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Council Building
2 High Street
Perth
PH1 5PH

14 May 2018

A Meeting of the **Audit Committee** will be held in **the Council Chamber, 2 High Street, Perth, PH1 5PH** on **Wednesday, 23 May 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, 23 May 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 28 MARCH 2018 FOR APPROVAL AND SIGNATURE
(copy herewith) | 5 - 10 |
| 4 | GENERAL DATA PROTECTION REGULATION
As agreed at the last meeting of the Committee, there will be a presentation by Donald Henderson, Information Compliance Manager and Data Protection Officer, on the work being done to prepare for the implementation of the General Data Protection Regulation. | |
| 5 | INTERNAL AUDIT FOLLOW UP
Report by Chief Internal Auditor (copy herewith 18/167) | 11 - 20 |
| 6 | INTERNAL AUDIT UPDATE
Report by Chief Internal Auditor (copy herewith 18/168) | 21 - 34 |
| 6(i) | CORPORATE AND DEMOCRATIC SERVICES | |
| 6(i)(a) | 17-23 IT CHANGE MANAGEMENT
(copy herewith 18/169) | 35 - 46 |
| 6(ii) | EDUCATION AND CHILDREN'S SERVICES | |
| 6(ii)(a) | 17-25 - PUPIL EQUITY FUND
(copy herewith 18/170) | 47 - 50 |
| 7 | INTERNAL AUDIT ANNUAL REPORT 2017/18
Report by Chief Internal Auditor (copy herewith 18/171) | 51 - 64 |

Note: Annual Review of Internal Audit to be held following the Audit Committee on 27 June 2018.

Report by KPMG, External Auditor (copy herewith 18/172)

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PERTH AND KINROSS COUNCIL
AUDIT COMMITTEE
28 MARCH 2018

AUDIT COMMITTEE

Minute of meeting of the Audit Committee held in the Council Chambers, 2 High Street, Perth on Wednesday 28 March 2018 at 2.00pm.

Present: Councillors B Band, K Baird, A Coates, S Donaldson, D Illingworth, X McDade and B Pover (substituting for E Drysdale).

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

Also in Attendance: A Shaw, KPMG

Apologies: Councillor E Drysdale

Councillor Band, Vice-Convener, Presiding.

164. WELCOME AND APOLOGIES/SUBSTITUTIONS

The Vice-Convener welcomed everyone to the meeting and welcomed Councillor Kathleen Baird back on to the Committee.

165. DECLARATIONS OF INTEREST

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

166. MINUTE

The minute of meeting of the Audit Committee of 31 January 2018 (Arts.49-54) was submitted and approved as a correct record and authorised for signature.

167. INTERNAL AUDIT FOLLOW UP

There was submitted a report by the Chief Internal Auditor (18/102) presenting a current summary of Internal Audit's follow up work.

It was noted that a trainee had been recruited to the Internal Audit Team and the recruitment process to appoint an Auditor would begin soon. J Clark assured members the Audit Plan could be resourced appropriately.

It was also noted that there would be a report submitted to the Strategic Policy and Resources Committee on 18 April 2018 on the implementation of the General Data Protection Regulation (GDPR). While the Regulation was due to come into force on 25 May 2018, the UK legislation on the detailed implementation had not yet been published.

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In the meantime, training was being provided through briefings, awareness raising and sessions with specific teams.

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.

168. INTERNAL AUDIT UPDATE

There was submitted a report by the Chief Internal Auditor (18/103) presenting a summary of Internal Audit's work against the 2017/18 annual plan.

Resolved:

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

The Committee considered the following final reports:-

(i) Corporate and Democratic Services

(a) 17-20 – Creditors' System

There was submitted a report by the Chief Internal Auditor (18/104) on an audit to ensure (1) that appropriate regulations, policies and procedures were in place for the requisition, purchase, receipt and payment of good and services and (2) that adequate system controls were in place to ensure the integrity of the creditors' system.

It was noted that governance arrangements had been made to ensure that invoices were only authorised by a person with the appropriate documented authority to do so.

Resolved:

Internal Audit's findings, as detailed in Report 18/104, be noted.

(b) 17-21 – HMRC Guidance – IR 35 Compliance

There was submitted a report by the Chief Internal Auditor (18/105) on an audit to provide assurance over Service compliance with processes for the HM Revenue and Customs (HMRC) guidance known as IR35.

Resolved:

Internal Audit's findings, as detailed in Report 18/105, be noted.

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(c) 17-26 – Council Tax

There was submitted a report by the Chief Internal Auditor (18/106) on an audit to ensure the adequacy of controls in relation to Council Tax discounts and exemptions.

Councillor McDade asked for clarification of the process in place to remove officers from the Council Tax system to ensure their access was revoked when no longer required. J Clark advised she would check the position and circulate the information to members.

In response to a question from Councillor Donaldson, J Clark confirmed that a person could not be deleted from the Council Tax system but had to have their access denied.

Resolved:

Internal Audit's findings, as detailed in Report 18/106, be noted.

(ii) Housing and Community Safety

(a) 17-06 – Northgate Housing Information System

There was submitted a report by the Chief Internal Auditor (18/107) on an audit to ensure (1) that support and maintenance arrangements were in place for the Northgate Housing Information System and (2) that adequate physical and logical access controls were in place.

Resolved:

Internal Audit's findings, as detailed in Report 18/107, be noted.

169. NATIONAL FRAUD INITIATIVE PROGRESS REPORT

There was submitted a report by the Chief Internal Auditor (18/108) outlining the action that has been taken by Perth & Kinross Council in response to the requirements of the National Fraud Initiative (NFI) for 2016/17.

In response to a question from Councillor McDade, J Clark advised that the trend for recovery of overpayments had been relatively static over a number of years.

L Simpson confirmed that the position taken by Perth and Kinross Council with regard to the National Fraud Initiative had been reviewed by her when she took up post, and she confirmed the position with regard to not providing the electoral register for the NFI.

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Resolved:

- (i) The contents of Report 18/108, 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, be noted.
- (ii) The actions taken by the Revenues & Benefits Service as a result of the non-provision of electoral register information, be noted.

170. THE INTERNAL AUDIT STRATEGY & INTERNAL AUDIT PLAN – APRIL-JUNE 2018

There was submitted a report by the Chief Internal Auditor (18/109) presenting the strategy for the delivery of Internal Audit and the proposed Internal Audit Plan for the period April to June 2018.

J Clark referred to the proposal to develop a more thematic risk-based audit plan from 2018/19 to reflect the priorities and objectives of the Council and to better target the key corporate risks. The detailed Audit Plan will be submitted to the Audit Committee on 27 June 2018.

In response to a question from Councillor Illingworth, J Clark advised that the thematic approach would enable the Audit Team to look at cross-service delivery and not just one area. L Simpson added that it would also provide a better structure for reviewing audit outcomes.

Councillor McDade asked if it was too soon to assess the effect of the changes in the process and J Clark advised that for now the thematic approach would be introduced to run in tandem with the current system. L Simpson confirmed that the traditional audit would continue as well as best value work and at least a year would be needed to review and refine the new process.

Councillor Donaldson queried the timetable for the General Data Protection Regulation (GDPR) report and L Simpson advised the Information Compliance Officer would be invited to attend the next meeting of the Audit Committee to provide information on the planning being undertaken for implementation of the Regulation.

There followed further discussion on the Internal Audit Plan and the timetabling of individual audits.

Resolved:

- (i) The first quarter of the 2018/19 Audit Plan focussing 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 be submitted to the Audit Committee on 27 June 2018.
- (ii) The further plan to reflect the key strategic and operational risks identified through the governance & best value assurance self-assessments and the service risk workshops, be approved.
- (iii) In addition, it be approved that the following specific work be carried out:
 - the certification of Council grant claims;
 - facilitating the Council's response to the National Fraud Initiative;

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- 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.
- (iv) The Information Compliance Officer be invited to attend the next Audit Committee to provide members with information on the General Data Protection Regulation.

171. PERTH AND KINROSS COUNCIL EXTERNAL AUDIT STRATEGY

There was submitted a report by External Auditor, KPMG (18/110) presenting the External Audit Strategy for 2017/18.

A Shaw, KPMG, gave a summary of the report highlighting the sections on materiality and audit risks.

Councillor Donaldson requested clarification on the Council's pension liability and A Shaw confirmed the risk was in relation to the net pension liability accounted for in the financial statements. He added there was always a risk that pensions were not adequately funded but that was not the aspect covered by this report.

In response to a question from Councillor McDade, A Shaw advised that there was a separate accounting fee for the Perth and Kinross Integration Joint Board.

Councillor Illingworth asked if there had been a fundamental change from the previous year in the External Auditor's approach and A Shaw advised it had been very similar with the first year being KPMG familiarising themselves with the Council's practices and the second year was continuing with that work.

Resolved:

The external Audit Strategy for 2017/18 be noted.

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# PERTH AND KINROSS COUNCIL

## Audit Committee

23 May 2018

### INTERNAL AUDIT FOLLOW UP

#### Report by Chief Internal Auditor (Report No. 18/167)

#### **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 65.
  - 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 5 had a completion date of January and February 2018 and are therefore detailed in the following Appendices B to E.
  - A further 15 actions not completed by their original date have been allocated revised dates for completion after 28 February 2018 and progress will be reported on these at a future Committee.
  - The number of agreed actions which have yet to be followed up as the date for completion is after 28 February 2018 is 45.
- 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 The grouping of actions by Services has, for this report, retained the Service structure as at 31 March 2018, as the actions were due to have been delivered under this old structure. A review will be undertaken of all actions with regard to their relevant Service prior to the next meeting of the Audit Committee.
- 1.5 Appendices B and C present detailed follow-up information in respect of actions agreed for completion in the period of January and February 2018. There are no incomplete actions with a due date of January or February for Corporate & Democratic Services and Education & Children's Services.
- 1.6 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 and is included in Appendix C.

