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Council Building
2 High Street
Perth
PH1 5PH

Wednesday, 15 March 2017

A Meeting of the **Audit Committee** will be held in **the Council Chambers, 2 High Street, Perth, PH1 5PH** on **Wednesday, 22 March 2017** 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 mobile phones and other communication devices are in silent mode.

Members:

Councillor Dave Cuthbert (Convener)
Councillor Barbara Vaughan (Vice-Convener)
Councillor Henry Anderson
Councillor Kathleen Baird
Councillor Joe Giacobazzi
Councillor Willie Wilson
Councillor Anne Younger

Audit Committee

Wednesday, 22 March 2017

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/SUBSTITUTES**
- 2 DECLARATIONS OF INTEREST**
- 3 MINUTE OF MEETING OF THE AUDIT COMMITTEE OF 1 FEBRUARY 2017 FOR APPROVAL AND SIGNATURE 5 - 8**
- 4 INTERNAL AUDIT FOLLOW UP 9 - 24**
Report by Chief Internal Auditor (copy herewith 17/115)
- 5 INTERNAL AUDIT UPDATE 25 - 40**
Report by Chief Internal Auditor (copy herewith 17/116)
- (i) CORPORATE AND DEMOCRATIC SERVICES**
- (a) 16-13 - ICT PERFORMANCE AND CAPACITY MANAGEMENT 41 - 48**
(copy herewith 17/117)
- (ii) HOUSING AND COMMUNITY SAFETY**
- (a) 16-18 - HOUSING RENTS 49 - 60**
(copy herewith 17/118)
- (b) 16-19 - RENT ARREARS 61 - 72**
(copy herewith 17/119)
- 6 AUDIT STRATEGY 73 - 100**
Report by External Auditor (copy herewith 17/120)

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AUDIT COMMITTEE

Minute of meeting of the Audit Committee held in the Council Chambers, 2 High Street, Perth on Wednesday 1 February 2017 at 2.00pm.

Present: Councillors D Cuthbert, B Vaughan, H Anderson, K Baird, J Giacobazzi, W Wilson and A Younger.

In Attendance: J Clark, L Gowans, C Irons, M Morrison, L Simpson, E Sturgeon, J Symon and G Taylor (all Corporate and Democratic Services); J Cockburn and R Hill (both Education and Children's Services); H Hope (Environment Service) and F Low (Housing and Community Care).

Also in Attendance: A Shaw, KPMG, External Auditors.

Councillor Cuthbert, Convener, Presiding.

68. WELCOME AND APOLOGIES/SUBSTITUTIONS

The Convener welcomed everyone to the meeting. There were no apologies.

69. DECLARATIONS OF INTEREST

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

70. MINUTE

The minute of meeting of the Audit Committee of 23 November 2016 (Arts. 810 –814) was submitted and approved as a correct record and authorised for signature.

71. INTERNAL AUDIT FOLLOW-UP

There was submitted a report by the Chief Internal Auditor (17/52), presenting the Committee with a current summary of Internal Audit's follow up work.

G Taylor advised that there would be a report to the last meeting of the current Council before the Local Government Elections on 4 May 2017 on the future political decision-making structure, the Scheme of Administration and the Standing Orders, with a further report to an early meeting of the new Council in June 2017.

Councillor B Vaughan advised that whilst there would not be a report on the performance of the Council's 3 Arms Length External Organisations (ALEOs) to the Scrutiny Committee on 8 February 2017, representatives from each ALEO had been invited to the meeting as part of the Council's assurance process.

72. INTERNAL AUDIT UPDATE

There was submitted a report by the Chief Internal Auditor (17/53) presenting a summary of Internal Audit's work against the 2016/17 Annual Plan together with a summary of the outcome of consultancy assignments and additional work undertaken by Internal Audit, where appropriate.

J Clark also advised that while it was still anticipated that all work would be completed by the end of the financial year, it might be that all reports would not be ready for submission to the next Committee on 22 March 2017.

Resolved:

- (i) The progress with work on the Internal Audit Plan for 2016/17 be noted.
- (ii) The outcomes from consultancy work completed since the last Audit Committee on 23 November 2016 be noted.
- (iii) The outcomes from additional work, as detailed in Report 17/53, be noted.

The Committee considered the following final reports:-

(i) **Education and Children's Services**

(a) **16-17 – Pupil Support**

There was submitted a report by the Chief Internal Auditor (17/55), on an audit to ensure that there were adequate arrangements in place regarding the deployment of Additional Support Needs (ASN) staffing resources to early years establishments and schools.

Resolved:

Internal Audit's findings, as detailed in Report 17/55, be noted.

(b) **16-11 – Management of the Relationship with Horsecross Arts Ltd**

There was submitted a report by the Chief Internal Auditor (17/56) on an audit to ensure that the relationship with Horsecross Arts Ltd was managed effectively.

Councillor B Vaughan referred to Action Point 1 in relation to Key Person Dependency, and noted that this had also been identified as an action point in an audit report to the previous meeting of the Committee and this was an area that might need to be monitored across Perth and Kinross Council.

L Simpson confirmed she would address the issue of Key Person Dependency and that there would be a revised Service Level Agreement from 1 April 2017.

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In response to a question from Councillor B Vaughan regarding the applicability of the Action Points in relation to the other ALEOs, L Simpson also advised that questions could be put to the ALEO representatives at the Scrutiny Committees in February and April 2017.

Resolved:

Internal Audit's findings, as detailed in Report 17/56, be noted.

(ii) Corporate

(a) 16-01 – Debt Recovery and Write-Off

There was submitted a report by the Chief Internal Auditor (17/54) on an audit to ensure (1) the consistency and adequacy of the approach across Services in relation to the recovery and write-off of debt and (2) the adequacy of the debt write-off process.

It relation to Action Point 2 – Non Declared Interest it was noted that the requirements in relation to the Declarations of Interests would form part of the induction process for all elected members following the Local Government Elections on 4 May 2017.

Resolved:

Internal Audit's findings, as detailed in Report 17/54, be noted.

(iii) The Environment Service

(a) 16-20 – LEADER

There was submitted a report by the Chief Internal Auditor (17/57) on a consultancy assignment on LEADER, a programme funded by the European Union aimed at increasing support to local, rural community and business networks to build knowledge and skills and encourage innovation and co-operation in order to tackle local development objectives.

It was noted that as the Scottish Government had carried out a monitoring visit on projects and administration in June 2016, this assignment was amended from an audit to consultancy work to avoid duplication of work carried out and to reflect the fact that there had been a delay in the programme implementation date.

It was also noted that although some processes and Local Action Group documents had not been completed as outlined within the original business plan, the Accountable Body was currently reviewing the Business Plan and the Local

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Development Strategy and would be seeking to have these finalised and approved once all guidance had been received from the Scottish Government.

J Clark advised that the completion dates for the Action points had been set taking account of the fact that a new LEADER Co-ordinator had taken up post at the beginning of January 2017 and of the dates of the Local Action Group meetings.

Resolved:

Internal Audit's findings, as detailed in Report 17/57, be noted.

73. CONSULTANCY ASSIGNMENTS

There was submitted and noted a report by the Chief Internal Auditor (17/58) presenting a summary of Internal Audit's approach to consultancy assignments.

Councillor B Vaughan stated the report made the position very clear and this could be referred to in the future if there were any concerns about the role of internal audit in their area of work.

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## PERTH AND KINROSS COUNCIL

## Audit Committee

22 March 2017

## INTERNAL AUDIT FOLLOW UP

## Report by Chief Internal Auditor

**PURPOSE OF REPORT**

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

**1. BACKGROUND AND MAIN ISSUES**

- 1.1 The Public Sector Internal Audit Standards (PSIAS) require the Chief Internal Auditor to establish a follow-up process to monitor and ensure that management actions have been effectively implemented. To assist the Audit Committee, the appendices to this report provide information on those actions that have not been implemented in accordance with the original agreed timetable, or where there is insufficient information on the current situation. Some dates have been revised and agreed with Services in recognition of the need for more time to complete the actions.
- 1.2 Appendix A presents a summary of the number of actions arising from internal and external audit reports.
- Table 1 shows the total number of agreed actions which Internal Audit will be following up even where the originally agreed completion dates have not yet been reached; the total number of actions is 90.
  - Table 2 shows the number of agreed actions that have been reported as incomplete as at their original agreed completion date. These total 25, of which 14 had a completion date of November and December 2016 and are therefore detailed in the following Appendices B to E.
  - A further 11 actions not completed by their original date have been allocated revised dates for completion after 31 December 2016 and progress will be reported on these at a future Committee.
  - The number of agreed actions which have yet to be followed up as the date for completion is after 31 December 2016 is 65.
- 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 Audit Scotland do not explicitly state the importance of each individual action and are therefore included in the tables as 'not rated'.

- 1.4 Appendices B to E present detailed follow-up information in respect of actions agreed for completion in the period of November and December 2016. The appendices also record service management's explanations of the status of each action point and internal audit comments where relevant.
- 1.5 The Audit Committee has requested information regarding any action with a 'critical' or 'high' risk rating which has not been completed on its originally agreed date. Table two highlights eight such instances of 'high' risk actions. Six of these actions relate to actions arising for Services from the Information Sharing audit and appear on Appendices C to E. The further two actions relate to The Environment Service's Fuel Management audit and also appear on Appendix E.

