



Perth and Kinross Council

Interim management report and audit status summary

Year ending 31 March 2019

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For Audit Committee consideration on 22 May 2019

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Introduction

Purpose of document

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

This report provides the Audit Committee with an update on:

- Significant risks and other focus areas (pages four to eight)
- The results of the control testing (pages nine to 12).
- Best Value and wider scope (page 13).
- An emerging area relating to the statutory loans fund (page 13).
- Update on prior year recommendations (page 17).

Significant risks and other focus areas in relation to the audit of the financial statements as identified in our audit strategy document, dated 27 March 2019, are:

- fraud risk from management override of controls;
- fraud risk from income and expenditure recognition;
- revaluation of property, plant and equipment; and
- retirement benefit obligations.

The other focus area identified was:

- capital expenditure.

Acknowledgements

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

Significant risks and other focus areas

Significant risks and other focus areas update

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We outline below updates on significant risks included within our audit strategy. We will conclude on these areas in our Annual Audit Report.

Significant Risk	Update from our audit strategy
<p>Fraud risk from management override of controls</p> <p>A presumed risk we are required to consider covers fraud risk from management override of control.</p> <p>Management is typically in a position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk.</p> <p>This is a presumed risk per International Standards of Audit (“ISA”) <i>The auditor’s responsibilities relating to fraud in an audit of financial statements</i> 240.</p>	<p>We performed controls testing over non-pay expenditure, bank reconciliations, revenue budget monitoring, and budget capital monitoring. In addition, we tested a sample of procurement arrangements for compliance with the relevant regulatory frameworks and internal controls. Our testing did not identify any instances where management override of controls had occurred.</p> <p>Substantive procedures will be performed during the year-end audit, including testing journals that are considered high-risk, assessing accounting estimates, and significant unusual transactions that are outwith the Council’s normal course of business.</p>

Significant risks and other focus areas (continued)

Significant risks and other focus areas update (continued)

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Significant Risk	Update from our audit strategy
<p>Fraud risk from expenditure</p> <p>Under ISA 240 there is a presumed risk that income may be misstated due to improper recognition of income. This requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p>	<p>We performed testing of controls over the reconciliation of the housing rent systems (Northgate and Integra).</p> <p>For Council Tax and Non Domestic Rates we performed testing of controls over applications for relief, as well as performing tests of control over reconciliations of the Council's valuation rolls against the roll provided by the Tayside Valuation Board.</p> <p>See details on page 12.</p>
<p>Income</p> <p>We consider that the Council's significant income streams, which include taxation and non-specific grant income are free of management judgement or estimation.</p> <p>We do not consider recognition of the remaining income sources to represent a significant risk for the Council as there are limited incentives and opportunities to manipulate the way income is recognised, and these are not likely to be materially inappropriate. We did not identify any such errors or manipulation in the prior year. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area beyond our standard fraud procedures.</p>	<p>We performed testing of controls over BACS payment authorisations, procurement tenders, and review of payments over £75,000.</p> <p>See further details of controls testing on page ten.</p> <p>Substantive procedures will be performed during the year-end audit. We will analyse results against budgets and forecasts, performing substantive analytical procedures and tests of detail.</p>
<p>Expenditure</p> <p>We consider that there is not a risk of improper recognition of expenditure in respect of payroll costs, financing and investment expenditure, or depreciation. These costs are routine in nature and not at risk of manipulation. This relates to a significant proportion of council expenditure. As other operating expenditure is unlikely to be material, we also rebut the assumed risk in respect of this account.</p> <p>We have not rebutted the assumed risk in respect of the remaining expenditure of £210.5 million.</p>	

Significant risks and other focus areas (continued)

Significant risks and other focus areas update (continued)

