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Council Building
2 High Street
Perth
PH1 5PH

Monday, 19 March 2018

A Meeting of the **Audit Committee** will be held in **the Council Chamber, 2 High Street, Perth, PH1 5PH** on **Wednesday, 28 March 2018** at **14:00**.

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

BERNADETTE MALONE
Chief Executive

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

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 Kathleen Baird
Councillor Audrey Coates
Councillor Stewart Donaldson
Councillor David Illingworth
Councillor Xander McDade

Audit Committee

Wednesday, 28 March 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 31 JANUARY 2018 FOR APPROVAL AND SIGNATURE 5 - 10**
- 4 INTERNAL AUDIT FOLLOW UP 11 - 20**
Report by Chief Internal Auditor (copy herewith 18/102)
- 5 INTERNAL AUDIT UPDATE 21 - 32**
Report by Chief Internal Auditor (copy herewith 18/103)
- (i) CORPORATE AND DEMOCRATIC SERVICES**
 - (a) 17-20 - CREDITORS SYSTEM 33 - 42**
(copy herewith 18/104)
 - (b) 17-21 - HMRC GUIDANCE - IR 35 COMPLIANCE 43 - 56**
(copy herewith 18/105)
 - (c) 17-26 - COUNCIL TAX 57 - 66**
(copy herewith 18/106)
- (ii) HOUSING AND COMMUNITY SAFETY**
 - (a) 17-06 - NORTHGATE HOUSING INFORMATION SYSTEM 67 - 82**
(copy herewith 18/107)
- 6 NATIONAL FRAUD INITIATIVE PROGRESS REPORT 83 - 88**
Report by Chief Internal Auditor (copy herewith 18/108)
- 7 THE INTERNAL AUDIT STRATEGY & INTERNAL AUDIT PLAN - APRIL-JUNE 2018 89 - 98**
Report by Chief Internal Auditor (copy herewith 18/109)

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AUDIT COMMITTEE

Minute of meeting of the Audit Committee held in the Council Chambers, 2 High Street, Perth on Wednesday 31 January 2018 at 2.00pm.

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

In Attendance: M Morrison, L Potter, L Simpson, G Taylor and C Irons (all Corporate and Democratic Services); J Cockburn (Education and Children's Services); H Hope (The Environment Service) and N Copland and V Riddell (Housing and Community Safety).

Councillor Drysdale, Convener, Presiding.

49. WELCOME AND APOLOGIES/SUBSTITUTIONS

The Convener welcomed everyone to the meeting and welcomed Councillor Audrey Coates to her first meeting of the Committee.

50. DECLARATIONS OF INTEREST

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

51. MINUTE

The minute of meeting of the Audit Committee of 22 November 2017 (Arts.658 -662) was submitted and approved as a correct record and authorised for signature.

52. INTERNAL AUDIT FOLLOW UP

There was submitted a report by the Chief Internal Auditor (18/22), presenting a current summary of Internal Audit's follow up work.

M Morrison highlighted that the report should have stated there were eighty-two agreed actions for follow-up instead of eighty-one and eight high risk actions instead of seven as was correctly recorded in Appendix A to report 18/22.

It was noted that the Internal Audit Team would shortly be utilising a new database which would enable information to be preserved in a more user-friendly format.

In relation to the summary of agreed actions contained in Appendix A to Report 18/22, Councillor Donaldson referred to the improving trend in completion of these actions and although there was a comparison to the previous report considered by the Committee in November 2017, he requested comparator

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information over a longer period. He also expressed concern at the capacity of the Internal Audit Team to deliver the volume of work in the Audit Plan.

Councillor McDade expressed concern at the apparent slow progress by Services on actions of high importance. It was noted that several of these related to arrangements on information sharing, and L Simpson confirmed that a protocol required some actions to be signed off by partners.

With regard to the action for Corporate and Democratic Services (17-05 Management of Contracts), Councillor Donaldson expressed concern at the time taken to progress this action which had been agreed at Committee on 27 September 2017; the sums involved in the contracts subject to audit; and the small sample size. M Morrison assured members that the Financial Controllers had highlighted the issues in each Service; however a new procedure had still to be finalised.

With regard to the action for Education and Children's Services (16-23 Personalisation), M Morrison advised that a workshop was to be arranged led by Education and Children's Services Finance Team. In response to a question from Councillor McDade, J Cockburn advised that in terms of the budget Education and Children's Services were at a lower risk than Housing and Community Safety.

With regard to the action for Housing and Community Safety, N Copland advised that March 2018 was the expected completion date for the mobile working project.

With regard to the action for Housing and Community Safety (14-16 Housing Repairs), Councillor Drysdale stated that services should agree completion dates achievable and he referred to 15-07 Reablement (Action Point 11) which had been to Committee in June 2015 and the action was not to be completed until June 2018. V Riddell advised that training was being carried out by the SQA and Perth College; there was a number of staff to train and the training had to be undertaken in accordance with the Scottish Social Services Council requirements.

With regard to the action for The Environment Service (16-27 – Events & Festivals) (Action Point 8), Councillor McDade asked if there had been progress clarifying delegated authority in relation to the Roads Network, and L Simpson advised she would check the current position and advise the Committee members.

With regard to the action for The Environment Service (16-27 – Events and Festivals) (Action Point 9), Councillor Drysdale & Councillor H Coates referred to the high profile events being held across the Perth and Kinross area and the need for there to be an integrated approach to promoting these events. Councillor McDade sought assurance on whether there was duplication of effort between the communications activity within Services and that undertaken by the Corporate Communications Team. G Taylor advised they were promoted in a number of ways and the Council's website was part of that activity but wherever possible there should be links on the Council's website to ensure people were directed to event information. G Taylor also reassured members that communications activity in

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Services and in the Corporate Communications Team was coordinated and that there was not duplication of effort.

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.

53. INTERNAL AUDIT PRODUCT SHARING PROTOCOL

There was submitted a report by the Chief Internal Auditor (18/23) presenting the Product Sharing Protocol for outputs from the Internal Audit process relating to the Perth and Kinross Integrated Joint Board (IJB).

It was noted that the protocol had already been approved by NHS Tayside and by the IJB.

Councillor McDade queried the extent of impact on the capacity of the Internal Audit Team in relation to undertaking audit work in the IJB, and M Morrison confirmed the work was included within the Audit Plan.

G Taylor confirmed that the IJB was a decision-making body of the Perth and Kinross Health and Social Care Partnership, and accordingly there was a need to ensure the interests of the Council were being considered. Councillor S Donaldson queried if each of the Tayside IJB's had their own auditor rather than solely depending on the Internal Audit Teams within the three Councils.

G Taylor advised that each IJB does have an auditor who also carries out work for the NHS. L Simpson confirmed that IJB audit work was not an additional responsibility but part of the Council's audit responsibility and was also required by the integration scheme underpinning the IJB, with there being two responsibilities: audit and reassurance. L Simpson also confirmed there would be reporting back to this Committee, only if required by the Audit Plan.

Resolved:

- (i) The Product Sharing Protocol Appended to Report 18/23 be approved as the basis for an agreement between NHS Tayside; the three Tayside Council's and the three Tayside IJB's for the provision of internal audit services.
- (ii) That NHS Internal Auditors have the same rights of access as Perth and Kinross Council Internal Auditors to all relevant Council Officers and information while conducting approved IJB audit work.

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54. INTERNAL AUDIT UPDATE

There was submitted a report by the Chief Internal Auditor (18/24), presenting a summary of Internal Audit's work against the 2017/18 annual plan.

M Morrison advised that a report on the National Fraud Initiative would be submitted to the next Audit Committee on 28 March 2018.

It was noted that there had been a delay to some of the assignments which would now also be reported to the meeting on 28 March 2018.

In response to a question from Councillor H Coates, L Simpson advised that specialist IT audit staff in Highland Council were used by this authority and other authorities as the level of skills are higher than those held within the Internal Audit Team.

L Simpson reassured members that two members of the Internal Audit Team had recently moved on to new posts, and, following a review of current capacity, staff would be recruited to ensure that the Team was able to deliver the Audit Plan. However, given the current reduced capacity, there would be a risk-based approach to undertaking outstanding assignments.

Resolved:

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

The Committee considered the following final reports:-

(i) Corporate and Democratic Services

(a) 17-22 – Elected Members' Allowances

There was submitted a report by the Chief Internal Auditor (18/25) on an audit to ensure the adequacy of controls in respect of elected member remuneration and expenses.

Councillor McDade sought clarification on remuneration in respect of office bearers with Joint Boards. G Taylor confirmed that there was a legal requirement to remunerate the Convener and Vice-Convener of the Tayside Valuation Joint Board.

Following a query from Councillor McDade, G Taylor confirmed the position with regard to the completion of travel and subsistence forms.

Resolved:

Internal Audit's findings, as detailed in Report 18/25 be noted.

(ii) **Housing and Community Safety**

(a) **17-01 – Generic Outcome Focussed Assessments**

There was submitted a report by the Chief Internal Auditor (18/26) on an audit to ensure (1) that assessments for social care identify individual outcomes and (2) the provision of the necessary services to achieve those outcomes, on a timely basis.

Resolved:

Internal Audit's findings, as detailed in Report 18/26 be noted.

(iii) **Environment Service**

(a) **17-28 – Corporate Health and Safety**

There was submitted a report by the Chief Internal Auditor (18/27) to provide assurance over the effectiveness of the model which ensures that the Council manages its health and safety responsibilities.

It was noted that while performance reports were not being considered by the Executive Officer Team (EOT) collectively, performance was regularly being considered by the Chief Executive and individual members of the EOT and also by the Corporate Management Group (CMG).

Resolved:

Internal Audit's findings, as detailed in Report 18/27 be noted.

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28 March 2018

**INTERNAL AUDIT FOLLOW UP****Report by Chief Internal Auditor****PURPOSE OF REPORT**

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

**1. BACKGROUND AND MAIN ISSUES**

- 1.1 The Public Sector Internal Audit Standards (PSIAS) require the Chief Internal Auditor to establish a follow-up process to monitor and ensure that management actions have been effectively implemented. To assist the Audit Committee, the appendices to this report provide information on those actions that have not been implemented in accordance with the original agreed timetable, or where there is insufficient information on the current situation. Some dates have been revised and agreed with Services in recognition of the need for more time to complete the actions.
- 1.2 Appendix A presents a summary of the number of actions arising from internal and external audit reports.
- Table 1 shows the total number of agreed actions which Internal Audit will be following up even where the originally agreed completion dates have not yet been reached; the total number of actions is 40.
  - Table 2 shows the number of agreed actions that have been reported as incomplete as at their original agreed completion date. These total 20, of which 4 had a completion date of November and December 2017 and are therefore detailed in the following Appendices B and C.
  - A further 16 actions not completed by their original date have been allocated revised dates for completion after 31 December 2017 and progress will be reported on these at a future Committee.
  - The number of agreed actions which have yet to be followed up as the date for completion is after 31 December 2017 is 20.
- 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 B and C present detailed follow-up information in respect of actions agreed for completion in the period of November and December 2017. There are no follow-up actions for this period in respect of Corporate and Democratic Services and Education and Children's Services. The appendices also record service management's explanations of the status of each action point and internal audit comments where relevant.
- 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 two such instances of 'high' risk actions. One of these actions relates to the audit on Personalisation in respect of monitoring risk and the other relates to the audit of LEADER and update of the Business Plan.

## 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                                                        |
|-----------------|-------------------------|------------------------------------------------------------------------|
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## 1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

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

### 1. Strategic Implications

#### 1.1 Corporate Plan

1.1.1 The Council's Corporate Plan 2013 – 2018 lays out five outcome focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:

- (i) Giving every child the best start in life;
- (ii) Developing educated, responsible and informed citizens;
- (iii) Promoting a prosperous, inclusive and sustainable economy;
- (iv) Supporting people to lead independent, healthy and active lives; and
- (v) Creating a safe and sustainable place for future generations.

1.1.2 This report relates to all of these objectives.

### 2. Assessments

#### 2.1 Equality Impact Assessment

2.1.1 Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.

2.1.2 The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

## 2.2 Risk

2.2.1 There is a risk to the strength of the control environment if the agreed action plans are not carried out in a timely manner.

## 3. **Consultation**

### 3.1 Internal

3.1.1 The Chief Executive and all Directors have been consulted in the preparation of this report.

## 2. **BACKGROUND PAPERS**

No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above report.

## 3. **APPENDICES**

Appendix A – Summary of Agreed Actions

Appendix B – Audit Follow-Up Housing & Community Safety

Appendix C – Audit Follow-Up The Environment Service

### Summary of Agreed Actions

Table 1: All Agreed Actions for Follow-Up as at 31 December 2017 (figures in brackets reported in January 2018). This table includes actions not yet due for completion.

| Service                         | Importance   |              |                |                |              |                |
|---------------------------------|--------------|--------------|----------------|----------------|--------------|----------------|
|                                 | Critical     | High         | Medium         | Low            | Not Rated    | Total          |
| Corporate & Democratic Services | 0 (0)        | 1 (1)        | 1 (4)          | 3 (14)         | 0 (2)        | 4 (21)         |
| Education & Children's Services | 0 (0)        | 2 (4)        | 2 (6)          | 0 (2)          | 0 (0)        | 4 (12)         |
| Housing & Community Safety      | 0 (0)        | 0 (1)        | 7 (8)          | 5 (5)          | 0 (0)        | 12 (14)        |
| The Environment Service         | 0 (0)        | 1 (3)        | 8 (16)         | 11 (16)        | 0 (0)        | 20 (35)        |
| <b>All Services</b>             | <b>0 (0)</b> | <b>3 (9)</b> | <b>18 (34)</b> | <b>19 (37)</b> | <b>0 (2)</b> | <b>40 (82)</b> |

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

| Service                                                                                                                                | Importance   |              |                |               |              |                |
|----------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------|----------------|---------------|--------------|----------------|
|                                                                                                                                        | Critical     | High         | Medium         | Low           | Not Rated    | Total          |
| Corporate & Democratic Services                                                                                                        | 0 (0)        | 0(1)         | 1 (1)          | 0 (4)         | 0(2)         | 1 (8)          |
| Education & Children's Services                                                                                                        | 0 (0)        | 1 (3)        | 1 (3)          | 0 (0)         | 0 (0)        | 2 (6)          |
| Housing & Community Care                                                                                                               | 0 (0)        | 0 (1)        | 4 (3)          | 2 (2)         | 0 (0)        | 6 (6)          |
| The Environment Service                                                                                                                | 0 (0)        | 1 (3)        | 4 (4)          | 6 (4)         | 0 (0)        | 11 (11)        |
| <b>All Services</b>                                                                                                                    | <b>0 (0)</b> | <b>2 (8)</b> | <b>10 (11)</b> | <b>8 (10)</b> | <b>0 (2)</b> | <b>20 (31)</b> |
| Actions with a completion date of November and December 2017 which have not been completed and therefore included on Appendices B to E |              |              |                |               |              | 4              |
| Those actions where the agreed date is not November and December 2017 which have been previously reported to Audit Committee           |              |              |                |               |              | 16             |





**Internal Audit Follow-up  
Housing & Community Safety  
(Reporting for All dates on or before: December 2017)**

| Action Plan                                                                                                                                                                                                                                                                                                                                                                | Dates                               | Status/Explanation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><a href="#"><u>17-01 Generic Outcome Focussed Assessments</u></a></p> <p>Action Point: 2a - Management Reporting<br/>Importance: Medium</p> <p>Audit Committee Date:<br/>January 2018</p> <p>A report to capture cases where "Progress to Assessment" is identified but no Assessment takes place will be developed.</p> <p>(M McLay, Business Improvement Officer)</p> | <p>December 2017<br/>April 2018</p> | <p>Since the audit, the Quality Assurance, Improvement and Governance Group has been established in H&amp;CS. One area of work which is progressing is that all reports for team leaders and managers are being reviewed to ensure they are fit for purpose.</p> <p>Criteria for this particular report is in the process of being confirmed so that the report can be designed and tested. In addition, the owner of this action has been amended due to a change in Service personnel.</p> <p>Internal Audit Opinion:<br/>Satisfactory</p> |



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

| Action Plan                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Dates                                  | Status/Explanation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><a href="#"><u>17-03 Capital Programme</u></a></p> <p>Action Point: 2 - Programme-wide Risk Register<br/>Importance: Medium</p> <p>Audit Committee Date:<br/>June 2017</p> <p>A Capital Programme-wide risk register will be documented and approved to ensure that all risks are captured and assessed on a timely basis.</p> <p>(N Ballantine, Capital Programme Manager)</p>                                                                                                                                                                       | <p>December 2017<br/>December 2018</p> | <p>An initial programme-wide risk register has been drafted. It is anticipated that this will be further developed and implemented in response to the overarching Strategic Risk review exercise which is being undertaken across the Council. This review will consider high level strategic risks. A series of Risk workshops are scheduled for each Service, Corporate Resource Group and Integrated Joint Board.</p> <p>Internal Audit Opinion:<br/>Satisfactory</p>                                                                                                                                                |
| <p><a href="#"><u>17-03 Capital Programme</u></a></p> <p>Action Point: 4 - Project Assurance<br/>Importance: Low</p> <p>Audit Committee Date:<br/>June 2017</p> <p>The Capital Programme Office has been consulting with relevant Heads of Service and Senior Managers to identify the most appropriate form of key stage evaluation. Once an appropriate format has been determined this will be incorporated into the project management toolkit and procedures for the Capital Programme Office.</p> <p>(N Ballantine, Capital Programme Manager)</p> | <p>December 2017<br/>December 2018</p> | <p>A report was submitted and approved at Corporate Management Group, the report relates to establishing a formal Gateway/project assurance procedure: this report will also refresh the remits of both Corporate Resources Group (CRG) and Strategic Investment Group (SIG).</p> <p>This report will be required to be tabled at Executive Officer Team (EOT), CRG, SIG and then at full Council. A presentation providing further detail is being drafted for EOT/CRG and this is likely to take place during March 2018 before further approval and progression.</p> <p>Internal Audit Opinion:<br/>Satisfactory</p> |

|                                                                                                                                                                                                                                                                                                           |                                        |                                                                                                                                                                                                                                                        |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><a href="#"><u>17-03 Capital Programme</u></a></p> <p>Action Point: 6 : Documentation<br/>Importance: Low</p> <p>Audit Committee Date:<br/>June 2017</p> <p>Documentation will be updated as per the minor issues log provided by Internal Audit.</p> <p>(N Ballantine, Capital Programme Manager)</p> | <p>December 2017<br/>December 2018</p> | <p>All items on the minor issues log have been addressed, however, 3 of the points are linked with the report noted against action point 4 above and will now have a target date of December 2018.</p> <p>Internal Audit Opinion:<br/>Satisfactory</p> |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

**PURPOSE OF REPORT**

This report presents a summary of Internal Audit's work against the 2017/18 annual plan.

