

PERTH AND KINROSS COUNCIL

Audit Sub-Committee – 27 June 2012

INTERNAL AUDIT YEAR-END REPORT FOR 2011/12

Report by the Chief Internal Auditor

ABSTRACT

This report presents the year-end report and audit opinion, as set out at Section 8, for 2011/12 of the Chief Internal Auditor.

1 RECOMMENDATION

- 1.1 It is recommended that the Audit Sub-Committee notes the contents of this report which is submitted to ensure compliance with CIPFA's Code of Practice for Internal audit in Local Government in the United Kingdom 2006 (The Code of Practice).

2 BACKGROUND

- 2.1 Internal Audit is an independent assurance function within Perth & Kinross Council. It contributes to the achievement of the Council's objectives by appraising and reviewing:
- (i) the completeness, reliability and integrity of information, both financial and operational;
 - (ii) the compliance with relevant policies, plans, procedures, laws and regulations;
 - (iii) the safeguarding of assets of all types;
 - (iv) the economy, efficiency, effectiveness and equity with which resources are employed;
 - (v) the conduct of operations and the achievement of planned objectives; and
 - (vi) the quality and reliability of the full range of internal controls, including risk management arrangements put in place by management in order to ensure the achievement of (i) to (v) above.
- 2.2 Perth & Kinross Council's internal controls include the full range of policies, procedures and practices intended to ensure the proper conduct of its operations and the achievement of its objectives. They include organisational structures, job descriptions, authorisation limits, management supervision, risk management processes, reports and decisions.
- 2.3 It is the responsibility of management to devise, implement and maintain appropriate controls over the activities for which they are responsible. The role of Internal Audit is to provide an opinion to the Council as to the

effectiveness of the controls that have been put in place by management in order to ensure that the organisation achieves its objectives. Internal Audit is thus a key part of the process by which the Council manages the risks that threaten the achievement of its objectives.

- 2.4 Internal Audit's work is planned in such a way as to take account of these risks. Prioritising work towards the areas of highest assessed risk enables the Council to identify and remedy the most material weaknesses in its framework of internal controls.
- 2.5 In line with the Code of Practice, Internal Audit undertakes a process of planning resulting in a plan which is for no longer than one year. For 2011/12, the Internal Audit Plan covered the period from April 2011 to March 2012 and was approved by the Audit Sub-Committee in March 2011 [report 11/112 refers]. All Perth & Kinross Council's activities are reviewed as part of the planning process. The plan for 2011/12, taken as a whole, aimed to cover the most significant areas of risk within the resources available.
- 2.6 This report summarises the audit work carried out in 2011/12 and presents the Chief Internal Auditor's opinion on the effectiveness of the Council's internal control environment for that year.

3 INTERNAL AUDIT'S WORK IN 2011/12

- 3.1 This section presents an overview of Internal Audit's work during 2011/12 in its role as independent reviewer of the Council's systems of internal control.
- 3.2 There has been a lower than anticipated available resource due to long term sickness and associated phased return. Additional resources were applied to assist in the completion of audit assignments within the year. The Audit Sub-Committee has been informed of developments throughout the year.
- 3.4 During the year, Internal Audit has completed a number of assignments which were outstanding at the end of March 2011 relating to previous financial years.
- 3.5 The Internal Audit Plan for 2011/12, covering the period from April 2011 to March 2012 has been substantially completed on time. 2 planned audits have not been completed, however one Internal Audit assignment was undertaken in addition to the planned programme. At the time of preparing this report, 15 Internal Audit reports have been issued for 19 planned assignments, and 3 grants have been certified, representing 78% of the anticipated reports arising from Internal Audit work connected with the approved plan. A significant amount of work has been undertaken on the remaining audits and the results of this work have been considered in arriving at the year end opinion.

- 3.6 Unplanned assignments as a result of investigations have resulted in more than planned resources having been applied to the area of Internal Audit's remit. Where appropriate, control issues highlighted as a result of this work has been reported to the Audit Sub-Committee.
- 3.7 Significant progress has been made in clearing historic reports within the year, with only one remaining to be cleared from previous years.
- 3.8 The results reported here relate to all audit reports delivered against the 2011/12 plan, audit reports issued during the period from April 2011 to June 2012 and also unplanned assignments where reports have been presented to the Audit Sub-Committee. Reports issued prior to April 2011 were taken into consideration in the year end opinion for 2010/11 as reported to Audit Sub-Committee in May 2011 [report 11/241 refers].
- 3.9 Issued reports during this period contain a total of 198 agreed actions, rated as follows:

Critical Risk	8 agreed action
High Risk	30 agreed actions
Medium Risk	102 agreed actions
Low Risk	58 agreed actions