## 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                                                        |
|----------------|-------------------------|------------------------------------------------------------------------|
| 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

| <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

## Appendix A: Summary of Agreed Actions

Table 1: All Agreed Actions for Follow-Up as at 30 April 2018 (figures in brackets reported in March 2018). This table includes actions not yet due for completion.

| Service                         | Importance   |              |                |                |              |                |
|---------------------------------|--------------|--------------|----------------|----------------|--------------|----------------|
|                                 | Critical     | High         | Medium         | Low            | Not Rated    | Total          |
| Corporate & Democratic Services | 0 (0)        | 0 (1)        | 13 (1)         | 8 (3)          | 0 (0)        | 21 (4)         |
| Education & Children's Services | 0 (0)        | 2 (2)        | 2 (2)          | 0 (0)          | 0 (0)        | 4 (4)          |
| Housing & Community Safety      | 0 (0)        | 0 (0)        | 11 (7)         | 6 (5)          | 0 (0)        | 17 (12)        |
| The Environment Service         | 0 (0)        | 1 (1)        | 10 (8)         | 10 (11)        | 0 (0)        | 21 (20)        |
| <b>All Services</b>             | <b>0 (0)</b> | <b>3 (4)</b> | <b>36 (18)</b> | <b>24 (19)</b> | <b>0 (0)</b> | <b>65 (40)</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 (0)        | 1 (1)         | 0 (0)        | 0 (0)        | 1 (1)          |
| Education & Children's Services                                                                                                       | 0 (0)        | 1 (1)        | 0 (1)         | 0 (0)        | 0 (0)        | 1 (2)          |
| Housing & Community Care                                                                                                              | 0 (0)        | 0 (0)        | 4 (4)         | 3 (2)        | 0 (0)        | 7 (6)          |
| The Environment Service                                                                                                               | 0 (0)        | 1 (1)        | 2 (4)         | 6 (6)        | 0 (0)        | 9 (11)         |
| <b>All Services</b>                                                                                                                   | <b>0 (0)</b> | <b>2 (2)</b> | <b>7 (10)</b> | <b>9 (8)</b> | <b>0 (0)</b> | <b>18 (20)</b> |
| Actions with a completion date of January and February 2018 which have not been completed and therefore included on Appendices B to E |              |              |               |              |              | 3              |
| Those actions where the agreed date is not January and February 2018 which have been previously reported to Audit Committee           |              |              |               |              |              | 15             |





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

| Action Plan                                                                                                                                                                                                                                                                                                     | Dates                        | Status/Explanation                                                                                                                                          |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><a href="#">17-01 Generic Outcome Focussed Assessments</a></p> <p>Action Point : 1 - Data Quality<br/>Importance: Low</p> <p>Audit Committee Date: January 2018</p> <p>Guidance will be written for Team Leaders to ensure accuracy of detail and a consistent approach.</p> <p>(V Riddell, Team Leader)</p> | <p>Jan 2018<br/>May 2018</p> | <p>Guidance has been drafted, however, further work is required before circulation and formal approval.</p> <p>Internal Audit Opinion:<br/>Satisfactory</p> |



**Appendix C - 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>16-20 LEADER</u></a></p> <p>Action Point : 1 - Business Plan Update<br/>Importance: High</p> <p>Audit Committee Date: February 2017</p> <p>The Accountable Body is currently reviewing the Business Plan and the Local Development Strategy. Once further guidance has been received these will be finalised and presented for approval by the Local Action Group (LAG) and the Scottish Government.</p> <p>(S Rice-Jones, LEADER Co-ordinator)</p> | <p>Aug 2017<br/>Feb 2018<br/>Sep 2018</p> | <p>The LAG reviewed the Business Plan on 21 September 2017 and agreed that further information should be incorporated, prior to re-submission and approval at the next meeting in December 2017. Owing to external factors subsequent planned LAG meetings, and approval, has been delayed.</p> <p>The revised Business Plan will be ratified by the LAG by written procedure and submitted to the Scottish Government by the end of April 2018.</p> <p>Target timescale has been amended to reflect the approval process once submission has occurred.</p> <p>Internal Audit Opinion:<br/>Accepted</p> |

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |                               |                                                                                                                                                                                                                                                                                       |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><a href="#"><u>16-22 Roads Maintenance Partnership</u></a></p> <p>Action Point : 16 - Road Maintenance Partnership (RMP) Agreement<br/>Importance: Medium</p> <p>Audit Committee Date: April 2017</p> <p>The Partnership continues to operate under the Memorandum Of Understanding in relation to Tayside Contracts operation and the authorised delegated powers of PKC officers within the Partnership. There is currently a Scottish Government drive towards collaborative working and this may change the way the Partnerships (PKC, Angus and Dundee City) move forward hence no further agreement has been put in place. When the output of the collaborative working group is reported to Committee the status of the Partnership will be clarified.</p> <p>(B Renton, Executive Director)</p> | <p>Jan 2018<br/>June 2018</p> | <p>A Short Term Member Officer Working Group is considering the working of the RMP. This group has been tasked with recommending whether to continue, and for what period if any, a Partnership Agreement should be entered into.</p> <p>Internal Audit Opinion:<br/>Satisfactory</p> |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

# **PERTH AND KINROSS COUNCIL**

## **Audit Committee**

**23 May 2018**

### **INTERNAL AUDIT UPDATE**

#### **Report by the Chief Internal Auditor (Report No. 18/168)**

#### **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) and in line with the strategy and plan approved in March 2018 (report 18/109).
- 1.3 Since April 2017, Internal Audit has been contacted on 22 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.
- 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 commenced preparations for the 2018/19 National Fraud Initiative to ensure that Services are adequately prepared to meet the requirements of the exercise.
- 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.

- 1.9 Appendix C shows the areas of work being undertaken following the Audit Committee's consideration of the Internal Audit work plan for 2018/19.

## **2. REVIEW OF CONTROLS FOLLOWING A SIGNIFICANT FRAUD**

- 2.1 In March 2018, the Audit Committee requested that Internal Audit provide assurance over the actions taken in respect of an Audit Scotland report that detailed a significant fraud at Dundee City Council (DCC). The Audit Scotland report details the need for Councils to ensure that fundamental internal controls are in place and work effectively in relation to the segregation of duties, systems reconciliations, documenting of procedures and budget monitoring.
- 2.2 This assignment will be completed in two phases. The first phase, which is complete, relates to Internal Audit ascertaining that the relevant Services are aware of, and have sought assurances regarding, the contents of the report.
- 2.3 The Head of Finance, as the Section 95 Officer per the Local Government (Scotland) Act 1973 was aware of the content of the report and had taken action. This action included the circulation of the findings to relevant officers within the Council. The Section 95 Officer also attended a Director of Finance meeting at Dundee where the matter was discussed. The Financial Systems Team Leader also attended presentations about the fraud. Internal Audit has also been provided with evidence that members of the Financial Systems Team have taken action regarding the areas highlighted in the report.
- 2.4 The IT Service Manager and IT Team Leader also demonstrated an awareness of the incident and advised that as an existing control the Council's IT team segregate duties between themselves and work undertaken by the separate Systems Teams that are part of each Service.
- 2.5 The second phase of the assignment will be a more traditional audit type assignment carried out in Quarter 2 where assurance is sought through the delivery and reporting of an audit programme which tests routines in this regard.

## **3. OUTCOMES FROM CONSULTANCY WORK**

- 3.1 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.
- 3.2 The scope of 17-12 Arms Length External Organisations was to ensure that there is an appropriate governance framework for ALEOs. The role of the Scrutiny Committee in holding the ALEOs to account has been embedded during the year and Internal Audit will continue to work with relevant officers in 2018/19 to ensure that the whole framework remains effective.

- 3.3 The scope of assignment 17-13, was to support the Transformation agenda. The Chief Internal Auditor has been aware of the developments with regard to transformation during the year and this will continue into 2018/19 due to the significance of this to achieving the Council's objectives.
- 3.4 The scope of assignment 17-14 Corporate Governance audit was to support and challenge the annual governance process. The process was successful in 2017 in delivering an Annual Governance Statement which reflected the situation as at that date. The process is continuing for the Statement to accompany the 2017/18 annual accounts and Internal Audit will continue to review and provide the relevant challenge.
- 3.5 The scope of assignment 17-30 Commissioning Strategy was to provide advice and support to Education & Children's Services for the implementation and monitoring of the Strategy. This work will continue into 2018/19 to ensure that the Service can demonstrate its effectiveness.
- 3.6 The outcomes from consultancy assignments are taken into account when considering the Internal Audit universe, from which future Internal Audit plans are derived.
- 3.7 Internal Audit is continuing to work 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.

#### **4. CONCLUSION AND RECOMMENDATIONS**

- 4.1 This report presents a summary of Internal Audit's work against the 2017/18 annual plan.
- 4.2 It is recommended that the Committee notes
- 4.2.1 the progress of work against the plan for 2017/18 and the progress with assignment for 2018/19;
- 4.2.2 the findings from the initial review of controls following a significant fraud; and
- 4.2.3 the outcomes from consultancy work.