## **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**

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

Appendix C - Audit Follow-Up Education & Children's Services

Appendix D – Audit Follow Up Housing & Community Care

Appendix E - Audit Follow-Up The Environment Service

### Summary of Agreed Actions

Table 1: All Agreed Actions for Follow-Up as at 31 December 2016 (figures in brackets reported in February 2017). This table includes actions not yet due for completion.

| Service                         | Importance   |                |                |                |              |                 |
|---------------------------------|--------------|----------------|----------------|----------------|--------------|-----------------|
|                                 | Critical     | High           | Medium         | Low            | Not Rated    | Total           |
| Corporate & Democratic Services | 0 (0)        | 0 (0)          | 15 (24)        | 15 (19)        | 2 (3)        | 32 (46)         |
| Education & Children's Services | 0 (0)        | 4 (4)          | 4 (5)          | 8 (9)          | 0 (0)        | 16 (18)         |
| Housing & Community Care        | 0 (0)        | 5 (12)         | 8 (13)         | 9 (6)          | 0 (0)        | 22 (31)         |
| The Environment Service         | 0 (0)        | 6 (6)          | 12 (17)        | 2 (2)          | 0 (0)        | 20 (25)         |
| <b>All Services</b>             | <b>0 (0)</b> | <b>15 (22)</b> | <b>39 (59)</b> | <b>34 (36)</b> | <b>2 (3)</b> | <b>90 (120)</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)        | 4 (3)          | 3 (2)        | 2 (2)        | 9 (7)          |
| Education & Children's Services                                                                                                        | 0 (0)        | 2 (0)        | 2 (2)          | 0 (0)        | 0 (0)        | 4 (2)          |
| Housing & Community Care                                                                                                               | 0 (0)        | 2 (2)        | 3 (2)          | 0 (0)        | 0 (0)        | 5 (4)          |
| The Environment Service                                                                                                                | 0 (0)        | 4 (2)        | 3 (4)          | 0 (0)        | 0 (0)        | 7 (6)          |
| <b>All Services</b>                                                                                                                    | <b>0 (0)</b> | <b>8 (4)</b> | <b>12 (11)</b> | <b>3 (2)</b> | <b>2 (2)</b> | <b>25 (19)</b> |
| Actions with a completion date of November and December 2016 which have not been completed and therefore included on Appendices B to E |              |              |                |              |              | 14             |
| Those actions where the agreed date is not November and December 2016 which have been previously reported to Audit Committee           |              |              |                |              |              | 11             |



**Audit Follow-up**  
**Corporate & Democratic Services**  
**(Reporting for All dates on or before: December 2016)**

| Action Plan                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Dates                                                                                                             | Status/Explanation                                                                                                                                                                                 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>12-24 - Purchasing Controls<br/> Action Point : 2 - Changes to the Council's Contract Rules<br/> Importance: Medium</p> <p>Audit Committee Date: March 2013</p> <p>The contract rules will be presented to a future meeting of the Strategic Policy &amp; resources Committee. In addition, the approval mechanism for non- strategic policies and minor changes will be clarified.</p> <p>(L Simpson, Head of Legal &amp; Governance Services)</p>                                                               | <p>Sep 2013<br/> Nov 2013<br/> Sep 2013<br/> Oct 2014<br/> Jun 2015<br/> Nov 2015<br/> Dec 2016<br/> Apr 2017</p> | <p>A report is due to be presented to the Strategic Policy &amp; Resources Committee in April 2017 which will include reference to the Contract Rules.</p> <p>Internal Audit Opinion: Accepted</p> |
| <p>16-03 - Sales Ledger<br/> Action Point : 15 - Late Billing – Housing Repairs<br/> Importance: Medium</p> <p>Audit Committee Date: November 2016</p> <p>The wording of letters to be sent to liable owners, at the time rechargeable capital works are notified, is to be agreed between the Housing Repairs and Improvement Service and the Finance Division. This will ensure evidence of liability is obtained and provide information on ways to reduce debt.</p> <p>(E Sturgeon, Chief Exchequer Officer)</p> | <p>Dec 2016<br/> Mar 2017</p>                                                                                     | <p>The Chief Exchequer Officer continues to work with Housing to ensure that this action is progressed.</p> <p>Internal Audit Opinion: Satisfactory</p>                                            |

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |                                      |                                                                                                                              |
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| <p>Audit Scotland 11 - Annual Audit Report 2014/15<br/> Action Point : 2 - Decision-Making Structure<br/> Importance: N/A</p> <p>Audit Committee Date: September 2015</p> <p>The Council's decision-making arrangements are kept under review to ensure that it reflects changes required by new legislation etc. – a review of the entire decision-making structure will be undertaken in preparation for the local government elections in May 2017.</p> <p>(G Taylor, Head of Democratic Services)</p> | <p>Nov<br/>2016<br/>Apr<br/>2017</p> | <p>This review is due for completion in advance of the elections in May.</p> <p>Internal Audit<br/>Opinion: Satisfactory</p> |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|------------------------------------------------------------------------------------------------------------------------------|



**Audit Follow-up**  
**Education & Children's Services**  
**(Reporting for All dates on or before: December 2016)**

| Action Plan                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | Dates                         | Status/Explanation                                                                                                                                                                                                                                                                                                                          |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>16-05 - Information Sharing<br/> Action Point : 7 - Information Sharing Management<br/> Importance: High</p> <p>Audit Committee Date:<br/> September 2016</p> <p>Finalised/signed Data Sharing protocols held by Services will be identified and submitted to the Information Compliance Manager to ensure appropriate data management across the Council, and to inform the production of the corporate Data Sharing Register which will include review arrangements for each protocol.</p> <p>(S Devlin, Director)</p> | <p>Dec 2016<br/> May 2017</p> | <p>The Service states that progress is being made with this action however it is taking longer than anticipated. The Service has taken the opportunity to review these protocols and to ensure that they are signed by both the Council and the party with whom information is shared.</p> <p>Internal Audit Opinion:<br/> Satisfactory</p> |
| <p>16-05 - Information Sharing<br/> Action Point : 12 - Review of Data Sharing Protocols<br/> Importance: High</p> <p>Audit Committee Date:<br/> September 2016</p> <p>All Data Sharing Protocols held by the Service will be reviewed in line with the requirements of each protocol and good practice. Reviewed protocols will be notified to the Information Compliance Manager to inform the production of the Data Sharing Register.</p> <p>(P Davison, Corporate Research and Information Manager)</p>                | <p>Dec 2016<br/> May 2017</p> | <p>The Service states that progress is being made with this action however it is taking longer than anticipated. The Service has taken the opportunity to review these protocols and to ensure that they are signed by both the Council and the party with whom information is shared.</p> <p>Internal Audit Opinion:<br/> Satisfactory</p> |



**Internal Audit Follow-up  
Housing & Community Care  
(Reporting for All dates on or before : December 2016)**

| Action Plan                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | Dates                        | Status/Explanation                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>15-07 - Reablement<br/>Action Point : 11 - Training &amp; Qualifications<br/>Importance: Low</p> <p>Audit Committee Date: June 2015</p> <p>Training needs to be completed in line with schedule</p> <p>(V Riddell, Team Leader)</p>                                                                                                                                                                                                                                                                                                                                 | <p>Dec 2016<br/>Sep 2017</p> | <p>The Service states that whilst some members of staff have the required qualifications, for those with outstanding training needs, Access/Reablement are dependent on the capacity of Learning and Development team to provide the necessary training. It is suggested that this situation is reviewed in September 2017 to ensure that the Service will meet statutory qualification requirements.</p> <p>Internal Audit Opinion:<br/>Satisfactory</p> |
| <p>16-05 - Information Sharing<br/>Action Point : 4. - Information Sharing Management<br/>Importance: High</p> <p>Audit Committee Date: September 2016</p> <p>Finalised/signed Data Sharing protocols held by Services will be identified and submitted to the Information Compliance Manager to ensure appropriate data management across the Council, and to inform the production of the corporate Data Sharing Register which will include review arrangements for each protocol</p> <p>(B Atkinson, Acting Executive Director (Housing and Community Safety )</p> | <p>Dec 2016<br/>Apr 2017</p> | <p>The Service states that it is actively seeking details of existing Information Sharing Protocols to ensure the accuracy of the Data Sharing Register.</p> <p>Internal Audit Opinion:<br/>Satisfactory</p>                                                                                                                                                                                                                                              |

