | 16 (10)        |
| Education & Children's Services  | 0 (0)        | 2 (2)        | 1 (1)          | 0 (0)          | 3 (3)          |
| Health & Social Care Partnership | 0 (0)        | 0 (0)        | 3 (3)          | 0 (0)          | 3 (3)          |
| Housing & Environment            | 0 (0)        | 0 (1)        | 8 (8)          | 9 (9)          | 17 (18)        |
| <b>All Services</b>              | <b>0 (0)</b> | <b>2 (3)</b> | <b>21 (18)</b> | <b>16 (13)</b> | <b>39 (34)</b> |

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

| Service                                                                                                                        | Importance   |              |                |                |                |
|--------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|----------------|----------------|----------------|
|                                                                                                                                | Critical     | High         | Medium         | Low            | Total          |
| Corporate & Democratic Services                                                                                                | 0 (0)        | 0 (0)        | 4 (4)          | 3 (2)          | 7 (6)          |
| Education & Children's Services                                                                                                | 0 (0)        | 1 (1)        | 0 (0)          | 2 (2)          | 3 (3)          |
| Health & Social Care Partnership                                                                                               | 0 (0)        | 0 (0)        | 2 (2)          | 0 (0)          | 2 (2)          |
| Housing & Environment                                                                                                          | 0 (0)        | 0 (1)        | 8 (8)          | 7 (9)          | 15 (18)        |
| <b>All Services</b>                                                                                                            | <b>0 (0)</b> | <b>1 (2)</b> | <b>14 (14)</b> | <b>12 (13)</b> | <b>27 (29)</b> |
| Actions with a completion date of August 2018 which have not been completed and therefore included on Appendices B to D        |              |              |                |                | 2              |
| Those actions where the revised date for completion is after August 2018 and have been previously reported to Audit Committee. |              |              |                |                | 25             |



## Appendix 2

**Internal Audit Follow-up  
Education & Children's Services  
(Reporting for All dates on or before: August 2018)**

| Action Plan                                                                                                                                                                                                                                        | Dates                        | Status/Explanation                                                                                                                                                                                                                                                                                                                                                                                          |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><a href="#">17-20 - The Creditors System</a><br/>Action Point : 7 - Authority to Sign Invoices<br/>Importance: Medium</p> <p>This procedure will then be included in the annual review.</p> <p>(J Cockburn, Finance and Governance Manager)</p> | <p>Aug 2018<br/>Jan 2019</p> | <p>The annual review of authorised signatories has been postponed due to the development of the Authorised Signatory Database template by Corporate Finance. The target is to complete the annual review of signatories by 31st December 2018 and this will include checking the requirement to sign for other services/divisions ledger codes/budgets.</p> <p>Internal Audit Opinion:<br/>Satisfactory</p> |





## Appendix 3

**Internal Audit Follow-up  
Housing & Environment  
(Reporting for All dates on or before: August 2018)**

| Action Plan                                                                                                                                                                                                                                                                        | Dates                        | Status/Explanation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><a href="#">17-20 - The Creditors System</a><br/>Action Point : 6 - Authority to Sign Invoices<br/>Importance: Medium</p> <p>Audit Committee Date:</p> <p>This procedure will then be included in the annual review.</p> <p>(S Welsh, Finance &amp; Governance Team Leader)</p> | <p>Aug 2018<br/>Jan 2019</p> | <p>The Service stated that all authorised signatories were contacted immediately following audit findings to establish those requiring authorisation to sign off on others ledger codes/budgets so that Authorised Signatory Database forms could be updated and approved by the appropriate person. Annual review of authorised signatories has been postponed due to development of the Authorised Signatory Database template by Corporate Finance team. The target is to complete the annual review of signatories by 31st December 2018 and this will include checking the requirement to sign for other services/divisions ledger codes/budgets.</p> <p>Internal Audit Opinion:<br/>Satisfactory</p> |



## PERTH AND KINROSS COUNCIL

### Audit Committee

7 November 2018

### INTERNAL AUDIT UPDATE

Report by the Chief Internal Auditor (Report No. 18/356)

#### PURPOSE OF REPORT

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

#### 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 Plan for 2018/19, as approved by Audit Committee in March 2018 (report 18/109) and June 2018 (report 18/221).
- 1.3 Since April 2018, Internal Audit has been contacted on 7 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. Where control issues arise as a result of this work, Internal Audit will provide the Audit Committee with a report.
- 1.4 In addition, Internal Audit has continued to prepare for the 2018/19 National Fraud Initiative and all relevant datasets have been uploaded.
- 1.5 The external validation of the self assessment of Internal Audit's compliance with the Public Sector Internal Audit Standards (EQA) has now been completed. The outcome from this is included on the agenda for this Audit Committee.
- 1.6 Appendix A details those assignments where work has been completed since the last report to the Audit Committee. Where appropriate, Internal Audit Reports for these assignments will be presented to the Audit Committee.
- 1.7 Appendix B shows the areas of work being undertaken following the Audit Committee's consideration of the Internal Audit work plan for 2018/19.

#### 2. CONCLUSION AND RECOMMENDATIONS

- 2.1 This report presents a summary of Internal Audit's work.

- 2.2 It is recommended that the Committee notes the progress with assignments from the Internal Audit Plan for 2018/19.

**Author(s)**

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

#### Corporate Plan

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.