#### **Author(s)**

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

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

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



## Appendix A

## 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>                  |
|------------------|----------------------------------------------------------|---------------------------------|
| 17-12            | Arms Length External Organisations                       | Corporate & Democratic Services |
| 17-13            | Transformation                                           | Corporate & Democratic Services |
| 17-14            | Corporate Governance                                     | Corporate & Democratic Services |
| 17-23            | IT Change Management                                     | Corporate & Democratic Services |
| 17-25            | Pupil Equity Fund                                        | Education & Children's Services |
| 17-30            | Commissioning Strategy                                   | Education & Children's Services |
| 18-01            | Initial Review of Controls following a Significant Fraud | Corporate & Democratic Services |



## Appendix B

## Progress With Assignments Approved In The Internal Audit Plan for 2017/18 as at March 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                                                                    | January 2018                                                                                      | April 2018                        | April 2018                 | April 2018                 | <b>May 2018</b>               |
| 17-13            | Transformation                             | March 2018                                                                       | January 2018                                                                                      | April 2018                        | April 2018                 | April 2018                 | <b>May 2018</b>               |
| 17-14            | Corporate Governance                       | March 2018                                                                       | March 2018                                                                                        | April 2018                        | April 2018                 | April 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                                                                                      | January 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                                                                                     | March 2018                        | March 2018                 | March 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                                   | February 2018                                                                                     | March 2018                        | April 2018                 | April 2018                 | <b>May 2018</b>               |
| 17/26            | Council Tax                                                | January 2018                                | January 2018                                                                                      | January 2018                      | February 2018              | February 2018              | <b>March 2018</b>             |
| 17/27            | Housing Repairs & Improvement Service's Financial Controls | March 2018                                  | February 2018                                                                                     | April 2018                        | April 2018                 |                            |                               |
| 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                                  | February 2018                                                                                     | March 2018                        | March 2018                 | March 2018                 | <b>May 2018</b>               |
| 17/32            | Bus Service Operators Grant                                | March 2018                                  | Completed. No report required as no weaknesses in controls were identified which required action. |                                   |                            |                            |                               |





## Appendix C

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

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



Internal Audit Report  
Corporate and Democratic Services  
IT Change Management  
Assignment No. 17- 23  
March 2018

## Final Report (Report No. 18/169)

Finance Division  
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)

On 27th March 2013, 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 Council’s ICT Strategy is the Digital Strategy for 2016 – 2020 and IT Change Management follows the IT Service Management model and Policy agreed in 2011. This policy has been reviewed and continues as the current policy and is available on ERIC for Council users to read.

The Council follows the principles of Change Management defined by IT Service Management and the industry standard framework of ITIL (Information Technology Infrastructure Library) Service Management. ITIL, sets out the primary mission of the IT change management process as being to implement changes efficiently whilst minimising any negative impact on customers.

IT Change requests can be either pre-authorised standard change or planned change. A standard change is a change to a service or infrastructure when the approach is pre-authorised by change management and has an accepted and established procedure to provide a specific change requirement. Risk of standard change is usually low, and activities/tasks are well known, documented and proven.

Planned changes are different in that they must follow the complete change management process; they are often categorised according to risk and impact to the organisation/business. Those that are categorised as medium or high risk will be reviewed by the Change Advisory Board (CAB). A formal request for change is made on a form based on the ITIL template style.

Emergency change is a ‘drop everything to restore services’ type. They are designed to repair any error in an IT Service which is negatively impacting the business to a high degree. They may not all require Manager involvement and may in some cases be delegated to support teams to action, document and report on. Some documentation may be done retrospectively in an emergency situation.

The change management process is controlled with a process map based on documentation and decision stages, quality assurance checks and approvals. The process map defines these to ensure certain actions are completed before a change can move from one stage to the next.

Responsibilities for management of change sits with the Change Advisory Board and Team Leader in IT Services. The CAB review requests for change in context of associated risk impact assessment by the IT Change Technical Owner, then recommend on the change future – approve, reject or defer, pending further details or rescheduling.

## Internal Audit Report

Since the IT Change Management Assignment no 14-15 reported to Audit Committee in 2015, there have been changes to the IT Change Management processes. From September 2017, requests for change have moved onto the IT Service's Service Management Tool, Service Desk. Prior to this, user requests were emailed to the IT Customer and Business Services team who input and completed change management documentation using paper, spreadsheets and email. Benefits and change resulting from the new Service Desk environment are currently being assessed by the Team to confirm that the process map and change forms are sufficient and provide necessary detail.

### Scope and Limitations

The audit work consisted of interviews with key officers, sample testing of Requests For Change (RFC) raised in the financial year 2017-2018 and a review of emergency change to ensure the adequacy of service. Field work was carried out in March 2018. This audit did not include Release Management and Project Management changes.

### 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: Governance - ensure that Framework Policy and Procedures for IT Change management are in place and comply with IT management best practice and Council corporate strategy and business plans to ensure consistent and timely processing of changes.

#### Audit Comments:

Policy and procedures are available to provide consistency and governance for IT Change Management. The Council's ICT Change Management Policy dated 2011 remains as the current policy. There is no document management section giving details of contributors and version control to confirm this.

The Council follows the ITIL best practice standard for managing change. Templates based on ITIL have been designed to meet the needs of the Council process and are regularly reviewed to confirm their usefulness.

Procedures for IT Change and responsibilities are found in the following documents produced in 2015 -

- CM ICT Business Owner Guidance
- CM IT Tech Owner Guidance and
- Approach to Change Advisory Board including Team Leaders
- CAB Operating Guidelines

There is also a Change Matrix document for considerations and categorisations of

risk and complexity scoring.

ICT Services plan to revise procedures documentation once the ICT Change Management Team have reached a version for the new Service Desk process that satisfies both ICT customers and ICT Service needs, whilst adhering to a quality management standard.

Changes may require approval by the CAB. Change Advisory Boards (CABs) are the IT industry-standard vehicle for involving IT users, with appropriate skill and authority, to influence and contribute materially to decisions about changes to the IT services they receive. The CAB Operating Guidelines defines the CAB structure and roles, communications, meetings and emergency CAB meetings plus indicative CAB timelines for responding to planned change.

Strength of Internal Controls:

Strong

Control Objective 2: Ensure that Change control is recorded for confirmation that change is controlled and authorised at each stage.

The request for change process map and ICT change management flow diagram define process stages, decision points and options and provide a useful reference when reviewing progress of change. RFCs progress through each stage towards final approval or rejection. Within the process quality assurance checks are carried out by the team. For example, within free-form fields, there is a check to ensure sufficient detail is provided before the RFC can move to the next stage.

Authorisation of change is in line with the risk / impact level. For example, Standard change has minimal / no impact and risk; these are repetitive tasks agreed and listed by the Team and have a lower level of approval. Planned minor change can require some authorisation through the Change Advisory Board which is comprised of IT Team Leaders. For highest risk, there has to be a majority of the CAB in favour of change – that is a minimum of 3 out of 5 CAB members agreeable. Minor change requires less. Authorisation is recorded within the RFC and change will not continue through processing until required authorisation is achieved.

Change Management processes are recorded at each stage of the change process, with username and date-stamp maintained in audit logs for reference.

User requests are logged by IT staff through Service Desk (with the user as the requestor of the RFC). Users can view their RFC via the Self Service portal and will receive Service Desk updates once the RFC has been approved by the CAB.

After CAB approval at stage 3, the RFC can be accepted; change implementation scheduled and the IT Technical Owner builds and tests change. When this is successful and a rollback plan is created, the change can then be implemented in the live environment.

A sample check of RFC's found all complied with controls in the process stages.

Strength of Internal Controls:

Strong

## Internal Audit Report

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |        |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|
| <p>Control Objective 3: Ensure that Monitoring of change control is carried out and checks made to confirm changes made have produced the required outcomes including compliance with the Council change management policy framework.</p>                                                                                                                                                                                                                                                                                                                                                                                                   |        |
| <p>Performance of the Change Management process is reported within the operational monthly IT Performance Reports for internal use. These are reviewed by the IT Service Managers.</p> <p>There is also regular reporting on general user satisfaction IT performance in general carried out by an external independent assessor, the Society for IT practitioners in the public sector, SOCITM. This is reported on the staff intranet, ERIC for IT users. Within the SOCITM survey there is some detail of satisfaction regarding impact of changes.</p> <p>Customers can view the progress of the change requests as in objective 2.</p> |        |
| Strength of Internal Controls:                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              | Strong |

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |        |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|
| <p>Control Objective 4: Ensure that any emergency change is controlled and documented in true emergencies</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |        |
| <p>Audit Comments:</p> <p>The separate listing of emergency changes from 2014 showed a small and reducing number of these requests. There were two in 2015 and one in 2016, whereas previously in 2014 there were eighteen. This could suggest that preventative processes are reducing the numbers of these arising.</p> <p>Emergency changes can be implemented prior to the creation and submission of the formal change request with verbal approval and data input retrospectively. However the incident is required to be logged for assessment of change, authorisation, testing and agreed change, description of a back-out plan. Post implementation documentation is updated to reflect any changes. Operating guidelines for the CAB include procedures for emergency CAB meetings and the IT Change Co-ordinator is responsible for ensuring retrospective completion of all documentation for emergency change.</p> <p>The latest emergency change recorded in 2016 confirmed a unique change reference logged with a change requestor and assigned technical owner, risk assessment, resource estimate and executive CAB approver, which was satisfactory.</p> |        |
| 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

## Internal Audit Report

'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 IT Service Managers, IT Team Lead and IT Co-ordinator 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:

L Harris and D Adams IT Service Managers

Main contacts during the audit as above

If necessary, dependent upon the findings, other Services may be involved in the reporting process. This will be agreed with the Chief Internal Auditor prior to issue.

The final report will be issued, as a minimum, to:

B Malone, Chief Executive

J Valentine, Depute Chief Executive

A Taylor, Head of Corporate IT & Revenues

IT Service Managers as above

K McNamara, Head of Strategic Commissioning and Organisational Development

L Simpson, Head of Legal and Governance Services

G. Taylor, Head of Democratic Services

D Henderson, Information Compliance Manager

C Wright, IT Change Management Team Lead

External Audit



## Authorisation

The auditor for this assignment was N Duncan. The supervising auditor was J Clark.  
This report is authorised for issue:

---

Jacqueline Clark  
Chief Internal Auditor  
Date: 29 March 2018

Appendix 1: Summary of Action Points

| No. | Action Point                                           | Risk/Importance |
|-----|--------------------------------------------------------|-----------------|
| 1   | <a href="#">Change Management Policy</a>               | Low             |
| 2   | <a href="#">Change Procedures and the Service Desk</a> | Medium          |
| 3   | <a href="#">Monitoring performance of Change</a>       | Low             |

## Appendix 2: Action Plan

### Action Point 1 - Change Management Policy

The Change Management Policy has been reviewed since 2011 and remains the current policy. However there is no document management section giving details of contributors and version control.