- 3.10 This represents a significant increase in the proportion of critical- and high-risk actions from 1% and 8% respectively in 2010/11 to 4% and 15% in 2011/12 and a corresponding decrease in the proportion of medium- and low-risk actions from 55% and 36% respectively to 52% and 29% respectively.
- 3.11 Appendix A shows a summary of Internal Audit's work for Perth & Kinross Council during 2011/12 compared with the original plan as approved by the Audit Sub-Committee in March 2011, with the current status of each assignment. The Appendix does not detail additional work, such as internal investigations or non-audit tasks undertaken during the year, though some of these are described elsewhere in this report. It was originally planned that 19 audits would be undertaken within the year, along with additional assignments, including 3 grant claim certification, for Perth & Kinross Council. Internal Audit has undertaken 18 audits (17 planned, one additional audit and three grant claim certifications). Internal Audit was actually involved with 27 assignments.

Areas for Significant Improvement in Controls

- 3.12 During 2011/12, each audit report assigned an overall rating, summarising the strength of internal controls in the area under review. These ratings were intended to provide a guide to management in setting priorities for action and to inform the Audit Sub-Committee in their scrutiny role. The number of areas where controls have been described as 'moderately weak', 'weak' or 'unacceptably weak' have decreased on those reported last year from 7 to 4.

- 3.13 Issued reports during this period contain an assessment of the control environment for a total of 42 control objectives. These assessments of control at the time audits took place are broken down as follows:

Strong	5 Control Objectives
Moderately Strong	15 Control Objectives
Moderate	17 Control Objectives
Moderately Weak	2 Control Objectives
Weak	3 Control Objectives
Unacceptably Weak	0 Control Objectives

Follow Up of Action Plans

- 3.14 The Code of Practice highlights that the responsibility for considering (and accepting or rejecting) Internal Audit's findings rests with management. Final audit reports record the agreed plan of action, including the individuals responsible; the planned timescales for completion; and the evidence required by Internal Audit to verify completion of the action. The audit process is of little value unless action is taken to remedy deficiencies in internal control where these are identified. Hence, a significant part of Internal Audit's role is the following-up of progress with these action plans in line with the requirements of the Code of Practice.
- 3.15 A database for recording agreed actions is maintained for this purpose. Services are routinely requested to provide the agreed evidence of completion for actions which are due to have been completed. Where actions have not been completed, an update on progress is requested along with the reason for non-completion and a revised date for completion. The Audit Sub-Committee is informed of all actions which have not been completed, along with an Internal Audit opinion on the acceptability or otherwise of the response received from management.
- 3.16 The role of the Chief Executive, Executive Directors and Senior Management Teams in ensuring that agreed actions are completed has been developed during the year and continues to be developed.
- 3.17 In the Chief Internal Auditor's opinion, the procedures in place provide a sound basis for ensuring that progress against the agreed plans is exposed to the proper level of scrutiny.

4 THE AUDIT SUB-COMMITTEE

- 4.1 The Audit Sub-Committee operates within an approved 'Role and Remit' and, as a formally constituted Sub-Committee, conducts its meetings in public, thus ensuring a high degree of accountability for its activities.

- 4.2 The continued retention of the services of an additional member during 2011/12, not an elected Councillor, is of benefit to the Audit Sub-Committee's effectiveness by enhancing the skills available to it in its scrutinising role.

5 RESOURCES

- 5.1 Resources available to Internal Audit during the year have been affected by higher levels of absence than had been anticipated, as detailed in 3.2 above. As highlighted at 3.2, additional resources for completing the planned Internal Audit work for 2011/12 and to cover for some of the absences were applied.
- 5.2 Recent trends in internal audit staffing are as shown below:

	April 2010		Apr 2011		Apr 2012	
	No.		No.		No.	
Qualified Staff	2	54%	2	36%	2	36%
Unqualified, Studying	0.9	12%	0	16%	0	0%
Unqualified, Not Studying	2.6	21%	3.5	48%	3.5	64%
Total	5.5	100%	5.5	100%	5.5	100%

- 5.3 Expenditure for 2011/12 on Internal Audit was £225,265 against a budget of £209,053.

6 ANTI-FRAUD ACTIVITY

- 6.1 The responsibility for preventing and detecting fraud and corruption rests with management; it is the responsibility of management to take into account the risks arising from fraud and corruption and to devise and maintain the appropriate internal controls to provide a reasonable level of assurance that the Council's resources are being protected from loss and misappropriation.
- 6.2 Nevertheless, Internal Audit has a number of responsibilities regarding the Council's anti-fraud and anti-corruption arrangements. The year 2011/12 saw a moderate level of audit activity in this area as described below.