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Significant Risk	Update from our audit strategy
<p>Revaluation of property, plant and equipment</p> <p>The 2018-19 Code of Practice on Local Authority Accounting ("2018-19 Code") requires that where assets are subject to revaluation, their year-end carrying value should reflect the appropriate fair value at that date. In common with other councils, the Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. In 2018-19 community centres, day care centres, halls and town halls, hostels, libraries, public toilets, residential homes, miscellaneous operational properties, investment properties, and shops will be subject to revaluation and we expect the movement to be material. The revaluation model also includes revaluation of assets with significant capital investment, and consideration of impairment indicators for all Council assets.</p> <p>The Council uses a valuation date of the 1 April 2018 for the 31 March 2019 year end in respect of all properties except those classed as investment properties, which have a valuation date of 1 August 2018. Therefore we consider there to be a risk of a material movement in valuation between these dates.</p> <p>Given the quantum of the asset carrying values and the inherent use of assumptions in their valuation, we consider there to be an increased risk of misstatement.</p>	<p>We met with the Estates team and discussed the areas being revalued in 2018-19 as well as reviewing the five year rolling programme. The valuation date is 1 April 2018 as in prior years, except for investment properties with a valuation date of 1 August 2018, with management performing an assessment of whether the valuations as at that date remain appropriate as at 31 March 2019. We continued to assess that the Estates team has sufficient qualifications, objectivity and independence to carry out valuations for the Council.</p> <p>As part of our year-end audit, we will use our valuation specialist to review the assumptions used to consider whether they are reasonable and in line with the 2018-19 Code, with a focus on assets revalued under depreciated replacement cost, which is the most judgemental valuation basis. A sample of revaluations will be considered in more detail, including the roll forward to 31 March 2019 and management's consideration of impairment triggers.</p> <p>We will test that revaluations are correctly disclosed in the accounts and that the accounting entries relating to the revaluation are correct.</p>

Significant risks and other focus areas (continued)

Significant risks and other focus areas update (continued)

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Significant Risk	Update from our audit strategy
<p>Retirement benefit obligations</p> <p>The net pension liability (£98.4 million as at 31 March 2018, including assets of £756.1 million) represents a material element of the Council's Balance Sheet. The Council is an admitted body of Tayside Pension Fund, which had its last triennial valuation completed as at 31 March 2017. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the overall valuation.</p> <p>There are financial assumptions and demographic assumptions used in the calculation of the Council's valuation, such as the discount rate, inflation rates, and mortality rates etc. The assumptions should also reflect the profile of the Council's employees, and should be based on appropriate data. The basis of the assumptions should be derived on a consistent basis year to year, or updated to reflect any changes.</p> <p>There is a risk that the assumptions and methodology used in the valuation of the Council's pension obligation are not reasonable. This could have a material impact on the net pension liability accounted for in the financial statements.</p>	<p>The Council participates in a scheme which requires all data including starters, leavers and changes of hours to be uploaded to an online system for transfer to Tayside Pension Fund each month. This data is taken directly from this system by the administrator.</p> <p>In our experience, we expect two controls to exist to effectively mitigate the risk of material misstatement over the overall pension liability. These are that management tests the provision of data to the fund is complete and accurate, and that management review the assumptions provided by Tayside Pension Fund to consider appropriateness for the Council's workforce. These are discussed in more detail on page 11.</p> <p>During the year-end audit, a review of relevant assumptions and testing against our understanding of the Council will take place, for example salary increase assumptions. Prior to the fieldwork beginning in July, we will request details of management's assumptions for 2018-19 to facilitate this consideration and benchmarking by our internal actuary.</p>

Significant risks and other focus areas (continued)

Significant risks and other focus areas update (continued)

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Other focus area	Update from our audit strategy
<p>Capital expenditure</p> <p>The Council has a ten year £576 million capital plan, which includes the Cross Tay Link Road, A9/A85 road junction improvement project and Perth City Hall upgrade. The expected spend in 2018-19 is £70.8 million.</p> <p>Due to the significance of this capital investment programme and complexity of some of the projects, we consider there to be a risk of misstatement. This is in respect of ensuring that the classification of costs between operating and capital expenditure is appropriate and in respect of capturing all relevant costs and contributions.</p> <p>We also consider that any large capital project inherently brings a fraud risk to an entity.</p>	<p>We tested controls over capital monitoring and procurement of capital projects, the findings of which are outlined on page nine.</p> <p>We reviewed the capital budget and plan for 2018-19 and future years, and will carry out substantive procedures over capital spend at the year-end audit. This will include substantive sampling methods to evaluate the appropriateness of capital or revenue accounting classification by reference to supporting documentation, review of manual journals and testing of additions.</p>

Control Framework

System Controls

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In accordance with ISA 330 *The auditor's response to assessed risks*, we designed and performed tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls over the main financial systems. Interim audit testing took place during February and March 2019. Overall we concluded that the control environment is effective.