Risks from not having version control details include potential for misunderstanding of which is the current policy to apply.

### Management Action Plan

The Change Management Policy will include a document management control section with dates, including when it was approved by the Council and when reviews have taken place

|                                     |                                                                       |
|-------------------------------------|-----------------------------------------------------------------------|
| Importance:                         | Low                                                                   |
| Responsible Officer:                | D Adams, IT Service Manager                                           |
| Lead Service:                       | Corporate and Democratic Services                                     |
| Date for Completion (Month / Year): | May 2018                                                              |
| Required Evidence of Completion:    | Updated document management section from the Change Management Policy |

### Auditor's Comments

Satisfactory

## Action Point 2 - Change Procedures and Service Desk environment

There are documented procedures in the CM ICT Business Owner Guidance, CM IT Tech Owner Guidance, and Team Leader CAB Approach. These were written in 2015 to be used in conjunction with the process at the time. In 2017, the Change Management environment moved forward with the IT Service's Service Management Tool.

Positive benefits from this include detailed audit logs and automated alerts to CAB for authorisation of changes.

It is understood the CM Team are reviewing outcomes from the new environment to confirm CM process mapping and documentation are adequate.

### Management Action Plan

As the introduction of the IT Service's Service Management Tool is new, processes are under continuous review; therefore procedures have not yet been updated. However, the Service are aware that the procedures will require to be documented.

|                                     |                                              |
|-------------------------------------|----------------------------------------------|
| Importance:                         | Medium                                       |
| Responsible Officer:                | D Adams, IT Service Manager                  |
| Lead Service:                       | Corporate and Democratic Services            |
| Date for Completion (Month / Year): | September 2018                               |
| Required Evidence of Completion:    | Copy of updated Change Management procedures |

### Auditor's Comments

Satisfactory

### Action Point 3 - Monitoring Performance of Change in Service Desk

The move of Change Management onto the IT Service's Service Management Tool is being continuously monitored by the Team to confirm the new processes are meeting ICT Services objectives. There are almost 6 months of data available for review.

### Management Action Plan

A summary review document of Change Management on the Service Desk will be prepared to confirm outcomes.

|                                     |                                      |
|-------------------------------------|--------------------------------------|
| Importance:                         | Low                                  |
| Responsible Officer:                | D Adams, IT Service Manager          |
| Lead Service:                       | Corporate and Democratic Services    |
| Date for Completion (Month / Year): | September 2018                       |
| Required Evidence of Completion:    | Copy of report to IT Management Team |

### Auditor's Comments

Satisfactory



## Internal Audit Report



Internal Audit Report  
Education & Children's Services  
Pupil Equity Fund  
Assignment No. 17-25  
April 2018

## Final Report (Report No. 18/170)

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 22nd September 2017.

Pupil Equity Funding (PEF) is a national initiative providing additional funding allocated directly to schools by the Scottish Government. It is targeted to close the poverty related attainment gap and is allocated on the basis of free school meal registration per school.

In Perth and Kinross, 76 schools (4 of which are all through schools but with separate allocations for primary and secondary) have been allocated a share of £1.6 million funding in the financial year 2017-18. It is expected that similar amounts will be allocated to schools under this initiative in future years for the lifetime of this parliament.

Audit testing was carried out in March 2018.

### Scope and Limitations

This audit considered what arrangements have been put in place to ensure that Schools understand, and can demonstrate consideration of, appropriate utilisation of Pupil Equity Funding in line with National guidance.

The review consisted of analysis of documentation and interviews with Officers from Education and Children’s Services.

The audit did not seek to evaluate the achievement of stated outcomes through the use of Pupil Equity Funding. This may be a topic for audit in future years, once the initiative has been fully embedded.

### 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 ensure there is a framework in place to support schools to understand and evidence requirements relevant to Pupil Equity Funding

### Audit Comments:

Prior to the announcement of Pupil Equity Funding (PEF), Education and Children's Services already had a strategy and plan in place to focus on closing the poverty related attainment gap; through the Raising Attainment Strategy 2016-19.

Upon confirmation of this additional funding; steps were taken to build a local framework to support Head Teachers in understanding, planning and evidencing what interventions they were going to target and how these would be measured.

The Service developed local guidance in line with national guidance, setting out local level detail around priorities, considerations, spending and support available.

The School Improvement Framework and Planning documents were reviewed and updated to support Head Teachers to evidence their understanding of the local context of attainment gaps and targeted interventions which would be subsidised by the use of PEF. Indicative plans were then prepared and collated information shared with all Schools to further promote ideas and facilitate mutual understanding.

The Service has provided ongoing information and assistance to Head Teachers through individual meetings, forums and development days. Review of material shows a continued focus on: facilitating understanding of what PEF is to be used for; and how Schools should be analysing and recording information to ensure that outcomes can be evaluated, demonstrated and future interventions targeted.

Spend is being monitored through a unique budget code with support being provided from school-aligned Finance Officers to assist in costing, coding and management of finances.

It is acknowledged that there will be an underspend in the financial year 2017/18, however unused funding can be carried forward to be utilised within the academic year 2017/18, and potentially beyond, also.

Whilst it is recognised that there are still challenges surrounding Pupil Equity Funding, such as recruitment and sustainability, the Service advises that they will continue to work with Head Teachers to assist in the management of these.

Planning has commenced for reviewing and updating guidance in line with 2018/19 national guidance, with a view to incorporating lessons learned from the 2017/18 programme.

Strength of Internal Controls:

Strong

## Acknowledgements

Internal Audit acknowledges with thanks the co-operation of Officers from Education and Children's Services during this audit.

## Feedback

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

## Distribution

This report has been distributed to:

B Malone, Chief Executive

S Devlin, Executive Director Education and Children's Services

S Johnston, Head of Education (Early Years & Primary)

R Hill, Head of Education (Secondary & Inclusion)

G Boland, Senior Business and Resources Manager

J Cockburn, Finance & Governance Manager

L Simpson, Head of Legal & Governance

S Mackenzie, Head of Finance

G Taylor, Head of Democratic Services

External Audit

## Authorisation

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

This report is authorised for issue:

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Jacqueline Clark  
Chief Internal Auditor  
Date: 20 April 2018

# **PERTH AND KINROSS COUNCIL**

## **Audit Committee**

**23 May 2018**

### **INTERNAL AUDIT ANNUAL REPORT 2017/18**

#### **Report by the Chief Internal Auditor (Report No. 18/171)**

#### **PURPOSE OF REPORT**

This report presents the year-end report and audit opinion of the Chief Internal Auditor for 2017/18, as set out in Section 7.

#### **1. BACKGROUND / MAIN ISSUES**

- 1.1 The Public Sector Internal Audit standards (PSIAS) require the Chief Internal Auditor to provide an annual opinion which must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The report must incorporate the opinion, a summary of the work that supports this opinion, a statement on conformance with the PSIAS and the results of the quality assurance and improvement programme. This report fulfils this requirement.
- 1.2 Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. In accordance with the PSIAS, it helps the council accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.
- 1.3 Perth & Kinross Council's internal controls include the full range of policies, procedures and practices intended to ensure the proper conduct of its operations and the achievement of its objectives. They include processes and procedures, organisational structures, job descriptions, authorisation limits, management supervision, risk management processes, reports and decisions.
- 1.4 It is the responsibility of management to devise, implement and maintain appropriate controls over the activities for which they are responsible. The role of Internal Audit is to provide an opinion to the Council as to the effectiveness of the controls that have been put in place by management in order to ensure that the organisation achieves its objectives. Internal Audit is thus a key part of the process by which the Council ensures the management of the risks that threaten the achievement of its objectives.
- 1.5 Internal Audit's work is planned in such a way as to take account of these risks. Prioritising work towards the areas of highest assessed risk enables the Council to identify and remedy the most material weaknesses in its framework of internal controls.

- 1.6 In line with the PSIAS, Internal Audit undertakes a process of planning resulting in an annual plan. For 2017/18, two reports contained the content of work to be undertaken as part of Internal Audit's planned workload. These were considered and approved in April 2017 (report 17/150) and in September (report 17/312). Taken together, these form the Internal Audit Plan for 2017/18. All Perth & Kinross Council's activities are reviewed as part of the planning process. The plan for 2017/18, taken as a whole, aimed to cover the most significant areas of risk within the resources available whilst ensuring that there was a balance of coverage for all Services. The Internal Audit Plan also included a protocol with Services for the delivery of the plan.
- 1.7 The Internal Audit Plan for 2017/18 incorporated two assignments which were delivered through a service level agreement with Highland Council. This augmented Internal Audit capacity for the year and ensured that there was coverage of IT risks.
- 1.8 This report summarises the audit work carried out in 2017/18 and presents the Chief Internal Auditor's opinion on the effectiveness of the Council's internal control environment for that year.

## **2. INTERNAL AUDIT'S WORK IN 2017/18**

- 2.1 This section presents an overview of Internal Audit's work during 2017/18 in its role as independent reviewer of the Council's systems of internal control.
- 2.2 The Internal Audit Plans approved in April and September 2017 included 29 planned internal audits. Of these, 18 were assurance audits and 11 were consultancy / enabling assignments. In addition, resources were included within the Plan to certify grant claims within the year.
- 2.3 During the year there were two changes to planned work and these were approved by Audit Committee in November 2017 (Report 17/384 refers). Following the approval of the Internal Audit Plan in September 2017, two assignments were included within the plan related to Education & Children's Services. These replaced the assignment entitled New Process Development. In addition, a consultancy assignment on the General Outcome Focussed Assessment was deleted from the plan.
- 2.4 All planned assignments, covering the period from April 2017 to March 2018, have been undertaken. Some assignments, by their nature, will continue into 2018/19. This is due to their being consultancy over projects which extend beyond one financial year. These assignments will be included in work-plans for 2018/19. Work is being concluded on one assignment, Housing Repairs and Improvement Service Financial Controls. 17 Internal Audit reports have been issued for 16 planned Internal Audit assignments and 2 grants have been certified, representing 93% of the anticipated reports arising from Internal Audit work connected with the approved plan. One further report, detailing the outcomes from the continued work on following up the agreed actions arising from 16-05 Financial Assessment and Charging, is due to be

considered by Audit Committee later in 2018, as agreed in November 2017 (report 17/384 refers).