**1. BACKGROUND / MAIN ISSUES**

- 1.1 The Public Sector Internal Audit Standards (PSIAS) require that the Chief Internal Auditor reports periodically to the Audit Committee on internal audit activity and on performance relative to the approved plan.
- 1.2 Work has continued on assignments included within the Internal Audit Plans for 2017/18, as approved by Audit Committee in April 2017 (report 17/150) and September (report 17/312).
- 1.3 Since April 2017, Internal Audit has been contacted on 16 occasions to provide advice, assurance and / or assistance to services regarding specific issues. Internal Audit will follow up on these areas during the year, where necessary. This unplanned workload is contained within the resources allocated as part of the Internal Audit Planning process. The Audit Committee will be informed if there is any change to this situation.
- 1.4 Internal Audit works in collaboration with Highland Council to deliver audits where a higher level of IT audit skills are required than are held within the team. A report arising from this work is included on the agenda for this meeting.
- 1.5 Internal Audit has continued to work with colleagues in NHS Tayside to support the Audit and Performance Committee of the Integrated Joint Board.
- 1.6 In addition, Internal Audit has continued to facilitate the National Fraud Initiative to ensure that Services are investigating relevant data matches appropriately. This exercise is now complete and a separate report is included on the agenda for this meeting.
- 1.7 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.
- 1.8 Appendix B shows a summary of each audit previously approved as part of the 2017/18 plan, along with the date that the outcome has been considered by Audit Committee.

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

- 2.1 Within Appendix A, there are a number of assignments which were identified as 'consultancy' within the Internal Audit Plan (reports 17/150 and 17/312 refer). Following approval from the Audit Committee of a revised reporting process for consultancy assignments (report 16/306 refers), this report provides a summary of the completed work with regard to such assignments, where appropriate.
- 2.2 The scope of 17-32 General Data Protection Regulation was to provide assurance regarding Services preparedness for the General Data Protection Regulation (GDPR) being enacted in May 2018

The GDPR will be enforced from 25 May 2018 and will affect virtually all of the processing of personal data done by the Council. The GDPR will remain law even following the UK's exit from the European Union. A series of Learn Innovate Grow sessions has been completed and a new series will run from February 2018 through to June 2018. Tailored briefings have also been provided to a number of specific teams.

A major task prior to the implementation date is creating a register of all activities involving the processing of personal data across the Council. This has been in progress since September and work is continuing. The Council's Information Compliance Manager has overseen an Implementation Plan that evidences progress to date with key activities. Some areas such as Data Sharing Agreements are noted as "amber" and being progressed. A small number of areas are noted as "red" with the Information Compliance Manager advising this is partly due to implementation of the UK Data Protection Bill and general uncertainty that will be clarified through time.

It is clear that a plan is in place regarding the preparedness for the GDPR implementation. It is proposed that consideration be given to including this topic as part of the 2018/19 internal audit plan as by that time the revised routines will be embedded into working practices.

- 2.3 The scope of assignment 17-29, was to undertake an audit of the European Social Fund (ESF). After consultation with the service and the Scottish Government it was established that the Scottish Government are responsible for ensuring that adequate arrangements are being implemented and adequate controls in place in respect of ESF funding.

The Scottish Government further confirmed that there was no requirement for the council to carry out an internal audit of ESF. In light of the scrutiny being carried out by the Scottish Government it was deemed more appropriate for internal audit to carry out some higher level assurance work rather than a detailed audit to avoid duplication.

This work has now been completed and internal audit can confirm that adequate arrangements are in place in respect of funding received from the European Social Fund.

- 2.4 The scope of assignment 17-10 was to continue to support Services with embedding adequate arrangements in line with the approved risk management policy and strategy. Internal audit have been supporting services throughout the year to embed these arrangements. Whilst the original anticipated target date for completion of this has now passed; due to changes in the administration, community and corporate plans, appropriate progress to review and embed arrangements has been made and a programme of workshops has been scheduled for the forthcoming months. As such, Internal Audit work in relation to this is ongoing and time for this has been included in the Internal Audit Plan for 2018/19.
- 2.5 The outcomes from consultancy assignments are taken into account when considering the Internal Audit universe, from which future Internal Audit plans are derived.
- 2.6 Internal audit has worked with Services to identify opportunities for utilising data matching software to enhance existing controls. A number of areas have been discussed and may be considered in the future, pending further investigation.

### 3. CONCLUSION AND RECOMMENDATIONS

- 3.1 This report presents a summary of Internal Audit's work against the 2017/18 annual plan.
- 3.2 It is recommended that the Committee notes the progress of work against the plan for 2017/18.

#### Author(s)

| Name           | Designation             | Contact Details                                                          |
|----------------|-------------------------|--------------------------------------------------------------------------|
| Moira Morrison | Senior 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

#### 1.1 Corporate Plan

1.1.1 The Council's Corporate Plan 2013 – 2018 lays out five outcome focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:

- (i) Giving every child the best start in life;
- (ii) Developing educated, responsible and informed citizens;
- (iii) Promoting a prosperous, inclusive and sustainable economy;
- (iv) Supporting people to lead independent, healthy and active lives; and
- (v) Creating a safe and sustainable place for future generations.

1.1.2 This report relates to all of these objectives.

### 2. Assessments

#### 2.1 Equality Impact Assessment

2.1.1 Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.



- 2.1.2 The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

## 2.2 Risk

- 2.2.1 The risks are associated with the level of assurance provided on the control environment in the event that Internal Audit's planned work is not completed on time.

## 3. **Consultation**

### 3.1 Internal

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

## 2. **BACKGROUND PAPERS**

No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above report.

## 3. **APPENDICES**

Appendix A – Audit Activity Completed Since The Last Report To Audit Committee

Appendix B – Progress With Assignments Approved In The Internal Audit Plan for 2017/18



**INTERNAL AUDIT UPDATE****Internal Audit Activity Completed Since the Last Report to Audit Committee**

| <b>Audit No.</b> | <b>Audit Title</b>           | <b>Service</b>                  |
|------------------|------------------------------|---------------------------------|
| 17-06            | Northgate Housing            | Housing & Community Safety      |
| 17-20            | Creditors                    | Corporate & Democratic Services |
| 17-21            | IR35 Compliance              | Corporate & Democratic Services |
| 17-26            | Council Tax                  | Corporate & Democratic Services |
| 17-37            | Bus Service Operators Grant* | The Environment Service         |

\* No report is required for this assignment as no control issues were highlighted during the grant certification process.



**Progress With Assignments Approved In The Internal Audit Plan for 2017/18 as at February 2018**

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

| <b>Audit No.</b> | <b>Audit Title</b>                         | <b>Original Anticipated Audit Committee</b>                                      | <b>Assignment brief approved</b>                                                                  | <b>Factual accuracy confirmed</b> | <b>Draft Report issued</b> | <b>Final Report issued</b> | <b>Audit Committee Date ^</b> |
|------------------|--------------------------------------------|----------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------|-----------------------------------|----------------------------|----------------------------|-------------------------------|
| 17-10            | Embedding new Risk Management Arrangements | March 2018                                                                       | August 2017                                                                                       | February 2018                     | February 2018              | February 2018              | <b>March 2018</b>             |
| 17-11            | IR35                                       | September 2017                                                                   | Not applicable. General advice provided at the start of the financial year.                       |                                   |                            |                            | <b>September 2017</b>         |
| 17-12            | Arms Length External Organisations         | November 2017                                                                    |                                                                                                   |                                   |                            |                            | <b>May 2018</b>               |
| 17-13            | Transformation                             | March 2018                                                                       |                                                                                                   |                                   |                            |                            | <b>May 2018</b>               |
| 17-14            | Corporate Governance                       | March 2018                                                                       |                                                                                                   |                                   |                            |                            | <b>May 2018</b>               |
| 17-15            | Community Empowerment                      | November 2017                                                                    | August 2017                                                                                       | October 2017                      | October 2017               | October 2017               | <b>November 2017</b>          |
| 17-17            | Bus Service Operators Grant                | September 2017                                                                   | Completed. No report required as no weaknesses in controls were identified which required action. |                                   |                            |                            |                               |
| 17/18            | Contract Rules                             | November 2017                                                                    | September 2017                                                                                    | September 2017                    | September 2017             | September 2017             | <b>November 2017</b>          |
| 17/19            | Integrated Adult & Social Care             | Not applicable. Outcomes will be reported directly to the Integrated Joint Board |                                                                                                   |                                   |                            |                            |                               |
| 17/20            | Creditors                                  | March 2018                                                                       | January 2018                                                                                      | February 2018                     | February 2018              | February 2018              | <b>March 2018</b>             |
| 17/21            | IR35 – part 2                              | June 2018                                                                        | January 2018                                                                                      | February 2018                     | February 2018              | February 2018              | <b>March 2018</b>             |
| 17/22            | Elected Members Allowances                 | January 2018                                                                     | November 2017                                                                                     | December 2017                     | December 2017              | December 2017              | <b>January 2018</b>           |
| 17/23            | IT Change Management                       | March 2018                                                                       | February 2018                                                                                     |                                   |                            |                            | <b>May 2018</b>               |
| 17/24            | Early Learning and Child Care              | November 2017                                                                    | September 2017                                                                                    | October 2017                      | October 2017               | October 2017               | <b>November 2017</b>          |

| <b>Audit No.</b> | <b>Audit Title</b>                                         | <b>Original Anticipated Audit Committee</b> | <b>Assignment brief approved</b>                                                                                                                                                                      | <b>Factual accuracy confirmed</b> | <b>Draft Report issued</b> | <b>Final Report issued</b> | <b>Audit Committee Date ^</b> |
|------------------|------------------------------------------------------------|---------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|----------------------------|----------------------------|-------------------------------|
| 17/25            | Pupil Equity Fund                                          | June 2018                                   |                                                                                                                                                                                                       |                                   |                            |                            | <b>May 2018</b>               |
| 17/26            | Council Tax                                                | January 2018                                | January 2018                                                                                                                                                                                          | February 2018                     | February 2018              | February 2018              | <b>March 2018</b>             |
| 17/27            | Housing Repairs & Improvement Service's Financial Controls | March 2018                                  | February 2018                                                                                                                                                                                         |                                   |                            |                            | <b>May 2018</b>               |
| 17/28            | Corporate Health & Safety                                  | March 2018                                  | October 2017                                                                                                                                                                                          | November 2017                     | November 2017              | December 2017              | <b>January 2018</b>           |
| 17/29            | European Social Fund                                       | January 2018                                | January 2018                                                                                                                                                                                          | February 2018                     | February 2018              | February 2018              | <b>March 2018</b>             |
| 17/30            | Commissioning Strategy                                     | March 2018                                  |                                                                                                                                                                                                       |                                   |                            |                            | <b>May 2018</b>               |
| 17/32            | GDPR                                                       | March 2018                                  | February 2018                                                                                                                                                                                         |                                   |                            |                            | <b>March 2018</b>             |
| 17/33            | Bus Service Operators Grant                                | March 2018                                  | It is not anticipated that reports will be required to be issued for the certification of grant claims. Reports will only be issued where weaknesses in controls are identified which require action. |                                   |                            |                            |                               |







Internal Audit Report  
Corporate and Democratic Services  
Creditors System  
Assignment No. 17- 20  
February 2018

## Final Report

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

### Internal Audit

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

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

### Background and Introduction

This audit was carried out as part of the audit plan for 2017/18, which was presented to the Audit Committee on 27 September 2017. Audit testing was carried out in January and February 2018.

The Creditors system is one of the key financial systems of the Council, and is the process used by all Services to pay for supplies and services both requested and received. The Council’s Creditors system involves full usage of the PECOS system and Integra for ordering, approving, receipting and payment of goods and services. This audit concentrated on both PECOS purchase orders, and supplier invoices, and the co-ordination of the Purchase Ledger payment run. The audit samples were selected from payments of over £500 in value within the current financial year. A total of 25 invoices with supporting PECOS orders were sampled, plus 25 invoices not processed were also sampled. Paid invoices are predominantly retained and filed by Service-based Finance Service teams – secondary schools store their own, however, copy invoices were supplied by school staff as required. Orders are retained by the ordering division.

### Scope and Limitations

In order to arrive at an opinion on the effectiveness of the control objectives within the Creditors system, the audit included visits to Services, interviews with relevant staff and review of the relevant procedures and documentation. Compliance with procedures was tested as appropriate. The audit did not include purchases by Procurement cards or credit cards.

As an audit of Housing Repairs & Improvements Service Financial Controls is included in the current annual plan, Housing and Community Safety has been excluded from this audit to avoid duplication.

Internal Audit undertook work with the Financial Systems Team within Corporate and Democratic Services (CADS) to consider whether there is scope to utilise data matching software, which has recently been purchased by the Internal Audit team, to assist in enhancing existing controls within the Creditors system.

## 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 1: To confirm that appropriate regulations, policies and procedures are in place for the requisition, purchase, receipt and payment of goods and services.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                   |
| <p>Audit Comments: Internal Audit testing can confirm that Financial Regulations, policies and procedures are easily accessible through the Council's SharePoint to guide staff on the requisition, purchase, receipt and payment of goods. There are also "Best Practice" documents available and a comprehensive Integra Purchase Ledger manual.</p> <p>PECOS and the Integra system are being used efficiently and effectively on a daily basis to complete the order production, invoice registration and payment processes. Financial administrative staff are aware of and complying with guidance and have demonstrated that there is appropriate segregation of duties. Checks are being carried out at each stage of the Creditors system including any changes to supplier bank account details. Sample testing found that invoices are being processed correctly in accordance with the Council's procedures and are filed securely.</p> <p>A new Authorised Signatory database was introduced by the Financial Systems team in late 2017, which is now accessible through the Integra system. Although sample testing confirmed that officers are authorising within their own services financial limits, it was revealed that 4 purchase ledger invoices were authorised by officers of other Services/Divisions, who did not have the appropriate documented authority to do so. The services took action during the audit to rectify the position and ensure appropriate documented authority was in place.</p> <p>Services have advised that an annual review of authorised signatories is carried out, but only in respect of invoices relating to their own service. There is therefore scope to update procedures in this regard.</p> |                   |
| Strength of Internal Controls:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Moderately Strong |

|                                                                                                                                                                                                                                                                                                                             |  |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|
| Control Objective 2: To confirm that adequate system controls are in place to ensure the integrity of the system.                                                                                                                                                                                                           |  |
| <p>Audit Comments: Audit testing confirmed that adequate systems controls and procedures are in place to ensure the integrity of the system.</p> <p>Interviews with the Financial Systems team confirmed that they regularly liaise with the Council's IT department in regards to Purchase Ledger systems, and a daily</p> |  |

## Internal Audit Report

back-up procedure is in place to prevent data older than 24 hours from being lost in the event of a system failure.

Testing of the BACS authorisation process confirmed its effectiveness. The Financial Systems staff implement 3 payment runs per week in order to meet the invoice payment credit terms of 30 days. Additional authorisation is required for payments over £75,000. Reports are run before commencing the payment run to prevent duplicate payments and there is a strong password policy in operation throughout the process.

The Authorised Signatories Database is maintained and updated on a regular basis. This is evidenced by reports provided by the Financial Systems team which confirm that updates and/or amendments have been submitted within the last 3 months.

|                                |        |
|--------------------------------|--------|
| Strength of Internal Controls: | Strong |
|--------------------------------|--------|

### Management Action and Follow-Up

Responsibility for the maintenance of adequate and effective internal controls rests with management.

Where the audit has identified areas where a response by management is required, these are listed in Appendix 1, along with an indication of the importance of each 'action point'. Appendix 2 describes these action points in more detail, and records the action plan that has been developed by management in response to each point. Appendix 3 details additional work that has been carried out during the assignment.

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 the Finance division of each Service during this audit.

### Feedback

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

## Internal Audit Report

### Distribution

This report will be distributed to:

B Malone, Chief Executive

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

B Renton, Director (Environment)

S Devlin, Executive Director, Education & Children's Services

G Taylor, Head of Democratic Services

K McNamara, Head of Strategic Commissioning and Organisational Development

L Simpson, Head of Legal and Governance Services

S MacKenzie, Head of Finance

S Walker, Chief Accountant

C Robertson, Central Services Manager

J Cockburn, Finance & Governance Manager

F Crofts, Finance & Resource Manager

S Walsh, Finance & Governance Team Leader

External Audit

### Authorisation

The auditor for this assignment was M Craig. The supervising auditor was M Morrison.

This report is authorised for issue:

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Moirra Morrison  
Senior Internal Auditor  
Date: February 2018

Appendix 1: Summary of Action Points

| No. | Action Point                               | Risk/Importance |
|-----|--------------------------------------------|-----------------|
| 1   | <a href="#">VAT Registration Numbers</a>   | Low             |
| 2   | <a href="#">Authority to Sign Invoices</a> | Medium          |

## Appendix 2: Action Plan

### Action Point 1 - VAT Registration Numbers

The Council's VAT Guidance states that "an authenticated receipt can be issued in lieu of a tax invoice and can be treated as evidence to support a tax claim provided it shows the necessary details required to be shown on a tax invoice" One of the necessary details required is the VAT registration number of the supplier.

Audit testing revealed that 1 of the invoice samples was an Interim Certificate and the corresponding authenticated receipt did not state the company's VAT registration number as required.

### Management Action Plan

The service advised that in this instance the authenticated receipt was automatically generated through the Concerto system. The service will ensure that the company VAT registration number will be displayed on all future authenticated receipts. This action was completed during the audit.

|                                     |                                                                    |
|-------------------------------------|--------------------------------------------------------------------|
| Risk/Importance:                    | Low                                                                |
| Responsible Officer:                | S Welsh, TES Finance & Governance Team Leader                      |
| Lead Service:                       | The Environment Service                                            |
| Date for Completion (Month / Year): | Complete                                                           |
| Required Evidence of Completion:    | A sample authenticated receipt stating the VAT registration number |

### Auditor's Comments

Satisfactory

## Action Point 2 - Authority to Sign Invoices

The Council's Financial Regulations require Services to put in place arrangements to ensure that invoices are correct and authorised for payment by an appropriate person.

Audit testing revealed that 4 purchase ledger invoices were signed by officers of other Services/Divisions, who do not have the appropriate documented financial authority to do so. Whilst there are operational reasons for such, this is contrary to procedures.

### Management Action Plan

1) to 3) Services will carry out a review of officers who approve invoices for other Services.

4) to 6) This procedure will then be included in the annual review

|                                     |                                                                                                                                                        |
|-------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|
| Risk/Importance:                    | Medium                                                                                                                                                 |
| Responsible Officer:                | 1) & 4) S Welsh, Finance & Governance Team Leader<br>2) & 5) J Cockburn, Finance & Governance Manager<br>3) & 6) C Robertson, Central Services Manager |
| Lead Service:                       | 1) & 4) The Environment Service<br>2) & 5) Education and Children's Services<br>3) & 6) Corporate and Democratic Services                              |
| Date for Completion (Month / Year): | 1) to 3) March 2018<br>4) to 6) August 2018                                                                                                            |
| Required Evidence of Completion:    | 1) to 3) Evidence of review taking place<br>4) to 6) Confirmation that procedure is included in annual reviews.                                        |

### Auditor's Comments

Satisfactory



### Appendix 3: Additional work undertaken

Internal Audit are undertaking work with the Financial Systems team within CADS to consider whether there is scope to utilise data matching software, which has recently been purchased by the Internal Audit team, to assist in enhancing existing controls within the Creditors system.

