

AUDIT COMMITTEE

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

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

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

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

Councillor Drysdale, Convener, Presiding.

. **WELCOME AND APOLOGIES/SUBSTITUTIONS**

The Convener welcomed everyone to the meeting.

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

. **DECLARATIONS OF INTEREST**

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

. **MINUTE**

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

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

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

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

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

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

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

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

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

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

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

Resolved:

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

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

. INTERNAL AUDIT FOLLOW UP

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

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Resolved:

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

INTERNAL AUDIT UPDATE

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

Resolved:

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

The Committee considered the following final reports:-

(i) Education and Children's Services

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

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

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

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

Resolved:

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

(ii) Housing and Community Safety

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

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

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Resolved:

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

(iii) All Services

(a) 17-05 – Management of Contracts

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

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

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

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

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

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

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

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

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

Resolved:

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

INTERNAL AUDIT STRATEGY & PLAN 2017/18

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

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

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

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

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

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

Resolved:

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

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. **INTERNAL AUDIT GOVERNANCE**

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

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

Resolved:

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

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