Test	Description	Results
Bank reconciliations	<p>Bank reconciliations are prepared monthly by a member of the income team and reviewed by a more senior officer.</p> <p>We tested a sample of two months for each of the eight bank accounts to verify they had been authorised and completed on a timely basis. A further test of control will be completed for the year end reconciliations.</p>	<p>Those reconciliations subject to tested were completed and authorised as expected. No exceptions noted.</p> <p>Satisfactory</p>
Capital budget monitoring	<p>Management monitor capital expenditure on all projects throughout the year. All large projects and any smaller projects nearing their approved spend will be considered by the Strategic Investments Group ("SIG") and then by the Strategic Policy and Resource committee ("SP&R") as appropriate. Approval is required for any overspends or adjustments against original budgets.</p> <p>The Council has a robust revenue budget setting process, with involvement of key members of staff across the Council. Performance against revenue budget is monitored on a regular basis and formally reported to the Strategic Policy and Resources Committee ("SP&R") via the budget monitoring reports in September, November, February and April.</p> <p>We considered the year to November 2018 report to conclude whether a sufficient level of detail was presented to and considered by the committees and that a level of precision is used to determine which variances require further analysis and discussion.</p>	<p>Per prior year recommendation three (page 19), management implemented a level of precision over which variances are considered. This threshold was set at £50,000.</p> <p>Our testing concluded that budget monitoring arrangements over capital and revenue expenditure are designed and implemented effectively.</p> <p>As management introduced the threshold in December 2018, we did not test the operating effectiveness of the implementation of the use of the threshold as part of our interim testing however we will test whether the control has been implemented during the year end audit.</p> <p>Satisfactory</p>

Control Framework (continued)

System Controls (continued)

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Test	Description	Results
Authorisation of payroll, and service establishment approval	<p>A sample of two months control sheets were tested, which record that the stages of the payroll process have been completed, before authorising the payroll and completing the BACS runs. This includes a key control over any exceptions or variances in net pay.</p> <p>A sample of two months' BACS runs were reviewed to test the payment schedule was reconciled to the net pay analysis report and appropriately authorised.</p> <p>The annual service establishment report was reviewed to determine whether it had been reviewed by each service to confirm all employees are still actively employed by the Council.</p>	<p>Those controls sheets tested recorded key stages of the pay run and had been marked as completed, with the pay run being marked as ready for processing. The sample of exception reports tested were marked as reviewed and investigated.</p> <p>Both BACS runs subject to testing had been reconciled and authorised by an authorised signatory in advance of the pay run.</p> <p>Our testing indicated that all four services had completed and signed the service establishment report as expected.</p> <p>Satisfactory</p>
Review of cost of services expenditure	<p>The Council has a well-defined process covering the payment of services provided. We considered and tested management's review and authorisation of payments to an individual supplier that exceed £75,000. A sample of 40 payments were tested.</p>	<p>Our testing of the 40 payments indicated that there are adequate segregation of duties between those entering data, and those authorising the payment.</p> <p>Satisfactory</p>
Authorisation over procurement contracts	<p>The Council has well-defined processes for the awarding of contracts, with written procedures to be followed for each contract type and value.</p> <p>Procurement testing covered a sample of ten contracts awarded in the year, split between those which had gone through the quotation process and those which required to be tendered. Our approach was designed to test whether correct procurement route had been followed based on value and reviewed the evidence of the tender evaluation process.</p>	<p>Our testing concluded that the selected contracts had followed the correct procurement route based on value.</p> <p>Satisfactory</p>

Control Framework (continued)

System Controls (continued)

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Test	Description	Results
BACS authorisation	<p>BACS payment runs must be approved by an authorised member of the finance team.</p> <p>We tested a sample of 20 BACS payments to verify they had been authorised.</p>	<p>Our testing identified that 19 of the 20 samples were correctly signed and authorised by the appropriate officer.</p> <p>One item sampled was not signed, however, the payment had been authorised within the banking system by the appropriate officer. We considered this to be a mitigating control, and therefore concluded that overall, the control was operating effectively.</p> <p>Satisfactory</p>
Transfer of pensionable data, and management review of assumptions.	<p>We furthered our understanding of the process management undertake to transfer data to Tayside Pension Fund, and their assessment of the actuarial assumptions.</p>	<p>We discussed and walked through the process undertaken by Management during the January 2019 payroll and pension processes. We were satisfied that the following controls were designed and implemented appropriately:</p> <ul style="list-style-type: none"> – Management have controls over the transfer of new starts, leavers, and other changes to employee data to the Tayside Pension Fund; and that – Management have controls over the authorisation of the payment of pension contributions to the Tayside Pension Fund. <p>Satisfactory</p> <p>We discussed management's review of pension assumptions with regard to the 2018-19 financial statements. On the understanding that indicative assumptions are proposed by Tayside Pension Fund, management should consider whether these assumptions are appropriate for Perth and Kinross Council and its workforce. It is recommended that management that a formally documented review of these assumptions is completed once the assumptions are proposed for the year ended 31 March 2019.</p> <p>Recommendation one</p>