This work is ongoing and will be included within the 2018/19 audit plan.





Internal Audit Report  
Corporate and Democratic Services  
IR 35  
Assignment No 17- 21  
February 2018

## Final Report

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

### Internal Audit

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

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

### Background and Introduction

This audit was carried out as part of the audit plan for 2017/18, which was presented to the Audit Committee on 27<sup>th</sup> September 2017. Audit testing was carried out in January and February 2018.

A change in the law means the Council must engage with individual contractors in a specific way from 6th April 2017. This new legislation is often referred to as [IR 35](#). The legislation places a direct responsibility upon all public bodies to ensure that the employment status of all Contractors is correctly assessed.

IR35 specifically refers to Contractors who set up Personal Service Companies in order to avoid or minimise paying income tax and Class 1 National Insurance Contributions, but IR 35 equally applies to partnerships or sole traders or some limited companies.

Off-payroll working rules (IR 35) are in place to make sure that, where an individual who would have been an employee if they were providing their services directly, pay broadly the same tax and National Insurance Contributions as an employee. If the rules apply, the public authority, agency or other third party who is responsible for paying the worker’s intermediary must deduct tax and Class 1 National Insurance Contributions and report them to HM Revenue and Customs (HMRC).

### Scope and Limitations

The purpose of this audit is to provide assurance over compliance with processes for the HMRC guidance known as IR35.

In order to arrive at an opinion on the achievement of the control objective, the audit will include interviews with staff and review of documentation. Arrangements within external bodies such as joint boards are excluded from the scope of this audit.

### 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.

## Internal Audit Report

Control Objective: To provide assurance over Service compliance with processes for the HM Revenue and Customs (HMRC) guidance known as IR35

### Audit Comments:

This report gives moderate assurance over Service compliance regarding processes for the HM Revenue and Customs (HMRC) guidance known as IR35. The new requirements have been subject to a transitional period and whilst none of the findings were deemed financially material, there is a need to review the procedures and related controls.

At the introduction of the process, to help ensure compliance with the IR35 requirements, the Service advised that they reviewed their existing suppliers taking action to identify those potentially captured by the legislation. Discussions were facilitated at all SMT's and some Divisional Management Teams, correspondence was issued to authorised signatories to help raise awareness, and meetings arranged with those Services that had requested further information.

Procedures have been issued that detail the routines to be followed to comply with the HMRC IR35 guidance. Testing revealed scope to review these procedures to reflect actual working practice and also ensure that other employment guidance materials are removed or updated to be better aligned with these procedures.

Managers are required to send predetermined documentation to the Financial Systems team including cases assessed as a) self- employed or b) employed and paid via the payroll, with income tax and national insurance deductions made as appropriate. Sample testing of cases processed by the Payroll team confirmed deductions have been made.

Differences were found when comparing cases listed in the Financial Systems team log as being paid via the payroll to information provided by the Payroll team.

Sampling of 20 separate suppliers and sundry creditor information to the log confirmed that copies of the HMRC toolkit outcome were held for these cases, but 1 toolkit submitted by a Service was completed incorrectly.

Testing of the assessed employment category for 20 cases highlighted 1 missing toolkit form.

Procedures state that no payment can be made until a contractor declaration has been signed and forwarded to the Service. Testing revealed that of the 176 entries on the log 10 stated "waiting on Contractor Declaration", however £6,600 of invoices had been paid in respect of 2 of these 10 cases.

Testing of 10 declarations revealed 3 cases where the contractor signature box was not signed, but the name was typed. There is scope to clarify which staff are authorised to sign such declarations. The Service advised the use of the declaration was to assist with in-house procedures and was not a HMRC requirement.

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. Appendix 3 describes one action point which, although outwith the scope, was considered of sufficient importance as to be brought to Management's attention.

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 the Financial Systems 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 will be/ has been distributed to:

B Malone, Chief Executive

J Valentine, Depute Chief Executive and Chief Operating Officer

S Mackenzie, Head of Finance

K Donaldson, Corporate Human Resources Manager

S Walker, Chief Accountant, Finance Division

L Simpson, Head of Legal & Governance

K McNamara, Head of Strategic Commissioning and Organisational Development

G Taylor, Head of Democratic Services

E Sturgeon, HR Manager

K Ridley, HR Manager - Strategy

C Robertson, Central Services Manager, Finance Division

L Law, Financial Systems Team Leader, Finance Division

## Internal Audit Report

V Iwanio, Employment Services Team Leader

C Judge, Team Leader Resourcing

External Audit

### Authorisation

The auditor for this assignment was D McCreadie. The supervising auditor was M Morrison.

This report is authorised for issue:

---

Moirra Morrison  
Senior Internal Auditor  
Date: February 2018

### Appendix 1: Summary of Action Points

| No. | Action Point                                           | Risk/Importance |
|-----|--------------------------------------------------------|-----------------|
| 1   | <a href="#">Assessing Employment Status Procedures</a> | Medium          |
| 2   | <a href="#">Contractor Declaration</a>                 | Medium          |
| 3   | <a href="#">IR 35 Supporting Documentation</a>         | Medium          |
| 4   | <a href="#">Short Term Resourcing Toolkit</a>          | Medium          |

### Appendix 3: Incidental Action Point

|   |                                               |        |
|---|-----------------------------------------------|--------|
| 5 | <a href="#">Short Term Resourcing Toolkit</a> | Medium |
|---|-----------------------------------------------|--------|



## Appendix 2: Action Plan

### Action Point 1 - Assessing Employment Status Procedures

There is scope to update procedures to refer to the use of consultants who could be captured by the IR35 rules and also reflect current working practice. For example procedures require a Manager to obtain assurance from an agency that the contractor has been assessed as self-employed or payments made through their payroll. In practice however, the Service has written to larger agencies informing them that the default will be that the agencies will pay their workers through their payroll. The Service advised that based on HMRC guidance they have deemed that certain categories of workers are outside the IR35 requirements, such as those where a substitute worker would be accepted but procedures don't reflect this.

The title of the procedures excludes the words IR35 which may make it less easy to appreciate that they detail the off-payroll IR35 requirements. The guidance states they replace the "Guidance for Self Employed Status" but this guidance needs to reflect the new IR35 process. Procedures include an "Agency" section which states more information to follow.

There is scope to utilise a version control system to help evidence that the correct version is being used. The lack of easily available up to date, consistent procedural guidance could lead to the misinterpretation of requirements.

### Management Action Plan

- a) The Assessing Employment Status Procedures will be updated for approval by the Central Services Manager and renamed to include the title self-employed /IR 35 and updated to reflect working practice, for example the use of agency workers, consultants and detail the categories of workers deemed to fall outside the IR35 The changes will be actioned via an announcement on the Finance Information Zone and a Financial Controllers update to cascade to their service.
- b) The Guidance for Self Employed Status on the A-Z Eric pages will be updated to include the new IR35 process.
- c) A version control system will be introduced which records the author/ approver or date issued /next review date.

|                                     |                                                                                                                                                                 |
|-------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Risk/Importance:                    | Medium                                                                                                                                                          |
| Responsible Officer:                | C Robertson, Central Services Manager                                                                                                                           |
| Lead Service:                       | Corporate and Democratic Services                                                                                                                               |
| Date for Completion (Month / Year): | June 2018                                                                                                                                                       |
| Required Evidence of Completion:    | a) Updated procedures that have been appropriately approved and circulated<br>b) Confirmation that guidance has been updated<br>c) Extract from version control |

Auditor's Comments

|              |
|--------------|
| Satisfactory |
|--------------|

## Action Point 2 - Contractor Declaration

Assessing Employment Status procedures states that no payment can be made until a contractor declaration has been signed and retained by the Financial Systems team centrally, for HMRC audit purposes. 10 of 176 entries on the log stated "waiting on Contractor Declaration". However, just over £6,000 had been paid in respect of invoices for 2 of these cases. In addition, the hyperlink to the contractor declaration in the procedures did not work.

There is scope to clarify who is authorised to sign the above forms as procedures are entitled "for the attention of authorised signatories". The procedures require Managers to assess declarations. A review of 10 forms found some were signed by authorised signatories and others by Managers. The signature boxes on 3 of these forms were not signed by the contractor but their names typed.

The Service advised that the use of a declaration was to assist with in house procedures and not an HMRC requirement.

## Management Action Plan

The Service will review the use of and layout of the Contractor Declaration form(s) after input from the relevant parties. The Assessing Employment Status procedures will be thereafter updated to include action if no contractor signature. The updated procedures will include a working hyperlink and state that these forms need be signed by each Service prior to submission to the Financial Systems Team.

|                                     |                                                                                                     |
|-------------------------------------|-----------------------------------------------------------------------------------------------------|
| Risk/Importance:                    | Medium                                                                                              |
| Responsible Officer:                | C Robertson, Central Services Manager                                                               |
| Lead Service:                       | Corporate and Democratic Services                                                                   |
| Date for Completion (Month / Year): | June 2018                                                                                           |
| Required Evidence of Completion:    | Updated contractor declaration procedures clarifying action taken if not in order and who can sign. |

## Auditor's Comments

Satisfactory

### Action Point 3 - IR 35 Supporting Documentation

The Service maintains a log that includes cases where HMRC deductions should be made. Differences were found when comparing entries on this log to information provided by the Payroll team. Whilst this meant that deductions were made, this would indicate that the Services are not following procedures.

Also, 2 cases in the log were not included in the information held by the Payroll team; this meant that contrary to procedures these invoices were paid without income tax or national insurance deductions. The Service advised these related to final payments for concluded contracts during the transitional period. These totalled £1,200 which was not deemed financially material. The Service could not provide a copy of the HMRC toolkit outcome for 1 of these 2 cases.

Testing of 20 HMRC toolkit records highlighted 1 further case assessed as employed for tax purposes on the HMRC toolkit but recorded on the IR35 log as self-employed. This contractor was paid £160 outside payroll. The Service advised this contractor was self-employed and the HMRC toolkit completed wrongly by the submitting Service.

There is scope for the Service to formalise their processes to sample test supplier and creditor information to the IR35 log to ensure workers are properly assessed.

### Management Action Plan

- a) The Senior Financial Systems Development Officer will liaise with the HR officer (General Payroll) to agree an ongoing process which ensures that both the Payroll team record and the IR35 logs agree. Where differences are found each case will be discussed with the individual services on a case by case basis to resolve.
- b) A process will be implemented whereby the Senior Financial Systems Development Officer reviews the assessment of contractors by sample testing a selection of supplier and creditor information to the IR35 log taking action as appropriate.
- c) The “self-employed” case on the IR35 log will be updated to be recorded as employed with the missing HMRC toolkit outcomes case put on hold and new form obtained if required.

|                                     |                                                       |
|-------------------------------------|-------------------------------------------------------|
| Risk/Importance:                    | Medium                                                |
| Responsible Officer:                | A Craig, Senior Financial Systems Development Officer |
| Lead Service:                       | Corporate and Democratic Services                     |
| Date for Completion (Month / Year): | June 2018                                             |

## Internal Audit Report

|                                  |                                                                                                                                                                                                                                         |
|----------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Required Evidence of Completion: | <ul style="list-style-type: none"><li>a) Copy of process that checks both IR35 log and Payroll team records agree.</li><li>b) Copy of oversight process that sample tests the assessment of contractors.</li><li>c) Completed</li></ul> |
|----------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

### Auditor's Comments

|              |
|--------------|
| Satisfactory |
|--------------|

## Action Point 4 - Short Term Resourcing Toolkit

A short term resourcing toolkit document, dated March 2015, refers to procedures relating to contractors for example, the self-employed and agencies. However, the toolkit makes no reference to the IR35 requirements although contractors could be subject to these requirements. Para 6.3 of the toolkit includes a “how to guide” which opens a link to “Guidance for Self Employed Status” but the Assessing Employment Status procedures (as referred to in Action Point 1) stipulate that they replace this guidance which should not be used. The Service advised the toolkit was in the process of being updated and refreshed.

The Short Term Resourcing page on Eric includes a category of “Agency Worker”, with a “how to resource an agency worker” link. This opens a procedure with no reference to the IR35 requirements for example requiring a Manager to determine that an agency has appropriately assessed the worker.

## Management Action Plan

The short term resourcing toolkit pages on Eric will be updated to include reference to the Assessing Employment Status procedures by the Senior Human Resources Officer in liaison with Senior Financial Systems Development Officer, Financial Services.

The “Guidance for Self Employed Status” routines will be updated on Eric and the [How to Resource with an Agency Worker](#) link from the “Agency Worker” category on the Short Term Resourcing page will be updated to also refer to the IR35 requirements.

|                                     |                                                                                                          |
|-------------------------------------|----------------------------------------------------------------------------------------------------------|
| Risk/Importance:                    | Medium                                                                                                   |
| Responsible Officer:                | P Nicoll, Senior Human Resources Officer                                                                 |
| Lead Service:                       | Corporate and Democratic Services                                                                        |
| Date for Completion (Month / Year): | June 2018                                                                                                |
| Required Evidence of Completion:    | Updated Eric short term resourcing toolkit and how to resource with an agency worker referring to IR 35. |

## Auditor's Comments

Satisfactory

## Appendix 3: Action Plan

## Action Point 5 Data Protection Paragraph

Incidental to audit testing the Auditor noted that the contractor declaration as referred to in Action Point 2 requires responses to some information that is not used to process all contractor invoices but only those processed by the Payroll team. However, this may be a breach of the third data protection principle which requires personal data to be adequate, relevant and not excessive in relation to the purpose for which they are processed.

The data protection paragraph is on the opposite side of the declaration which is also after the contractor's signature which may make it less easy to demonstrate that the contractor had been made aware of the content of this paragraph.

## Management Action Plan

The Senior Financial Systems Development Officer, Financial Services will review the additional information on the contractor declaration form with a view to this information only being requested from those contractors where the information is required (those classed as employed)

The data protection paragraph on the declaration will be moved to be closer to the contractor's signature.

|                                     |                                                                        |
|-------------------------------------|------------------------------------------------------------------------|
| Risk/Importance:                    | Medium                                                                 |
| Responsible Officer:                | C Robertson, Central Services Manager                                  |
| Lead Service:                       | Corporate and Democratic Services                                      |
| Date for Completion (Month / Year): | June 2018                                                              |
| Required Evidence of Completion:    | Updated contractor declaration(s) and extract from updated procedures. |

## Auditor's Comments

Satisfactory







Internal Audit Report  
Corporate & Democratic Services  
Council Tax  
Assignment No. 17-26  
March 2018

## Final Report

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

### Internal Audit

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

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

### Background and Introduction

This audit was carried out as part of the audit plan for 2017/18, which was presented to the Audit Committee on 27<sup>th</sup> September 2017. Audit testing was carried out in January and February 2018.

The key item of primary legislation which established Council Tax throughout the UK is the Local Government Finance Act 1992. This is supported by the Council Tax (Administration and Enforcement) (Scotland) Regulations 1992 which sets out the details of how the primary legislation is to be implemented. Supplementary legislation has been passed in subsequent years adding to the legislative and administrative framework. The tax is applicable to residential property (commercial property is subject to Non Domestic Rates) and is based on the valuation band of the property (which, for properties in Perth and Kinross, is set by officers at Tayside Valuation Joint Board) and the liable persons (mainly those for whom the property is the main residence but also those entitled to occupy empty dwellings).

Various reliefs, discounts and exemptions are applicable in specific circumstances as laid out in the legislation. These reliefs etc. make reductions to liability depending on a number of factors, such as the status of the residents of a property (but distinct from the means testing applied as part of the Council Tax benefit regime), the purpose of the property itself and whether the property is occupied or not.

The Local Taxes team within Corporate and Democratic Services are responsible for ensuring that Council Tax is properly billed and collected.

### Scope and Limitations

The audit considered arrangements in place to ensure that Council Tax discounts and exemptions are accurately identified, billed and reviewed as appropriate. In addition, Internal Audit worked with the Service to identify opportunities for utilising data matching software to enhance existing controls within Council Tax. This is due to the recent purchase of the data matching software IDEA by the Internal Audit team.

The review consisted of analysis of documentation, software, data, and interviews with relevant officers.

The audit did not examine reductions processed through the Council tax reduction/benefit scheme which are dealt with by the Housing Benefits team.

## 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 controls in relation to Council tax discounts and exemptions

### Audit Comments:

Audit testing confirmed that there are a number of controls in place to ensure that Council tax discounts and exemptions are identified, billed and reviewed as appropriate and that these are generally operating effectively.

The Council website and information leaflets provided to Council tax payers (liable parties) with their bills, set out relevant information in relation to Council tax discounts and exemptions. This includes rates, circumstances in which these may apply, alongside application guidance. Testing confirmed that appropriate back up is held to verify discounts applied, with an isolated exception which was investigated and resolved during the audit.

Council tax material informs liable parties of their duty to provide accurate information and to notify the Council where there is a change to circumstance. This is supplemented by reviews confirming entitlement to discount and exemptions. These are carried out on a cyclical basis of between 1 and 3 years, including an in-depth analysis of the highest value discount claimed in relation to single person occupancy. Whilst not affecting entitlement, testing highlighted an issue with the review process for some liable parties in receipt of Severe Mental Impairment discount, and this has now been resolved by the Service. There is still scope, however, to review some application forms and information advised to customers verbally.

There are procedures manuals, and an information guidance system in operation, to ensure staff understands the classifications of discounts and exemptions and the relevant criteria for applying these. The Service acknowledges, and is in the process of, reviewing procedures to ensure that relevant supervisory routines are also documented.

Audit testing confirmed evidence of staff training and monitoring through to competence, and regular sample-based discount and exemption focussed monitoring checks which would assist in identifying any anomalies or training issues. There is also a process in place to record and manage any perceived conflicts of interest which may arise due to processing of bills for staff employed by Council tax.

The Council tax system has defined access permissions, based on job profiles, to ensure that discounts and exemptions can only be processed by appropriately

## Internal Audit Report

trained and authorised staff. Audit testing revealed, however, that there is scope to improve access change management processes to maintain the integrity of this control. There are further system controls operating within the Council tax system which ensure that discounts and exemptions are being calculated and applied at the appropriate rate, and that time limited discounts are reviewed and reclassified as appropriate. These were found to be working satisfactorily.

Strength of Internal Controls:

Moderately Strong

### Management Action and Follow-Up

Responsibility for the maintenance of adequate and effective internal controls rests with management.

Where the audit has identified areas where a response by management is required, these are listed in Appendix 1, along with an indication of the importance of each 'action point'. Appendix 2 describes these action points in more detail, and records the action plan that has been developed by management in response to each point. Appendix 3 outlines information regarding additional work carried out in relation to utilising data matching software for Council tax.

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 A MacDonald, Revenues Manager, K Fraser, Principal Officer (Local Taxes) and Officers within the Council Tax department.