1.2 This report relates to all of these objectives.

### 2. Assessments

#### Equality Impact Assessment

2.1 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.

- 2.2 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.

#### Risk

- 2.3 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**

#### Internal

- 3.1 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 1 – Audit Activity Completed Since The Last Report To Audit Committee

Appendix 2 – Work Commenced from 2018/19 Internal Audit Work Plan

**Appendix 1****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>                                         |
|------------------|-------------------------|--------------------------------------------------------|
| 18-12            | Management of Contracts | Corporate & Democratic Services; Housing & Environment |
| 18-37            | Cash Office Controls    | Corporate & Democratic Services                        |





## Appendix 2

## Work Commenced from 2018/19 Internal Audit Work Plan as at April 2018

| Audit No. | Audit Title                                                                                               | Original Anticipated Audit Committee | Assignment brief approved                                                                                                                                                                             | Factual accuracy confirmed | Draft Report issued                                      | Final Report issued | Audit Committee Date ^ |
|-----------|-----------------------------------------------------------------------------------------------------------|--------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|----------------------------------------------------------|---------------------|------------------------|
| 18-01     | Initial Review of Controls following a Significant Fraud                                                  | May 2018                             | April 2018                                                                                                                                                                                            | April 2018                 | Outcome provided to Audit Committee. No separate report. |                     | <b>May 2018</b>        |
| 18-02     | Detailed Review of Controls following a Significant Fraud                                                 | November 2018                        | April 2018                                                                                                                                                                                            |                            |                                                          |                     |                        |
| 18-03     | IDEA Implementation                                                                                       | March 2019                           | April 2018                                                                                                                                                                                            |                            |                                                          |                     |                        |
| 18-04     | Arms Length External Organisations                                                                        | January 2019                         |                                                                                                                                                                                                       |                            |                                                          |                     |                        |
| 18-05     | Transformation                                                                                            | March 2019                           | April 2018                                                                                                                                                                                            |                            |                                                          |                     |                        |
| 18-06     | Corporate Governance                                                                                      | March 2019                           |                                                                                                                                                                                                       |                            |                                                          |                     |                        |
| 18-07     | Commissioning Strategy                                                                                    | March 2019                           |                                                                                                                                                                                                       |                            |                                                          |                     |                        |
| 18-08     | (a) Financial Assessment & Charging Follow Up<br>(b) Further Follow Up of Financial Assessment & Charging | June 2018<br>March 2019              | April 2018                                                                                                                                                                                            | May 2018                   | May 2018                                                 | May 2018            | <b>June 2018</b>       |
| 18-09     | Bus Service Operators Grant                                                                               | September 2018                       | Completed and grant claim certified. No report required on this occasion.                                                                                                                             |                            |                                                          |                     |                        |
| 18-10     | Bus Service Operators Grant                                                                               | March 2019                           | 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. |                            |                                                          |                     |                        |
| 18-11     | School Estate Strategy                                                                                    | November 2018                        | September 2018                                                                                                                                                                                        | November 2019              |                                                          |                     |                        |

|       |                                              |                |                |             |             |                |                      |
|-------|----------------------------------------------|----------------|----------------|-------------|-------------|----------------|----------------------|
| 18-12 | Management of Contracts                      | September 2018 | July 2018      | August 2018 | August 2018 | September 2018 | <b>November 2018</b> |
| 18-13 | Workforce Planning                           | January 2019   |                |             |             |                |                      |
| 18-14 | Welfare Reform                               | January 2019   |                |             |             |                |                      |
| 18-15 | Payroll                                      | November 2018  | September 2018 |             |             |                |                      |
| 18-16 | Sales Ledger                                 | November 2018  |                |             |             |                |                      |
| 18-17 | Residential Services                         | January 2019   |                |             |             |                |                      |
| 18-18 | Tay Cities Deal                              | March 2019     |                |             |             |                |                      |
| 18-19 | LEADER                                       | November 2018  |                |             |             |                |                      |
| 18-20 | Carbon Reduction Commitment & Climate Change | March 2019     |                |             |             |                |                      |
| 18-21 | General Data Protection Regulations          | May 2019       |                |             |             |                |                      |
| 18-22 | Carers Act                                   | May 2019       |                |             |             |                |                      |
| 18-23 | Local Action Partnerships                    | May 2019       |                |             |             |                |                      |
| 18-24 | IDEA Continuous Auditing                     | March 2019     |                |             |             |                |                      |
| 18-25 | Community Empowerment                        | March 2019     |                |             |             |                |                      |
| 18-26 | Commissioning Strategy                       | March 2019     |                |             |             |                |                      |
| 18-27 | Inclusion Services                           | May 2019       |                |             |             |                |                      |
| 18-28 | Corporate Risk Management                    | March 2019     |                |             |             |                |                      |

# PERTH AND KINROSS COUNCIL

## Audit Committee

7 November 2018

### EXTERNAL QUALITY ASSESSMENT

#### Report by the Chief Internal Auditor (Report No.18/358)

#### PURPOSE OF REPORT

This report presents the outcomes of the validated self-assessment, which fulfils the requirements of the Public Sector Internal Audit Standards to ensure that there is an External Quality Assessment of Internal Audit.