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                               |                                                                                                                                                                                                                     |
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| <p>16-05 - Information Sharing<br/> Action Point : 5. - Review of Data Sharing Protocols<br/> Importance: High</p> <p>Audit Committee Date: September 2016</p> <p>All Data Sharing Protocols held by the Service will be reviewed in line with the requirements of each protocol and good practice. Reviewed protocols will be notified to the Information Compliance Manager to inform the production of the Data Sharing Register.</p> <p>(A Taylor, Head of Corporate Revenues and IT)</p> | <p>Dec 2016<br/> Apr 2017</p> | <p>The Service states that internal processes will be documented to ensure that details of all such Protocols are recorded, including the frequency of review.</p> <p>Internal Audit Opinion:<br/> Satisfactory</p> |
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**Audit Follow-up**  
**The Environment Service**  
**(Reporting for All dates on or before: December 2016)**

| Action Plan                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Dates                                                                   | Status/Explanation                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>13-05 - Roads Management<br/> Inspection &amp; Maintenance<br/> Action Point : 9 - Roads<br/> Inspection Policy and Manual<br/> Importance: Medium</p> <p>Audit Committee Date:<br/> September 2013</p> <p>The Roads Inspection Manual will thereafter be reviewed and updated to reflect the Strategy and the Roads Maintenance Partnership with Tayside Contracts.</p> <p>(S D'All, Deputy Roads Maintenance Partnership Manager)</p>                            | <p>Mar 2014<br/> Dec 2014<br/> Dec 2015<br/> Nov 2016<br/> Sep 2017</p> | <p>The new national code of practice was issued in October 2016 (1 year later than expected) and the Society of Chief Officers for Transportation in Scotland (SCOTS) draft template was provided in November 2016. The PKC manual was subsequently revised with a view to being presented to Committee. However, following the receipt of further guidance regarding the risk elements of the plan earlier this year and comments from insurers and solicitors, there is a requirement to reconsider some elements of the Plan.</p> <p>Internal Audit Opinion:<br/> Accepted</p> |
| <p>15-13 - School Transport Contracts<br/> Action Point : 1 - Internal Procedures<br/> Importance: Medium</p> <p>Audit Committee Date: March 2016</p> <p>The Public Transport Unit will review existing procedures, updating as appropriate to reflect current processes. The review will also consider implementing enhanced procedures in respect of contract management and contractor default in performance.</p> <p>(A Warrington, Public Transport Manager)</p> | <p>Dec 2016<br/> April 2018</p>                                         | <p>In consultation with Corporate Procurement it has been decided that the PTU will utilise a totally new procurement methodology for forthcoming tendering activity, which will take place over the next 12 months. This will result in the creation of a Dynamic Purchasing System(s) through Public Contracts Scotland Tender.</p> <p>As a result, our tendering procedures will need to be completely reviewed and rewritten where necessary to reflect this change, hence the revised date.</p> <p>Internal Audit Opinion:<br/> Accepted</p>                                 |

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                           |                                                                                                                                                                                                                                                                                |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>16-05 - Information Sharing<br/>Action Point : 8 - Information Sharing Management<br/>Importance: High</p> <p>Audit Committee Date: September 2016</p> <p>Finalised/signed Data Sharing protocols held by Services will be identified and submitted to the Information Compliance Manager to ensure appropriate data management across the Council, and to inform the production of the corporate Data Sharing Register which will include review arrangements for each protocol.</p> <p>(B Renton, Director)</p> | <p>Dec 2016<br/>May 2017</p>              | <p>The Service discussed data sharing at TES Management Team and is working with the Information Compliance Officer.</p> <p>Internal Audit Opinion:<br/>Accepted</p>                                                                                                           |
| <p>16-05 - Information Sharing<br/>Action Point : 11 - Review of Data Sharing Protocols<br/>Importance: High</p> <p>Audit Committee Date: September 2016</p> <p>All Data Sharing Protocols held by the Service will be reviewed in line with the requirements of each protocol and good practice. Reviewed protocols will be notified to the Information Compliance Manager to inform the production of the Data Sharing Register.</p> <p>(S MacKenzie, Head of Performance &amp; Resources)</p>                     | <p>Dec 2016<br/>May 2017</p>              | <p>The Service discussed data sharing at TES Management Team and is working with the Information Compliance Officer.</p> <p>Internal Audit Opinion:<br/>Accepted</p>                                                                                                           |
| <p>16-15 - Fuel Management<br/>Action Point : 7 - Fuel Card Contract<br/>Importance: High</p> <p>Audit Committee Date: June 2016</p> <p>The FMS will investigate fuel usage and spend patterns on fuel cards across the Council. Using this information, the Service will review the potential suppliers from the National Category A shortlist and document the decision making process for the award of the direct call-off contract. This decision will ensure that all aspects</p>                               | <p>Aug 2016<br/>Dec 2016<br/>Apr 2017</p> | <p>The Service has advised the analysis is complete and a strategy has been agreed and authorised. Contact has been made with the preferred supplier and it is anticipated that the contract will be formalised by April 2017.</p> <p>Internal Audit Opinion:<br/>Accepted</p> |

|                                                                                                                                                                                                                                                                                                        |                                                       |                                                                                                                                            |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|
| <p>of the contract will be taken into consideration and ensure that the Council achieves best value. The Service will then sign a contract with the chosen supplier.</p> <p>(B Morton, Fleet Manager)</p>                                                                                              |                                                       |                                                                                                                                            |
| <p>16-15 - Fuel Management<br/>Action Point : 8 - Fuel Card Contract<br/>Importance: High</p> <p>Audit Committee Date: June 2016</p> <p>The FMS will liaise with the Procurement Manager to ensure that the Contracts Register is updated for all contracts held.</p> <p>(B Morton, Fleet Manager)</p> | <p>Aug<br/>2016<br/>Dec<br/>2016<br/>Apr<br/>2017</p> | <p>As per the above, it is anticipated that the contract will be formalised by April 2017.</p> <p>Internal Audit Opinion:<br/>Accepted</p> |





## PERTH AND KINROSS COUNCIL

## Audit Committee

22 March 2017

## INTERNAL AUDIT UPDATE

## Report by the Chief Internal Auditor

**PURPOSE OF REPORT**

This report presents a summary of Internal Audit's work against the 2016/17 annual plan. It also summarises the outcome of consultancy assignments and additional work undertaken by Internal Audit, where appropriate.

**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 Plan for 2016/17. In addition, preparations are underway for the 2017/18 Internal Audit Plan.
- 1.3 Since April 2016, Internal Audit has also been involved with nine areas of unplanned activity. Of these assignments, one remains outstanding and eight have been concluded without any further action required. Internal Audit's unplanned workload is within the resources allocated as part of the Internal Audit Planning process and there are currently no implications from this additional work on the completion of the Internal Audit Plan for 2016/17. However, this work has an impact on the ability to complete work in accordance with the original schedule. The Audit Committee will be informed if there is any change to this situation.
- 1.4 Internal Audit has completed work connected with the certification of the Bus Service Operators Grant, assignment 16-29. As there are no control issues arising from this, no report will be provided.
- 1.5 Internal Audit has continued to work with colleagues from NHS Tayside to support the Audit and Performance Committee of the Integrated Joint Board.
- 1.6 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.
- 1.7 Appendix B shows a summary of each audit previously approved as part of the 2016/17 plan, along with the stage of progress for each assignment. The indicative date for the Audit Committee to consider the report is recorded. The achievement of these scheduled dates is dependent upon the level of unplanned investigation work and engagement with Services.

- 1.8 Appendix C details areas of work which are in addition to the approved Internal Audit Plan for 2016/17 arising from either Service requests for assistance or from investigatory work.

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

- 2.1 Within Appendix A there are a number of assignments which were identified as 'consultancy' within the Internal Audit Plan (report 16/156 refers). Following approval from the Audit Committee in June 2016 of a revised reporting process for consultancy assignments (report 16/306 refers), this report provides a summary of the completed work with regard to such assignments, where appropriate.
- 2.2 The indicative scope of the 16-12 Procurement assignment was to ensure that arrangements are in place to secure value for money through procurement activity. The Council has undertaken extensive work through the Procurement & Commercial Improvement Programme (PCIP) assessment process. Internal Audit has verified that there is an improvement plan to address the outcomes of this process, which includes value for money elements, and this addresses the areas highlighted by the PCIP for improvement. The actions have completion dates over a number of years and future Internal Audits will review progress with the implementation of the action plan.
- 2.3 The indicative scope of the 16-32 Child's Plan assignment was to provide assurance over the arrangements in place for the implementation of the Childs Plan in line with requirements arising from the Children and Young People (Scotland) Act 2014. This work is to be undertaken in two strands in the current year and in 2017/18. The work completed in 2016/17 has laid the foundations for future work and Internal Audit will be working with the Service to develop robust arrangements with newly appointed officers.
- 2.4 The indicative scope of the 16-34 assignment was to provide a resource to support the review of the governance arrangements for Tayside Contracts. This review is continuing into 2017/18 and an allocation of resources is considered as part of the 207/18 Internal Audit Plan.
- 2.5 The indicative scope of the 16-35 Transformation assignment was to provide consultancy resources to support the transformation agenda. Internal Audit has maintained an overview of the overall progress within the year and a separate report on Transformation is due to be considered at the next meeting of the Audit Committee.
- 2.6 The indicative scope of the 16-36 Corporate Governance review was to provide a resource to support continued review of governance arrangements. Internal Audit has worked closely with the Head of Legal and Governance Services in providing support and challenge through the Annual Governance Statement process and also supported the review of corporate risk management. There will be a continued role for Internal Audit in these and other governance areas and the Internal Audit Plan 2017/18 reflects this.