### Feedback

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

### Distribution

This report has been distributed to:

B Malone, Chief Executive

J Valentine, Depute Chief Executive (Chief Operating Officer)

A Taylor, Head of IST and Chief Digital Officer

L Simpson, Head of Legal & Governance

## Internal Audit Report

S Mackenzie, Head of Finance

K McNamara, Head of Strategic Commissioning and Organisational Development

G. Taylor, Head of Democratic Services

L Brady, Revenue & Benefits Service Manager

A MacDonald, Revenues Manager

K Fraser, Principal Officer (Local Taxes)

External Audit

### Authorisation

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

This report is authorised for issue:

---

Moirra Morrison  
Senior Internal Auditor  
Date: March 2018

Appendix 1: Summary of Action Points

| No. | Action Point                                     | Risk/Importance |
|-----|--------------------------------------------------|-----------------|
| 1   | <a href="#">Information Review</a>               | Low             |
| 2   | <a href="#">Procedures &amp; Version Control</a> | Low             |
| 3   | <a href="#">System Access</a>                    | Medium          |

## Appendix 2: Action Plan

### Action Point 1 - Information Review

Council tax payers confirm an undertaking to answer questions accurately and advise promptly of any change of circumstances where they are providing information via paper or online applications. Through these channels advice is also given as to how their data may be used.

Audit testing revealed that 3 of the application forms do not reflect the full undertaking where the liable party is requested to sign.

Additionally, where a liable party provides information verbally, the above points are not communicated, except when applying for Single Person discount.

In light of impending General Data Protection Regulation, and matters highlighted above, there is scope to review application forms and information advised to the Council tax payer at each point of contact.

### Management Action Plan

As part of ongoing transformation and channel shifting within Local Taxes (examples include use of Govtech and MyPKC) there is a commitment to develop on-line application forms for all relief and exemption awards. As part of this process we will ensure that all on-line forms contain the appropriate level of information and undertaking requirements. During this process we will also ensure any remaining paper-based applications are reviewed and amended accordingly.

We shall also commit, in liaison with the Customer Service Centre, to review the telephone messages used for incoming calls to ensure customers are fully aware as to the use of any information provided

|                                     |                                                                                                                   |
|-------------------------------------|-------------------------------------------------------------------------------------------------------------------|
| Risk/Importance:                    | Low                                                                                                               |
| Responsible Officer:                | K Fraser, Principal Officer (Local Taxes)                                                                         |
| Lead Service:                       | Corporate & Democratic Services                                                                                   |
| Date for Completion (Month / Year): | June 2018                                                                                                         |
| Required Evidence of Completion:    | Links to on-line forms, copies of any amended paper-based forms and details of any changes to telephone messages. |

### Auditor's Comments

Satisfactory

## Action Point 2 - Procedures & Version Control

Whilst there is evidence of monitoring checks and reviews being completed by the Service, there is scope to further document the Supervisory procedures which would outline the key tasks involved with their completion.

The Service advises that this is something they are working on presently, alongside review of general procedures and application of version control.

### Management Action Plan

This matter has come to light following the departure of an Assistant Revenues Manager and the impending departure of a Revenues Officer through the Council's Voluntary Severance Scheme.

Work is currently ongoing to ensure all areas of responsibility covered by these two officers are known, recorded and subject to up-to-date guidance notes.

Furthermore, it has become apparent that there is a growing need to focus on specific complex Council Tax and Non-Domestic Rates issues rather than predominantly on transactional reports. In each case the guidance notes relating to the chosen subject matter will be thoroughly reviewed and updated (using appropriate version control) as necessary.

|                                     |                                                             |
|-------------------------------------|-------------------------------------------------------------|
| Risk/Importance:                    | Low                                                         |
| Responsible Officer:                | K Fraser, Principal Officer (Local Taxes)                   |
| Lead Service:                       | Corporate & Democratic Services                             |
| Date for Completion (Month / Year): | June 2018                                                   |
| Required Evidence of Completion:    | Updated procedures will be stored in our SharePoint library |

### Auditor's Comments

Satisfactory



### Action Point 3 - System Access

Control level access permissions are granted according to job profile; allowing access and rights to amend data within the Council tax system.

Audit testing revealed that read/write access had not been revoked in all instances where this was no longer required.

There is therefore scope to review existing processes to ensure that system access permissions are amended promptly in line with staff movement.

### Management Action Plan

A thorough review of all Northgate users will be carried out to ensure only appropriate staff have access to the system. This will also address the appropriate level of access/authorisation being in place based on that person's role.

Procedures and controls for changes to users' access will also be reviewed and updated as necessary.

|                                     |                                                                |
|-------------------------------------|----------------------------------------------------------------|
| Risk/Importance:                    | Medium                                                         |
| Responsible Officer:                | A MacDonald, Revenues Manager                                  |
| Lead Service:                       | Corporate & Democratic Services                                |
| Date for Completion (Month / Year): | June 2018                                                      |
| Required Evidence of Completion:    | User access reports and updated procedure notes to be provided |

### Auditor's Comments

Satisfactory

### Appendix 3: Additional Work Completed

**Audit Comments:**

Internal Audit worked with the Service to identify opportunities for utilising data matching software to enhance existing controls within Council Tax. A number of areas were discussed and may be considered in future, pending further investigation.

For this audit, data matching software was used to identify Council employees with Council Tax arrears; something which is not permissible under the Code of Conduct. The Service normally completes this exercise annually by manual intervention, however, use of the data matching system has added efficiency to the identification process.



Internal Audit Report  
Corporate & Democratic Services  
Northgate Housing Information System  
Assignment No.17-06  
February 2018

## Final Report

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

### Internal Audit

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

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

### Background and Introduction

This audit was carried out as part of the audit plan for 2017/18, which was approved by the Audit Committee on 18 April 2017.

The Northgate information system is used by Housing and Community Safety [HCS] to manage clients’ information and provide services. It is also used by the Housing Options and Support Team to deliver frontline services for the Common Housing Register [CHR] Partners, including Caledonia Housing Association Ltd and Hillcrest Housing Association. The CHR Partnership Agreement defines responsibilities for the maintenance of accurate systems and records, and training for Partners who access the system. The cost of IT Charges is apportioned across the Partners who share the system and service. During the review, the Council upgraded to version 6.14 in November 2017.

The Northgate Housing system is managed by the Council’s IT Service with supplier support and bi-annual upgrades. Northgate holds personal and confidential data on clients; therefore management of Northgate data is subject to the provisions the Data Protection Act 1998 and the EU General Data Protection Regulation new legislation effective from May 2018 as well as the planned UK Data Protection Bill progressing through Parliament.

### Scope and Limitations

The audit review consisted of the analysis of policies and procedures, sample checking of system data and interviews with relevant officers. The audit did not examine system data directly; extract reports and information were provided by officers with system administration access on request. As the new service for reporting repairs online was not live during the audit review, this was excluded from the scope.

Testing was carried out on-site during October 2017. Key officers interviewed included the Senior Systems Co-ordinator and members of the Housing Systems Team.

### 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.

## Internal Audit Report

Control Objective 1: To ensure that support and maintenance arrangements are in place for the system

### Internal Audit Comments:

Northgate Housing system has been used by Perth & Kinross Council for over 10 years and the software is also utilised by many other Scottish Councils. The supplier provides an online user group forum for accessing information and communications. There are also regular meetings of the Northgate Housing end user group which representatives of the Housing Systems Support Team have attended and found helpful.

Corporate IT manages the hardware infrastructure that holds Northgate data. Full server backups for Northgate are made using Veritas NetBackup on a rotational basis – daily, weekly and 4 weekly and are retained for several months. Backup discs are stored in two different locations. In the event of any system failure, recovery of data up to the last working day is available through this process. For disaster recovery purposes a duplicate copy of each server backup is also held.

There is a documented System Recovery Plan which includes contact names and details in the event of a partial or total failure. Corporate IT updated these during the audit review.

Users report general satisfaction with supplier service; e.g. Corporate IT may request technical support when upgrades make changes to the Oracle database.

Strength of Internal Controls:

Strong

Control Objective 2: To ensure that adequate physical and logical access controls are in place for Northgate

### Internal Audit Comments:

In advance of accessing the system, Northgate users have to be authorised to access the system and are required to undertake training. Users are also required to sign a formal agreement reminding them of their obligations for confidentiality of information and the Council's Employee Code of Conduct.

Access and security responsibilities of Council Partners sharing the Northgate system and data are described within the Partnership agreement for the Common Housing Register under section 3 – Partner Responsibilities. This refers to security controls for access to Northgate, including the requirement for a list of names of the people who access the system. The agreement also makes Partners responsible for notifying the Council of any breach in security arrangements or any unauthorised access to the service they are aware of.

Once the Login Request forms are completed and authorised by the Line Manager, they are sent to the Housing Systems Team who action requests as required. Accounts are locked until signed agreement is returned by the user to confirm that they have read the Looking After Information - Staff Awareness Leaflet and agreed to comply with password policy of not sharing passwords. Training is provided by specific business area requirements for users.

## Internal Audit Report

Password policy default settings for Northgate system have been customised to match Council and Housing Services standards. For example, there is a forced change of password at first login; passwords require to be changed regularly and have a minimum password length of 8 characters of varying type.

Review of user access for change, including leavers is managed by the Housing Systems Team. Procedures for managing users are documented. Changes are confirmed from three different sources within PKC – through notifications from Area Co-ordinators and Managers, through matching usernames against HR quarterly reports of staff changes and through the quarterly business objects report run within Northgate to identify passwords that have not been changed within the required time period. For external partner contacts, in place of the HR internal report, a request is sent to Partners to confirm their contacts are still current every quarter. Changes to user access requested by email are verified with the relevant Manager by the Team before being actioned. Email requests for change are stored in the Team's generic account folder and change detail is also noted in the comments section against the User Account access control screens.

User Job Roles have financial limits applied for Rents and Repairs authorisation processes as an additional control. A sample of user's financial limits were cross-checked against another financial system's authorised limits to confirm if these were consistent; three out of four sample user job role codes matched.

Six system administrators have a high Job Role level to carry out their work in the Housing Systems Team. There are financial limits [£nil] for this job role for Rents and Repairs business areas.

It was reported that occasionally, the Housing Systems Team receive phone requests from users to change passwords.

Strength of Internal Controls:

Moderate

Control Objective 3: To ensure that there are adequate controls for data input and data integrity in Northgate

Internal Audit Comments:

Data input and integrity is controlled with the following:

To manage quality of data input, coded fields or pick-lists are used as much as possible where the system allows for this.

If an error is made at input stage and this is recognised, there is a short time period in which they can correct this e.g. in the Notepad area. After this time period has passed [30 minutes] a supervisor is required to correct errors.

Data that may be incomplete at the stage of an application being submitted by a client is completed when an applicant receives notice of a tenancy. For example, if there is a baby due at time of application, then the Tenancy Officer updates baby details when the tenant provides this.

A weekly report is run to identify potential 'Person' duplicates. Housing Systems Team procedures for managing potential duplicates are documented in Monitoring and Removal of Duplicate Party Records. Users who create a duplicate record may

## Internal Audit Report

be instructed on how to mark the record non-current if this is a straight-forward case. More complicated cases may require un-picking of households and applications.

Cross-checks for validity of Northgate data are within processes for ensuring data quality for reporting in statutory annual returns to the Scottish Housing Regulator, performance indicators and performance reporting to tenants.

Housing Systems Team officers review Northgate job scheduler reports at the start of each working day to confirm that all jobs have been completed successfully. A copy of the job schedule for Northgate was provided detailing daily, weekly and other periodic batch runs over weekdays and also weekends. Also run on weekdays were interfaces for stock interface for repairs and rents cash receipting and Allpay files. These reviews have highlighted no failures for some time, however, if they did, Northgate users would be emailed to advise, with different instructions depending on the situation to give awareness of data integrity for decision making.

These processes are understood by the Team, but are not fully documented

Strength of Internal Controls:

Strong

Control Objective 4: To ensure that data is retained for as long as required and that Northgate output is adequate and reliable for PKC business requirements

### Internal Audit Comments:

There is no separate archive storage area for Northgate data, which has the advantage of all data being in one place and no compatibility requirements with a separate storage area.

There are standard output reports within Northgate. Other reports can be created by Housing Systems Team administrators on request for users. These provide data for Scottish Government returns and performance indicators for example. Northgate can also generate business areas output such as Arrears Letters and Allocations Letters.

Audit trail detail can be viewed by all users who can access specific fields on who last edited a Northgate record. In addition, audit [random sampling] and exception reporting on some business areas were available to run by the Senior Systems Co-ordinator. There was however no evidence of specific areas being regularly monitored.

The CHR Partnership Agreement defines responsibilities for Partners to ensure compliance with all applicable legislation relative to Data Protection and in particular the Data Protection Act 1998 and the Data Protection principles. New GDPR legislation becomes effective from May 2018 and the Information Commissioners Office recommends organisations prepare for this. Currently Northgate data management does not comply with one of the General Data Protection Regulation [GDPR] new principles – the right to be forgotten, which will enable individuals to delete and destroy data on request. The proposed UK Data

## Internal Audit Report

Protection Bill to be considered alongside GDPR also has this 'right to be forgotten'.

Northgate holds details of Housing applicants and Person records which cannot be purged. Changes in the form of data updates to person records can be made when necessary. New software functionality which provides for the option to anonymise records, rather than deleting records is planned in the version 6.15 due out in February 2018. This assists in compliance with the new data protection legislation. The Council's Senior Systems Co-ordinator attends the Northgate User Group meetings and reported that the supplier is planning to introduce options to provide for this in future.

Retention periods for Housing data follow the SCARS guidance and these are noted for reference.

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 staff with Housing and Community Safety during this audit.

### Feedback

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



## Distribution

This report has been distributed to:

B Malone, Chief Executive

J Fyffe, Senior Depute Chief Executive

L Cameron, Interim Director of Housing & Community Safety

C Mailer, Head of Housing Services

A Taylor, Head of IST & Chief Digital Officer

K McNamara, Head of Strategic Commissioning and Organisational Development

L Simpson, Head of Legal and Governance Services

G Taylor, Head of Democratic Services

S Strathearn, Business Improvement Manager

D Henderson, Information Compliance Manager

L Montgomery, Senior Systems Co-ordinator, HCS Systems Support Team

D Turner, IT Co-ordinator (Applications)

L Robinson, Team Leader – Housing (Repairs & South Locality)

External Audit

## Authorisation

The auditor for this assignment was N Duncan. The supervising auditor was J Clark.

This report is authorised for issue:

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Jacqueline Clark  
Chief Internal Auditor  
Date: February 2018

## Appendix 1: Summary of Action Points

| No. | Action Point                                                        | Risk/Importance |
|-----|---------------------------------------------------------------------|-----------------|
| 1   | <a href="#">Northgate System Recovery Plan</a>                      | Low             |
| 2   | <a href="#">User Job Roles and financial limits</a>                 | Medium          |
| 3   | <a href="#">User Job Role with higher privileges</a>                | Medium          |
| 4   | <a href="#">Verbal Requests to update passwords</a>                 | Medium          |
| 5   | <a href="#">Team processes for managing batch jobs</a>              | Low             |
| 6   | <a href="#">Audit logs and exception reports</a>                    | Medium          |
| 7   | <a href="#">Northgate records and compliance to new legislation</a> | Medium          |

## Appendix 2: Action Plan

### Action Point 1 - Northgate System Recovery Plan

There is a Systems Recovery Plan for Northgate Housing managed by the IT Systems Team. This describes procedures and expected timeframes for system restoration dependent on the issue. Responsible officers for each phase of restoration were named with contact details. The latest date of review of the Plan was January 2017; the Plan's author updated the contacts list during the audit review for recent changes in personnel.

The System Owner was reported to be aware of the expected restoration timeframes if the system suffered any failure.

Due to speed of change in the Council, there is a risk of the Plan being out of date for contact names if the Plan is not regularly reviewed

### Management Action Plan

Review the Northgate Recovery Plan bi-annually to ensure it is up to date and takes into account changes including personnel contact details.

|                                     |                                                                 |
|-------------------------------------|-----------------------------------------------------------------|
| Importance:                         | Low                                                             |
| Responsible Officer:                | D Webster, IT Coordinator (Applications)                        |
| Lead Service:                       | Corporate & Democratic Services                                 |
| Date for Completion (Month / Year): | September 2018                                                  |
| Required Evidence of Completion:    | Evidence of review of Recovery Plan to ensure it is up to date. |

### Auditor's Comments

Satisfactory

## Action Point 2 - User Job Roles and financial limits

User job roles can have added financial permission limits set up in Repairs and Rents business areas. For example:

Job Role Limits of Users with access to Rents Account Adjustments business area can have Job Role limits which can be defined at two levels; the maximum limit is set at £999.99.

Job Roles used to control operational and authorisation limits for groups of users with access to Repairs area have been set up with debit and credit limits between £0.00 up to £75,000.00. These were reported to be set up in line with Pecos Procurement limits.

A sample check of several Authorised Signatures officers in Integra for users who may carry out financial authorisation tasks for Repairs found 3 out of 4 financial limits in both systems were consistent. The fourth sample appeared to have a lower limit in Northgate which may not have been updated.

### Management Action Plan

The level of financial limits will be routinely reviewed [prioritise highest] to confirm these are still in line with current procurement procedures

|                                     |                                                            |
|-------------------------------------|------------------------------------------------------------|
| Importance:                         | Medium                                                     |
| Responsible Officer:                | L Montgomery, Senior Systems Co-Ordinator                  |
| Lead Service:                       | Housing & Community Safety                                 |
| Date for Completion (Month / Year): | March 2018                                                 |
| Required Evidence of Completion:    | Evidence that level of financial limits have been reviewed |

### Auditor's Comments

Satisfactory

### Action Point 3 - User Job Role with higher privileges

Housing Systems Team administrators require a high level access job role to carry out their work. This allows access to most business areas with actions to write, over-ride and create manual adjustments; override assessment outcomes; and delete invoices and conflicts of interest for example.

As a control to manage this high level access, there are financial limits set at £nil for this job role in Repairs. Any changes by high level access users for areas such as Rents Account Transactions and Repairs authorisations will be identified by other business specific processes, for example - Rent account data reconciliation. Non-financial processes can also be carried out with the administrators' job role however.

There may be potential lack of separation of duties in other non-financial areas resulting from the high level access. For example:

Allocations and applications data: users with highest level access can amend questions and answers in the Allocations business area; that is Allocations business area questions amendments and Offers data amendments. Access to these business areas provides access to change the points allocated to a tenancy application and therefore may affect an outcome such as an Offer of a Tenancy to an applicant. This level of access may be required for operational purposes; however the effect of this access reduces expected separation of business processes. Any error in data amendments in Northgate may be identified by applicants who have the right to view the information held about them through a subject access request.

Controls to manage risks from privileged or significantly greater access rights are described in the international standard on Information Security ISO27002:2013 section 9 - User Access Management. This standard recommends steps for managing privileged access rights, including for example, a regular review to verify these access rights are in line with requirements of the job and more frequent review of authorisations of privileged access rights.