## 1. BACKGROUND / MAIN ISSUES

- 1.1 The Public Sector Internal Audit Standards (PSIAS) require that external assessments must be conducted at least once every five years by a qualified independent assessor or assessment team from outside the organisation. It requires that the chief audit executive must discuss with the board:
  - The form of external assessments
  - The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.
- 1.2 The approach adopted by Perth & Kinross Council was considered by the Audit Committee in February 2014 (Report [14/38](#)). The Committee approved that the Council would take part in the Scottish Local Authorities Chief Internal Auditor Group's validation of the Chief Internal Auditor's Self Assessment model.
- 1.3 Perth & Kinross Council's Internal Audit function undertakes an annual review of compliance with the Public Sector Internal Audit Standards, with any specific areas highlighted for development reported to the Audit Committee within the Annual Report. The most recent review, and supporting evidence, was examined by the Acting Chief Internal Auditor of South Ayrshire Council.

## 2. RESULTS OF THE VALIDATION

- 2.1 The report detailing the outcome of the External Quality Assessment is attached as an appendix to this report. The overall conclusion is that the Internal Audit Service fully conforms with the PSIAS.
- 2.2 In addition, two further areas of good practice were highlighted, namely the experience of the Internal Audit team and the arrangements in place to demonstrate Internal Auditor's objectivity.

- 2.3 The report includes an Action Plan for areas that have been highlighted for improvement.

### 3. CONCLUSION AND RECOMMENDATIONS

- 3.1 This report presents the outcome of the external independent validation of Internal Audit's self-assessment of compliance with the Public Sector Internal Audit Standards.
- 3.2 It is recommended that the Committee notes the outcome of the independent validation of Internal Audit's self-assessment of compliance with the Public Sector Internal Audit Standards.

#### Author(s)

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

If you or someone you know would like a copy of this document in another language or format, (on occasion, only a summary of the document will be provided in translation), this can be arranged by contacting the Customer Service Centre on 01738 475000.

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

#### Corporate Plan

- 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.

- 1.2 This report relates to all of these objectives.

### 2. Assessments

#### Equality Impact Assessment

- 2.1 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.

- 2.2 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.

#### Risk

- 2.3 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**

#### Internal

- 3.1 The Chief Executive and Head of Finance have been consulted in the preparation of this report.

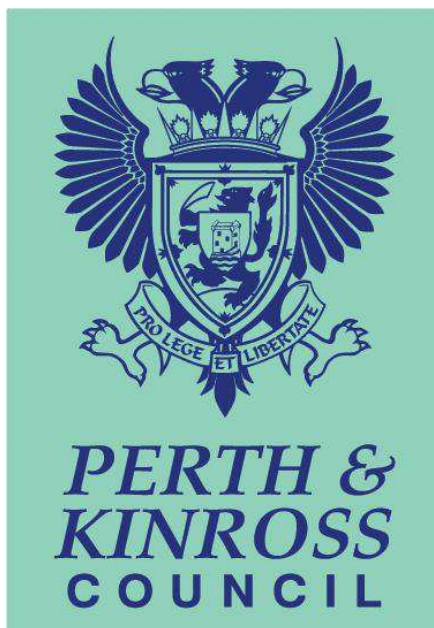
### **2. BACKGROUND PAPERS**

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 – External Quality Assessment of the Internal Audit Service by South Ayrshire Council

## **Perth and Kinross Council**



## **EXTERNAL QUALITY ASSESSMENT OF THE INTERNAL AUDIT SERVICE**

## **Final Report**

8 October 2018

**Index and Report Distribution List**

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| <b>1</b>          | <b>EXECUTIVE SUMMARY</b>                     | <b>1</b>   |
| <b>2</b>          | <b>DETAILED FINDINGS AND RECOMMENDATIONS</b> | <b>2-4</b> |
| <b>3</b>          | <b>ACTION PLAN</b>                           | <b>5-6</b> |
| <b>APPENDIX A</b> | <b>SUMMARY OF ASSESSMENT OF KEY AREAS</b>    | <b>7</b>   |

|                                     |                          |
|-------------------------------------|--------------------------|
| <b>First Draft Report Issued</b>    | <b>27 September 2018</b> |
| <b>Management Response Received</b> | <b>2 October 2018</b>    |
| <b>Second Draft Report Issued</b>   | <b>4 October 2018</b>    |
| <b>Management Response Received</b> | <b>4 October 2018</b>    |
| <b>Third Draft Report Issued</b>    | <b>8 October 2018</b>    |
| <b>Management Response Received</b> | <b>8 October 2018</b>    |
| <b>Final Report Issued</b>          | <b>8 October 2018</b>    |

|                   |  |
|-------------------|--|
| <b>Issued to:</b> |  |
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### **1. EXECUTIVE SUMMARY**

#### **1.1. Background**

1.1.1. This report has been prepared following a review of compliance with the Public Sector Internal Audit Standards (PSIAS) 2013 and the International Professional Practices Framework (IPPF) on which PSIAS has been based. The purpose of this report is to provide an overview of Perth and Kinross Council's (PKC) arrangements for the operation and management of its Internal Audit service.

1.1.2. PSIAS applies to all internal audit service providers, whether in-house, shared services or outsourced.

1.1.3. PSIAS defines internal audit as *“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”*.

1.1.4. PSIAS requires, as outlined in Standard 1300 “Quality Assurance and Improvement Programme”, that:

*“External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. External assessments can be in the form of a full external assessment or a self-assessment with independent external validation”*.