- 2.7 The indicative scope of the 16-38 Housing Technology Improvement Plan (HTIP) assignment was to provide advice, support and guidance through the HTIP project. The outcomes from this review will assist the Service in aligning more closely with the aims and objectives of the corporate IT framework.

### **3. OUTCOMES FROM ADDITIONAL WORK**

- 3.1 As a result of three separate whistleblowing incidents (assignments 16-45, 16-47 and 16-48), investigations have taken place within Services. From these investigations, there have been no specific areas of concern which have highlighted deficiencies in the control environment. Therefore no further Internal Audit action will be undertaken in these areas.
- 3.2 The outcomes from all unplanned work are taken into account when considering the Internal Audit universe, from which future Internal Audit plans are derived.

### **4. INTERNAL AUDIT PLAN 2017/18**

- 4.1 Internal Audit undertakes an annual review of the risks to the Council achieving its objectives prior to agreeing an Internal Audit Plan for the year. The Internal Audit Plan for 2017/18 is currently being considered.
- 4.2 The Strategic Policy and Resources Committee recently considered a report on Risk Management (report 17/63 refers). The Council's framework for managing risk is being developed and embedded throughout all Services. As such, there is an opportunity to prioritise Internal Audit's work in line with these developments.
- 4.3 In addition, the arrangements for establishing the Council's Annual Governance Statement have changed over the year and continue to develop. The outcomes from this process for 2017/18 may identify areas where Internal Audit should focus resources in order to ensure that an appropriate level of assurance can be sought.
- 4.4 In order to allow time for further consideration of an initial 6 month plan for 2017/18, which will allow for further consultation arising from the above risk and governance processes, it is proposed to bring a fuller plan to a future meeting of the Audit Committee. A plan covering the remainder of the financial year 2017/18 will be submitted to a future meeting of the Audit Committee.
- 4.5 From the analysis already undertaken, assignments have been identified which Internal Audit will undertake initially during 2017/18. Those assignments which will be the priority for commencement during April 2017 are included in Appendix D.

## 5. CONCLUSION AND RECOMMENDATIONS

- 5.1 This report presents a summary of Internal Audit's work against the 2016/17 annual plan, along with the outcomes from consultancy and additional work undertaken by Internal Audit. It is currently anticipated that the 2016/17 Internal Audit Plan will be completed within the year.
- 5.2 It is recommended that the Committee:
- 5.2.1 notes the progress of work against the plan for 2016/17;
  - 5.2.2 notes the outcomes from consultancy work completed since the last Audit Committee;
  - 5.2.3 notes the outcomes from additional work; and
  - 5.2.4 approves the proposed work plan for Internal Audit until a fuller plan is available for consideration at a future meeting.

### Author(s)

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

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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              |
| 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 2016/17

Appendix C – Progress With Assignments Not Included In The Internal Audit Plan for 2016/17

Appendix D – Initial Work Programme for Internal Audit in 2017/18

## INTERNAL AUDIT UPDATE

## Audit Activity Completed Since The Last Report To Audit Committee

| <b>Audit No.</b> | <b>Audit Title</b>                                | <b>Service</b>                  |
|------------------|---------------------------------------------------|---------------------------------|
| 16-12            | Procurement*                                      | Corporate                       |
| 16-13            | Performance & Capacity Management                 | Corporate & Democratic Services |
| 16-18            | Housing Rents                                     | Housing & Community Care        |
| 16-19            | Rent Arrears                                      | Housing & Community Care        |
| 16-29            | Bus Service Operators Grant April-September 2016* | The Environment Service         |
| 16-32            | Childs Plan*                                      | Education & Children's Services |
| 16-34            | Tayside Contracts*                                | The Environment Service         |
| 16-35            | Transformation*                                   | The Environment Service         |
| 16-36            | Corporate Governance*                             | Corporate & Democratic Services |
| 16-38            | Housing Technology Improvement Plan*              | Housing & Community Safety      |
| 16-45            | Whistleblowing*                                   | The Environment Service         |
| 16-47            | Whistleblowing*                                   | The Environment Service         |
| 16-48            | Whistleblowing*                                   | The Environment Service         |

\* No report required for this assignment (see sections 2 and 3 of this report)





**Progress With Assignments Approved In The Internal Audit Plan for 2016/17 as at February 2016**

| <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>           |
|------------------|-----------------------------------------------------------------------------------------------|---------------------------------------------|----------------------------------|-----------------------------------|----------------------------|------------------------------------------|-----------------------------------------|
| 16-01            | Debt Recovery & Write Off                                                                     | Sep 2016                                    | 23 August 2016                   | 7 December 2016                   | 15 December 2016           | 10 January 2017                          | February 2017                           |
| 16-02            | Credit Cards                                                                                  | Sep 2016                                    | 6 Apr 2016                       | 19 May 2016                       | 21 July 2016               | 16 September 2016                        | September 2016                          |
| 16-03            | Sales Ledger                                                                                  | Sep 2016                                    | 17 August 2016                   | 20 October 2016                   | 21 October 2016            | 31 October 2016                          | November 2016                           |
| 16-04            | SWIFT                                                                                         | Feb 2017                                    | 8 February 2017                  | 24 February 2017                  |                            |                                          | April / June 2017                       |
| 16-05            | Information Sharing                                                                           | Sep 2016                                    | 20 Apr 2016                      | 25 May 2016                       | 7 June 2016                | 24 August 2016                           | September 2016                          |
| 16-06            | Financial Management of All-Through Schools:<br>(a) Fairview School<br>(b) St. John's Academy | Sep 2016                                    | 26 May 2016                      | 17 August 2016                    | 17 August 2016             | (a) 24 August 2016<br>(b) 24 August 2016 | (a) September 2016<br>(b) November 2016 |
| 16-07            | Financial Assessment and Charging                                                             | Sep 2016                                    | 23 June 2016                     | 14 July 2016                      | 27 July 2016               | 26 August 2017                           | September 2016                          |
| 16-08            | Adult Protection                                                                              | Sep 2016                                    | 12 Apr 2016                      | 7 June 2016                       | 9 June 2016                | 19 August 2016                           | September 2016                          |
| 16-09            | Housing Options                                                                               | Nov 2016                                    | 10 May 2016                      | 9 August 2016                     | 9 August 2016              | 24 August 2016                           | September 2016                          |

| <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 <sup>^</sup></b> |
|------------------|--------------------------------------------|---------------------------------------------|----------------------------------|-----------------------------------|----------------------------|----------------------------|------------------------------------------|
| 16-10            | Charging for Services                      | Feb 2017                                    | 28 October 2016                  | 22 December 2016                  | 22 December 2016           | 22 December 2016           | February 2017                            |
| 16-11            | Management of Relationship with Horsecross | Nov 2016                                    | 8 November 2016                  | 16 December 2016                  | 22 December 2016           | 6 January 2017             | February 2017                            |
| 16-12            | Procurement                                | Nov 2016                                    | February 2017                    | 1 February 2017                   | 1 February 2017            | 1 February 2017            | March 2017                               |
| 16-13            | Performance & Capacity Management          | Sep 2016                                    | 14 February 2017                 | 24 February 2016                  | 24 February 2017           | 2 March 2017               | March 2017                               |
| 16-14            | Named Person Follow Up                     | Feb 2017                                    | Not applicable                   | Not applicable                    | Not applicable             | Not applicable             | Removed (Report 16/518 refers)           |
| 16-15            | Fuel Management                            | Jun 2016                                    | 22 Apr 2016                      | 19 May 2016                       | 19 May 2016                | 31 May 2017                | June 2016                                |
| 16-16            | Transformation                             | Feb 2017                                    | February 2017                    |                                   |                            |                            | April / June 2017                        |
| 16-17            | Pupil Support                              | Nov 2016                                    | 22 November 2016                 | 8 December 2016                   | 15 December 2016           | 6 January 2017             | February 2017                            |
| 16-18            | Housing Rents                              | Feb 2017                                    | 19 September 2016                | 21 February 2017                  | 21 February 2017           | 6 March 2017               | March 2017                               |
| 16-19            | Rent Arrears                               | Feb 2017                                    | 10 January 2017                  | 21 February 2017                  | 21 February 2017           | 6 March 2017               | March 2017                               |
| 16-20            | LEADER                                     | Feb 2017                                    | 7 December 2016                  | 22 December 2016                  | 22 December 2016           | 11 January 2017            | February 2017                            |