### Management Action Plan

The System Manager will undertake a review to highlight any potential risk areas resulting from the high level access of the Housing Systems Team officers and what functionality is used in Northgate. Where any potential risk areas are identified, the manager may ask for reports to be created to monitor actions in these areas.

|                      |                                            |
|----------------------|--------------------------------------------|
| Importance:          | Medium                                     |
| Responsible Officer: | S Strathearn, Business Development Manager |
| Lead Service:        | Housing & Community Safety                 |

## Internal Audit Report

|                                     |                                                                |
|-------------------------------------|----------------------------------------------------------------|
| Date for Completion (Month / Year): | May 2018                                                       |
| Required Evidence of Completion:    | Evidence of review having taken place and the outcomes thereof |

### Auditor's Comments

|              |
|--------------|
| Satisfactory |
|--------------|

#### Action Point 4 - Verbal Requests to update passwords

Housing System Team staff occasionally receive requests by phone from users to re-set their passwords. It was reported that if the Team didn't know the user who called, or recognised their voice, then a changed password is emailed to the user as a security control.

Although handsets may identify the phone number / person requesting a login reset, there is a risk of impersonation if this control ever failed. This control is also not written into Team procedure documents.

#### Management Action Plan

This practice to be written into procedure notes – that phone calls are not acceptable and that email requests should be made for secure transfer of password authentication to the named user's mailbox.

|                                     |                                           |
|-------------------------------------|-------------------------------------------|
| Importance:                         | Medium                                    |
| Responsible Officer:                | L Montgomery, Senior Systems Co-Ordinator |
| Lead Service:                       | Housing & Community Safety                |
| Date for Completion (Month / Year): | Completed                                 |
| Required Evidence of Completion:    | Procedure notes updated                   |

#### Auditor's Comments

Satisfactory

## Action Point 5 - Team processes for managing batch jobs

Housing Systems Team officers manage a substantial volume of batch jobs and monitors the batch scheduler for Northgate. The Team check to confirm that all the jobs detailed on the Job Schedule have run correctly and take any necessary action, including investigation and rectification to correct any batch failures highlighted. These processes are understood by the Team but are not fully documented.

This may result in the risk of knowledge being lost or misunderstood when staff change.

### Management Action Plan

Processes for managing batch jobs to be documented.

|                                     |                                                                     |
|-------------------------------------|---------------------------------------------------------------------|
| Importance:                         | Low                                                                 |
| Responsible Officer:                | L Montgomery, Senior Systems Co-ordinator                           |
| Lead Service:                       | Housing & Community Safety                                          |
| Date for Completion (Month / Year): | May 2018                                                            |
| Required Evidence of Completion:    | Evidence that processes for managing batch jobs has been documented |

### Auditor's Comments

Satisfactory



## Action Point 6 - Audit logs and exception reports

Audit logs were available to view within Northgate to identify who last edited a record. Audit and exception reports can also be run by the Senior Systems Co-ordinator as required. There was no evidence of specific areas being regularly monitored.

Northgate holds some data that is classified as personal and sensitive under data protection regulations. No records in the system are considered to be sufficiently sensitive to require regular exception reporting or monitoring.

## Management Action Plan

- a) Periodic checking of higher risk areas reported in the audit reporting function would be a useful control to act as a deterrent to potential unauthorised use/access in Northgate.
- b) Review data fields to confirm if any records require exception reporting or monitoring of audit logs and access.

|                                     |                                                                                               |
|-------------------------------------|-----------------------------------------------------------------------------------------------|
| Importance:                         | Medium                                                                                        |
| Responsible Officer:                | a) & b) L Montgomery, Senior Systems Co-ordinator                                             |
| Lead Service:                       | Housing & Community Safety                                                                    |
| Date for Completion (Month / Year): | a) & b) 31 July 2018                                                                          |
| Required Evidence of Completion:    | a) Evidence of periodic checking of higher risk areas<br>b) Evidence of review of data fields |

## Auditor's Comments

Satisfactory

## Action Point 7 - Northgate records and compliance to new legislation

Retention schedules for Housing records are available to refer to, based on Scottish Council on Archives (SCA) retention schedules. In practice, Person records can be amended to update new information, and categorised as current/non-current which reduces non-current records appearing in a search. However, they cannot be purged or deleted from Northgate. Therefore the system's functionality currently does not comply with the EU General Data Protection Regulation commencing in May 2018. This legislation includes the new principle – the right to be forgotten, which will enable individuals to delete and destroy data on request. The proposed UK Data Protection Bill, to be considered alongside GDPR also includes the right to be forgotten.

New functionality for this principal is planned in the next software release versions 6.15 and 6.16 due out from February 2018.

The Senior Systems Co-ordinator who attends the Northgate User Group meetings will be updated on what the supplier is planning to introduce to provide for this in future.

## Management Action Plan

a) Continue to monitor supplier's progress with development of new functionality for GDPR compliance and Subject Requests processes before the new requirement legislative requirements effective in May 2018.

b) Continue to liaise with the Information Compliance Manager regarding progress with this

|                                     |                                                                                                                                                                                                    |
|-------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Importance:                         | Medium                                                                                                                                                                                             |
| Responsible Officer:                | S Strathearn, Business Improvement Manager                                                                                                                                                         |
| Lead Service:                       | Housing & Community Safety                                                                                                                                                                         |
| Date for Completion (Month / Year): | March 2018                                                                                                                                                                                         |
| Required Evidence of Completion:    | <p>a) Evidence of monitoring suppliers progress with development of new functionality for GDPR</p> <p>b) Evidence of liaising with Information Compliance Manager regarding progress with GDPR</p> |

## Auditor's Comments

Satisfactory

**NATIONAL FRAUD INITIATIVE PROGRESS REPORT****Report by Chief Internal Auditor****PURPOSE OF REPORT**

This report outlines the action that has been taken by Perth & Kinross Council in response to the requirements of the National Fraud Initiative for 2016/17.

**1. BACKGROUND / MAIN ISSUES**

- 1.1 The Cabinet Office, since April 2015, has taken over responsibility for the administration of the National Fraud Initiative (NFI) from the Audit Commission. The NFI constitutes a sophisticated data matching exercise matching electronic data within and between participating public bodies to assist in the prevention and detection of fraud. The NFI exercise in Scotland is Audit Scotland's data matching exercise that runs every two years in line with the published timetable. The Cabinet Office process the data for the NFI in Scotland on behalf of Audit Scotland. This 2016/17 exercise represents the sixth NFI data matching to be undertaken in Scotland.
- 1.2 The overall aims of the NFI are to serve the public interest by safeguarding public money against losses from fraud or misappropriation and to contribute towards the fight against fraud. It improves the use made of public resources by identifying anomalies in the data held by different authorities and by ensuring that these are highlighted for further investigation. Whilst it is designed to detect fraud, it may also identify instances of administration error or inaccurate data.
- 1.3 The NFI exercise helps participating bodies (such as Local Authorities, Police Scotland, Scottish Fire and Rescue and the other public sector bodies) to identify possible cases of fraud and detect and correct any consequential under or overpayments. The NFI also helps Auditors in assessing the Council's arrangements for preventing, deterring and detecting fraud.
- 1.4 There are broadly three stages in the NFI process:
  - 1 the submission of the required datasets by public authorities and other organisations;
  - 2 the processing of the data (data matching) in order to identify anomalies; and
  - 3 the investigation of the highlighted and reported anomalies.

- 1.5 The Council is responsible for stages 1 and 3; processing of the data (stage 2) is carried out under arrangements put in place by the Cabinet Office. Reports on the Council's involvement and responsibilities have previously been presented to the Audit Committee. The reported findings of the 2014/15 exercise was presented to Audit Committee in September 2016 (report 16/412 refers)
- 1.6 Internal Audit acts as a facilitator within the Council and maintains regular contact with Services and Audit Scotland to ensure that the former are progressing investigations in accordance with the NFI timetable and guidance.
- 1.7 The Audit Committee is aware that Perth & Kinross Council is one of two local authorities which do not provide the Electoral Roll for the NFI. Legislation to allow Councils to provide Electoral Register details was introduced after the 2008/09 exercise. However the advice from Legal Services is that this is insufficient to warrant submission of the Electoral Register by the Council. The advice is that the Council is permitted a copy of the Register for specific purposes which do not include submitting the data to a third party. The Council's position has been highlighted to Audit Scotland.
- 1.8 Consequently, Perth & Kinross Council does not use the NFI model for checking eligibility to single occupancy discount. As an alternative to manage risks associated with not providing this information we engage an external agency to carry out such checks on our behalf.

Using this method, an initial data matching exercise identifies those where it is believed that single occupancy discount is valid and those where information is held indicating that circumstances may not allow such a discount.

This has proven to be highly successful as, in addition to electoral roll information, it provides indication of multiple occupancy through other channels such as mobile phone contract and pay day lending data etc. along with a range of more traditionally recorded data such as bank, insurance and credit card details.

The external agencies also provide categories of risk based on the data held that allows us to focus on the highest of these as a matter of urgency.

The data provided is much more up to date than that accessible via the NFI model thus avoiding cases where people have recently moved in/out or more importantly passed away. The external agencies also offer a process where changes are reported as they occur allowing quicker response to any potential single occupancy discount changes.

It should be stressed that, unlike managed services offered by some agencies, we seek information only and ensure that final decisions to remove any discount is made by fully trained revenues staff.

It is the stated intention of the Local Taxes team to instigate such a review during the remainder of the current Financial Year. A meeting has already taken place with procurement colleagues and potential suppliers have been identified in order to proceed with a “quick quote” exercise.

- 1.9 This report presents a summary of progress and the outcomes of the Perth and Kinross Council NFI 2016/17 exercise.

## **2. 2016/17 OUTCOMES FOR PERTH & KINROSS**

- 2.1 A total of 103 reports detailing different data matches were received in respect of Perth and Kinross Council. As at 21 February 2018, these reports contained 5,314 matches, of which 1,328 matches were recommended for further investigation. In addition to investigating the recommended matches, Services have reviewed the remaining matches and investigated a proportion of these using a risk based approach. In total, 2,144 matches have been investigated. Progress has been made with investigating matches, with the exercise concluded and no matches requiring further investigation.
- 2.2 Of the 2,144 fully investigated matches, the level of overpayments identified was £33,475. This comprised Benefits outcomes of £19,444 which includes £14,792 from a new dataset regarding the council tax reduction scheme creditors of £8, 909 and care home payments of £5,122. Action is taking place, where possible, to ensure that the Benefits outcomes are recovered or reported to the DWP for appropriate action. The other overpayments have been recovered. The comparable figures in respect of the outcomes for the 2014/15 exercise were for example for Benefits (excluding the council tax reduction scheme) £17,108 and for Creditors £10,604.
- 2.3 Information relating to the national outcomes will be made available later in the year by Audit Scotland.

## **3. CONCLUSION AND RECOMMENDATIONS**

- 3.1 Perth & Kinross Council takes seriously its obligations for taking part in the NFI exercise and the 2016/17 exercise is now completed.
- 3.2 The Committee is asked to note this report, which outlines the action taken by Perth & Kinross Council in response to the requirements of the National Fraud Initiative and the outcomes for the 2016/17 exercise.
- 3.3 The Committee is also asked to note the actions taken by the Revenues & Benefits Service as a result of the non-provision of electoral register information

### **Author(s)**

| <b>Name</b>    | <b>Designation</b>      | <b>Contact Details</b>                                                 |
|----------------|-------------------------|------------------------------------------------------------------------|
| Moira Morrison | Senior Internal Auditor | <a href="mailto:InternalAudit@pkc.gov.uk">InternalAudit@pkc.gov.uk</a> |

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All Council Services can offer a telephone translation facility.

## 1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

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

### 1. Strategic Implications

#### 1.1 Corporate Plan

1.1.1 The Council's Corporate Plan 2013 – 2018 lays out five outcome focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:

- (i) Giving every child the best start in life;
- (ii) Developing educated, responsible and informed citizens;
- (iii) Promoting a prosperous, inclusive and sustainable economy;
- (iv) Supporting people to lead independent, healthy and active lives; and
- (v) Creating a safe and sustainable place for future generations.

1.1.2 This report relates to all of these objectives.

### 2. Assessments

#### 2.1 Equality Impact Assessment

2.1.1 Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.

2.1.2 The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

## 2.2 Risk

2.2.1 The risks are associated with the level of assurance provided on the controls in place for Single Occupancy Discounts.

## 3. **Consultation**

### 3.1 Internal

3.1.1 The Chief Executive and Head of Legal and Governance 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.



**THE INTERNAL AUDIT STRATEGY & INTERNAL AUDIT PLAN – APRIL-JUNE  
2018**

**Report by Chief Internal Auditor**

**PURPOSE OF REPORT**

This report presents the strategy for the delivery of Internal Audit and the proposed Internal Audit Plan for the period April to June 2018.

**1. BACKGROUND**

- 1.1 Internal Audit, as defined in the Public Sector Internal Audit Standards (PSIAS), is an independent, objective assurance and consulting activity designed to add value and improve the effectiveness of the Council's operations. It helps the Council to accomplish its objectives by bringing a systematic, disciplined approach to the evaluation and improvement of risk management, control and governance processes.
- 1.2 The PSIAS require the Chief Internal Auditor to prepare a risk based Internal Audit Plan (the Plan) setting out the team's annual work programme. The Plan should take account of the Council's objectives, risk and performance management arrangements.
- 1.3 In order to develop a comprehensive risk based audit work programme, a detailed review of the wider "audit universe" requires to be undertaken. The audit universe encompasses all of the activities, systems, controls and processes which contribute to the achievement of the Council's objectives.
- 1.4 In the course of 2017/18 the audit and risk landscape has changed significantly for this Council;-
  - a new Local Outcome Improvement Plan has been developed and agreed, outlining the strategic priorities and objectives of the Council and its partners within the Community Planning framework;
  - the Council has developed a new Corporate Plan which sets out the priorities, aims and objectives of the Council;
  - the Council's Revenue Budget for 2018/19 has been approved with challenging savings and efficiencies targets for services;
  - the political leadership of the Council has changed;
  - 22 of the 40 elected members are first time Councillors or new to this Council;
  - there has been a change to the Council's decision-making structure, with changes in roles and remits for Committees;
  - the Chief Officer restructure;

- the re-design of Services with the new Housing & Environment Service bringing together all strategic and operational responsibilities for services relating to housing, homeless, community safety and resilience, environment, regulation, infrastructure, property, planning and community services;
- the Council has ambitious programmes in place in respect of;-
  - service transformation and redesign
  - economic development
  - major infrastructure projects;
- the public sector reform agenda has changed and will change the traditional local government governance framework for functions such as social care and education;
- the drive towards greater collaboration with statutory partners, the third sector and the community will significantly alter the way in which the Council operates, changing the risk profile significantly.

1.5 The changing local government risk landscape warrants a revised approach from Internal Audit to: not only ensure compliance and conformance in respect of the system of internal control but to; ensure that the internal audit function supports change; adds value; ensures the success of the organisation in managing risk; and achieving its objectives.

## **2. PROPOSAL**

2.1 It is proposed that the first quarter of the 2018/19 plan be devoted to progressing this new approach and developing a more thematic risk-based audit plan for 2018/19 and beyond, which reflects the priorities and objectives of the Council and better targets the key corporate risks. Our approach and phased plan will:-

- build upon the findings of the service based risk workshops that are being undertaken as part of the implementation of the Council's new risk strategy;
- take the learning from the self-assessment exercises that will be carried out by services over the next three months as part of the governance and best value assurance exercise which will inform the Annual Governance Statement;
- complement the Assurance and Improvement Plan of the Local Area Network of external scrutiny bodies in respect of Perth & Kinross Council to ensure that there is no duplication of effort.

2.2 This phased approach will not only enable the Internal Audit team to make the best use of their presently limited resources, but will ensure that the right audit activities are undertaken to maximise the value to the organisation.

2.3 A further detailed Audit Plan for the remainder of 2018/19, and potentially beyond, will be presented to the Audit Committee for approval in June.

- 2.4 Within the 2018/19 Plan an allocation of resources will be set aside to enable Internal Audit to respond to requests for ad hoc advice and unplanned consultancy work. Resources will also be made available to support the Counter-Fraud and Corruption Strategy and to undertake investigations as required.
- 2.5 A continuation of resources will be set aside within the Plan to support the Chief Internal Auditor of NHS Fife, Tayside and Forth Valley in delivering the Internal Audit Plan for the Integrated Joint Board. Detailed work in this area will be approved by, and reports will be submitted to, the Integrated Joint Board.

### 3. CONCLUSION AND RECOMMENDATION

- 3.1 It is recommended that the Audit Committee considers and approves the following:-
- (i) that the first quarter of the 2018/19 Audit Plan focusses on developing a more thematic risk-based Audit Plan based on the priorities and objectives outlined in the Local Outcome Improvement Plan and the Council's Corporate Plan;
  - (ii) that the further plan reflects the key strategic and operation risks identified through the governance & best value assurance self-assessments and the service risk workshops;
  - (iii) In addition the following specific work will be carried out:
    - the certification of Council grant claims;
    - facilitating the Council's response to the National Fraud Initiative;
    - completion of the [2017/18 Internal Audit Plan](#);
    - follow up report in respect of financial assessment and charging;
    - supporting the Chief Internal Auditor for the Integrated Joint Board and;
    - other ad-hoc audit assignments or investigations as required.

#### Author(s)

| Name           | Designation             | Contact Details                                                        |
|----------------|-------------------------|------------------------------------------------------------------------|
| Moira Morrison | Senior Internal Auditor | <a href="mailto:InternalAudit@pkc.gov.uk">InternalAudit@pkc.gov.uk</a> |

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## 1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

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| Community Plan / Single Outcome Agreement           | None              |
| Strategic Plan                                      | Yes               |
| <b>Resource Implications</b>                        |                   |
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| 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                                            | Yes               |
| <b>Communication</b>                                |                   |
| Communications Plan                                 | None              |

### 1. Strategic Implications

#### 1.1 Corporate Plan

1.1.1 The Council's Corporate Plan 2013 – 2018 lays out five outcome focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:

- (i) Giving every child the best start in life;
- (ii) Developing educated, responsible and informed citizens;
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- (iv) Supporting people to lead independent, healthy and active lives; and
- (v) Creating a safe and sustainable place for future generations.

1.1.2 This report relates to all of these objectives.

### 2. Assessments

#### 2.1 Equality Impact Assessment

2.1.1 Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.

- 2.1.2 The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

## 2.2 Risk

- 2.2.1 The risks are associated with the level of assurance provided on the control environment in the event that Internal Audit's planned work is not completed on time.

## 3. **Consultation**

### 3.1 Internal

- 3.1.1 The Chief Executive, Depute Chief Executives and the Head of Legal and Governance Services 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.