1.1.5. To meet this requirement, a reciprocal arrangement to complete a programme of inspections has been developed by the Chief Internal Auditor's Group (SLACIAG) within Scotland. This has identified South Ayrshire Council as the Authority to undertake the independent review of PKC's Internal Audit function's level of compliance with PSIAS.

1.1.6. This report details the findings from the External Quality Assessment (EQA) undertaken in August 2018 by the Acting Chief Internal Auditor of South Ayrshire Council.

#### **1.2. Scope**

1.2.1. The purpose of this EQA is to provide an independent assessment of the extent to which the Internal Audit Service within PKC complies with PSIAS.

1.2.2. The methodology for this EQA takes the form of a validated self-assessment. As such, the following work was undertaken in arriving at an opinion:

- A review of the latest self-assessment and supporting evidence provided by the Chief Audit Executive (CAE);
- canvassed the opinions of key stakeholders such as Chair of the Audit Committee, Directorate, and Chief Executive;
- completed a series of tests using a standard checklist; and
- completed a review of guidance and process documents and a sample of files.

#### **1.3. Limitations**

1.3.1. No specific work has been undertaken to assess the effectiveness of the Council's Audit Committee as this was not required to assess the internal audit function's level of compliance with PSIAS. A view as to the extent of compliance with PSIAS cannot be taken as any assurance on the strength of the control environment. It should also be noted that this report does not include detailed findings from the sample file reviews undertaken but these findings have been used to support our recommendations for improvements.

### **1.4. Areas of good practice identified**

1.4.1. A number of areas of good practice have been identified from the review, namely:

- Use of an 'objectivity register' which lists all conflicts or potential conflicts of interest within the internal audit service, and remains under continuous review by the Chief Internal Auditor;
- Significant experience on the part of the Chief Internal Auditor as well as an overall experienced Internal Audit team; and
- Overall full compliance with PSIAS and IPPF.

### **1.5. Conclusion and Main Findings**

1.5.1. The overall conclusion is arrived at following completion of the comprehensive EQA Checklist and, based on the work we have undertaken, it is our opinion that the Internal Audit Service, within PKC, **fully conforms** with the PSIAS. As detailed at Appendix A the majority of areas are fully compliant with the requirements of PSIAS, with one area which generally conform.

1.5.2. Aside from an overall full conformance with PSIAS, the review has highlighted some areas where enhancements could be made such as:

- Developing a suite of Key Performance Indicators to measure service delivery; and
- Developing a formal assurance mapping process to support the overall Statement of Assurance at the financial year-end.

These are detailed in full at Section 3 (Action Plan).

## **2. DETAILED FINDINGS AND RECOMMENDATIONS**

The findings are detailed below under each heading within the checklist.

### **2.1. Section A: Definition of Internal Auditing**

2.1.1. The internal audit function within PKC is considered to **fully conform** with the definition of internal auditing.

### **2.2. Section B: Code of Ethics**

2.2.1. The internal audit function within PKC is considered to **fully conform** with the Code of Ethics.

### **2.3. Section C: Attribute Standards**

#### **1000 Purpose, Authority and Responsibility**

**The standard sets out that the purpose, authority and responsibility of the internal audit activity must be defined in an Internal Audit Charter. It should define the nature of assurance services and consulting activities as well as internal audit's position in the organisation and relationships between the Chief Audit Executive and the Board.**

2.3.1. The internal audit function within PKC is considered to **fully conform** in terms of its purpose, authority and responsibility, with some areas for improvement to the Internal Audit Charter and Counter-Fraud and Corruption Strategy (**Action Points 1 and 2**).

#### **1100 Independence and Objectivity**

**The standard sets out the organisational and reporting lines expected to promote and preserve the organisational independence of the internal audit activity. It also sets out the**

## **External Quality Assessment of the Internal Audit Service at Perth and Kinross Council**

**arrangements expected to achieve individual objectivity and for dealing with potential and actual conflicts of interest.**

2.3.2. The PSIAS requires that organisational independence is evidenced through performance appraisals for the CAE that includes feedback from the Chief Executive and the Chair of the Board. The performance appraisal of the CAE is not countersigned by the Chief Executive or the Convener of the Audit Committee. **(Action Point 3)**

2.3.3. The internal audit function within PKC is considered to **fully conform** in terms of its independence and objectivity.

### **1200 Proficiency and Due Professional Care**

**The standard sets out the necessary requirements to ensure that the internal audit team possesses the knowledge, skills and other competencies to effectively carry out their professional responsibilities applying due professional care.**

2.3.4. Job descriptions were provided for internal audit team members however two of these may be out of date as they were last reviewed in 2010. **(Action Point 4)**

2.3.5. The internal audit function within PKC is considered to **generally conform** in terms of its proficiency and due care.