- 2.5 Unplanned assignments, as a result of investigations or additional requests from Services, have been undertaken during the year. Where appropriate, control issues highlighted as a result of this work are reported to the Audit Committee.
- 2.6 The results detailed in this report relate to all audit reports issued relating to Internal Audit's work during the period from April 2017 to March 2018, both planned and unplanned.
- 2.7 All findings detailed within the reports issued during the year were accepted by management. These reports contain a total of 92 agreed actions, compared with 188 actions in 2016/17. The table below details the rating of the importance of these actions. The figures in brackets relate to the rating of individual actions for the financial year 2016/17:

|               |                        |
|---------------|------------------------|
| Critical Risk | 0 (0) agreed actions   |
| High Risk     | 2 (30) agreed actions  |
| Medium Risk   | 50 (89) agreed actions |
| Low Risk      | 40 (69) agreed actions |

- 2.8 This represents a decrease in the proportion of high-risk actions from 16% in 2016/17 to 2% in 2017/18. There are corresponding increases in the proportion of medium- and low-risk from 47% and 37% respectively in 2016/17 to 54% and 43%. As in 2016/17, there were no actions arising of a critical nature.
- 2.9 Appendix A shows a summary of Internal Audit's work for Perth & Kinross Council during 2016/17 compared with the original plan as approved by the Audit Committee in April and September 2017 along with the current status of each assignment. The Appendix details additional work, such as internal investigations or non-audit tasks undertaken during the year, where this has resulted in a report to Audit Committee. Internal Audit was actually involved with 50 assignments consisting of 27 planned audit and consultancy assignments, 2 grant certifications, 21 pieces of unplanned work / requests for advice.

### **Areas for Significant Improvement in Controls**

- 2.10 During 2017/18, each audit report was assigned an overall rating, summarising the strength of internal controls in the area under review. These ratings were intended to provide a guide to management in setting priorities for action and to inform the Audit Committee in their scrutiny role. There have been no areas where controls have been described as 'moderately weak' or 'weak'. This compares with 5 areas described as such in 2016/17. There are also no areas where controls have been described as 'unacceptably weak'.

- 2.11 Issued reports during this period contain an assessment of the control environment for a total of 24 control objectives. This compares with 47 control objectives assessed during 2016/17. These assessments of control at the time audits took place are broken down as follows, with the relevant figures for 2016/17 being recorded in brackets:

|                   |                            |
|-------------------|----------------------------|
| Strong            | 10 (8) Control Objectives  |
| Moderately Strong | 10 (21) Control Objectives |
| Moderate          | 4 (14) Control Objectives  |
| Moderately Weak   | 0 (1) Control Objectives   |
| Weak              | 0 (3) Control Objectives   |
| Unacceptably Weak | 0 (0) Control Objectives   |

- 2.12 Overall, this represents an increase in the proportion of strong- and moderately strong- rated control objectives over the two years, these being 42% and 42% respectively for 2017/18 compared with 17% and 45% in 2016/17. The proportion of control objectives rated as 'moderate' has reduced from 30% in 2016/17 to 17% in 2017/18.
- 2.13 During 2017/18, the Council has continued to develop its approach to risk management in line with best practice following Internal Audit involvement in this area in 2015/16. A revised risk management strategy was approved by the Strategic Policy and Resources Committee in February 2017 (Report 17/63 refers). Internal Audit continues to work closely with the Head of Legal and Governance Services to support services to embed effective risk management into their day to day business activities.

### **Follow Up of Action Plans**

- 2.14 The responsibility for considering (and accepting or rejecting) Internal Audit's findings rests with management. Final audit reports record the agreed plan of action, including the individual(s) responsible; the planned timescales for completion; and the evidence required by Internal Audit to verify completion of the action. The audit process is of little value unless action is taken to remedy deficiencies in internal control where these are identified. Hence, a significant part of Internal Audit's role is the following-up of progress with these action plans in line with the requirements of the Public Sector Internal Audit Standards.
- 2.15 A database for recording agreed actions is maintained for this purpose. Services are routinely requested to provide the agreed evidence of completion for actions which are due to have been completed. Where actions have not been completed, an update on progress is requested along with the reason for non-completion and a revised date for completion. The Audit Committee is informed of all actions which have not been completed, along with an Internal Audit opinion on the acceptability or otherwise of the response received from management.

- 2.16 The support of the Chief Executive, Depute Chief Executives, Executive Directors and Senior Management Teams in ensuring that agreed actions are completed has continued during the year.
- 2.17 Of the 92 actions agreed with management (see 2.7 above) 64 had a completion date within 2016/17. Of these 64, 54 have been verified by Internal Audit as having been completed. This represents 84% of actions having been implemented within the year.
- 2.18 In the Chief Internal Auditor's opinion, the procedures in place provide a sound basis for ensuring that progress against the agreed plans is exposed to the proper level of scrutiny.

### **3 THE AUDIT COMMITTEE**

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

### **4 RESOURCES**

- 4.1 Internal Audit's budget for 2017/18 was £235,074. Whilst the final outturn figures are not yet available, it is projected that expenditure for 2017/18 on Internal Audit will be in the region of £195,000. This underspend is primarily due to slippage in staffing within the year, however this has not impacted on the delivery of the Internal Audit Plan.
- 4.2 Recent trends in internal audit staffing are as shown below:

|                   | April 2016 |      | April 2017 |      | April 2018 |      |
|-------------------|------------|------|------------|------|------------|------|
|                   | No. (FTE)  |      | No. (FTE)  |      | No. (FTE)  |      |
| Qualified Staff   | 1.9        | 39%  | 1.7        | 37%  | 1.7        | 44%  |
| Unqualified Staff | 3.0        | 61%  | 2.9        | 63%  | 2.2        | 56%  |
| Total             | 4.9        | 100% | 4.6        | 100% | 3.9        | 100% |

Included in the above total for 2017 is a trainee accountant who is currently on placement within Internal Audit. Recruitment activity is due to commence shortly to ensure that an adequate and effective Internal Audit Service can be delivered to the Council.

### **5 ANTI-FRAUD ACTIVITY**

- 5.1 The responsibility for preventing and detecting fraud and corruption rests with management; it is the responsibility of management to take into account the risks arising from fraud and corruption and to devise and maintain the appropriate internal controls to provide a reasonable level of assurance that the Council's resources are being protected from loss and misappropriation.

- 5.2 Nevertheless, Internal Audit has a number of responsibilities regarding the Council's anti-fraud and anti-corruption arrangements. The year 2017/18 saw a moderate level of audit activity in this area as described below.

### **The National Fraud Initiative**

- 5.3 The National Fraud Initiative (NFI) is a large-scale 'data-matching' exercise that takes place every two years and takes place over two financial years. Perth & Kinross Council participated in the 2016/17 exercise. The NFI involves the comparison of personal data held by public authorities in order to identify anomalies that may indicate fraud or error. This output then forms the basis for a process of investigation within each authority, in order to ensure that errors are recognised and corrected and that, where cases of possible fraud are identified, they are pursued appropriately.
- 5.4 This investigative process, which is driven by Audit Scotland, is co-ordinated by Internal Audit and includes overseeing Services' arrangements for uploading the data securely and the checking of a sample of identified anomalies within the period of the exercise, on the basis of an assessment of risk. Internal Audit facilitates the reporting of progress to our External Auditors, KPMG. There has been an allocation of audit resources towards the completion of this task.
- 5.5 The 2016/17 exercise has been completed during the year and the Audit Committee have been informed of the outcomes (Report 18/108 refers).

### **Anti-Fraud and Anti-Corruption Policies**

- 5.6 The Council's Counter-Fraud and Corruption Strategy, along with associated policies, were presented to and approved by the Strategic Policy and Resources Committee in February 2015 (Report 15/66 refers). Senior Management Teams have been supported in completing risk assessments for their functions and have identified relevant areas of their business where risks require to be managed. Further development has been identified for 2017/18.
- 5.7 The Chief Internal Auditor is the Council's nominated Money Laundering Reporting Officer. There has been one case where money laundering was suspected during the year, relating to concerns raised by officers during a routine financial assessment, and the relevant authorities were informed.

### **'Whistleblowing' Arrangements**

- 5.8 In order to ensure that the Council meets the standards set out in its counter-fraud and corruption arrangements, some aspects of the Council's 'whistle-blowing' arrangements are managed by Internal Audit. This includes the maintenance of a dedicated e-mail address and telephone line for employees with concerns at work, which is routed to Internal Audit. The Council also supports the national charity 'Public Concern at Work' that upholds the rights of those who raise concerns about wrongdoing at their place of work and which operates a free legal advice 'hotline'.



- 5.9 Four contacts were made with Internal Audit of a 'whistleblowing' nature within the year. These cases were resolved and, as there were no control implications arising, reports were not provided to the Audit Committee. The outcomes have fed into the updating of the Audit Universe and in the planning exercise for the 2018/19 Internal Audit Plan.
- 5.10 Whistleblowing arrangements have been in place throughout 2017/18 and are supported by a Whistle-blowing Policy, which is included within the Counter-Fraud and Corruption Strategy.