Control Framework (continued)

System Controls (continued)

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Test	Description	Results
Housing rents system	We planned to test two months' reconciliations between the housing rents system (Northgate) and the general ledger (Integra) to indicate whether officers completed this reconciliation on a timely basis and any reconciling items were followed up and investigated.	<p>The reconciliation has not been carried out for the full year, but management intend to carry it out on a cumulative basis to 31 March 2019. We will consider the cumulative reconciliation as part of our year-end audit. It is recommended that the control is carried out monthly by management. We plan to test the year end reconciliation as part of our year end audit.</p> <p>It is recommended that this control is completed monthly as expected.</p> <p><i>Recommendation two</i></p>
Council Tax and Non-Domestic Rates	<p>For each of Council Tax and Non-Domestic Rates reliefs, we tested 25 applications for relief from account holders to test whether they had been authorised by an appropriate officer within the Local Taxes team.</p> <p>For Non-Domestic Rates, we tested a sample of five reconciliations of the Council's valuation roll against the valuation roll provided by the Tayside Valuation Joint Board.</p> <p>For Council Tax, we plan to test the annual reconciliation of the Council Tax valuation roll against that roll provided by the Tayside Valuation Joint Board as part of the year end audit.</p>	<p>Our testing relating to both sets of samples identified no issues or errors.</p> <p>Satisfactory</p>
Review of valuations	<p>As a result of KPMG's recommendations in the 2017-18 audit, management agreed to introduce a senior officer review of valuation reports. This will allow senior officers to challenge and scrutinise the valuation before the finance team make accounting adjustments.</p> <p>The Estates team will make the valuation reports available to us in April 2019, and we intend to test this implemented control at the end of April 2019.</p>	<p>We confirmed that the Senior Estates Surveyor retired during the year, and that the role has been filled.</p> <p>We have confirmed that management have appointed two external valuation experts to support their assessment of valuations undertaken internally.</p> <p>We will report our findings over the operating effectiveness of this control in our annual audit report.</p>

Wider Scope and Best Value

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

Test	Audit update
Best Value	<p>In year three of our audit appointment (2018-19), we will, in conjunction with Audit Scotland, carry out a full Best Value audit over the Council, having begun planning in early 2019. The report will be completed and reported to the Accounts Commission on 8 August 2019. We have held planning discussions with officers including the Chief Executive on 19 February 2019 to agree the scope of our Best Value Assurance Report ("BVAR").</p> <p>We, in conjunction with Audit Scotland, have met with a range of stakeholders including the Executive Officer Team of the Council, operational staff, residents and other bodies such as the Perth and Kinross Integration Joint Board and Police Scotland.</p> <p>From these meetings and review of relevant documents, we will draw out key themes and emerging issues to be included in the final report.</p>
Wider Scope	<p>Specific risks in this area are set out in our audit strategy document and include demand pressures on the Council's services and the ability to achieve savings set out in the transformation programme.</p> <p>As part of our audit work during planning and interim, we carried out the following procedures;</p> <ul style="list-style-type: none"> – reviewed update reports on transformation projects presented to committee for progress against savings targets; – read the budget proposals, and attended the budget meeting of the Council; – held meetings with various officers including the Chief Executive, Head of Finance, Head of Legal and Governance, and Chief Internal Auditor; – reviewed policies and procedures and how these support officers in making informed financial decisions; and – reviewed budget monitoring reports to understand over and underspends against budget for different services in the year. <p>We use the above to inform our work on the four wider scope areas above and Best Value, and will report our conclusion in our Annual Audit Report.</p> <p>Statutory Loans Fund – Financial sustainability and financial management</p> <p>We understand that the Council is using legislation introduced in 2016 to review and amend the statutory repayment of the loans fund. This enables Councils to provide for a prudent repayment schedule.</p> <p>We will review the Council's proposed prudent loans fund repayment schedule, assessing if it is in accordance with legislation.</p>



Appendices

Appendix one

Action Plan

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The action plan summaries specific recommendations arising from our work, together with related risks and management's responses.