### **1300 Quality Assurance and Improvement Programme (QAIP)**

**The standard sets out the necessary requirements for the internal and external assessment of performance and compliance against PSIAS including the arrangements for reporting on results and disclosure of non-performance.**

2.3.6. The internal audit function within PKC is considered to **fully conform** in terms of its Quality Assurance and Improvement Programme. In order to monitor the performance of the internal audit activity, the Chief Internal Auditor should consider how feedback is formalised and reported and how a performance measurement framework can be embedded. **(Action Points 5 and 6)**

## **2.4. Section D: Performance Standards**

### **2000 Managing the internal audit activity**

**The standard sets out the necessary requirements for the overall management of the internal audit activity, the preparation of the risk based Audit Plan including delivery and reporting of the Audit Plan.**

2.4.1. The internal audit function within PKC is considered to **fully conform** in terms of managing the internal audit activity although some areas for improvement have been identified surrounding the assessment of the Council's overall assurance framework and an assurance mapping exercise. **(Action Point 7)**

2.4.2. An area for improvement already identified by the Chief Internal Auditor is the presentation of follow up reports to the Audit Committee. **(Action Point 8)**

### **2100 Nature of work**

**The standard sets the internal audit activity that needs to be undertaken to evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach.**

2.4.3. The internal audit function within PKC is considered to **fully conform** in terms of the nature of its work.

### **2200 Engagement Planning**

## **External Quality Assessment of the Internal Audit Service at Perth and Kinross Council**

**The standard sets the requirements necessary to develop and plan for each engagement including the objectives, scope, timing and resource allocations.**

2.4.4. The internal audit function within PKC is considered to **fully conform** with Engagement Planning.

### **2300 Performing the Engagement**

**The standard sets the requirements necessary to gather, document, analyse and evaluate evidence to achieve the engagement objectives. Supervision arrangements and records management are also covered.**

2.4.5. The internal audit function within PKC is considered to **fully conform** with Performing the Engagement.

### **2400 Communicating Results**

**The standard sets the requirements necessary for the communication of results for individual engagements and the overall annual opinion.**

2.4.6. The internal audit function within PKC is considered to **fully conform** in terms of communicating results.

### **2500 Monitoring Progress**

**The standard sets out the expected arrangement for monitoring the implementation of agreed actions or the acceptance of the risk of not implementing.**

2.4.7. The internal audit function within PKC is therefore considered to **fully conform** in terms of monitoring progress.

### **2600 Communicating the Acceptance of Risk**

**The standard sets out the expected arrangement for the escalation of unacceptable risk to the Board.**

2.4.8. The internal audit function within PKC is considered to **fully conform** in terms of communicating the acceptance of risk however there should be regular diarised meetings between the Chief Internal Auditor and the Chief Executive. **(Action Point 9)**

I would like to thank PKC for the co-operation and goodwill received during the course of the review.

Laura Miller ACCA  
Chief Internal Auditor  
South Ayrshire Council  
County Buildings  
Wellington Square  
Ayr  
KA7 1DR

For and on behalf of SLACIAG

8 October 2018

## External Quality Assessment of the Internal Audit Service at Perth and Kinross Council

### 3. ACTION PLAN

|   | PSIAS Ref | Finding/Recommendation                                                                                                                                                                                                                                                                                                                                                                                       | Priority | Management Comment                                                                                                                                                                                                                                                                                            | Officer Responsible                                 | Date to be completed |
|---|-----------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------|----------------------|
| 1 | 1000.1    | The Internal Audit Charter (Sept 2017) could be improved by referring to The Local Authority Accounts (Scotland) Regulations 2014, which gives statutory authority for internal audit, '7.—(1) A local authority must operate a professional and objective internal auditing service in accordance with recognised standards and practices in relation to internal auditing.                                 | 3        | The Internal Audit Charter was based on the template from the Institute of Internal Auditors.<br>Reference to the Local Authority Accounts (Scotland) Regulations 2014 will be added at the next review.                                                                                                      | J Clark,<br>Chief Internal Auditor                  | Sept 2019            |
| 2 | 1000.1    | Para 4.6.1 of the Counter-fraud and Corruption Strategy says ' <i>It is the role of Internal Audit to ensure that systems and procedures are in place to prevent fraud and corruption</i> '. This is a responsibility for management. PSIAS says that internal audit evaluates risk and report on fraud risks. It is not Internal audit's responsibility to ensure that systems and procedures are in place. | 2        | The Counter-Fraud and Corruption Strategy review will be updated to ensure that this is documented as management's responsibility.                                                                                                                                                                            | J Clark,<br>Chief Internal Auditor                  | March 2019           |
| 3 | 1100.4    | The performance appraisal of the Chief Internal Auditor should be countersigned by either the Chief Executive or the Convener.                                                                                                                                                                                                                                                                               | 2        | The Employee Review and Development arrangements within Perth & Kinross Council do not facilitate this.<br>The Head of Legal and Governance Services will ensure that the Chief Executive and Convenor are informed of any matters which may have an influence on the Chief Internal Auditors statutory role. | L Simpson,<br>Head of Legal and Governance Services | October 2018         |
| 4 | 1200.4    | Job descriptions for the Chief Internal Auditor and Senior Internal Auditor posts should be reviewed and updated where required.                                                                                                                                                                                                                                                                             | 3        | The job description for the Senior and Chief Internal Auditor will be reviewed to ensure that they are up to date.                                                                                                                                                                                            | J Clark,<br>Chief Internal Auditor                  | December 2018        |
| 5 | 1300.1    | In order to monitor the performance of the internal audit activity, the Chief Internal Auditor should consider formalising how feedback is obtained and reported.                                                                                                                                                                                                                                            | 3        | The arrangements for obtaining and reporting feedback will be formalised.                                                                                                                                                                                                                                     | M Morrison,<br>Senior Internal Auditor              | December 2018        |


