### **Investigations**

- 5.11 Internal Audit's role includes the assessment of any concerns that are raised through the above arrangements and the conduct of internal investigations where appropriate. A small time allowance is made for work of this sort within the audit plan. As highlighted in 2.5 above, the time spent on investigations was contained within the existing resources in the Internal Audit team.
- 5.12 The year 2017/18 saw a number of investigations requiring input from Internal Audit. Investigative work undertaken within the year has resulted in agreed improvements which will enhance the Council's internal control environment. Where there is scope for improvement to the control environment identified by investigations, this is reported to the Audit Committee.

## **6 COMPLIANCE WITH AUDITING STANDARDS**

- 6.1 The Public Sector Internal Audit Standards have been adopted by Perth & Kinross Council as the relevant professional standards. The outcome of a review of the Standards was reported to Audit Committee and this report remains current (Report 13/147 refers).
- 6.2 The Chief Internal Auditor has undertaken a self-assessment of compliance with the PSIAS and has concluded that the function is generally compliant with the PSIAS. This view is supported by KPMG, the appointed external auditors, (Report 17/306 refers).
- 6.3 The Validated Self Assessment of compliance with the Standards is due to be undertaken by a team from another local authority as part of a formal peer review validation exercise. This is due to commence shortly and the outcome will be reported to Audit Committee. This validation will ensure that the Public Sector Internal Audit Standards are complied with regarding the external quality assessment element.

### **Code of Ethics**

- 6.4 Internal Auditors must conform to the Code of Ethics included within the Standards. This Code incorporates the principles and rules of conduct for Internal Auditors' integrity, objectivity, confidentiality and competency.

## **Public Sector Internal Audit Standards**

- 6.5 The Standards are separated into Attributable Standards (including requirements for the establishment of the internal audit function) and performance standards (including the management and execution of internal audit activity).

## **Performance Measures**

- 6.6 Internal Audit's prime performance measure is the completion of the approved audit plan. Performance against the approved audit plan has been highlighted in Section 2 of this report. All assignments from the 2017/18 plan have been completed. Where appropriate, Internal Audit will have continued involvement in some areas of business activity into 2018/19.

## **Quality Assurance of Internal Audit**

- 6.7 There is a requirement for the annual report to contain a statement on conformance with the PSIAS and the results of the quality assurance and improvement plan.
- 6.8 An External Quality Assessment of the Internal Audit function was due to be completed in 2017/18. The Self Assessment has been undertaken and is awaiting validation as part of the External Quality Assessment framework. This validation is expected to commence shortly.
- 6.9 A quality assurance system was in place in Internal Audit throughout 2017/18 which ensured the quality of Internal Audit work was of a consistent and professional standard.
- 6.10 Improvements highlighted as required by the Chief Internal Auditor as part of the Quality Assurance and Improvement Plan for 2017/18 have been addressed as follows:
- The Audit Committee has been informed of the approach taken for consultancy assignments (Report 17/58 refers) and work has been undertaken to further develop this approach to ensure that;
  - The audit manual continues to be reviewed and updated;
  - Arrangements have been put in place to document and review potential conflicts of interests on the part of Internal Audit staff in line with the Code of Ethics; and
  - Improvements in the process for capturing requests for Internal Audit advice have been embedded.
- 6.11 Further improvements will continue into 2018/19 regarding the formalising of professional development records, and conflicts of interest.

## **7 AUDIT OPINION**

- 7.1** In the Chief Internal Auditor's opinion, reasonable reliance can be placed on the Council's governance arrangements and systems of internal control for 2017/18, subject to management implementation of the agreed actions detailed in Internal Audit reports and summarised at Section 2 above. Whilst limited reliance can be placed on the corporate risk management arrangements in place throughout 2017/18, the ongoing implementation and embedding of the corporate risk management strategy should enable reasonable reliance for 2018/19.

## **8. CONCLUSION AND RECOMMENDATION**

- 8.1** It is recommended that the Committee notes the content of this report and specifically the Audit Opinion at Section 7.

### **Author(s)**

| <b>Name</b>  | <b>Designation</b>     | <b>Contact Details</b>                                                   |
|--------------|------------------------|--------------------------------------------------------------------------|
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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              |
| 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.

### **3. Consultation**

#### **3.1 Internal**

- 3.1.1 The Chief Executive and the 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 – The 2016/17 Internal Audit Summary



## APPENDIX A – THE 2017/18 INTERNAL AUDIT SUMMARY

| <b>Audit Subject</b>                                           | <b>2017/18 Audit Plan</b> | <b>2017/18 Status</b>                          |
|----------------------------------------------------------------|---------------------------|------------------------------------------------|
| General Outcome Focussed Assessment                            | Planned                   | Completed                                      |
| Financial Management of Secondary Schools: Perth Academy       | Planned                   | Completed                                      |
| Financial Management of Secondary Schools: Kinross High School | Planned                   | Completed                                      |
| Capital Programme                                              | Planned                   | Completed                                      |
| Community Justice Partnership                                  | Planned                   | Completed                                      |
| Management of Contracts                                        | Planned                   | Completed                                      |
| Northgate Housing System                                       | Planned                   | Completed                                      |
| Financial Assessment & Charging Follow Up                      | Planned                   | Ongoing                                        |
| LEADER                                                         | Planned                   | Completed                                      |
| Childs Plan                                                    | Planned                   | Completed                                      |
| Embedding new Risk Management Arrangements                     | Planned                   | Completed and business as usual                |
| IR35 consultancy                                               | Planned                   | Completed                                      |
| Arms Length External Organisation                              | Planned                   | Consultancy ongoing into 2018/19               |
| Transformation                                                 | Planned                   | Consultancy ongoing into 2018/19               |
| Corporate Governance                                           | Planned                   | Completed                                      |
| Community Empowerment                                          | Planned                   | Completed                                      |
| New Process Development                                        | Planned                   | Removed from Audit Plan (Report 17/384 refers) |
| Contract Rules                                                 | Planned                   | Completed                                      |
| Creditors                                                      | Planned                   | Completed                                      |
| IR35 – assurance audit                                         | Planned                   | Completed                                      |
| Elected Members Allowances                                     | Planned                   | Completed                                      |
| IT Change Management                                           | Planned                   | Completed                                      |
| Early Learning & Childcare                                     | Planned                   | Completed                                      |

|                                                             |           |                                                      |
|-------------------------------------------------------------|-----------|------------------------------------------------------|
| Pupil Equity Fund                                           | Planned   | Completed                                            |
| Council Tax                                                 | Planned   | Completed                                            |
| Housing Repairs & Improvement Service<br>Financial Controls | Planned   | Draft report being<br>finalised                      |
| Corporate Health & Safety                                   | Planned   | Completed                                            |
| European Social Fund                                        | Planned   | Completed                                            |
| Commissioning Strategy                                      | Planned   | Completed                                            |
| General Outcome Focussed Assessment<br>consultancy          | Planned   | Removed from Audit<br>Plan (Report 17/384<br>refers) |
| General Data Protection Regulations                         | Planned   | Completed                                            |
| Bus Service Operators Grant (6 monthly)                     | Planned   | Completed                                            |
| Bus Service Operators Grant (6 monthly)                     | Planned   | Completed                                            |
| Duplicate payments                                          | Unplanned | Completed                                            |
| High School Excursion                                       | Unplanned | Completed                                            |
| Whistleblowing - Primary School                             | Unplanned | Completed                                            |
| Potential money laundering                                  | Unplanned | Completed                                            |
| Conference Parking Permits                                  | Unplanned | Completed                                            |
| Housing Benefit fraud                                       | Unplanned | Completed                                            |





# Perth and Kinross Council

**Report No. 18/172**

**Interim management report and audit status summary**

For the year ended 31 March 2018

For Audit Committee consideration on 23 May 2018

**DRAFT**

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**DRAFT**

## 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 ("the 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 introduction and responsibilities 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 the Council, telephone 0131 527 6673 email: 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. 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, Director of Audit Services, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.



# Introduction

**DRAFT**

## **Purpose of document**

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

This report provides the Audit Committee with an update on:

- 1) Significant risks and other focus areas (pages four and five).
- 2) The results of the control testing (pages six to eight).
- 3) Best Value and wider scope (page nine).
- 4) Update on prior year recommendations (appendix one).

Significant risks and other focus areas in relation to the audit of the financial statements as identified in our audit strategy document, dated 28 March 2018:

The significant risks identified were:

- fraud risk from management override of controls;
- fraud risk from income recognition;
- retirement benefits; and
- valuation of property plant and equipment.

The other focus area identified was:

- capital expenditure

## **Acknowledgements**

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

# Significant risks and other focus areas

## Update: significant risks and other focus areas

**DRAFT**

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

| Significant risk                                                                                                                                                                                                                                                                                                                                                                                                                   | Update from strategy                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Fraud risk from management override of controls</b></p> <p>This is an assumed risk from ISA 240 "The auditors responsibilities relating to fraud in an audit of financial statements" on which we are required to report.</p>                                                                                                                                                                                                | <p>We performed controls testing over expenditure, bank reconciliations, revenue budget monitoring and general IT controls over key systems. In addition, we tested a sample of procurement arrangements for compliance with the relevant regulatory frameworks and internal controls. We did not identify instances where management override of control had occurred.</p> <p>Substantive procedures will be performed during the year end audit, including testing journal entries processed throughout the year, assessing accounting estimates and significant transactions that are outside the Council's normal course of business, or are otherwise unusual.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <p><b>Fraud risk from income recognition</b></p> <p>This is an assumed risk from ISA 240. We consider the fraud risk from fees and charges income to be significant.</p> <p>We rebutted the assumed fraud risk in respect of government grants, local taxes and regulated rental income.</p>                                                                                                                                       | <p>Testing over higher level controls are set out on page six, with no exceptions noted. We discussed fees and charges income with officers across different services to develop our understanding of the types of income which are recognised.</p> <p>Substantive procedures will be performed during the year end audit. We will consider each source of fees and charges income. We will analyse results against budgets and forecasts, performing substantive analytical procedures and tests of details.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| <p><b>Revaluation of property, plant and equipment</b></p> <p>There is a five year rolling valuations programme, with key categories being revalued in 2017-18 including car parks, investment properties and shops. Valuing fixed assets is an inherently judgemental area for all local authorities. There is a level of judgement involved in determining valuation assumptions which gives rise to a risk of misstatement.</p> | <p>We met with the valuations team and discussed the areas being revalued in 2017-18 as well as reviewing the five year rolling programme. The valuation date is 1 April 2017 as in prior years, with management performing an assessment of whether the valuations as at that date remain appropriate as at 31 March 2018. We assessed that the valuations team has sufficient qualifications, objectivity and independence to carry out valuations for the Council.</p> <p>As part of our year end audit, KPMG's in-house valuer will review the assumptions used to confirm they are reasonable and in line with the Code of Practice on Local Authority Accounting ('the Code'), with a focus on assets revalued under depreciated replacement cost, which is the most judgemental valuation basis. A sample of revaluations will be considered in more detail, including the roll forward to 31 March 2018 and consideration of impairment triggers.</p> <p>We will verify that revaluations are correctly disclosed in the accounts and that the accounting entries relating to the revaluation are correct.</p> |

# Significant risks and other focus areas

Update: significant risks and other focus areas (continued.)