## Internal Audit Plan as at February 2018

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

| <b>Audit No.</b> | <b>Audit Title</b>                         | <b>Original Anticipated Audit Committee</b>                                      | <b>Assignment brief approved</b>                                                                  | <b>Factual accuracy confirmed</b> | <b>Draft Report issued</b> | <b>Final Report issued</b> | <b>Audit Committee Date ^</b> |
|------------------|--------------------------------------------|----------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------|-----------------------------------|----------------------------|----------------------------|-------------------------------|
| 17-10            | Embedding new Risk Management Arrangements | March 2018                                                                       | August 2017                                                                                       | February 2018                     | February 2018              | February 2018              | <b>March 2018</b>             |
| 17-11            | IR35                                       | September 2017                                                                   | Not applicable. General advice provided at the start of the financial year.                       |                                   |                            |                            | <b>September 2017</b>         |
| 17-12            | Arms Length External Organisations         | November 2017                                                                    |                                                                                                   |                                   |                            |                            | <b>May 2018</b>               |
| 17-13            | Transformation                             | March 2018                                                                       |                                                                                                   |                                   |                            |                            | <b>May 2018</b>               |
| 17-14            | Corporate Governance                       | March 2018                                                                       |                                                                                                   |                                   |                            |                            | <b>May 2018</b>               |
| 17-15            | Community Empowerment                      | November 2017                                                                    | August 2017                                                                                       | October 2017                      | October 2017               | October 2017               | <b>November 2017</b>          |
| 17-17            | Bus Service Operators Grant                | September 2017                                                                   | Completed. No report required as no weaknesses in controls were identified which required action. |                                   |                            |                            |                               |
| 17/18            | Contract Rules                             | November 2017                                                                    | September 2017                                                                                    | September 2017                    | September 2017             | September 2017             | <b>November 2017</b>          |
| 17/19            | Integrated Adult & Social Care             | Not applicable. Outcomes will be reported directly to the Integrated Joint Board |                                                                                                   |                                   |                            |                            |                               |
| 17/20            | Creditors                                  | March 2018                                                                       | January 2018                                                                                      | February 2018                     | February 2018              | February 2018              | <b>March 2018</b>             |
| 17/21            | IR35 – part 2                              | June 2018                                                                        | January 2018                                                                                      | February 2018                     | February 2018              | February 2018              | <b>March 2018</b>             |
| 17/22            | Elected Members Allowances                 | January 2018                                                                     | November 2017                                                                                     | December 2017                     | December 2017              | December 2017              | <b>January 2018</b>           |
| 17/23            | IT Change Management                       | March 2018                                                                       | February 2018                                                                                     |                                   |                            |                            | <b>May 2018</b>               |
| 17/24            | Early Learning and Child Care              | November 2017                                                                    | September 2017                                                                                    | October 2017                      | October 2017               | October 2017               | <b>November 2017</b>          |



| <b>Audit No.</b> | <b>Audit Title</b>                                         | <b>Original Anticipated Audit Committee</b> | <b>Assignment brief approved</b>                                                                                                                                                                      | <b>Factual accuracy confirmed</b> | <b>Draft Report issued</b> | <b>Final Report issued</b> | <b>Audit Committee Date ^</b> |
|------------------|------------------------------------------------------------|---------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|----------------------------|----------------------------|-------------------------------|
| 17/25            | Pupil Equity Fund                                          | June 2018                                   |                                                                                                                                                                                                       |                                   |                            |                            | <b>May 2018</b>               |
| 17/26            | Council Tax                                                | January 2018                                | January 2018                                                                                                                                                                                          | February 2018                     | February 2018              | February 2018              | <b>March 2018</b>             |
| 17/27            | Housing Repairs & Improvement Service's Financial Controls | March 2018                                  | February 2018                                                                                                                                                                                         |                                   |                            |                            | <b>May 2018</b>               |
| 17/28            | Corporate Health & Safety                                  | March 2018                                  | October 2017                                                                                                                                                                                          | November 2017                     | November 2017              | December 2017              | <b>January 2018</b>           |
| 17/29            | European Social Fund                                       | January 2018                                | January 2018                                                                                                                                                                                          | February 2018                     | February 2018              | February 2018              | <b>March 2018</b>             |
| 17/30            | Commissioning Strategy                                     | March 2018                                  |                                                                                                                                                                                                       |                                   |                            |                            | <b>May 2018</b>               |
| 17/32            | GDPR                                                       | March 2018                                  | February 2018                                                                                                                                                                                         |                                   |                            |                            | <b>March 2018</b>             |
| 17/33            | Bus Service Operators Grant                                | March 2018                                  | It is not anticipated that reports will be required to be issued for the certification of grant claims. Reports will only be issued where weaknesses in controls are identified which require action. |                                   |                            |                            |                               |



# Perth and Kinross Council

Audit strategy  
Year ending 31 March 2018  
For Audit Committee consideration on 28 March 2018

# Contents

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## About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the Code").

This report is for the benefit of Perth and Kinross Council and is made available to Audit Scotland and the Controller of Audit (together "the Beneficiaries"). This report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, even though we may have been aware that others might read this report. We have prepared this report for the benefit of the Beneficiaries alone. Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scoping and purpose section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Beneficiaries) for any purpose or in any context. Any party other than the Beneficiaries that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Beneficiary's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Beneficiaries.

## Complaints

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Andy Shaw, who is the engagement leader for our services to Perth and Kinross Council, telephone 0131 527 6673 email: [andrew.shaw@kpmg.co.uk](mailto:andrew.shaw@kpmg.co.uk) who will try to resolve your complaint. If your problem is not resolved, you should contact Hugh Harvie, our Head of Audit in Scotland, either by writing to him at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG or by telephoning 0131 527 6682 or email to [hugh.harvie@kpmg.co.uk](mailto:hugh.harvie@kpmg.co.uk). We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Fiona Kordiak, Audit Scotland, 4<sup>th</sup> Floor, 102 West Port, Edinburgh, EH3 9DN.

# Introduction

2017-18 is the second year of our external audit appointment to Perth and Kinross Council ("the Council"), having been appointed by the Accounts Commission as auditor of the Council under the Local Government (Scotland) Act 1973 ("the Act"). The period of appointment is 2016-17 to 2020-21, inclusive. Our appointment includes the audit of the Perth and Kinross Council Charitable Trusts.

## Our planned work in 2017-18 will include:

- an audit of the financial statements and provision of an opinion on whether the financial statements:
  - give a true and fair view in accordance with the applicable law and the Code of Practice on Local Council Accounting in the United Kingdom ("the 2017-18 Code") of the state of the affairs of the Council as at 31 March 2018 and of the income and expenditure of the Council for the year then ended; and
  - have been prepared in accordance with IFRS as adopted by the European Union, as interpreted and adapted by the 2017-18 Code, the requirements of the Local Government (Scotland) Act 1973, the Local Council Accounts (Scotland) Regulations 2014 and the Local Government in Scotland Act 2003.
- participation in the shared risk assessment as part of the local area network;
- completion of returns to Audit Scotland and grant claims;
- a review and assessment of the Council's governance arrangements and review of the governance statement;
- a review of National Fraud Initiative arrangements;
- a review of arrangements for preparing and publishing statutory performance information; and
- contributing to the audit of wider scope and Best Value through performance of risk assessed work.

## Adding value

Throughout the audit, we will consider opportunities to add value and will conclude on this in our annual audit report. We add value through:

- our experience, which brings insight and challenge;
- our tools and approach, which contribute to a world class audit; and
- transparency and efficiency, which improves value for money.

## Our team

The senior team involved in the external audit benefits from continuity in engagement leader and engagement manager. The team has significant experience in the audit of local authorities. It is supported by specialists, all of whom work with a variety of local government and public sector bodies. All members of the team are part of our wider local government network. Senior members of the audit team are set out below and relevant contact details are provided on the back page of this report.



**Andy Shaw**

Engagement leader – Audit director

**Fiona Bennett**

Engagement Manager



**Chris Windeatt**

Engagement In-charge

Our work will be completed in four phases from December 2017 to September 2018. Our key deliverables are this audit strategy document, an interim report and an annual audit report.

## Acknowledgements

We would like to take this opportunity to thank officers and members for their continuing help and co-operation throughout our audit work.

# Headlines



## Materiality

Group materiality for planning purposes is based on last year's expenditure and is set at £9.0 million, which equates to 2% of gross cost of services expenditure. We will review the level of materiality on receipt of draft accounts for 2017-18.

In line with the Code of Audit Practice, we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at £0.25 million.

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## Audit risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

- management override of controls fraud risk (assumed risk per ISA 240);
- fraud risk from revenue recognition (assumed risk per ISA 240);
- pension liability; and
- revaluation of property, plant and equipment.

We will report on each of these areas in our annual audit report.

The risks with less likelihood of giving rise to a material error, but which is nevertheless worthy of audit understanding, relate to capital expenditure, which is included as another focus area.

Pages seven to 11



## Financial statement audit

Our financial statements audit work follows a four stage audit process which is identified below. **Appendix three** provides more detail on the activities that this includes. This report concentrates on the audit planning stage of the financial statements audit.



There are no significant changes to the Code of Practice on Local Council Accounting ("the Code") in 2017-18, which means for this year there is consistency in terms of accounting standards the Council needs to comply.



## Wider scope

Auditors are required to assess and provide conclusions in the annual audit report in respect of four wider scope dimensions:

- financial sustainability;
- financial management;
- governance and transparency; and
- value for money.

We test wider scope areas where there are identified risks. We consider that there are wider scope risks in respect of demand pressures and the transformation programme. While the above risks are a common theme across local authorities, we will focus on the specific circumstances of Perth and Kinross. We have not identified wider scope financial statement level risks.

Pages 13 to 19

# Headlines (continued)

## Best Value

In June 2016, the Accounts Commission formally agreed the overall framework for the approach to auditing Best Value in councils. The framework introduced a five year approach to Best Value. 2017-18 represents year two of the Best Value plan for the Council during which we will consider Improvement and Leadership.

**Pages 13 to 19** provide more detail on our work over Best Value and wider scope areas.

## Group audit

In addition to the Council we deem the Perth and Kinross Health Integration Joint Board ("IJB") to be significant in the context of the group audit. KPMG is the auditor of the IJB.

## Appendix six

## Independence

In accordance with ISA 260 'Communication of audit matters with those charged with governance' and the APB Ethical Standards, we are required to communicate to you all relationships between KPMG and the Group that may be reasonably thought to have bearing on our independence both:

- at the planning stage; and
- whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.

**Appendix two** contains our confirmation of independence and any other matters relevant to our independence.

Total fees charged by us for the period ended 31 March 2017 were communicated in our Annual Audit Report issued in September 2017. Total fees for 2017-18 will be presented in our Annual Audit Report issued on completion of the audit. The proposed audit fee for 2017-18 is £158,240 (inc VAT).

## Quality

International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

Our Audit Quality Framework and KPMG Audit Manual comply with ISQC1. Our UK Senior Partner has ultimate responsibility for quality control. Operational responsibility is delegated to our Head of Quality & Risk who sets overall risk management and quality control policies. These are cascaded through our Head of Audit in Scotland and ultimately to Andy Shaw as the Director leading delivery of services to the Council.

The nature of our services is such that we are subject to internal and external quality reviews. KPMG's annual financial statements include our transparency report which summarises the results of various quality reviews conducted over the course of each year.

We also provide Audit Scotland with details of how we comply with ISQC1 and an annual summary of our achievement of KPIs and quality results.

We welcome your comments or feedback related to this strategy and our service overall.

## Regularity

We consider the presumed risk of fraud and error over income and expenditure recognition for all public sector bodies, in line with *Practice Note 10 Audit of financial statements of public sector bodies in the United Kingdom*. As such, we consider there to be a significant risk over fees and charges income, see **page eight**. We do not consider there to be any specific risks over expenditure recognition, and perform controls and substantive testing to support our opinion.

# Financial statements audit planning

## Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

For the Council, materiality for planning purposes has been set at £8.7 million for the Council's standalone accounts, and at £9.0 million for the group accounts, which in both cases equates to 2% percent of gross expenditure. We adjust gross expenditure for plant and property revaluations, to 'smooth' the impact of these movements by taking a five year rolling average of revaluation movements. In addition, the Integration Joint Board expenditure is removed from our calculation, as income and expenditure is grossed up for presentational purposes within the consolidated income and expenditure account.

We design our procedures to detect errors in specific accounts at a lower level of precision.

### Reporting to the audit committee

Under ISA 260(UK&I) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK&I) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.25 million.

If management has corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the audit committee to assist it in fulfilling its governance responsibilities.





# Financial statements audit planning (continued)



## Significant risks and other focus areas

**Risk assessment:** Our planning work takes place during December 2017 to February 2018. This involves: risk assessment; determining the materiality level; and issuing this audit plan to communicate our audit strategy. We use our knowledge of the Council, discussions with management and review of Council papers to identify areas of risk and audit focus categorised into financial risks and wider dimension risks as set out in the Code.

| Significant risk                                | Why                                                                                                                                                                                                                                                                                                                                     | Audit approach                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|-------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Financial statement risk</b>                 |                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| Fraud risk from management override of controls | 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. | <ul style="list-style-type: none"> <li>— Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to the audit of the Council.</li> <li>— Strong oversight of finances by management provides additional review of potential material errors caused by management override of controls.</li> <li>— In line with our methodology, we will carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the Council's normal course of business, or are otherwise unusual.</li> </ul> |

# Financial statements audit planning (continued)



## Significant risks (continued)

| Significant risk                           | Why                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Audit approach                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|--------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Financial statement risk</b>            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Fraud risk from income revenue recognition | <p>International Standards on Auditing require us to consider if the fraud risk from income recognition is significant. We consider only the fraud risk from recognition of 'fees and charges' to be significant. Fees and charges income relates to service income from various streams where we consider there to be judgement in recognition.</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. We therefore rebut this risk (other than for "fees and charges income") and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.</p> | <ul style="list-style-type: none"> <li>— Non-ringfenced government grants are agreed in advance of the year, with any changes requiring government approval. There is no estimation or judgement in recognising this stream of income and we do not regard the risk of fraud to be significant. We will agree significant grants to supporting documentation.</li> <li>— The other major sources of income are from annual local taxes and rental income (council tax, non-domestic rates and housing revenues). These revenues are prescribed by law and other specific regulations, which prescribe the period in which annual local taxes and rental income is recognised as revenue. We will perform tests of detail and substantive analytical procedures in our audit of these sources of income. We will perform data analytics work over housing rents, which is a focus area due to collection levels being behind budget.</li> <li>— The potential for fees and charges income to be incorrectly recognised will be addressed through controls testing and substantive procedures. We will consider each source of income and analyse results against budgets and forecasts, performing substantive analytical procedures and tests of details.</li> </ul> |

# Financial statements audit planning (continued)



## Significant risks (continued)

| Significant risk                             | Why                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Audit approach                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|----------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Financial statement risk</b>              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Revaluation of property, plant and equipment | <p>The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. In 2017-18 operational depots, car parks, tips, investment properties and shops will be subject to revaluation and we expect the movement to be material.</p> <p>Given the quantum of the asset carrying values and the inherent use of assumptions in their valuation, we consider there to be a significant risk of misstatement.</p> <p>The Council uses a valuation date of the 1 April 2017 for the 31 March 2018 year end, therefore we consider there to be a risk of a material movement in valuation between this time.</p> | <p>Our procedures include:</p> <p><b>Control design:</b></p> <ul style="list-style-type: none"> <li>— We will review the approach that the Council has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach, including any indicators of impairment.</li> <li>— We will also assess the risk of the valuation changing materially during the year, or between the date of valuation and the year end.</li> </ul> <p><b>Assessing valuer's credentials:</b></p> <ul style="list-style-type: none"> <li>— In relation to those assets which have been revalued during the year we will assess the valuer's qualifications, objectivity and independence to carry out such valuations.</li> </ul> <p><b>Assessing methodology choice and benchmarking assumptions:</b></p> <ul style="list-style-type: none"> <li>— We will utilise our internal specialist to assess the methodology used including testing the underlying data inputs and assessing the assumptions used in comparison to available market information.</li> <li>— We will select a representative sample of assets to agree to supporting evidence and consider in detail the revaluation calculations.</li> </ul> |

# Financial statements audit planning (continued)



## Significant risks (continued)

| Significant risk                | Why                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Audit approach                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
|---------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Financial statement risk</b> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Pension liability               | <p>The net pension liability (£250 million as at 31 March 2017, including assets of £716 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 Council's 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, 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 is 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 to net pension liability accounted for in the financial statements.</p> | <p>Our audit approach includes:</p> <p><b>Control design:</b></p> <ul style="list-style-type: none"> <li>Testing the design and operating effectiveness of controls over the provision of membership information to the actuary who uses it, together with the assumptions, to calculate the pension obligation.</li> </ul> <p><b>Benchmarking assumptions:</b></p> <ul style="list-style-type: none"> <li>Challenging, with the support of our own actuarial specialists, the key assumptions applied, being: the discount rate; inflation rate; and mortality/life expectancy against externally derived data.</li> <li>Challenging the rate of increase in pensionable salaries assumption, by comparing it to other evidence such as business and transformation plans and our understanding of Government and staff expectations.</li> </ul> <p><b>Assessing transparency:</b></p> <ul style="list-style-type: none"> <li>Considering the adequacy of the disclosures in respect of the sensitivity of the deficit to these assumptions.</li> <li>Testing the assets recorded and disclosed, using our actuarial team.</li> <li>Assessing if the disclosures within the financial statements are in accordance with the Code's requirements.</li> </ul> |

# Financial statements audit planning (continued)



## Other focus area

| Other focus area                      | Why                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Audit approach                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|---------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Financial statement focus area</b> |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| Capital expenditure                   | <p>The Council has a six year £500 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 2017-18 is £101 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, which we consider appropriate for the Council.</p> <p>As at February 2018, the capital expenditure for both the Housing Investment Programme and Capital Programme is expected to reach 100% of the most recent budget. The projected capital outturns represent 105% and 120% of the budget revised in April 2017.</p> | <p>Our audit approach includes:</p> <p><b>Control design:</b></p> <ul style="list-style-type: none"> <li>Testing the design and operating effectiveness of controls in respect of the review of costs allocated to capital and revenue projects.</li> </ul> <p><b>Control re-performance:</b></p> <ul style="list-style-type: none"> <li>Comparing the total capital expenditure reported in the financial statements with that reported in reports to those charged with governance.</li> </ul> <p><b>Tests of detail:</b></p> <ul style="list-style-type: none"> <li>Use of substantive sampling methods to evaluate the appropriateness of capital or revenue accounting classification by reference to supporting documentation.</li> <li>Assessing a sample of items allocated to revenue expenditure to determine whether they are correctly classified.</li> <li>Review and corroboration of manual journals.</li> <li>There has been ongoing development in the implementation of Gateway reviews, this will be considered as part of our wider scope and Best Value work.</li> </ul> |

# Other matters

## Accounting framework update

There are no significant changes to the 2017-18 Code compared to the previous Code.