### **External Quality Assessment of the Internal Audit Service at Perth and Kinross Council**

|   | <b>PSIAS Ref</b> | <b>Finding/Recommendation</b>                                                                                                                                                                                                 | <b>Priority</b> | <b>Management Comment</b>                                                                                                                                    | <b>Officer Responsible</b>        | <b>Date to be completed</b> |
|---|------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|-----------------------------|
| 6 | 1300.1           | In order to monitor the performance of the internal audit activity, the Chief Internal Auditor should review the performance measurement framework (e.g. KPIs or balanced scorecards).                                        | 3               | The Chief Internal Auditor will consider the provision of further information relating to the performance of the Internal Audit function.                    | J Clark<br>Chief Internal Auditor | March 2019                  |
| 7 | 2000.2<br>2000.3 | While a detailed review of the Internal Audit universe (which grades systems and processes) is performed, there is scope to improve the documentation of the consideration of the organisation's overall assurance framework. | 3               | The Chief Internal Auditor will clearly document the consideration of the overall assurance framework when considering Internal Audit's workplan for 2019/20 | J Clark<br>Chief Internal Auditor | March 2019                  |
| 8 | 2000.14          | A review should be undertaken of follow up reports with a view to better presenting information to the Audit Committee. The views of the Convener should be sought on any proposed changes.                                   | 3               | The Follow Up report will be reviewed and a revised format provided to Audit Committee for 2019/20. The Convenor will be consulted on the template.          | J Clark<br>Chief Internal Auditor | March 2019                  |
| 9 | 2600.1           | The Chief Internal Auditor should establish regular diarised meetings with the Chief Executive.                                                                                                                               | 3               | The Chief Internal Auditor will take this action forward with the newly appointed Chief Executive.                                                           | J Clark<br>Chief Internal Auditor | December 2018               |

#### **Key to grading of Recommendations**

1. Critical
2. Requires Addressing
3. Housekeeping
4. Value for Money

**SUMMARY OF CONFORMANCE WITH PSIAS**

| Reference | Assessment Area                             | Fully<br>Conforms<br> | Generally<br>Conforms<br> | Partially<br>Conforms<br> | Does Not<br>Conform<br> |
|-----------|---------------------------------------------|--------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|
| Section A | Definition of Internal Auditing             |                       |                                                                                                             |                                                                                                              |                                                                                                            |
| Section B | Code of Ethics                              |                       |                                                                                                             |                                                                                                              |                                                                                                            |
| Section C | Attribute Standards                         |                                                                                                        |                                                                                                             |                                                                                                              |                                                                                                            |
| 1000      | Purpose, Authority and Responsibility       |                       |                                                                                                             |                                                                                                              |                                                                                                            |
| 1100      | Independence and Objectivity                |                       |                                                                                                             |                                                                                                              |                                                                                                            |
| 1200      | Proficiency and Due Professional Care       |                                                                                                        |                           |                                                                                                              |                                                                                                            |
| 1300      | Quality Assurance and Improvement Programme |                       |                                                                                                             |                                                                                                              |                                                                                                            |
| Section D | Performance Standards                       |                                                                                                        |                                                                                                             |                                                                                                              |                                                                                                            |
| 2000      | Managing the Internal Audit Activity        |                       |                                                                                                             |                                                                                                              |                                                                                                            |
| 2100      | Nature of Work                              |                      |                                                                                                             |                                                                                                              |                                                                                                            |
| 2200      | Engagement Planning                         |                     |                                                                                                             |                                                                                                              |                                                                                                            |
| 2300      | Performing the Engagement                   |                     |                                                                                                             |                                                                                                              |                                                                                                            |
| 2400      | Communicating Results                       |                     |                                                                                                             |                                                                                                              |                                                                                                            |
| 2500      | Monitoring Progress                         |                     |                                                                                                             |                                                                                                              |                                                                                                            |
| 2600      | Communicating the Acceptance of Risks       |                     |                                                                                                             |                                                                                                              |                                                                                                            |





Internal Audit Report



Internal Audit Report  
Corporate & Democratic Services; Housing & Environment  
Management of Contracts  
18-12  
October 2018

Final Report (Report No.18/360)

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 2018/19, which was presented to the Audit Committee on 27<sup>th</sup> June 2018.

Procurement work can positively support the achievement of objectives set out in the Community and Corporate plans for Perth and Kinross. Effective contract and supplier management plays a key part in this, assisting in ensuring that the Council achieves best value and minimises risk.

Council spend with third parties during 2017/18 was £255m, this includes expenditure on goods, services and works and those that are placed with arm’s length organisations such as Tayside Contracts. The figure also includes monies allocated to support capital investment decisions taken by the Council. Contracts are formed and managed either by collaborative partnerships; Scottish Procurement; Scotland Excel; Tayside Procurement Consortium; or locally by Council Services and Officers. The latter represents the largest portion both in terms of contracts held and expenditure. In 2017/18 the largest proportional spend was attributed to the Environment Service (34%), followed closely by Housing and Community Safety (32%).

An Internal Audit was carried out in 2017 ([report 17/311](#) refers) to assess contract management across a number of areas of the council and to support the Corporate Procurement Manager with ongoing transformation and improvement activity. The 2017/18 Procurement Annual report ([report 18/198](#) refers) recognises that this work is continuing, with further focus on contract management systems and reporting in 2018/19.