| <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> |
|------------------|-----------------------------------------------------------|---------------------------------------------|------------------------------------------------------------------|-----------------------------------|----------------------------|----------------------------|-------------------------------|
| 16-21            | Property Maintenance                                      | Nov 2016                                    | 10 August 2016                                                   | 9 September 2016                  | 13 September 2016          | 31 October 2016            | <b>November 2016</b>          |
| 16-22            | Roads Maintenance Partnership                             | Feb 2017                                    | 4 January 2017                                                   | 23 February 2017                  | 1 March 2017               |                            | April/June 2017               |
| 16-23            | Personalisation                                           | Feb 2017                                    | 6 February 2017                                                  | 16 February 2017                  | 16 February 2017           |                            | <b>March 2017</b>             |
| 16-24            | Commissioned Services: Care At Home                       | Mar 2017                                    | 6 February 2017                                                  |                                   |                            |                            | April / June 2017             |
| 16-25            | Parking Services                                          | Mar 2017                                    | 7 December 2016                                                  | 21 February 2017                  | 21 February 2017           | 27 February 2017           | <b>March 2017</b>             |
| 16-26            | Health & Social Care Partnership – Integrated Joint Board | Mar 2017                                    | Commissioned and reported directly to the Integrated Joint Board |                                   |                            |                            |                               |
| 16-27            | Events and Festivals                                      | Mar 2017                                    | 14 February 2017                                                 |                                   |                            |                            | April / June 2017             |
| 16-28            | BSOG October - March 2016 Grant Claim                     | Not Applicable                              | 25 May 2016                                                      | Not applicable                    | Not applicable             | Not applicable             | Not applicable                |
| 16-29            | BSOG April - September 2016 Grant Claim                   | Not applicable                              | 25 May 2016                                                      | 25 January 2017                   | 25 January 2017            | 25 January 2017            | No report anticipated         |
| 16-30            | Cycling Walking Safer Streets Grant Claim                 | Not applicable                              | Not applicable                                                   | Not applicable                    | Not applicable             | Not applicable             | Not applicable                |
| 16-31            | Superconnected Cities Grant Claim                         | Not applicable                              | Not applicable                                                   | Not applicable                    | Not applicable             | Not applicable             | Not applicable                |
| 16-32            | Childs Plan                                               | Feb 2017                                    | February 2017                                                    | 1 March 2017                      | 1 March 2017               | 1 March 2017               | <b>March 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 <sup>^</sup></b> |
|------------------|----------------------------------------|---------------------------------------------|----------------------------------|-----------------------------------|----------------------------|----------------------------|------------------------------------------|
| 16-33            | European Social Fund                   | Nov 2016                                    | 7 December 2016                  | 21 December 2016                  | 22 December 2016           | 22 December 2016           | <b>February 2017</b>                     |
| 16-34            | Tayside Contracts                      | Mar 2017                                    | Ongoing                          | 23 February 2017                  | 23 February 2017           | 23 February 2017           | <b>March 2017</b>                        |
| 16-35            | Transformation                         | Mar 2017                                    | Ongoing                          | 23 February 2017                  | 23 February 2017           | 23 February 2017           | <b>March 2017</b>                        |
| 16-36            | Corporate Governance                   | Mar 2017                                    | Ongoing                          | 23 February 2017                  | 23 February 2017           | 23 February 2017           | <b>March 2017</b>                        |
| 16-37            | Universal Credit                       | Sep 2016                                    | 19 October 2016                  | 8 December 2016                   | 5 January 2017             | 5 January 2017             | <b>February 2017</b>                     |
| 16-38            | Housing Technology Implementation Plan | Mar 2017                                    | 14 February 2017                 | 8 March 2017                      | 8 March 2017               | 8 March 2017               | <b>March 2017</b>                        |

<sup>^</sup> Dates in bold are when reports have been considered by Audit Committee. Other dates are the current anticipated dates for consideration by Audit Committee where this differs from the originally anticipated date.

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.

**Progress With Assignments Not Included In The Internal Audit Plan for 2016/17**

| <b>Ass No.</b> | <b>Assignment Description</b>                             | <b>State of progress</b> | <b>Draft Report issued</b> | <b>Final Report issued</b> | <b>Audit Committee Date</b> |
|----------------|-----------------------------------------------------------|--------------------------|----------------------------|----------------------------|-----------------------------|
| 16-40          | Bereavement Services                                      | Completed                | Not applicable             | Not applicable             | Not applicable              |
| 16-41          | Housing & Community Care Internal Controls                | Ongoing                  |                            |                            |                             |
| 16-42          | Housing & Community Care Repairs and Improvements Service | Completed                | Not applicable             | Not applicable             | Not applicable              |
| 16-43          | Whistleblowing – Corporate & Democratic Services          | Completed                | Not applicable             | Not applicable             | Not applicable              |
| 16-44          | TES correspondence                                        | Completed                | Not applicable             | Not applicable             | Not applicable              |
| 16-45          | Whistleblowing – The Environment Service                  | Completed                | Not Applicable             | Not applicable             | Not applicable              |
| 16-46          | ECS advice                                                | Completed                | Not applicable             | Not applicable             | Not applicable              |
| 16-47          | Whistleblowing – the Environment Service                  | Completed                | Not applicable             | Not applicable             | Not applicable              |
| 16-48          | Whistleblowing – The Environment Service                  | Completed                | Not Applicable             | Not applicable             | Not applicable              |

When additional work is undertaken during the year, a report will only be issued where the review highlights areas for improvement in the control environment or significant risks.



### The Internal Audit Plan Commencing April 2017

| Service                         | Division                          | Title                                     | Indicative Scope                                                                                                                                                                       | Internal Audit Priority rating | Total days | Quarter |
|---------------------------------|-----------------------------------|-------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|------------|---------|
| Internal Audit Assignments      |                                   |                                           |                                                                                                                                                                                        |                                |            |         |
| Housing & Community Care        | Adult Social Work and Social Care | General Outcome Focussed Assessment       | To provide assurance over the process improvements being identified for the assessment of outcomes for social care.                                                                    | High                           | 25         | 1 & 2   |
| Education & Children's Services | Education Services                | Financial Management of Secondary Schools | To review arrangements in place for the financial administration of 2 secondary schools                                                                                                | Medium                         | 20         | 1       |
| The Environment Service         | Performance & Resources           | Capital Programme                         | To provide assurance over the adequacy of arrangements in place to support the delivery of the capital programme                                                                       | High                           | 30         | 1       |
| Consultancy Assignments         |                                   |                                           |                                                                                                                                                                                        |                                |            |         |
| Education & Children's Services | Children & Family Services        | Child's Plan                              | To provide assurance over the arrangements in place for the implementation of the Childs Plan in line with requirements arising from the Children and Young People (Scotland) Act 2014 | Medium                         | 15         | 1       |
| Corporate                       | All Services                      | Corporate Risk Management                 | To support Services with embedding adequate arrangements in line with the approved risk management policy and strategy.                                                                | High                           | 25         | Ongoing |
| Corporate                       | Legal & Governance Services       | Corporate Governance                      | To provide resources to support and challenge the annual governance process                                                                                                            | Medium                         | 20         | Ongoing |







Internal Audit Report  
Corporate and Democratic Services  
ICT Performance and Capacity Management  
Assignment No.16-13  
March 2017

## Final Report

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 assignment forms part of the audit plan for 2016/17, which was approved by the Audit Committee on 30 March 2016. Audit testing was carried out in February 2017. The Council has approved a capital budget of £1,400,000 and a revenue budget for supplies and services of £1,307,797 for IT infrastructure for 2016/2017. The Service has a current capacity storage area network (SAN) of 130TB, with over 750 physical and virtual servers across the corporate and schools estate; 71% of the environment is virtualised.

### Scope and Limitations

This audit focussed on the high level controls in place for the management of Information and Communication Technology (ICT) infrastructure capacity and performance to support the Council’s front line services delivery and enhance engagement with people in Perth and Kinross Council area.

The scope of the review included live observation of the IT helpdesk system and processes for managing calls. A walk-through of the calls process was also undertaken to demonstrate the controls in place and a sample of calls logged by users during 2016-17 was provided as requested.

Live observation of Solarwinds, used to monitor the Council’s wide area network, was also undertaken for a sample morning in February 2017. Mapping in a sample node (Kinross) showing the status of network objects, was evidenced in real time.

Summary detail of the network and reporting of nodes by performance (top 10 nodes by average CPU load and average response times) were viewed as well as the top 10 application response times. IT Services’ response procedures to alerts and events were described to illustrate processes for managing these.

Evidence of performance reporting of ICT over sample periods was provided for the review. Internal reporting by IT Service areas and also external independent reporting on performance by the IT Service was provided. These included Society of Information Technology Management (SOCITM) Surveys on User satisfaction and perceptions and also key metrics in the current financial year.

Key officers interviewed included the Corporate IT Manager and IT Service Manager (Operations), with additional information provided by the Communications and Network Team Leader and the Team Leader, IT Technical Support.

The audit did not review in depth the network and server infrastructure; desktop provision; the configuration management database (CMDB); the capacity database (CDB) and software and licensing. Areas previously reviewed in other recent audits were not included in the scope, for example IT service continuity management.

## 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. Definition of adequate in the following control objectives is 'fit for purpose' or 'best fit'.

Control Objective 1: To ensure that framework and processes are in place for managing core ICT assets for the Council's requirements.

### Audit Comments:

There is a framework in place to manage ICT infrastructure and resource, evidenced within the IT teams of PKC IT Services; these are -

- Web, GIS & Integration
- Server Infrastructure
- IT Technical Support
- Communications & Network
- Business Applications Support
- Customer and Business Services
- Capital Projects Team

Evidence of processes in place for managing core ICT assets was provided, including:

Weekly time resources were allocated against required services for each IT team. This was evidenced in sample Operations Team schedules, workloads and weekly diaries.