Priority rating for recommendations

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

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

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

Finding and risk	Recommendation	Original actions
1. (Grade two) Transfer of pensionable data and management review of assumptions - Audit dimension: financial management		
<p>Our understanding is that the pension assumptions used for the purpose of calculating the pension liability as at 31 March 2019 is that management use assumptions recommended by Tayside Pension Fund.</p> <p>There is a risk that the assumptions used for the purpose of calculating the pension liability are not relevant or appropriate for the Council and its workforce.</p>	<p>We recommend that management formally document their review of the assumptions used in the pension liability calculation, explaining why the assumptions used are deemed to be appropriate for the Council.</p>	<p>Management response: Agreed</p> <p>Implementation date: 30 June 2019</p> <p>Responsible officer: Head of Finance</p>
2. (Grade two) Housing rents system - Audit dimension: financial management		
<p>The reconciliation between the housing rents system (Northgate) and the general ledger system (Integra) has not operated consistently on a monthly basis throughout 2018-19 as expected.</p> <p>The reconciliation will be performed at year end however there is a risk of material misstatement in financial reporting during the year if this is not performed on a monthly basis.</p>	<p>We recommend that the reconciliation is performed on a monthly basis as expected going forward.</p>	<p>Management response: Noted. The reconciliation identified is routinely carried out. There were two occasions in 2018/19 when this did not take place due to conflicting demands however going forward the reconciliations will be reinstated</p> <p>Implementation date: 30 June 2019</p> <p>Responsible officer: Head of Business & Resources, Housing & Environment</p>

Appendix two

Prior Year Recommendations

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This section provides an update on prior year external audit recommendations, to determine whether they have been addressed. The table below summarises the recommendations made during the 2017-18 audit.

Original finding and risk	Recommendation	Original actions	Status
1. (Grade two) Valuation of property, plant and equipment - Audit dimension: financial management			
<p>We could not identify a control over the revaluation process for property plant and equipment. This gives rise to a risk that the valuations are misstated. One misstatement was identified in the valuations tested as at 31 March 2018.</p> <p>In addition, there is a risk of loss of expertise and continuity in the team due to the retiral of the Senior Estates Surveyor.</p>	<p>We recommend that management engages an external valuation provider to reperform a sample of high risk valuations, or to review and challenge the valuations</p>	<p>Management response: The Council will engage an external valuation provider to re-perform a sample of high risk valuations.</p> <p>Implementation date: 30 May 2019</p> <p>Responsible officer: Investment Manager</p>	<p>The estates team have identified a number of high-risk assets, and indicated that an external valuation would be completed in parallel with an internal valuation. These valuations are due to be internally reported and considered in February 2019.</p> <p>We will consider the processes the Estates team have undertaken to benefit from these external valuations, and report on the findings in the annual audit report in September 2019.</p>

Appendix two

Prior Year Recommendations (continued)

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Original finding and risk	Recommendation	Original actions	Status
2. (Grade two) Valuation documentation and compliance - Audit dimension: financial management			
<p>During the course of our audit, we tested a sample of revaluations undertaken by the internal valuation team. Our internal valuation specialist expected the valuation file to contain back-up for any assumptions, however documentation was not robust and several clarifications were sought on the inputs to the valuations.</p> <p>Our internal valuation specialist highlighted the RICS requirements to measure any land or building asset prior to revaluation if there has been a material change to the asset. Whilst we understand many Council assets have not undergone a material change, we could not obtain the level of documentation expected for asset measurements.</p>	<p>We recommend that management ensures valuations are carried out in compliance with all appropriate RICS standards, including documentation, judgements and measurements.</p>	<p>Management response: The Council will ensure that valuations are carried out in compliance with all appropriate RICS standards. Documentation and measurements will be stored on the new Corporate Property system (Concerto).</p> <p>Implementation date: 31 March 2019</p> <p>Responsible officer: Investment Manager</p>	<p>In December 2018, the Estates team communicated the intention to introduce a control over the valuation process. This will take the form of a review of the valuation by a more senior officer, which aims to ensure sufficient documentation and challenge surrounding the valuation evidence which will be audited by KPMG.</p> <p>As discussed on page 10, this control was considered as part of our interim work, and completion of the 2018-19 valuation cycle in April. We will report our findings in our annual audit report in September 2019.</p>