Audit testing was carried out in July and August 2018.

### Scope and Limitations

Due to the factors mentioned above, a risk based approach was taken that this audit would focus on how contracts are being managed within the newly formed Housing and Environment Service only at this time. Particular consideration was given to contracts entered into within the previous 12 months.

In order to arrive at an opinion on the achievement of the control objective a sample of 5 contracts (ranging from circa £25,000 to £3 million) was selected. The audit included interviews with officers, and a review of systems and documents in use.

This audit did not review contract management arrangements for contracts arranged and administered by commissioned services or the Tayside Procurement Consortium, as these may be subject to separate review.

## 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 adequacy of arrangements in respect of contract management.

As referred to within the background information, it is recognised that Corporate Procurement are continuing to develop contract management standardisation and reporting processes across the Council. This audit has been carried out to support this work. Summaries of each contract sampled have been discussed with individual contract managers and Corporate Procurement, including suggested learning points for future awards. Internal Audit's opinion as to the overview of arrangements is detailed below.

Each of the contracts reviewed had a designated Contract Manager. In all cases this person had been involved in either building the contract specifications or had received a handover from the person who did. There may have been merit in some of the auditees working more closely with Corporate Procurement at the contract outset, however, as some issues were observed regarding contract set-up arrangements and publication of awards in line with statutory requirements.

Training sessions are run throughout the year by Corporate Procurement and 4 out of the 5 contract managers had attended one or more sessions. In the case of the exception, training was not explicitly offered to the Officer due to the lower contract value (under £50,000), and this may be an area for Corporate Procurement to review.

All of the contracts had been authorised by an Officer with the appropriate financial spend limit. Corporate Procurement has confirmed that work is ongoing to formally record contract authority as a separate field within the authorised signatory database for further clarity also.

Each contract had been set up to operate to either the standard Council Supplier and Services or National Works contract terms and conditions, ensuring appropriate protection for the Council. In some of the contracts, however, further development of the tender brief document may have been beneficial in providing clarity of requirements and performance reporting expectations.

Contract managers were able to express what the contract was in place to do and how this was being achieved. Evidence was provided of communications showing that contracts are being monitored to ensure that key objectives are being met. Additionally, evidence was observed showing responsiveness to issues and required actions. In some instances, however, process and documentation could have been enhanced to demonstrate the achievement of best value through appropriate consultation and consideration of risk; specifically in regards to change management.

In the main, exit arrangements had been considered, and contract performance

## Internal Audit Report

could be tracked. There was evidence of financial reporting, and in some instances, performance reporting, such as projects managed through the Capital Programme. Standardised tracking and reporting is an area being developed through the Corporate Procurement Improvement Plan.

Internal Audit has provided information to Corporate Procurement regarding areas where further clarifications to contract rules and guidance may be beneficial.

Strength of Internal Controls:

Moderate

### 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 service contacts and the Corporate Procurement 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:

K Reid, Chief Executive

J Valentine, Depute Chief Executive

B Renton, Executive Director (Housing & Environment)

K McNamara, Depute Director (Housing & Environment)

C Mailer, Head of Housing

W Young, Head of Environmental & Consumer Services

## Internal Audit Report

S Crawford, Head of Property Services

D Littlejohn, Head of Planning & Development

M Mitchell, Corporate Procurement Manager

L Simpson, Head of Legal & Governance

S Mackenzie, Head of Finance

G Taylor, Head of Democratic Services

External Audit

### Authorisation

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

This report is authorised for issue:

---

Jacqueline Clark  
Chief Internal Auditor  
Date: October 2018

## Appendix 1: Summary of Action Points

| No. | Action Point                                            | Risk/Importance |
|-----|---------------------------------------------------------|-----------------|
| 1   | <a href="#">Contract &amp; Publication Arrangements</a> | High            |
| 2   | <a href="#">Training</a>                                | Medium          |
| 3   | <a href="#">Authorised Signatory Database Update</a>    | Low             |
| 4   | <a href="#">Tender Brief Specification</a>              | Medium          |
| 5   | <a href="#">Change Control</a>                          | Medium          |
| 6   | <a href="#">Corporate Procurement Log</a>               | Medium          |

## Appendix 2: Action Plan

### Action Point 1 - Contract & Publication Arrangements

Audit testing revealed areas where closer consultation with Corporate Procurement at the contract outset may have been beneficial to ensure that the contract set up arrangements were fully considered and disclosed.

As noted in the previous report on Contract Management ([report 17/311](#) refers), contract awards exceeding the value of £50,000 must be published within set timescales in line with statutory requirements. Whilst Corporate Procurement has confirmed controls are in place to highlight outstanding contract award notice publications to Services, 2 of the contracts reviewed were not notified to Public Contracts Scotland within the appropriate time limit.

Furthermore issues were noted with regards to incorrect contract award values being notified to Corporate Procurement, which were subsequently published on the contract register; the potential for further consideration of how works and services were procured; and clarity regarding documents forming the contract award.