IT Services utilises products for managing capacity and performance tasks, for example, Solarwinds for the management of the Council network. An observation of this was carried out and relevant evidence was provided.

### Processing helpdesk calls and incidents

As part of the review, an observation was made of the Help Desk product for managing IT calls. A sample walk through of a new call was provided to evidence the general process. In addition, a sample of live calls to IT Services was provided with detail of how these were managed by the team of technicians. It was reported that most of the IT technicians worked remotely in the field with their workload area rotated across different PKC areas to maximise awareness of work areas and call types. Each call is logged and categorised by priority level which has an expected response time or SLA for resolution which was satisfactory.

### ICT Asset management

Sample evidence was provided of processes for managing the ICT Asset inventory and refurbishment of IT assets at two sample school sites (Methven and Cleish

## Internal Audit Report

Primaries). This confirmed the responsibilities for managing assets and included detailed computer replacement reports.

Strength of Internal Controls:

Strong

Control Objective 2: To ensure that performance and technology capacity management planning exists and is working adequately.

### Audit Comments:

Good practice areas were found with regard to the performance and technology capacity management.

Management planning was found in place as follows:

In compliance with standard Council procedures and budgeting processes, planning processes included scrutiny and approval. The draft ICT Infrastructure Business Case high level summary included a breakdown of the main areas of expenditure over the 8 year programme to 2022/23 with a rolling programme of works for infrastructure improvement. This was put forward to the Corporate Resources Group (CRG). The Business Case was scrutinised by the Service Senior Management Team, then the CRG for scoring and scrutiny by the EOT. The final ICT Infrastructure budget was submitted for approval to the Strategic Policy and Resources Committee in June 2016. This included a review of the complete ICT programme dated June 2015. The Plan for the Council's core ICT capital infrastructure focused on four general areas:

- Network Infrastructure
- Server Infrastructure
- Desktop Provision
- ICT Software and licensing

ICT infrastructure improvement was planned to be achieved through a rolling programme of works to respond to changing organisational priorities, technologies and business needs.

The Council's budget and recent revenue and capital monitoring reports to the Strategic Policy and Resources Committee confirm that the IT Service is following targets set in the plan. These are publicly available in PKC committee papers on the website.

In addition, the Strategic Policy and Resources Committee approved a new Digital Strategy and associated Digital Strategy Development Plan in 30 November 2016 which identifies the Council's strategic digital approach for the next four years to 2020. Within this Plan are high level actions which include the IT Service developing and using ICT over the next four years to help the Council deliver strategic ambitions.

Strength of Internal Controls:

Strong

Control Objective 3: To ensure that performance and technology capacity reporting and assessment is carried out for the Council's core IT assets.

**Audit Comments:**

Good practice was found for reporting and assessment.

Reporting within IT Services

IT Services Operations Teams report weekly on priorities and planned work for the coming week and infrastructure changes for next two weeks. Reporting and monitoring of virtual desktops was evidenced by reports on average login times.

Monthly performance reporting is carried out for internal use, comparing overall service level to targets. This was evidenced in sample reporting provided for January 2017. This included the number of calls logged and responses against the targets, for example for no incidents more than a month old and no changes older than 3 months. Call types and First Contact Resolution percentages are reported and monitored. Reasons for significant change in call types and service level changes are recorded in the monthly report.

Contact methods are also recorded and monitored, for example the increase in use of the self-service portal. Other methods identified include phone contact, email - by team, and internal calls.

The monthly service level performance is reported and presented in graphic format for 13 months; this illustrates any trends across the year and allows for comparison against the same month in the previous calendar year. Service level performance for PKC Services is reported in a similar way and includes a more detailed two month calls analysis. IT Team performance is reported in the same way.

User satisfaction and perceptions

User satisfaction perceptions have been recorded and assessed in five independent surveys completed by the IT body SOCITM over the last seven years. These surveys capture detail of internal user satisfaction trends and have been benchmarked against average Scottish and UK perception ratings for public sector organisations. The latest report was carried out in November 2016 and was reported to users on the intranet (ERIC). Perceptions in the latest survey included a cross section of 1107 users ranging across strategic and tactical managers, operational staff, elected members, curriculum managers and staff and commissioners. Overall satisfaction reported in the 2015 and 2016 surveys indicated a higher than national average satisfaction rate:

- In the 2016 survey, the Council's overall satisfaction rating was categorised as 5.13 out of a maximum of 7; the Scottish average rating in 2016 was 5.09.
- In 2015, PKC's overall satisfaction rating was categorised as 5.22 out of 7; the Scottish average rating in 2016 was 5.03

This showed an improving trend from the previous surveys in 2013, 2011 and 2009.

A draft Communications and Engagement Plan was reported to be awaiting approval by the ICT Board in 10 March 2017; this plan intends to engage a wider

range of stakeholders including citizen engagement on their experiences of using the Council's online services through the Council's website.

#### Benchmarking analysis and reporting

Benchmarking analysis based on ICT Services key metrics was also carried out by SOCITM in 2016 to provide more detailed evidence of ICT Services performance against 10 Scottish Councils. Key metrics included ratios and statistics, for example the percentage operational incidents when a service is restored within the agreed service levels (in the SLA) and Networks and key applications availability index. Metrics also incorporated costs, percentages and other statistics, for example the number of agile workers as a % of all ICT service users and the number of devices per user. These benchmarking statistics by the independent SOCITM service confirm analysis for reporting and service evaluation is in place.

#### Management of Incidents

Sample evidence was provided to confirm management of incidents processes and reporting. Three incident details during 2016-2017 were provided for different Service areas, of which two were resolved and one was closed. The reporting confirmed calls by category and priority type. The priority type included expected response times for each incident. The log detail included date and times for each incident by creation date (presentation of incident) and date and time the incident was last updated or closed. Analysis of response times by the ICT Services can be monitored through the incident logs by type.

#### Asset register management reporting

Sample reporting of ICT asset management was evidenced in correspondence on the management of ICT assets for 2 sample schools sites - Methven and Cleish Primaries. Evidence was provided to confirm the responsibility for maintaining the ICT asset inventory on-site during the 5 year asset replacement programme. The sample asset inventory for each site was provided. As computers over 7 years old are no longer supported, schools were invited to request a share of newly refurbished PC base units as replacement for PCs and laptops over this date.

This evidence also illustrated that Head Teachers were advised of the importance of updating the PC estate in their school whilst maintaining ratios to deliver specific curricular programs.

An observation of the Service Desk Management System found that information could be filtered in searches by device type and location ensuring that there is useful management information for the management of the IT assets.

Strength of Internal Controls:

Strong

### Management Action and Follow-Up

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

No action points have been identified in this review for a response.

## Acknowledgements

Internal Audit acknowledges with thanks the co-operation of the Council's Corporate IT staff involved 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 will be issued to:

B Malone, Chief Executive

J Valentine, Depute Chief Executive, Environment (Sustainability, Strategic and Entrepreneurial Development) and Chief Operating Officer

A Taylor, Head of Corporate IT & Revenues

K Wilson, Corporate IT Manager

J Symon, Head of Finance

K McNamara, Head of Strategic Commissioning and Organisational Development

L Simpson, Head of Legal and Governance Services

G. Taylor, Head of Democratic Services

P Dickson, Complaints & Governance Officer

External Audit

## Authorisation

The auditor for this assignment was N Duncan. The supervising auditor was J Clark, Chief Internal Auditor.

This report is authorised for issue:

---

Jacqueline Clark  
Chief Internal Auditor  
Date: 1 March 2017







Internal Audit Report  
Housing and Community Care  
Housing Rents Assignment No.16-18  
March 2017

## Final Report

Finance Division  
Corporate and Democratic Services  
Perth & Kinross Council  
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 2016/17, which was approved by the Audit Committee on 30 March 2016.

The Council is required by statute to record separately in the Housing Revenue Account (HRA) all income and expenditure relating to the provision, improvement and management of Council Housing.

The Revenue and Capital Budget for 2016-17, used 7,480 council houses as a basis for the HRA budget.

## Scope and Limitations

In order to arrive at an opinion on the achievement of the control objectives, the audit involved the review of procedures and interviews with staff and teams within Housing & Community Care, Housing and Strategic Commissioning, based in York Place, also Pullar House and locality offices. The audit did not examine the debt collection processes as the management and control of rent arrears is planned to be reviewed under a separate audit.

## Control Objectives and Opinions

This section describes the purpose of the audit and summarises the results. A ‘control objective’ is a management objective that requires the maintenance of adequate and effective internal controls to ensure that it is achieved. Each control objective has been given a rating describing, on the basis of the audit work done, the actual strength of the internal controls found to be in place. Areas of good or poor practice are described where appropriate..