Prior Year Recommendations (continued)

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Original finding and risk	Recommendation	Original actions	Status
3. (Grade three) Revenue and capital monitoring - Audit dimension: financial management			
<p>During our review of the revenue and capital monitoring reports, we were unable to identify a defined 'level of precision'. This level of precision acts as a cut-off for those reading the report, and sets a variance that for all differences in excess, management explain the reasons. In this way, where there is no explicit commentary, members can assume there is no variance above the defined precision.</p> <p>We recognise that management's monitoring reports are detailed and that variances are discussed. Setting a level of precision strengthens this control which is operating effectively.</p> <p>There is a risk that variances may not be given sufficient prominence, or that variances are not reported.</p>	<p>We recommend that management introduces a set threshold for which any variances against budget in excess are reported.</p>	<p>Management response: The Council will update the financial regulations to explicitly set out a level of precision of £50,000, whereby all variances (Revenue & Capital) in excess of this will be reported to the Strategic policy and Resources ("SP&R") Committee. However there will be many instances whereby the Committee reports will discuss variances that are less than this amount in order to recognise the importance of elected member scrutiny of Council finances.</p> <p>Implementation date: 31 December 2018</p> <p>Responsible officer: Chief Accountant</p>	<p>Financial Regulations were amended to indicate that all variances exceeding £50,000 will be reported to the SP&R Committee.</p> <p>As discussed on page nine, we tested both the revenue and capital monitoring reports as part of our audit work in February 2019. The report reviewed as part of our controls work was for November 2018 and was therefore before the implementation of the £50,000 threshold. No issues were noted as a result of our interim testing however we will follow up on this control recommendation again during the year end audit to test whether the threshold has been implemented.</p>

Prior Year Recommendations (continued)

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Original finding and risk	Recommendation	Original actions	Status
4. (Grade two) General IT controls - Audit dimension: financial management			
<p>Certain IT and business staff are assigned highly privileged access to the Council's IT systems (Integra, ResourceLink and Northgate), and are required to perform user administration, system development and configuration, and to ensure ongoing support and maintenance activities.</p> <p>We note that the Council does not monitor the activities performed by these accounts; security and event log auditing is either not enabled or not reviewed. For the purpose of relying on system generated reports for the external audit, we could not establish if the activities performed by these users were appropriate during the year. The weaknesses in the access assigned includes, but is not limited to:</p> <ul style="list-style-type: none"> the privileged access assigned allows users within the business to perform activities that should be segregated and/or pro-actively logged and reviewed to ensure appropriate; and review of privileged users is not undertaken or documented in a robust manner. <p>Where privileged access is not robustly controlled, the risk is increased that:</p> <ul style="list-style-type: none"> unauthorised access is gained to process erroneous or fraudulent transactions; unauthorised changes are made to data, and system settings; unauthorised changes are not detected and appropriate action taken; IT / operational system downtime is experienced; and the system does not function as intended by management. <p>During testing over key systems, we did not identify any specific issues or errors.</p>	<p>Management should ensure that:</p> <ul style="list-style-type: none"> a formal, documented and agreed policy is established that guides the Council's management of highly privileged access; user accounts are only used by the approved and appropriate persons; each time the highly privileged accounts are used there should be a requirement that a supporting and approved incident ticket or change request is logged and retained; the feasibility of implementing system audit logging for these highly privileged accounts is assessed, and if this is possible, a periodic review is performed over a sample of higher risk activity to ensure this was authorised and appropriate; and the logs are secured and retained in a segregated area that cannot be accessed by the users of the IT systems. 	<p>Management response: The current policy will be developed to increase the level of monitoring and governance associated with highly privileged access. IT will investigate the feasibility of audit logging for highly privileged accounts and where feasible, a secure segregated storage area will be identified and a sample review of higher risk activity will be implemented.</p> <p>Implementation date: 30 June 2019</p> <p>Responsible officer: Information Security Manager</p>	<p>Management have indicated that:</p> <ul style="list-style-type: none"> the Council's security policy has been reviewed and approved, along with the information security management system (ISMS) standards to confirm that management are satisfied with that a formal policy adequately covers highly privileged access; highly privileged accounts are issued on a need-to-have basis, and the responsibility for these accounts is held with the information asset manager; although IT staff are required to log actions in detail whenever administrative tasks are carried out, there is no policy or control that logs all privileged user action within each system; and although logs are kept securely segregated from systems managers and users, they are accessible to privileged IT users. These logs did not cover all key financial systems. <p>Our planned audit approach was designed on the basis that we would not rely on these IT controls.</p>