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| Significant risk                                                                                                                                                                                                                                                                                                                                                                         | Update from strategy                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Retirement benefits</b></p> <p>The Council is a member of the Tayside Pension Fund and recognised a defined benefit liability on its balance sheet of £250 million as at 31 March 2017. The determination of the net deficit is inherently judgemental given assumptions are used to derive the value.</p>                                                                         | <p>The Council is participating in a pilot scheme which began in 2016 and requires all data including starters, leavers and changes of hours to be uploaded to an online system for transfer to Tayside Pension Fund each month. This data is taken directly from this system by the administrator. From discussion with management, we understand the data was transferred each month up to and including December 2017, with a technical fault causing a minor delay in January and February 2018 uploads. We understand the transfers were back in place by March 2018, and we will test the year end upload to verify the data used to calculate the net liability position is up to date.</p> <p>During the year end audit, a review of relevant assumptions and testing against our understanding of the Council will take place, for example salary increase assumptions. Prior to the fieldwork beginning in July, we will request the agreed assumptions for 2017-18 from management to facilitate this consideration and benchmarking by our internal actuary.</p> |
| Other focus area                                                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <p><b>Capital expenditure</b></p> <p>The Council has a six year £500 million capital plan, with a capital budget of £101 million for 2017-18.</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 an inherent risk to any entity delivering large capital projects.</p> | <p>We tested controls over capital monitoring and procurement of capital projects, the findings of which are outlined on page six.</p> <p>We met with management to discuss the progress of the key capital projects, such as the Perth City Hall upgrade and Cross Tay Link Road, to establish if these are currently in line with expected spend or where capital slippage or overruns had occurred.</p> <p>We reviewed the capital budget and plan for 2017-18 and future years, and will carry out substantive procedures over capital spend at the year end audit. This will include substantive sampling methods to evaluate the appropriateness of capital or revenue accounting classification by reference to supporting documentation, review of manual journals and testing of additions.</p>                                                                                                                                                                                                                                                                     |

# Control framework

## System controls

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In accordance with ISA 330 “the auditor’s response to assessed risks”, we designed and performed tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls over the man financial systems. Interim audit testing took place during February and March 2018. Overall we concluded that the control environment is effective.

| Test                             | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Results                                                                                                                                                                                                                                                                                                                                                                                                         |
|----------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Bank reconciliations</b>      | <p>Bank reconciliations are prepared monthly by a member of the income team and reviewed by a more senior officer.</p> <p>We tested a sample of two months for each of the eight bank accounts to verify they had been authorised and completed on a timely basis.</p>                                                                                                                                                                                                                                                                                                                                        | <p>All reconciliations were completed and authorised as expected. No exceptions noted.</p> <p><b>Satisfactory</b></p>                                                                                                                                                                                                                                                                                           |
| <b>Capital expenditure</b>       | <p>Management monitor capital expenditure on all projects throughout the year. All large projects and any smaller projects nearing their approved spend will be considered by the Strategic Investments Group (“SIG”) and then by the Strategic Policy and Resource committee (“SP&amp;R”) as appropriate. Approval is required for any overspends or adjustments against original budgets.</p>                                                                                                                                                                                                               | <p>We carried out a walkthrough of a major capital project to understand the level of monitoring and scrutiny which takes place. We obtained detailed minutes and reports on the spend to date and reasons for any movement from budget.</p> <p>We conclude there is adequate scrutiny over capital expenditure which is minuted and discussed by those charged with governance.</p> <p><b>Satisfactory</b></p> |
| <b>Revenue budget monitoring</b> | <p>The Council has a robust revenue budget setting process, with involvement of key members of staff across the Council. Performance against revenue budget is monitored on a regular basis and formally reported to the Strategic Policy and Resources Committee via the budget monitoring reports in September, November, February and April.</p> <p>Three quarters’ reports were considered to confirm that a sufficient level of detail was presented to and considered by the committees and that a level of precision is used to determine which variances require further analysis and discussion.</p> | <p>Testing confirmed that budget monitoring arrangements over revenue are designed, implemented and operating effectively.</p> <p><b>Satisfactory</b></p>                                                                                                                                                                                                                                                       |

# Control framework

## System controls (continued)

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| Test                                              | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Results                                                                                                                                                                                                                                                                                                                                                                                               |
|---------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Payroll</b>                                    | <p>A sample of two months control sheets were tested, which record that the stages of the payroll process have been completed, before authorising the payroll and completing the BACS runs.</p> <p>A sample of two months' BACS runs were reviewed to confirm the payment schedule was reconciled to the net pay analysis report and appropriately authorised.</p> <p>The annual service establishment report was reviewed to determine whether it had been signed off by each service to confirm all employees are still actively employed by the Council.</p> | <p>All control sheets recorded key stages of the pay run and had been marked as completed, with the pay run being marked as ready for processing.</p> <p>Both BACS runs had been reconciled and authorised by an authorised signatory in advance of the pay run.</p> <p>We confirmed that all four services had completed and signed the service establishment report.</p> <p><b>Satisfactory</b></p> |
| <b>Cost of services (non-payroll expenditure)</b> | <p>A sample of 25 purchase orders were tested and agreed to invoice and checked they had been stamped with a goods received note.</p>                                                                                                                                                                                                                                                                                                                                                                                                                           | <p>All purchase orders could be matched to an invoice or system for procurement cards, and were recorded as matched by an appropriate officer.</p> <p><b>Satisfactory</b></p>                                                                                                                                                                                                                         |
| <b>Procurement</b>                                | <p>The Council has well defined processes for the awarding of contracts, with written procedures to be followed for each contract type and value.</p> <p>Procurement testing covered a sample of 12 contracts awarded in the year, split between those which had gone through the quotation process and those which required to be tendered. We confirmed that they had followed the correct procurement route based on value and reviewed the evidence of the tender evaluation process.</p>                                                                   | <p>Testing confirmed that the selected contracts had followed the correct procurement route based on value.</p> <p><b>Satisfactory</b></p> <p>As part of the year end testing, we will consider the procurement process and contracts entered into as part of the best value assessment over the Council's arrangements for Continuous improvement, and Leadership, governance &amp; scrutiny.</p>    |
| <b>BACS authorisation</b>                         | <p>BACS payment runs must be approved by an authorised member of the finance team. A further check is made on individual payments over £75,000.</p> <p>We tested a sample of 15 BACS payments to verify they had been authorised.</p>                                                                                                                                                                                                                                                                                                                           | <p>All BACS runs had been approved by an authorised officer. No exceptions noted.</p> <p><b>Satisfactory</b></p>                                                                                                                                                                                                                                                                                      |

# Control framework

## System controls (continued)

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| Test                           | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Results                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|--------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>General IT controls</b>     | <p>We performed testing over key IT systems which we will place reliance on as part of our audit, which included Integra and Resource Link. We considered:</p> <ul style="list-style-type: none"> <li>— programme changes were authorised and requested by the appropriate officers;</li> <li>— user access was authorised over starters and amendments;</li> <li>— leavers access was removed timeously; and</li> <li>— appropriate users were assigned system administrator user access.</li> </ul> | <p>We met with management to understand the key systems and approach to controls in advance of testing to allow us to scope our work effectively.</p> <p>Overall controls were found to be operating effectively within IT.</p> <p><b>Satisfactory</b></p> <p>As part of our year-end audit work, we will undertake testing over the Northgate IT system considering programme changes, user access over starters and leavers, leavers timeous removal, and appropriate user access.</p> |
| <b>Housing rents System</b>    | <p>We tested two months' reconciliations between the housing rents system (Northgate) and the general ledger (Integra) to verify officers completed this reconciliation on a timely basis and any reconciling items were followed up and investigated.</p>                                                                                                                                                                                                                                            | <p>We found the reconciliation to be operating effectively during the year.</p> <p><b>Satisfactory</b></p>                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Policies and procedures</b> | <p>Staff have access to a number of key policies and procedures through the Council's intranet system 'eric'.</p> <p>We carried out a review of the policies held on the intranet to verify they covered expected information and were periodically updated.</p>                                                                                                                                                                                                                                      | <p>All expected policies and procedures were available to staff on eric.</p> <p>Out of date policies were found on the system, which have been superseded.</p> <p><b>See page 13</b></p>                                                                                                                                                                                                                                                                                                 |