### Suggested Management Action Plan

Liaise with the Corporate Procurement Manager to enable an appropriate communication regarding contract set up arrangements and statutory obligations. This will be published to the Housing and Environment ERIC pages/distributed via Heads Of Service.

|                                     |                                            |
|-------------------------------------|--------------------------------------------|
| Risk/Importance:                    | High                                       |
| Responsible Officer:                | Fraser Crofts, Finance & Resources Manager |
| Lead Service:                       | Housing & Environment                      |
| Date for Completion (Month / Year): | Complete                                   |
| Required Evidence of Completion:    | Copy of Communication Issued               |

### Auditor's Comments

Satisfactory

## Action Point 2 - Training

Corporate Procurement hold various training and learning lunch sessions throughout the year. Furthermore, Internal Audit has been advised that named Officers involved with contracts above the value of £50,000 are specifically offered procurement and contract management training.

Currently, however, there is no commensurate control in place to ensure that training is offered to Officers procuring and managing contracts under the value of £50,000.

Corporate Procurement may wish to review this arrangement to enhance controls and understanding for any Officer tasked with building and managing a contract.

## Suggested Management Action Plan

Invitation of training will be extended to all Officers named as Contract Managers, irrespective of contract value.

|                                     |                                           |
|-------------------------------------|-------------------------------------------|
| Risk/Importance:                    | Medium                                    |
| Responsible Officer:                | M Mitchell, Corporate Procurement Manager |
| Lead Service:                       | Corporate & Democratic Service            |
| Date for Completion (Month / Year): | October 2018                              |
| Required Evidence of Completion:    | Updated procedure document                |

## Auditor's Comments

Satisfactory



### Action Point 3 - Authorised Signatory Database Update

Authority for entering into the contract was based upon an Officers revenue and capital spending limits.

It is recognised, however, that further work is required to capture information and formally record contract authority as a separate field within the authorised signatory database.

### Suggested Management Action Plan

a) The Corporate Procurement Manager will provide the Financial Systems Team with the information to be captured within the contract authority field.

b) The Financial Systems Team is currently reviewing all fields and information captured within the authorised signatory database. Further to this, action will be taken to capture all appropriate information from Services.

|                                     |                                                                                                                      |
|-------------------------------------|----------------------------------------------------------------------------------------------------------------------|
| Risk/Importance:                    | Low                                                                                                                  |
| Responsible Officer:                | a) M Mitchell, Corporate Procurement Manager<br>b) L Law, Financial Systems Team Leader                              |
| Lead Service:                       | Corporate & Democratic Service                                                                                       |
| Date for Completion (Month / Year): | a) October 2018<br>b) December 2018                                                                                  |
| Required Evidence of Completion:    | a) Updated narrative expressing information requiring to be captured<br>b) Example forms showing information capture |

### Auditor's Comments

Satisfactory

#### Action Point 4 - Tender Brief Specification

In 3 of the 5 contracts reviewed, further development of the tender brief specification document at the outset may have been beneficial in providing clarity of the Service's requirements and performance reporting expectations.

These include ensuring the tender brief specification outlines key performance measures, anticipated monitoring frequency, specific roles and responsibilities and links with the contract strategy.

#### Suggested Management Action Plan

As part of the communication referred to within action 1, reference will be made to the importance of tender specification document.

|                                     |                                            |
|-------------------------------------|--------------------------------------------|
| Risk/Importance:                    | Medium                                     |
| Responsible Officer:                | Fraser Crofts, Finance & Resources Manager |
| Lead Service:                       | Housing & Environment                      |
| Date for Completion (Month / Year): | Complete                                   |
| Required Evidence of Completion:    | Copy of Communication Issued               |

#### Auditor's Comments

Satisfactory

## Action Point 5 - Change Control

During the audit evidence was provided of appropriate communications with suppliers to achieve contract objectives; and of responsiveness to issues and required actions

However, Internal Audit testing revealed that, in 2 of the contracts, a more formalised change recording system would have been beneficial. This would assist in evidencing appropriate consultation, consideration of best value and risk prior to changes being made, and would provide greater assurance in the event of staff absence.

## Suggested Management Action Plan

As part of the communication referred to within action 1, reference will be made to the importance of appropriate change control processes.

|                                     |                                            |
|-------------------------------------|--------------------------------------------|
| Risk/Importance:                    | Medium                                     |
| Responsible Officer:                | Fraser Crofts, Finance & Resources Manager |
| Lead Service:                       | Housing & Environment                      |
| Date for Completion (Month / Year): | Complete                                   |
| Required Evidence of Completion:    | Copy of Communication Issued               |

## Auditor's Comments

Satisfactory

## Action Point 6 - Corporate Procurement Log

During the course of the audit, areas were identified where clarifications to the Council Contract Rules and Corporate Procurement processes may be useful. A log detailing these has been provided to Corporate Procurement for consideration. This includes:

- incorporating further information within the contract rules around expectations of the authority/approval process for quick quotes and mini competition awards from frameworks;
- a review of contract award letter templates to ensure these specify who the contract manager is; and
- the development of the Procurement ERIC pages with regards to contract management.

## Suggested Management Action Plan

The log will be reviewed and any actions taken as necessary.

|                                     |                                                    |
|-------------------------------------|----------------------------------------------------|
| Risk/Importance:                    | Medium                                             |
| Responsible Officer:                | M Mitchell, Corporate Procurement Manager          |
| Lead Service:                       | Corporate & Democratic Service                     |
| Date for Completion (Month / Year): | December 2018                                      |
| Required Evidence of Completion:    | Confirmation of review, action and sample evidence |

## Auditor's Comments

Satisfactory