Prior Year Recommendations (continued)

DRAFT

Original finding and risk	Recommendation	Original actions	Status
5. (Grade three) Internal policy updates - Audit dimension: financial management			
<p>Policies and procedures are held on the Council's intranet which is available to all staff.</p> <p>From a review of key policies we identified that a number have not been updated on a timely basis. Two versions of the communications security policy were found. The most up to date version of this policy was dated 2010, however it is required to be reviewed every three years. The most recent whistleblowing policy does not contain all information outlined in Protect's whistleblowing code of practice.</p> <p>There is a risk employees access policies and procedures which are not relevant to the current risk environment or contain out of date information therefore causing error or breach of laws and regulations.</p>	<p>It is recommended that:</p> <ul style="list-style-type: none"> – a review is carried out of existing policies on the intranet and any old or superseded policies are removed; – the whistleblowing policy is updated to contain all items required by the whistleblowing code of practice; and – a checklist should be kept of the key policies and when these were last updated, with evidence of review within the required timescale. 	<p>Management response: Noted. The Council is satisfied that all key policies and procedures in respect of financial and workforce management, regulatory controls and compliance and general governance are fit for purpose and reviewed appropriately. The Council does not have the resources to undertake a comprehensive review of all existing policies however any changes in legislation, national policy or where applicable industry best practice is reflected as a matter of course.</p> <p>The existing Whistleblowing policy will be refreshed to incorporate the Protect Code of Practice (formally Public Concern at Work).</p> <p>Implementation date: ongoing, with whistleblowing updated for 31 March 2019</p> <p>Responsible officer: Information Compliance Manager, with whistleblowing the Chief Internal Auditor.</p>	<p>Management agreed to update the whistleblowing policy to reflect the Protect Code of Practice. We confirmed that this update has been completed.</p>

Appendix two

Prior Year Recommendations (continued)

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Original finding and risk	Recommendation	Original actions	Status
6. (Grade two) Following the public pound - Audit dimension: value for money			
<p>We discussed with management the approach undertaken for ensuring Council's compliance with its Following the Public Pound code ("FtPP"). In prior years, the Council presented annually to the SP&R Committee to ensure value for money and best practice arrangements are in place in relation to the Council's use of companies, trusts and other arm's length bodies. We were unable to verify that such an exercise had been undertaken during 2017-18.</p> <p>There is a risk that the Council may not be complying with the FtPP Code, and may not be demonstrating its value for money in the use in other external parties.</p>	<p>We recommend that management reverts to the FtPP reporting undertaken in prior years, whereby the results are communicated to the relevant committee of the Council, or consider an alternative in order to provide assurance over use of public funds.</p>	<p>Management response: For 2017/18, detailed information in respect of FtPP activities was available on the Elected Members internal intraweb site. This will now be made publicly available. For 2018/19, the Council will revert to providing a comprehensive update to the SP&R Committee on the Council's FtPP code.</p> <p>Implementation date: 30 June 2019</p> <p>Responsible officer: Corporate Procurement Manager</p>	<p>Through discussion with management, and as per management's response for 2017-18, the Council will revert to providing a comprehensive update to the SP&R Committee before 30 June 2019.</p> <p>As a result of this finding, the Council retrospectively published the report as an addendum to the Strategic Policy and Resources Committee meeting of 13 June 2018.</p> <p>The update is still currently in progress. We will report on our findings in our annual audit report in September 2019.</p>



The contacts at KPMG in connection with this report are:

Michael Wilkie

Director

Tel: 0141 300 5890

michael.wilkie@kpmg.co.uk

Adrian Kolodziej

Manager

Tel: 0141 228 4275

adrian.kolodziej@kpmg.co.uk

Chris Windeatt

Assistant Manager

Tel: 0131 451 7738

christopher.windeatt@kpmg.co.uk



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