The National Fraud Initiative

- 6.3 The National Fraud Initiative (NFI) is a large-scale 'data-matching' exercise that takes place every two years and takes place over two financial years. Perth & Kinross Council has participated in the 2010/11 exercise. The NFI involves the comparison of personal data held by public authorities in order to identify anomalies that may indicate fraud or error. This output then forms

the basis for a process of investigation within each authority, in order to ensure that errors are recognised and corrected and that, where cases of possible fraud are identified, they are pursued appropriately.

- 6.4 This investigative process, which is driven by Audit Scotland, is co-ordinated by Internal Audit and includes overseeing Services' checking of a sample of identified anomalies within the period of the exercise, on the basis of an assessment of risk. Internal Audit facilitates the reporting of progress to Audit Scotland. There has been, and continues to be, an allocation of audit resources towards the completion of this task.
- 6.5 The 2010/11 exercise was completed during the year and the 2012/13 exercise has commenced and is being progressed. The Sub-Committee will be updated with progress during the year.

Anti-Fraud and Anti-Corruption Policies

- 6.6 The Council's anti-fraud and corruption policies have been in place and have remained current throughout the year.

'Whistleblowing' Arrangements

- 6.7 In order to ensure that the Council meets the standards set out in its anti-fraud and corruption policy, some aspects of the Council's 'whistleblowing' arrangements are managed by Internal Audit. This includes the maintenance of a dedicated e-mail address and telephone line for employees with concerns at work, which is routed to Internal Audit. The Council also supports the national charity 'Public Concern at Work' that upholds the rights of those who raise concerns about wrongdoing at their place of work and which operates a free legal advice 'hotline'.
- 6.8 Two contacts were made with Internal Audit of a 'whistleblowing' nature within the year. These cases were fully resolved and the outcomes have been taken into consideration in the planning exercise for the 2012/13 Internal Audit Plan.
- 6.9 Whistleblowing arrangements have been in place throughout 2011/12.

Investigations

- 6.10 Internal Audit's role includes the assessment of any concerns that are raised through the above arrangements and the conduct of internal investigations where appropriate. A small time allowance is made for work of this sort within the audit plan. As highlighted in 3.6 above, the time spent on investigation work within the year exceeded the budgeted time.
- 6.11 The year 2011/12 saw a number of investigations requiring input from Internal Audit. Investigative work undertaken within the year has resulted in agreed improvements which will enhance the Council's internal control environment.

Anti-Money Laundering

- 6.12 The Chief Internal Auditor, as the Council's nominated Money Laundering Reporting Officer.

7 COMPLIANCE WITH AUDITING STANDARDS

- 7.1 The Code of Practice has been adopted by Perth & Kinross Council as the relevant professional standard. A review of compliance with the Code of Practice was undertaken in 2009/10 a full review of Internal Audit's working practices is planned for 2012/13 to ensure full compliance, where possible.

Audit Independence

- 7.2 Internal Audit should be independent of the activities that it audits to enable auditors to perform their duties in a way that allows them to make impartial and effective professional judgements. The Code of Practice sets out a number of requirements to ensure that this can be achieved.
- 7.3 Internal Auditors should not have operational responsibilities aside from their audit duties. The implications of the Chief Internal Auditor's involvement as Money Laundering Reporting Officer will be explored during 2012/13.
- 7.4 The right of the Chief Internal Auditor to report within the Council is set out in existing policies and procedures. The Council does not comply with the Code of Practice's recommendation that the Chief Internal Auditor "should not report to or be managed at a lower organisational level than the corporate management team". Reporting arrangement for the Chief Internal Auditor have changed during the year. Prior to June, the Chief Internal Auditor reported to the Head of Finance. For the remainder of the year, the reporting line was to the Deputy Director of Housing, Community Care & Finance. If required, the Chief Internal Auditor would have unrestricted access to the Chief Executive, the Executive Officer Team, the Council and its members.

Audit Sub-Committee

- 7.5 The Code of Practice sets out the preferred model for local authorities as having independent audit committees. At Perth & Kinross Council, the decision was taken to retain the structure of the Audit Sub-Committee reporting to Scrutiny Committee. In every other regard, the Audit Sub-Committee fulfils the requirements for the preferred model as laid down in the Code.

Internal Audit's Planning Framework

- 7.6 The Code of Practice introduced a requirement for internal audit plans to be fixed for no more than one year. Rather than successively review each phase of a three-year audit plan, a process of annual planning is undertaken.

- 7.7 A revised Internal Audit planning methodology was developed, with input from Ernst & Young, for the 2010/11 plan. This ensures that the requirement of the Code of Conduct for establishing a risk-based Internal Audit plan is fulfilled. This methodology was further developed during the process for devising the 2011/12 internal audit planning process.
- 7.8 The audit plan for 2011/12 was developed over the period December to February 2011 and covered the period of April 2011 to March 2012. No revisions to the plan have been submitted for approval during the year however 2 assignments have not been completed as originally planned.
- 7.9 Internal Audit responded to a request from a Service to undertake additional work with regard to the roll out of a module within a key financial system. This was undertaken in addition to the approved Audit Plan.