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Control Objective 1: To ensure PKC housing rental charges are accurately identified, collected and credited to the correct account;                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Auditor’s Comments: Rent charges are identified, calculated and controlled via data held on the Council’s housing rents system, Northgate. Operational activities associated with the maintenance and updating of system records for rent charges, tenancy and property changes and payments received are extensively documented. However, a number of procedures would benefit from review and update to ensure that they are fully fit for purpose, and the consistent application of version control. The Council’s housing stock records are regularly reviewed and verified for changes against other sources of data.<br><br>Our review confirmed that changes to housing stock and tenancy details are timeously updated in rent system records but record keeping of supporting |

## Internal Audit Report

documentation was found to differ across offices.

Housing rental income is credited to appropriate Council financial ledger income accounts but there are no procedures in place to ensure that the rents system and financial ledgers are regularly reconciled. These procedures were put in place during the audit.

To assist in the maximisation of the collection of housing rents, Housing staff have been issued with cash receipt books during 2016. Although the use of receipt books was accompanied by a written procedure, there would be benefit in updating the procedures with regard to the retention of spoiled / cancelled receipts and the oversight of the banking of cash collected. Tenants can pay housing rents using a wide range of methods and facilities. Procedures are in place to ensure that all payments received are reconciled between the Council's bank accounts and financial ledgers but reconciliations between tenant records and bank statements are not clearly documented.

Strength of Internal Controls:

Moderately Strong

Control Objective: 2. to ensure PKC housing rental charges are calculated correctly in accordance with the Council's Rent Strategy and Financial Regulations;

Audit Comments; In accordance with Financial Regulations, a joint report – the HRA Strategic Financial Plan & Rent Strategy – is submitted to the Housing & Health Committee early in each calendar year by the Depute Chief Executive, HCC (Corporate & Community Development Services) & Head of Finance, setting out details of the rent strategy & HRA budgets for 5 years ahead. This was approved in January 2016 by the Committee as set out in the Scheme Of Administration.

Internal Audit has confirmed that approved rent increases are correctly set up on the rents system for implementation from the beginning of the new financial year.

Strength of Internal Controls:

Strong

Control Objective: 3. To ensure that PKC records of housing rental charges are accurate, up-to-date and secure.

Audit Comments: Records of housing rental charges can only be amended by approved housing rent system users. Access to the Northgate housing rent records system is controlled through a clear application and authorisation process with individual users' access levels set up to match specific job descriptions by the HCC Business Improvement Systems Team following receipt of completed request forms from line managers. User access rights may also be amended / terminated on the written authority of managers.

A range of system user reports are available to facilitate the periodic management review of system users. However, this control is not currently implemented.

Internal Audit testing confirms that ongoing tenant and property record system updates are input accurately and timeously, with procedures in place for regular

## Internal Audit Report

|                                              |        |
|----------------------------------------------|--------|
| supervisory checks and sample audit reviews. |        |
| Strength of Internal Controls:               | Strong |

### Management Action and Follow-Up

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

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

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 HCC Housing and Strategic Commissioning staff 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 will be issued to the following officers:

B Malone, Chief Executive

J Fyffe, Senior Depute Chief Executive

B. Atkinson, Director (Social Work),

L Cameron, Head of Housing & Strategic Commissioning

J Symon, Head of Finance

L Simpson, Head of Legal and Governance Services

C Mailer, Senior Service Manager, Housing

M Dow, Neighbourhood Operations Service Manager

R Williams, Team Leader, Income Maximisation

S.Strathearn, Business Improvement Manager

## Internal Audit Report

F Lambie, Accountant

G Taylor, Head of Democratic Services

P Dickson, Complaints & Governance Officer

External Audit

### Authorisation

The auditor for this assignment was D Brownlow. The supervising auditor was J Clark

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Jacqueline Clark  
Chief Internal Auditor  
Date: 6 March, 2017

## Appendix 1: Summary of Action Points

| No. | Action Point                                                                | Risk/Importance |
|-----|-----------------------------------------------------------------------------|-----------------|
| 1   | Rents system procedures                                                     | Low             |
| 2   | Retention of supporting documentation                                       | Low             |
| 3   | Reconciliation of income between Housing Rents system and financial ledgers | Medium          |
| 4   | Cash receipting procedure                                                   | High            |
| 5   | Housing rents system user access controls                                   | Low             |

## Appendix 2: Action Plan

### Action Point 1 - Rents system procedures

A large number of housing rents system procedures and guides are in place, many updated in 2015. They provide step by step guidance in how to undertake each specific action but do not include any explanation as to why or when the action should be completed.

In addition, the Application Support Team undertake numerous checking and reporting activities in accordance with daily /weekly /monthly activity checklists. There is scope to review the number of control actions listed in the weekly checklist to ensure that they are all appropriate,.

There is also scope to ensure that the procedures are subject to consistent version control.

### Management Action Plan

The Housing Rents System procedures and the checklist will be reviewed and updated to include the purpose of the controls. Consistent version control will be applied to the documents.

|                                     |                                                                     |
|-------------------------------------|---------------------------------------------------------------------|
| Importance:                         | Low                                                                 |
| Responsible Officer:                | R Williams, Team Leader – Income Maximisation                       |
| Lead Service:                       | Housing and Community Care                                          |
| Date for Completion (Month / Year): | July 2017                                                           |
| Required Evidence of Completion:    | Updated checklist and system procedures for rents and rent arrears. |

### Auditor's Comments

Satisfactory

## Action Point 2 - Retention of supporting documentation

Although a certain amount of the documentation in support of rental property tenancies is held in electronic form, most are currently held in paper files within area offices.

Internal Audit found inconsistencies in the range of documents held across different offices which indicates that either documents which are not required are being stored unnecessarily or some documents which should be stored are not being held in files. The Service has highlighted that this would have been because there has been a project to scan such documents in order to minimise the information held in files in offices. As part of the scanning project, officers have reviewed the contents of the files.

Consideration should be given to the range of documentation required to be held compatible with meeting the requirements of the Service, without the unnecessary commitment of resources.

### Management Action Plan

The Service has undertaken a project to scan all files, which has rationalised what is held in the physical files in localities.

|                                     |                                                                            |
|-------------------------------------|----------------------------------------------------------------------------|
| Importance:                         | Low                                                                        |
| Responsible Officer:                | M Dow, Service Manager, Housing                                            |
| Lead Service:                       | Housing and Community Care                                                 |
| Date for Completion (Month / Year): | Completed                                                                  |
| Required Evidence of Completion:    | Guidance issued on the range of documentation to be held on property files |

### Auditor's Comments

Satisfactory



### Action Point 3 - Reconciliation of income between Housing Rents system and financial ledgers

Housing rental income generated by the housing rents system is posted to the financial ledgers via manual journal each month. However, there is no reconciliation procedure in place to ensure that values on the two systems are in agreement.

#### Management Action Plan

Procedures for the reconciliation of income between the Housing Rents system and the financial ledger have been updated.

|                                     |                                       |
|-------------------------------------|---------------------------------------|
| Importance:                         | Medium                                |
| Responsible Officer:                | F Lambie, Accountant                  |
| Lead Service:                       | Corporate and Democratic Services     |
| Date for Completion (Month / Year): | Completed                             |
| Required Evidence of Completion:    | Reconciliation procedure put in place |

#### Auditor's Comments

Satisfactory

## Action Point 4 - Cash receipting procedure

In order to assist in the maximisation of housing rental income and encourage tenants to make payments whenever possible, Housing staff have been issued with cash receipt books to enable the acceptance of cash payments. The issue of receipt books was accompanied by a cash receipting procedure.

Sample testing confirms that the cash receipting procedure is being followed and that cash received is paid into the Council's bank accounts and credited to tenants' rent accounts, apart from one cash payment identified which had been placed in an office safe for security but subsequently overlooked for banking.

Examination of receipt books confirms that spoiled receipts are being held in receipt books in accordance with the issued procedure.

However, not all offices ensure spoiled receipts are clearly marked cancelled, also there are no management checks in place to ensure that all receipts are either banked or cancelled.

## Management Action Plan

The Service will introduce a management control of checking receipt books to ensure that cancelled / spoiled receipts are held and marked as such. The control will include a reconciliation to ensure that all income collected has been banked. Procedures will be updated to take account of these controls.

|                                     |                                              |
|-------------------------------------|----------------------------------------------|
| Importance:                         | High                                         |
| Responsible Officer:                | R. Williams, Team Leader Income Maximisation |
| Lead Service:                       | Housing and Community Care                   |
| Date for Completion (Month / Year): | April 2017                                   |
| Required Evidence of Completion:    | Enhanced cash receipting procedure           |

## Auditor's Comments

Satisfactory

## Action Point 5 - Housing rents system user access controls

Access to the Northgate housing rent records system is restricted to Housing staff with job defined levels of user access rights. Users' access rights are set up, amended or terminated by Housing & Community Care's Business Improvement Systems Team in response to individual authorisations from Housing managers. However there is no periodic management review process in place to ensure that only intended users have appropriate access rights.

The Northgate system includes a Logged in Users report which, when run, lists all system users who have not logged into the system for a pre-determined period of time. This report is run on an ad-hoc basis by the Business Improvement Systems team and enquiries made into all listed users to confirm whether they should continue to have access rights or whether these should be terminated.