From 2018-19, IFRS 9 replaces IAS 39 *Financial instruments: recognition and measurement*, and includes:

- a single classification approach for financial assets driven by cash flow characteristics and how an instrument is managed;
- a forward looking 'expected loss' model for impairment rather than the 'incurred loss' model under IAS 39; and
- new provisions on hedge accounting.

From 2018-19, IFRS 15 replaces IAS 18 *Revenue* and IAS 11 *Construction contracts* and their associated interpretations. The core principle in IFRS 15 for local authorities is that they should recognise revenue to depict the transfer of promised goods or services to the service recipient or customer in an amount that reflects the consideration to which the authority expects to be entitled in exchange for those goods or services.

Expected from 2019-20, IFRS 16 *Leases* supersedes IAS 17 *Leases*. IFRS 16 introduces a single lessee accounting model. Public body lessees will be more likely to account for operating leases in a similar way to the current IAS 17 treatment for finance leases.

These changes are significant and the Council will need to prepare in advance, particularly where the 2017-18 balances will form the comparatives in future accounts. As part of the 2017-18 audit, we will consider the Council's arrangements for complying with the forthcoming changes.

## Controls testing

In respect of the financial statements, we identify the constituent account balances and significant classes of transactions and focus our work on identified risks. Determining the most effective balance of internal controls and substantive audit testing enables us to ensure the audit process runs smoothly and with the minimum disruption to the Council's finance team.

In 2016-17 we identified five recommendations in relation to the control environment. We will follow-up progress in implementing these recommendations and report any new recommendations arising from our work in 2017-18 and report our view of progress. Appendix three summarises our approach across each phase of the audit.

## Internal audit

International Standard on Auditing (UK and Ireland) 610: *Considering the work of internal audit* requires us to:

- consider the activities of internal audit and their effect, if any, on external audit procedures;
- obtain an understanding of internal audit activities to assist in planning the audit and developing an effective audit approach;
- perform a preliminary assessment of the internal audit function when it appears that internal audit is relevant to our audit of the financial statements in specific audit areas; and
- evaluate and test the work of internal audit, where use is made of that work, in order to confirm its adequacy for our purposes.

We will continue liaison with internal audit and update our understanding of its approach and conclusions where relevant. The general programme of work will be reviewed for significant issues to support our work in assessing the statement of internal control.

# Wider scope and Best Value

## Approach

We are required to assess and provide conclusions in the Annual Audit Report in respect of four wider scope dimensions: financial sustainability; financial management; governance and transparency; and value for money. We set out below an overview of our approach to wider scope and Best Value requirements of our annual audit. We provide on pages 15 to 19 our risk assessment in respect of these areas. We will provide narrative on these and other areas in the Annual Audit Report where relevant.

### Risk assessment

We consider the relevance and significance of the potential business risks faced by local authorities, and other risks that apply specifically to the Council. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the *Code of Audit Practice*.

In doing so we consider:

- The Council's own assessment of the risks it faces, and its arrangements to manage and address its risks.
- Evidence gained from previous audit work, including the response to that work.
- The work of other inspectorates and review agencies, through the Local Area Network ('LAN') which is established for each Council.

The LAN brings together local scrutiny representatives in a systematic way to agree a shared risk assessment. Antony Clark from Audit Scotland is the LAN lead for the shared risk assessment process for the Council. For 2017-18 there is no additional scrutiny required by external audit.

The 2018-19 shared risk assessment has begun, and a local scrutiny plan will be agreed with management by 31 March 2018, followed by publication in Spring 2018.



### Linkages with other audit work

There is a degree of overlap between the work we do as part of the wider scope and Best Value audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Council's organisational control environment, many aspects of which are relevant to our wider scope and Best Value audit responsibilities.

We have always sought to avoid duplication of audit effort by integrating our financial statements and wider scope and Best Value work, and this will continue. We consider information gathered through the shared risk assessment and the Audit Commission's five strategic priorities when planning and conducting our work.



# Wider scope and Best Value (continued)

## Approach (continued)

### Identification of significant risks

The Code identifies a matter as significant *'if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public. Significance has both qualitative and quantitative aspects.'*

If we identify significant wider scope and Best Value risks, we will highlight the risk to the Council and consider the most appropriate audit response in each case, including:

- Considering the results of work by the Council, inspectorates and other review agencies.
- Carrying out local risk-based work to form a view on the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.



### Concluding on wider scope and Best Value

At the conclusion of the wider scope and Best Value audit we will consider the results of the work undertaken and assess the assurance obtained against each of the wider scope audit dimensions and Best Value, regarding the adequacy of the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources.

If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our wider scope and Best Value conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.



### Reporting

We have completed our initial wider scope and Best Value risk assessment and have not identified any significant risks, as noted on the next page. We will update our assessment throughout the year and should any issues present themselves we will report them in our Annual Audit Report.

We will report on the results of the wider scope and Best Value audit through our Annual Audit Report. This will summarise any specific matters arising, and the basis for our overall conclusion.

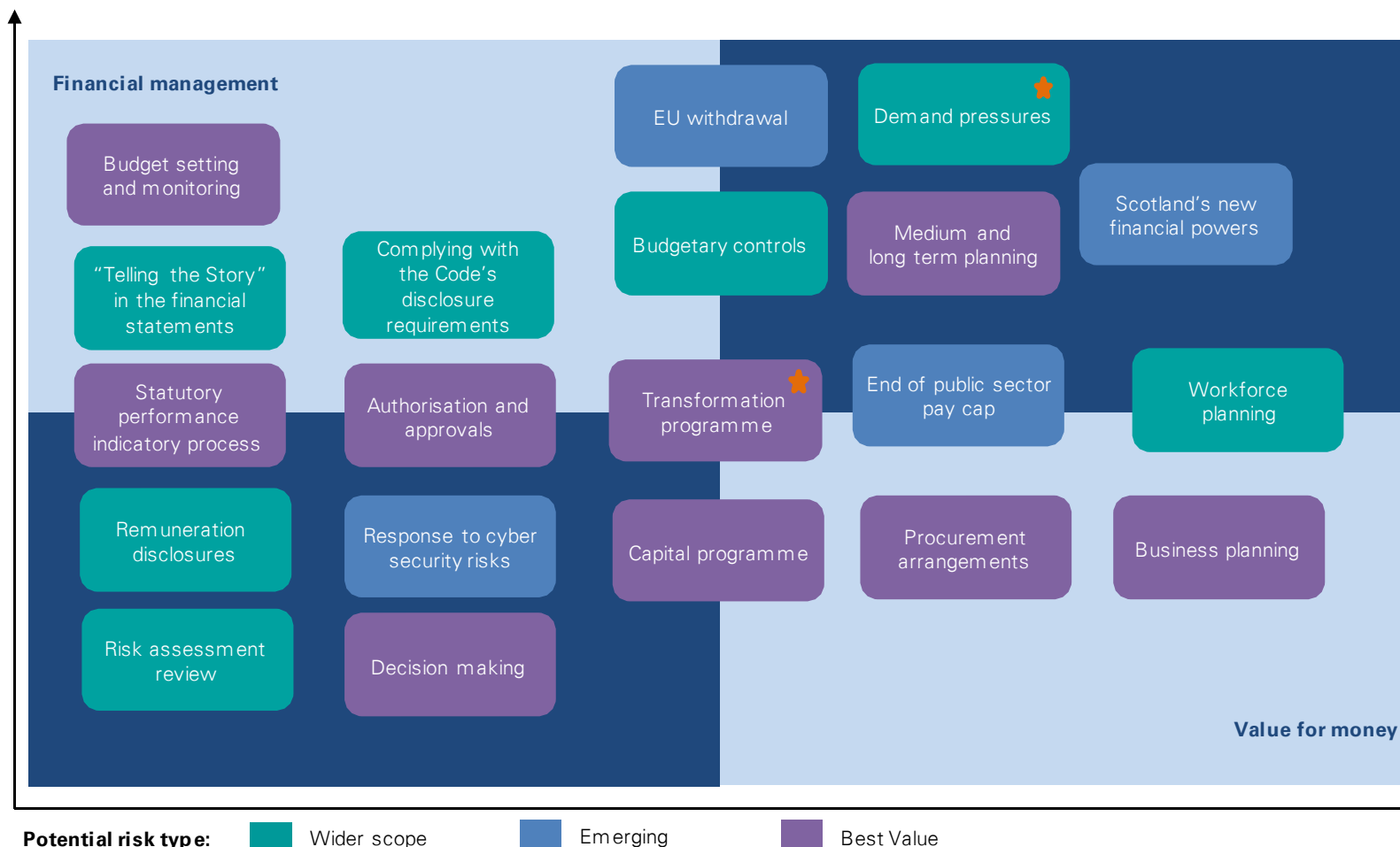




# Wider scope and Best Value (continued)

## Risk assessment

We have not identified any financial statement significant risks in relation to wider scope and Best Value. ★ relates to an identified Wider Scope focus areas to be specifically addressed through audit procedures, as further explained on the next page.



# Wider scope and Best Value (continued)

## Risk assessment (continued)

| Wider scope area                | Why                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Audit approach                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|---------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Financial sustainability</b> | <p><b>Financial sustainability</b> looks forward to the medium and longer term to consider whether the Council is planning effectively to continue to deliver its services or the way in which they should be delivered.</p> <p><b><i>Specific identified focus area:</i></b></p> <p><u>Demand pressures</u></p> <p>The Council faces growing demand pressures, both from the increasing elderly population and increasing number of young people living in Perth and Kinross. Each subset brings unique challenges to services, for healthcare, social care and education.</p> <p>This comes at a time when the overall Council workforce is decreasing, and adds pressure to workforce planning. There are a number of “hard to fill” posts for teachers in rural areas and social care workers, which add to the pressure on the growing demand for service provision.</p> <p>We consider there to be a resultant risk to the sustainability of delivering services with increasing demand and a decreasing workforce.</p> | <ul style="list-style-type: none"> <li>— We will consider the Council's long term financial plans and its ability to adapt to the changing landscape in local government funding. This will involve consideration of the 2018-19 budget and longer term financial plans from 2019-20 and beyond.</li> <li>— We will monitor the Council's key performance indicators and performance reporting, to identify any movements requiring further investigation. We will consider any overspends against budget where demand has caused a significant strain on funding, as well as underspends against budget due to staff slippages where roles have been hard to fill.</li> </ul> |

# Wider scope and Best Value (continued)

## Risk assessment (continued)

| Wider scope area            | Why                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Audit approach                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|-----------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Financial Management</b> | <p><b><i>Specific identified focus areas (continued):</i></b></p> <p><b>Financial management</b> is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p> <p>The Council has approved the preparation of a three year revenue budget, which will aid longer term financial management and workforce planning.</p> <p><b><i>Specific identified focus area:</i></b></p> <p><u>Transformation programme</u></p> <p>The Council has an ambitious five year transformation programme from 2015-20. The programme provides a framework for innovation, creativity, flexibility and greater entrepreneurship to meet future challenges.</p> <p>In October 2017, the Council reported estimated savings requirements ranging between £22 million and £103 million, with the 'mid-range' estimate of £54.5 million over the next five years, and the transformation programme supports this through redesigning service delivery to maximise efficiencies and support change.</p> <p>We consider there to be a risk around delivering the level of planned savings over the next five years, and what impact this may have on service delivery.</p> | <ul style="list-style-type: none"> <li>— We will consider how the Council's transformation programme is progressing and any potential impact on financial and service planning.</li> <li>— We will consider innovative ideas the Council is piloting, such as the £2 million redesigned family supportive service, which will be the first of its kind in the country, and how this aids more effective service delivery.</li> <li>— We will review the financial results to 31 March 2018 compared to budget to consider if there are indications that savings are not being delivered as planned.</li> </ul> |

# Wider scope and Best Value (continued)

## Risk assessment (continued)

| Wider scope area                                                        | Why                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Audit approach                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|-------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Financial sustainability and financial management</b><br>(continued) | <p><b>Specific identified focus areas (continued):</b></p> <p>Audit Scotland planning guidance requires us to consider the following matters which are potential risks to all Public Sector bodies.</p> <p><b>Scotland's new financial powers</b></p> <p>The Fiscal Framework agreement arising as part of the 2012 and 2016 Scotland Acts provides the Scottish Parliament with new powers and changes Scottish public finance.</p> <p>There is a risk that the Council's funding, responsibilities or performance objectives are altered, together with changes to the environment in which it operates which may impact on day to day activities.</p> <p><b>EU withdrawal</b></p> <p>The nature and impact of withdrawal from the EU continues to be uncertain and changing.</p> <p>There is a risk that Council fails to prepare for, or is impacted by changes to employees, citizens, funding or regulations.</p> <p><b>End of public sector pay cap</b></p> <p>The Scottish Government has stated its intention for the 1% public sector pay cap which has applied for seven years is being lifted. It is not clear when increases will take effect or how they will be funded.</p> <p>There is an uncertainty risk which needs to be considered as part of the Council's forward financial planning.</p> | <ul style="list-style-type: none"> <li>— We will remain alert to the impact of new financial powers and EU withdrawal on the Council's operations and the environment within which it operates. We will consider the appropriateness of management's risk assessment and planning for both matters.</li> <li>— We will consider how the Council is planning for the end of the public sector pay cap, for example, within future budget modelling, sensitivity and funding analysis.</li> </ul> |

# Wider scope and Best Value (continued)

## Risk assessment (continued)

| Wider scope area                   | Why                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Audit approach                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Governance and transparency</b> | <p><b>Governance and transparency</b> is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p> <p>With the retirement of the Depute Chief Executive, there will be a change to the senior officer structure. Changes were proposed to ensure capacity is placed in the correct areas and a paper was presented to and approved by the Strategic Policy and Resource Committee in February.</p> <p><b>Specific identified focus area:</b></p> <p>Audit Scotland planning guidance requires us to consider the following matters which are potential risks to all Public Sector bodies.</p> <p><b>Openness and transparency</b></p> <p>There are signals of changing and more challenging expectations for openness and transparency in public business. This is an area the Council are expected to keep under review and consider where there is scope to enhance transparency.</p> <p><b>Response to cyber security</b></p> <p>The Scottish Government published the Public Sector Action Plan for cyber resilience in November 2017. It aims to ensure that Scotland's public bodies work towards becoming exemplars of cyber resilience.</p> <p>The EU General Data Protection Regulation ("GDPR") will come into effect from 25 May 2018.</p> <p>The Council will need to understand its baseline cyber resilience position and demonstrate commitment to achieving good practice. It will also need to comply GDPR.</p> | <ul style="list-style-type: none"> <li>— We will consider the effectiveness of scrutiny and governance arrangements, by evaluating the challenge and transparency of the reporting of financial and performance information.</li> <li>— We will update our understanding of the controls and processes around capturing officers' interests.</li> <li>— We will obtain and review minutes of meetings of the various committees to assess the level of transparency.</li> <li>— We will use guidance provided by Audit Scotland to consider the Council's approach to cyber resilience and readiness for GDPR.</li> </ul> |

# Wider scope and Best Value (continued)

## Risk assessment (continued)

| Wider scope area       | Why                                                                                                                                                                         | Audit approach                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Value for money</b> | <p><b>Value for money</b> is concerned with how effectively resources are used to provide services.</p> <p>We have not identified specific value for money focus areas.</p> | <ul style="list-style-type: none"> <li>— We will specifically consider statutory performance indicators, performance reporting and arrangements to provide for continuous improvement.</li> <li>— In the context of the Council's capital plan and procurement procedures, we will consider the arrangements to provide for value for money.</li> <li>— Our year two Best Value work will consider Improvement and Leadership and we will provide narrative on both in the Annual Audit Report.</li> </ul> |



# Appendices

# Mandated communications with the Audit Committee

| Matters to be communicated                                                                                                                                                                                                                                                                                | Link to Audit Committee papers                                                                                                                                                                                                                                       |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Independence and our quality procedures ISA 260 (UK and Ireland).                                                                                                                                                                                                                                         | ■ See next page                                                                                                                                                                                                                                                      |
| The general approach and overall scope of the audit, including levels of materiality, fraud and engagement letter ISA 260 (UK and Ireland).                                                                                                                                                               | ■ Main body of this paper                                                                                                                                                                                                                                            |
| ■ Disagreement with management about matters that, individually or in aggregate, could be significant to the entity's financial statements or the auditor's report, and their resolution (AU 380).                                                                                                        | ■ In the event of such matters of significance we would expect to communicate with the Audit Committee throughout the year.<br>■ Formal reporting will be included in our ISA 260 report for the Audit Committee meeting, which focuses on the financial statements. |
| ■ Significant difficulties we encountered during the audit.                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                      |
| ■ Significant matters discussed, or subject to correspondence, with management (ISA 260).                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                                      |
| ■ Our views about the qualitative aspects of the entity's accounting and financial reporting.<br>■ The potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements (ISA 260 and ISA 540). |                                                                                                                                                                                                                                                                      |
| ■ Audit adjustments, whether or not recorded by the entity, that have, or could have, a material effect on its financial statements. We will request you to correct uncorrected misstatements (including disclosure misstatements) (ISA 450).                                                             |                                                                                                                                                                                                                                                                      |
| ■ The selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the entity's financial statements (ISA 570).                                                                                                                              |                                                                                                                                                                                                                                                                      |
| ■ Material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern (ISA 570).                                                                                                                                               |                                                                                                                                                                                                                                                                      |
| ■ Expected modifications to the auditor's report (ISA 705).                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                      |
| ■ Related party transactions that are not appropriately disclosed (ISA 550)                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                      |



# Auditor independence

## Assessment of our objectivity and independence as auditor of Perth and Kinross Council

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

## General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent.

As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

## Independence and objectivity considerations relating to the provision of non-audit services

We have considered the fees charged by us to the Council and its affiliates for professional services provided by us during the reporting period. Total fees charged by us for the period ended 31 March 2017 and planned for 2017-18 are as follows:

| Services provided to the Council and its group in respect of: | 2017-18 continuing (excl VAT) £ | 2016-17 (excl VAT) £ |
|---------------------------------------------------------------|---------------------------------|----------------------|
| Audit of the financial statements                             | 131,867                         | 129,326              |
| Other audit related services                                  | -                               | 27,000               |
| <b>Total</b>                                                  | <b>131,867</b>                  | <b>156,236</b>       |

There are no non-audit fees for 2017-18. Under the FRC's Revised Ethical Standard and in accordance with Audit Scotland requirements, no new tax contingent fees for listed entities can be entered into after 17 June 2016. We confirm that no new contingent fees for tax services have been entered into for Perth and Kinross Council since that date.

All non-audit services require audit committee or equivalent approval. We will seek approval in advance of any such services being proposed.

We are appointed by the Accounts Commission via Audit Scotland as external auditor of Perth and Kinross Council Charitable Trusts and Perth and Kinross Integration Joint Board.

# Auditor independence (continued)

## Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed to the audit committee.

## Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

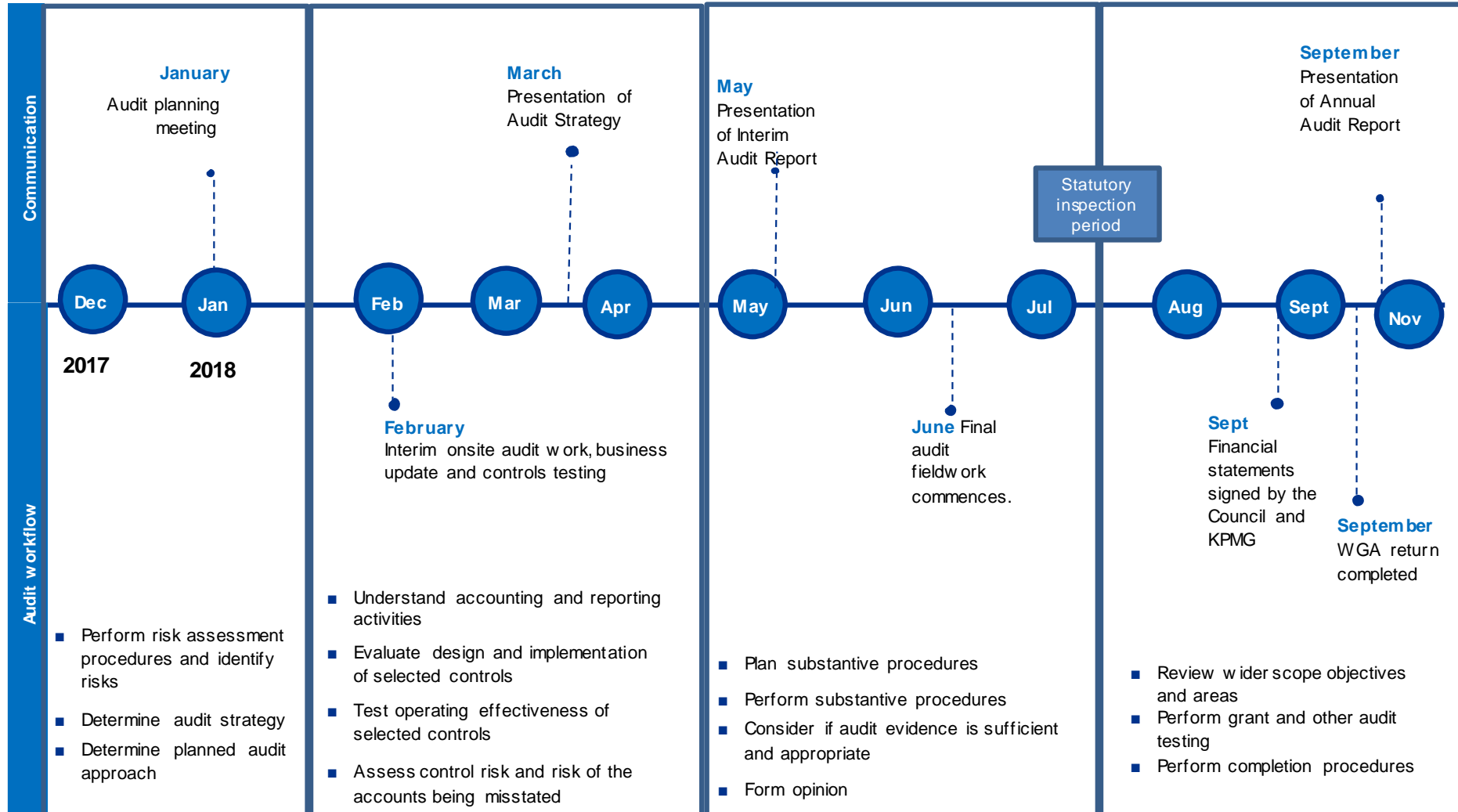
This report is intended solely for the information of the audit committee and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

*KPMG LLP*

# Timeline



# Audit outputs

| Output                                                          | Description                                                                                                                                                                          | Report date                                                            |
|-----------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------|
| <b>Audit strategy</b>                                           | Our strategy for the external audit of the Council and its group, including significant risk and audit focus areas.                                                                  | By 31 March 2018                                                       |
| <b>Interim audit report</b>                                     | We summarise our findings from our interim audit work.                                                                                                                               | By 31 May 2018                                                         |
| <b>Independent auditor's report</b>                             | Our opinion on the Council's financial statements.                                                                                                                                   | By 30 September 2018                                                   |
| <b>Annual audit report</b>                                      | We summarise our findings from our work during the year.                                                                                                                             | By 1 October 2018                                                      |
| <b>NFI report</b>                                               | We report on the Council's actions to investigate and follow-up NFI matches.                                                                                                         | By 28 February 2018                                                    |
| <b>Whole of Government Accounts</b>                             | We report on the pack prepared for consolidation and preparation of the Whole of Government Accounts.                                                                                | By 28 September 2018                                                   |
| <b>Audit reports on other returns</b>                           | We will report on the following returns: <ul style="list-style-type: none"> <li>- Current issues return.</li> <li>- Technical database.</li> <li>- Fraud returns.</li> </ul>         | January, March, July and October 2018<br>27 July 2018<br>27 April 2018 |
| <b>Audit reports to support Audit Scotland's wider analysis</b> | We will report on the following matters: <ul style="list-style-type: none"> <li>- Health &amp; social care integration progress.</li> <li>- City Deals</li> <li>- Digital</li> </ul> | July 2018<br>September 2018<br>September 2018                          |
| <b>Grant claim audits</b>                                       | We provide an opinion on: <ul style="list-style-type: none"> <li>- Education maintenance allowance, Housing Benefit, Non domestic rates and Criminal Justice social work</li> </ul>  | To submit by:<br>July 2017, November 2017 and August 2017              |

# Fees

Audit Scotland has completed a review of funding and fee setting arrangements for 2017-18. An expected fee is calculated by Audit Scotland to each entity within its remit. This expected fee is made up of four elements:

- Auditor remuneration
- Pooled costs
- Contribution to Audit Scotland's Performance Audit and Best Value team
- Contribution to Audit Scotland costs

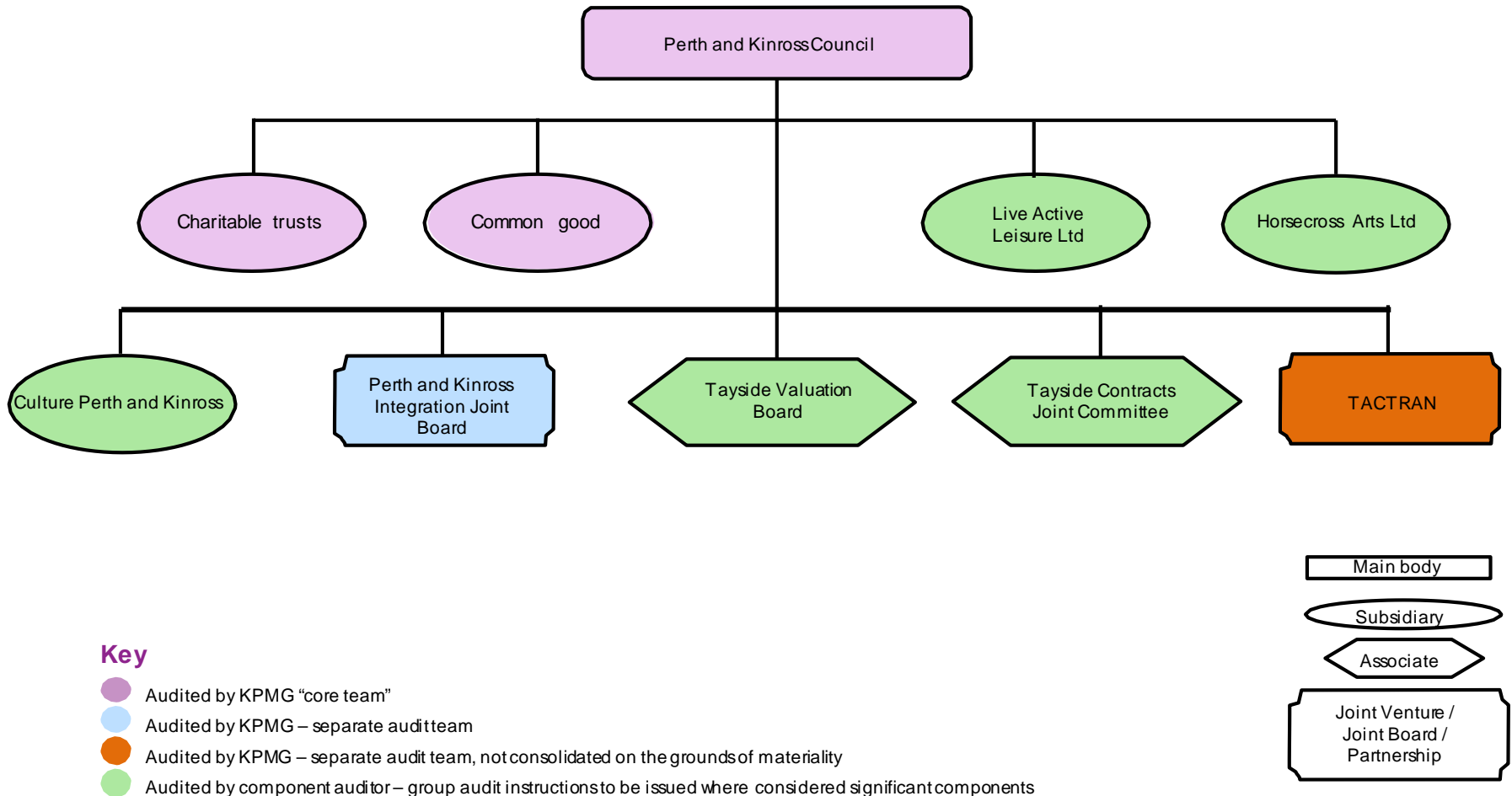
The expected fee for each body assumes that it has sound governance arrangements in place and operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for the audit.

We are in discussions with management regarding the auditor remuneration for 2017-18. Should we be required to undertake significant additional audit work in respect of any of the areas of audit focus or other matters arise, we will discuss with management the impact of this on our proposed fee.

|                                                      | 2017-18 £ (incl VAT) |
|------------------------------------------------------|----------------------|
| Auditor remuneration                                 | 158,240              |
| Pooled costs                                         | 14,060               |
| Contribution to PABV                                 | 86,310               |
| Contribution to Audit Scotland costs                 | 10,050               |
| <b>Total Council audit fee</b>                       | <b>268,660</b>       |
| Audit of Perth and Kinross Council Charitable Trusts | 3,000                |
| <b>Total fee</b>                                     | <b>271,660</b>       |

# Group financial statements

The below diagram sets out our scoping of group entities in relation to the group financial statements, and related group audit instructions.



# Responsibility in relation to fraud

We are required to consider fraud and the impact that this has on our audit approach. We will update our risk assessment throughout the audit process and adapt our approach accordingly.

| Management responsibilities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | KPMG's identification of fraud risk factors                                                                                                                                                                                                                                                                                                                                                           | KPMG's response to identified fraud risk factors                                                                                                                                                                                                                                                                                                                                       | KPMG's identified fraud risk factors                                                                                                                                                                                                                                                                                                                                                                                     |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>— Adopt sound accounting policies.</li> <li>— With oversight from those charged with governance, establish and maintain internal control, including controls to prevent, deter and detect fraud.</li> <li>— Establish proper tone/culture/ethics.</li> <li>— Require periodic confirmation by employees of their responsibilities.</li> <li>— Take appropriate action in response to actual, suspected or alleged fraud.</li> <li>— Disclose to audit committee and auditors:             <ul style="list-style-type: none"> <li>— any significant deficiencies in internal controls.</li> <li>— any fraud involving those with a significant role in internal controls.</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>— Review of accounting policies.</li> <li>— Results of analytical procedures.</li> <li>— Procedures to identify fraud risk factors.</li> <li>— Discussion amongst engagement personnel.</li> <li>— Enquiries of management, to audit committee and others.</li> <li>— Evaluate broad programmes and controls that prevent, deter, and detect fraud.</li> </ul> | <ul style="list-style-type: none"> <li>— Accounting policy assessment.</li> <li>— Evaluate design of mitigating controls.</li> <li>— Test effectiveness of controls.</li> <li>— Address management override of controls.</li> <li>— Perform substantive audit procedures.</li> <li>— Evaluate all audit evidence.</li> <li>— Communicate to audit committee and management.</li> </ul> | <p>Whilst we consider the risk of fraud at the financial statement level to be low for the Council, we will monitor the following areas throughout the year and adapt our audit approach accordingly.</p> <ul style="list-style-type: none"> <li>— Revenue recognition</li> <li>— Cash</li> <li>— Procurement</li> <li>— Management control override</li> <li>— Assessment of the impact of identified fraud.</li> </ul> |

# Audit Scotland code of audit practice – responsibility of auditors and management

| Responsibilities of management                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Financial statements</b> <p>Audited bodies must prepare an annual report and accounts containing financial statements and other related reports. They have responsibility for:</p> <ul style="list-style-type: none"> <li>■ preparing financial statements which give a true and fair view of their financial position and their expenditure and income, in accordance with the applicable financial reporting framework and relevant legislation;</li> <li>■ maintaining accounting records and working papers that have been prepared to an acceptable professional standard and that support their financial statements and related reports disclosures;</li> <li>■ ensuring the regularity of transactions, by putting in place systems of internal control to ensure that they are in accordance with the appropriate Council;</li> <li>■ maintaining proper accounting records; and</li> <li>■ preparing and publishing, along with their financial statements, an annual governance statement, management commentary (or equivalent) and a remuneration report that are consistent with the disclosures made in the financial statements. Management commentary should be fair, balanced and understandable and also clearly address the longer- term financial sustainability of the body.</li> </ul> <p>Further, it is the responsibility of management of an audited body, with the oversight of those charged with governance, to communicate relevant information to users about the entity and its financial performance, including providing adequate disclosures in accordance with the applicable financial reporting framework. The relevant information should be communicated clearly and concisely.</p> <p>Audited bodies are responsible for developing and implementing effective systems of internal control as well as financial, operational and compliance controls. These systems should support the achievement of their objectives and safeguard and secure value for money from the public funds at their disposal. They are also responsible for establishing effective and appropriate internal audit and risk-management functions.</p> |
| <b>Prevention and detection of fraud and irregularities</b> <p>Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and also to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |



# Audit Scotland code of audit practice – responsibility of auditors and management

| Responsibilities of management                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Corporate governance arrangements</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Each body, through its chief executive or accountable officer, is responsible for establishing arrangements to ensure the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies should involve those charged with governance (including Audit Committees or equivalent) in monitoring these arrangements.                                                                                                                                                                                                                                                        |
| <b>Financial position</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <p>Audited bodies are responsible for putting in place proper arrangements to ensure that their financial position is soundly based having regard to:</p> <ul style="list-style-type: none"> <li>■ such financial monitoring and reporting arrangements as may be specified;</li> <li>■ compliance with any statutory financial requirements and achievement of financial targets;</li> <li>■ balances and reserves, including strategies about levels and their future use;</li> <li>■ how they plan to deal with uncertainty in the medium and longer term; and</li> <li>■ the impact of planned future policies and foreseeable developments on their financial position.</li> </ul> |
| <b>Best Value, use of resources and performance</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| The Scottish Public Finance Manual sets out that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specific responsibility to ensure that arrangements have been made to secure best value.                                                                                                                                                                                                                                                                                                                                                                                                                                    |

# Audit Scotland code of audit practice – responsibility of auditors and management

## Responsibilities of auditors

### Appointed auditor responsibilities

Auditor responsibilities are derived from statute, this Code, International Standards on Auditing (UK and Ireland), professional requirements and best practice and cover their responsibilities when auditing financial statements and when discharging their wider scope responsibilities. These are to:

- undertake statutory duties, and comply with professional engagement and ethical standards;
- provide an opinion on audited bodies' financial statements and, where appropriate, the regularity of transactions;
- review and report on, as appropriate, other information such as annual governance statements, management commentaries, remuneration reports, grant claims and whole of government returns;
- notify the Auditor General when circumstances indicate that a statutory report may be required;
- participate in arrangements to cooperate and coordinate with other scrutiny bodies (local government sector only);
- demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies:
  - effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets;
  - suitability and effectiveness of corporate governance arrangements; and
  - financial position and arrangements for securing financial sustainability.

Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work in accordance with the Code, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

# Audit Scotland code of audit practice – responsibility of auditors and management

| Responsibilities of auditors                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |  |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|
| General principles                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |  |
| This Code is designed such that adherence to it will result in an audit that exhibits these principles.                                                                                                                                                                                                                                                                                                                                                                                                                                           |  |
| Independent                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |  |
| When undertaking audit work all auditors should be, and should be seen to be, independent. This means auditors should be objective, impartial and comply fully with the Financial Reporting Council's (FRC) ethical standards and any relevant professional or statutory guidance. Auditors will report in public and make recommendations on what they find without being influenced by fear or favour.                                                                                                                                          |  |
| Proportionate and risk based                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |  |
| Audit work should be proportionate and risk based. Auditors need to exercise professional scepticism and demonstrate that they understand the environment in which public policy and services operate. Work undertaken should be tailored to the circumstances of the audit and the audit risks identified. Audit findings and judgements made must be supported by appropriate levels of evidence and explanations. Auditors will draw on public bodies' self-assessment and self-evaluation evidence when assessing and identifying audit risk. |  |
| Quality focused                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |  |
| Auditors should ensure that audits are conducted in a manner that will demonstrate that the relevant ethical and professional standards are complied with and that there are appropriate quality-control arrangements in place as required by statute and professional standards.                                                                                                                                                                                                                                                                 |  |

# Audit Scotland code of audit practice – responsibility of auditors and management

| Responsibilities of auditors                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Coordinated and integrated</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| It is important that auditors coordinate their work with internal audit, Audit Scotland, other external auditors and relevant scrutiny bodies to recognise the increasing integration of service delivery and partnership working within the public sector. This would help secure value for money by removing unnecessary duplication and also provide a clear programme of scrutiny activity for audited bodies.                                                                                                                                                                  |
| <b>Public focused</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| The work undertaken by external audit is carried out for the public, including their elected representatives, and in its interest. The use of public money means that public audit must be planned and undertaken from a wider perspective than in the private sector and include aspects of public stewardship and best value. It will also recognise that public bodies may operate and deliver services through partnerships, arm's-length external organisations (ALEOs) or other forms of joint working with other public, private or third sector bodies.                     |
| <b>Transparent</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
| Auditors, when planning and reporting their work, should be clear about what, why and how they audit. To support transparency the main audit outputs should be of relevance to the public and focus on the significant issues arising from the audit.                                                                                                                                                                                                                                                                                                                               |
| <b>Adds value</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| It is important that auditors recognise the implications of their audit work, including their wider scope responsibilities, and that they clearly demonstrate that they add value or have an impact in the work that they do. This means that public audit should provide clear judgements and conclusions on how well the audited body has discharged its responsibilities and how well they have demonstrated the effectiveness of their arrangements. Auditors should make appropriate and proportionate recommendations for improvement where significant risks are identified. |



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