# Wider Scope and Best Value

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

| Area        | Audit update                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|-------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Best Value  | <p>In year two (2017-18), we will report on the areas of Leadership, Scrutiny and Governance and Continuous Improvement. This will be concluded in our Annual Audit Report. We have held planning discussions with officers to obtain an understanding of the Council's approach to Best Value and how this is embedded within the Council's culture. We have reviewed publicly available evidence across these two Best Value areas and discussed with management, requesting further support or explanation for us to perform the review of Best Value. We will continue to gather information and meet with officers to build or knowledge of Best Value in order to conclude on the two year two areas in our Annual Audit Report.</p> <p>In year three (2018-19) we plan to undertake a full Best Value audit over Perth and Kinross, with a follow up in year four (2019-20).</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Wider scope | <p>Specific risks in this area are set out in our audit strategy document and include demand pressures on the Council's services and the ability to achieving savings set out in the transformation programme.</p> <p>As part of our audit work during planning and interim, we carried out the following procedures;</p> <ul style="list-style-type: none"> <li>- reviewed update reports on transformation projects presented to committee for progress against savings targets;</li> <li>- held meetings with various officers including the Chief Executive, Head of Finance, Head of Legal and Governance, Capital Programme Manager and Chief Internal Auditor</li> <li>- reviewed policies and procedures and how these support officers in making informed financial decisions; and</li> <li>- reviewed budget monitoring reports to understand over and underspends against budget for different services in the year.</li> </ul> <p>We use the above to inform our work on the four wider scope areas above and Best Value, and will report our conclusion in our Annual Audit Report.</p> <p>We submitted a return to Audit Scotland in February 2018, assessing the Council's participation in the NFI against Audit Scotland criteria. The results show that overall engagement with NFI is good, with only minor improvements identified.</p> |



# Appendices

# Prior year recommendations

This section provides an update on prior year external audit recommendations, to determine whether they have been addressed. The table below summarises the recommendations made during the 2016-17 audit. **DRAFT**

## Priority rating for recommendations

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

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

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

| Original finding and risk                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Recommendation                                                                                                                                                                                                                                                                                                                                                                                                         | Original management actions                                                                                                                                                                                                                                                                                                 | Status                                                                                                                                         |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Journals review</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                             |                                                                                                                                                |
| <b>Grade Three</b><br><br>Controls testing was performed over journals by selecting a sample of 25 journal entries and checking the review. In all cases a different officer had reviewed the journal compared to who had raised it, therefore the segregation of duties control is operating effectively.<br><br>However there is no documentation of who has the authority to review journals, therefore we cannot assess it will always be an officer with sufficient experience who is carrying out this review. | It is recommended that controls over journals are strengthened:<br><br>— the general ledger procedures manual should be updated to give clearer description of who can review journals. This should include a description of officer grade and journal value.<br><br>— individuals involved in preparing and reviewing journals should be reminded of the procedures manual and the importance of complying with this. | General ledger manual will be updated to provide guidance on the roles and responsibilities of officers involved in checking journals. It shall provide a checklist for authorisers and examples of which officers should be reviewing / approving journals.<br><br><b>Responsible officer</b><br>General Ledger Controller | <b>Ongoing</b><br><br>We confirmed that the general ledger manual is still in the process of being updated with management's proposed actions. |

# Prior year recommendations (continued)

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| Original finding and risk                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | Recommendation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Original management actions                                                                                                                                                                                                                                                                                                                                                                                   | Status                                                                                                                                                                                           |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Service Pack Authorisation</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                  |
| <p><b>Grade Two</b></p> <p>The financial statements are prepared using 16 service packs from a number of departments. These packs are consolidated into an extended trial balance and post-closing adjustments are then made to derive the final accounts.</p> <p>These packs are required to be signed by a preparer and authoriser, confirming they are complete and accurate. A management checklist is also prepared for packs, to show which checks the authoriser has performed.</p> <p>Testing carried out on the 2015-16 packs identified three that had not been authorised, while several had missing or incomplete management checklists. In a number of cases questions had been raised on the management checklist but no follow up had been documented, and it is unclear if issues had been resolved.</p> <p>There is a risk that the information used to prepare the financial statements is not complete, accurate or fully reconciled to supporting documentation.</p> | <p>It is recommended the controls over the authorisation of service packs are strengthened by:</p> <ul style="list-style-type: none"> <li>— ensuring all packs are signed as having been reviewed by the responsible officer for that service;</li> <li>— completing management checklists for each service pack, marking any questions that are not applicable as such, rather than leaving them blank;</li> <li>— reminding staff which, if any, corporate packs require a management checklist.</li> <li>— ensuring questions raised on the management checklist show evidence of follow up to ensure issues are resolved and there is a clear audit trail.</li> </ul> | <p>An instruction will be issued to all reviewers to ensure that accounts pack include an Accounts Preparation Certificate which is completed by preparers and reviewers. The instruction will also remind officers of the importance of completing the managers checklist and documenting issues that are identified during the review process</p> <p><b>Responsible officer</b></p> <p>Chief Accountant</p> | <p><b>Implemented</b></p> <p>We confirmed that this action point was implemented in May 2017, and that all service packs relating to the 2016-17 financial statements audit were authorised.</p> |

# Prior year recommendations (continued)

**DRAFT**

| Original finding and risk                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | Recommendation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     | Original management actions                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Status                                                                                                                                                                                                                                                                             |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Checklist for updating policies</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                    |
| <p><b>Grade Three</b></p> <p>Policies and procedures are held on the Council's intranet which is available to all staff.</p> <p>From a review of key policies we identified that a number had not been updated on a timely basis. Two versions of the communications security policy were found. The most up to date version of this policy was dated 2010, however it states it is required to be reviewed every three years.</p> <p>The most up to date whistleblowing policy is not easily accessible to staff and also does not contain all information outlined in the Public Concern at Work's whistleblowing code of practice.</p> <p>There is a risk employees access policies and procedures which are not relevant to the current risk environment or contain out of date information therefore causing error or breach of laws and regulations.</p> | <p>It is recommended that:</p> <ul style="list-style-type: none"> <li>— a review is carried out of existing policies on the intranet and any old or superseded policies are removed;</li> <li>— the whistleblowing policy is made available on the intranet and is updated to contain all items required by the whistleblowing code of practice; and</li> <li>— a checklist should be kept of the key policies and when these were last updated, with evidence of review within the required timescale.</li> </ul> | <p>Services will be reminded of the need to ensure all policies are reviewed in line with agreed timescales, to document the review and to amend the date of policy to reflect the review.</p> <p>Services will also be reminded of the need to ensure that old or superseded policies on the intranet are either clearly marked as such or are removed from the intranet.</p> <p>The whistleblowing policy is available on the intranet and is maintained appropriately.</p> <p>Consideration will be given to creating and maintaining an appropriate checklist of Council policies.</p> <p><b>Responsible officer</b></p> <p>Information Compliance Manager</p> | <p><b>Ongoing</b></p> <p>We confirmed that a review of all policies was underway which are held on the intranet.</p> <p>The Information Compliance Manager is working on a checklist to monitor when policies are reviewed and sanitising the intranet to remove old policies.</p> |

# Prior year recommendations (continued)

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| Original finding and risk                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Recommendation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Original management actions                                                                                                                                                                                                                                                                                                     | Status                                                                                                                                                                                                                                          |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>General IT Controls - Leavers</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                                                                                                                                                 |                                                                                                                                                                                                                                                 |
| <p><b>Grade Three</b></p> <p>During testing of general IT controls it was identified that some staff members who had left the Council had not had their user access removed (three from a sample of 16). Whilst there was evidence that these individual staff members had not accessed the system since their departure date, it highlights a control deficiency over removal of user access rights.</p> <p>The risk of unauthorised access to Integra and Resource Link was countered by mitigating controls at the system specific level. However there is a risk that former members of staff may access the Council's computer systems after their departure date. Depending on their access levels they would therefore potentially be able to make fraudulent or malicious use of council IT systems.</p> | <p>It is recommended that controls over the removal of leaving staff members' access are strengthened:</p> <ul style="list-style-type: none"> <li>— monthly reports of all leavers received from HR should be printed off or saved electronically;</li> <li>— each leaver on the report should be marked as having had their access removed;</li> <li>— the report should be signed and dated by the person performing the control to confirm completion, and</li> <li>— a designated member of IT management should regularly review the existence of the monthly leaver reports to confirm the control has been performed.</li> </ul> | <p>From discussion with the IT department the leavers report was not being processed correctly during the first half of 2016. This was due to staffing issues and has now been corrected. Our testing of January 2017 confirmed all leavers had been removed.</p> <p><b>Responsible officer</b></p> <p>Corporate IT Manager</p> | <p><b>Implemented</b></p> <p>We confirmed as part of the prior year audit that the recommendations were implemented in April 2017. As part of the audit in 2017-18, we tested these controls and found no issues as reported on page eight.</p> |

# Prior year recommendations (continued)

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| Original finding and risk                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Recommendation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Original management actions                                                                                                                                                                                          | Status                                                                                                                                 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------|
| <b>SWIFT exception reports efficiency</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                      |                                                                                                                                        |
| <p><b>Grade Three</b></p> <p>Exception reports are produced each week on data held in the SWIFT system relating to residential care homes. At present, and in line with prior year recommendation, all 14 of these reports are printed, dated, signed and held for 18 months.</p> <p>While this is helpful for audit evidence it creates a large amount of paperwork and takes up officers time in printing and documenting these reports.</p> <p>There is an opportunity to use staff time more efficiently.</p> | <p>It is recommended that a control sheet is put in place listing the 14 exception reports and whether any exceptions were noted. If there were no exceptions for a specific report this should be documented, initialled and dated by the officer who checked the report. An exception report with zero entries does not have to be printed, however this should still be held electronically.</p> <p>For cases where exceptions do exist these could be evidenced and stored electronically</p> | <p>The service accept the recommended changes to the recording of SWIFT exception reports and the efficiency that the changes will bring.</p> <p><b>Responsible officer</b></p> <p>Business and Resource Manager</p> | <p><b>Implemented</b></p> <p>We confirmed as part of the prior year audit that the recommendations were implemented in April 2017.</p> |



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