Performance Measures

- 7.10 Internal Audit's prime performance measure is the completion of the approved audit plan. As stated in 7.8 above, there were no requests for revisions during the year. Of the 22 assignments planned for completion in the 2011/12 Audit plan (19 audits and 3 grant certification assignments), 18 have been fully completed and reported on as at June. This represents 82% of the planned work for the year. In addition, a further assignment was undertaken.
- 7.10 Further work is required to develop information systems in such a way as to support a full range of performance indicators. The Audit Sub-Committee will decide on the measures reported to monitor performance against specific measures. The following are performance indicators previously agreed to be provided which are not detailed elsewhere within this report, along with the corresponding percentages for the 2009/10:

	11/12	10/11
(i) % of Council net expenditure on Internal Audit	0.06%	0.08%
(ii) % of Council staffing expenditure on Internal Audit	0.08%	0.13%
(iii) % of Council employees in Internal Audit	0.11%	0.10%
(iv) % of audit findings accepted by management	100%	100%

Quality Assurance of Internal Audit

- 7.11 A quality assurance system was in place in Internal Audit within 2011/12. Improvements instigated during the year have continued to take effect.

8 AUDIT OPINION

- 8.1 **In the Chief Internal Auditor's opinion, reasonable reliance can be placed on the Council's systems of internal control for 2011/12, subject to Internal Audit's previously reported findings relating to the 'areas for significant improvement in controls' noted in Section 3 above.**

9 CONSULTATION

- 9.1 The Depute Director (Housing, Community Care & Finance) has been consulted in the preparation of this report.

10 RESOURCE IMPLICATIONS

- 10.1 There are no resource implications arising directly from this report.

11 COUNCIL CORPORATE PLAN OBJECTIVES 2009-2012

- 11.1 The Council's Corporate Plan 2009-2012 lays out five Objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:-

- (i) A Safe, Secure and Welcoming Environment
- (ii) Healthy, Caring Communities
- (iii) A Prosperous, Sustainable and Inclusive Economy
- (iv) Educated, Responsible and Informed Citizens
- (v) Confident, Active and Inclusive Communities

- 11.2 The Chief Executive's Service provides a range of functions for internal and front-line customers alike. These functions support the work of the whole Council by assisting them in the delivery of the Council's Corporate Objectives. As a consequence, this report does not specifically relate to one of the objectives, but assists with the delivery of all five.

12 EQUALITIES ASSESSMENT

- 12.1 The Council's Corporate Equalities Assessment Framework requires an assessment of functions, policies, procedures or strategies in relation to race, gender and disability and other relevant equality categories. This supports the Council's legal requirement to comply with the duty to assess and consult on relevant new policies to ensure there is no adverse impact on any community group or employees.
- 12.2 The function, policy, procedure or strategy presented in this report was considered under the Corporate Equalities Assessment Framework and the determination was made that the items summarised in this report do not require further assessment as they do not have an impact on people's wellbeing.

13 STRATEGIC ENVIRONMENTAL ASSESSMENT

- 13.1 Strategic Environmental Assessment (SEA) is a legal requirement under the Environmental Assessment (Scotland) Act 2005 that applies to all qualifying plans, programmes and strategies, including policies (PPS).

- 13.2 However, no action is required as the Act does not apply to the matters presented in this report. This is because the Committee are requested to note the contents of the report only and the Committee are not being requested to approve, adopt or agree to an action or to set the framework for future decisions.

14 CONCLUSION

- 14.1 This report presents the Chief Internal Auditor's year-end report and audit opinion for 2011/12.

J CLARK

Chief Internal Auditor

Note: 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.

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APPENDIX A – THE 2011/12 INTERNAL AUDIT SUMMARY

Audit Subject	2011/12 Audit Plan	2011/12 Status
Income	Planned	Complete
Change Management	Planned	Complete
Sales Ledger	Planned	Complete
Creditors	Planned	Complete
Members Allowances & Expenses	Planned	Complete
Members' Register of Interests	Planned	Draft Report issued
Licensing	Planned	In progress
Records Management	Planned	Complete
Information Security Management System	Planned	Complete
Adult Support & Protection	Planned	
Cash & Banking	Planned	Draft report issued
Commissioned Services: Temporary Accommodation	Planned	Complete
Council Tax	Planned	Draft Report Issued
Interim Funders	Planned	Complete
Carbon Reduction Commitment	Planned	Complete
Waste Management Plan	Planned	Complete
Winter Maintenance	Planned	Complete
Child Protection	Planned	Complete
Financial Management of All-Through Schools	Planned	