In order to provide assurance that housing rent records can only be accessed by authorised users, System user reports and Logged in User reports should be run periodically in accordance with agreed timetables and records maintained to confirm management responses are received and acted upon by the Systems team.

### Management Action Plan

The Service reviewed system access in January and no issues were highlighted. These reports are now run as part of a monthly routine and any issues will be dealt with.

|                                     |                                                                                                       |
|-------------------------------------|-------------------------------------------------------------------------------------------------------|
| Importance:                         | Low                                                                                                   |
| Responsible Officer:                | M Dow Service Manager                                                                                 |
| Lead Service:                       | Housing and Community Care                                                                            |
| Date for Completion (Month / Year): | Completed                                                                                             |
| Required Evidence of Completion:    | Processes for the periodic management review of housing rents system users are agreed and implemented |

### Auditor's Comments

Satisfactory





Internal Audit Report  
Housing and Community Safety  
Rent Arrears Assignment No.16-19  
March 2017

## Final Report

Finance Division  
Corporate and Democratic Services  
Perth & Kinross Council  
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 2016/17, which was approved by the Audit Committee on 30 March 2016.

The Council is required by statute to record separately in the Housing Revenue Account (HRA) all income and expenditure relating to the provision, improvement and management of Council Housing.

The HRA final accounts for 2015/16 indicate rental income of £25.102 million. Gross rent arrears as at 31 March 2016 were £2.715 million, and a bad debt provision of £2.031 million was included against outstanding rent charges raised against ongoing and former tenants plus court expenses incurred.

The purpose of the audit was to review the adequacy of the arrangements in place for monitoring and minimising rent arrears.

## Scope and Limitations

In order to arrive at an opinion on the achievement of the control objectives, the audit included reviews of practices and interviews with staff within Housing and Community Care, Neighbourhood Services, at Pullar House, locality offices and Corporate & Democratic Services’ Finance Division. The audit did not include rent arrears relevant to the general fund.

## Control Objectives and Opinions

This section describes the purpose of the audit and summarises the results. A ‘control objective’ is a management objective that requires the maintenance of adequate and effective internal controls to ensure that it is achieved. Each control objective has been given a rating describing, on the basis of the audit work done, the actual strength of the internal controls found to be in place. Areas of good or poor practice are described where appropriate.

|                                                                                                                                                                                     |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Control Objective: 1. to ensure that arrangements for the detection and recovery of housing rent arrears are appropriate and effective and in compliance with Financial Regulations |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

|                                                                                                                                                                                                                                                                                                                                                                                                                  |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Auditor’s Comments: Housing rent arrears are identified on the housing rents system (Northgate) when rents indicated as due are not offset by payments received. System reports listing all tenants with arrears are produced each week for recovery action to be taken in line with the Council’s rent recovery policy. The policy sets out the escalating recovery actions to be taken by housing officers and |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

## Internal Audit Report

is made available for all users of housing services via the Council's web page. An updated version of the policy was approved at the November 2016 meeting of the Housing & Health Committee although at the time of the audit this had not yet been made available on-line. It is noted that the Northgate system process of automatic escalation of arrears recovery actions against accounts in arrears can be suspended without management intervention. This represents a potential management control weakness.

To facilitate improvements to the minimisation and control of rent arrears, revised procedures have been introduced from January 2016 within Housing Services with the focus on early and systematic arrears recovery actions. These actions comprise primarily of early contact with, and the engagement of, the individual tenants. All actions are recorded against tenant accounts on the rent records system and reports produced in varying amounts of detail for regular review by locality teams, co-ordinators, managers, scrutiny groups, SMT and committees. There is scope to improve the clarity of purpose and scope of some of the internal reports produced.

For management purposes, rent arrears may be usefully divided between current or former tenants, residential or non-residential and net or gross of write-offs. The reports of rent arrears and recovery actions taken are comprehensive and are the subject of considerable scrutiny but the actual content of different reports is not always made clear which could allow for misinterpretation or misunderstanding to arise.

Recent reports of arrears collection performance indicate results are improving although it is too early to assess whether the revised processes introduced are adequate to reduce the long term level of rent arrears.

The housing rent arrears recovery policy includes actions to be applied if it becomes clear that the recovery of any particular rent arrears debts will not be possible or practicable and the debt should be written off. A revised procedure for the write off of rent debts was included in the November 2016 paper to the Housing and Health Committee and sets out the actions to be followed through to receiving the annual approval for the write off at the June meeting of the Strategic Policy and Resources Committee, in compliance with Financial Regulations. There is scope to develop this further in order to ensure that all actions are undertaken on a timely basis for writing off debts once approved by Committee.

Strength of Internal Controls:

Moderately Strong

Control Objective: 2. to ensure that the calculation and reporting of rent arrears and related bad debt provision are accurate and appropriate

Auditor's Comments: Internal Audit acknowledges the progress being made in the management of rent arrears and the increased oversight by Housing management.

The calculation of rent arrears is undertaken automatically by the housing rents system based on the weekly calculations of rents becoming due, offset by the input of payments received. Unpaid rental amounts are then included on the numerous regular arrears reports. Monthly versions of these system reports are used by

## Internal Audit Report

Finance to generate detailed and accurate journal postings to the financial ledgers for all aspects of housing rents activities (rental income, arrears debtors, debt write-offs etc).

It was noted that whilst the monthly journal creation process incorporates a self-checking mechanism to ensure accuracy there is no separate reconciliation carried out to ensure that the housing rental system and financial ledgers are in agreement.

To ensure that the Housing Revenue Account presents a fair view of the assets and liabilities of the housing rents activity it is necessary to adjust the total rent arrears debt outstanding to include a provision for the write off of bad debts. This provision is calculated at the end of each financial year based upon the latest level of debt. There is scope to improve procedures in this regard.

|                                |          |
|--------------------------------|----------|
| Strength of Internal Controls: | Moderate |
|--------------------------------|----------|

### Management Action and Follow-Up

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

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

It is management's responsibility to ensure that the action plan presented in this report is achievable and appropriate to the circumstances. Where a decision is taken not to act in response to this report, it is the responsibility of management to assess and accept the risks arising from non-implementation.

Achievement of the action plan is monitored through Internal Audit's 'follow up' arrangements.

Management should ensure that the relevant risk profiles are reviewed and updated where necessary to take account of the contents of Internal Audit reports. The completeness of risk profiles will be examined as part of Internal Audit's normal planned work.

### Acknowledgements

Internal Audit acknowledges with thanks the co-operation of Housing and Strategic Commissioning staff during this audit.

### Feedback

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

### Distribution

The draft report will be issued to the following officers:

B Malone, Chief Executive

J Fyffe, Senior Depute Chief Executive

B. Atkinson, Director (Social Work),



## Internal Audit Report

L Cameron, Head of Housing & Strategic Commissioning

J Symon, Head of Finance

C Mailer, Senior Service Manager, Housing

M Dow, Neighbourhood Operations Service Manager

R Williams, Team Leader, Income Maximisation

S.Strathearn, Business Improvement Manager

F Lambie, Accountant

L Simpson, Head of Legal and Governance Services

K McNamara, Head of Community Planning, Strategic Commissioning and Organisational Development

P Dickson, Complaints & Governance Officer

External Audit

### Authorisation

The auditor for this assignment was D Brownlow. The supervising auditor was J Clark

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Jacqueline Clark  
Chief Internal Auditor  
Date: 6 March 2017

## Appendix 1: Summary of Action Points

| No. | Action Point                                      | Risk/Importance |
|-----|---------------------------------------------------|-----------------|
| 1   | Updated policy                                    | Low             |
| 2   | Arrears system escalation suspension procedure    | Medium          |
| 3   | Contents of arrears reports                       | Low             |
| 4   | Bad debt write off procedure                      | Low             |
| 5   | Reconciliation and bad debt provision calculation | High            |

## Appendix 2: Action Plan

### Action Point 1 - Updated Policy

The Policy for Current and Former Tenant Rent Arrears was approved at the November 2016 meeting of the Housing and Health Committee but is not yet available via the Council's web page.

### Management Action Plan

The Policy is now linked to the Rent Arrears and Advice page on the Council's website.

|                                     |                                                                   |
|-------------------------------------|-------------------------------------------------------------------|
| Importance:                         | Low                                                               |
| Responsible Officer:                | R Williams, Team Leader – Income Maximisation                     |
| Lead Service:                       | Housing and Community Care                                        |
| Date for Completion (Month / Year): | Completed                                                         |
| Required Evidence of Completion:    | The updated policy document is made available on the PKC web page |

### Auditor's Comments

Satisfactory

## Action Point 2 - Arrears system escalation suspension procedure

The rent arrears management system includes a weekly escalation process to ensure that tenant accounts recorded as in arrears are the subject of systematic reporting and follow-up each week, unless the escalation action is indicated as suspended. The Northgate V.6 User Guide for the Rent Arrears Process, includes the instruction to 'remember to set the end date for the suspension'. This reliance on officers' memories presents a risk that debts will not be pursued in accordance with the approved rent arrears escalation process if the suspension procedure is not appropriately managed or supervised

### Management Action Plan

The Service has reviewed and updated its processes and procedures so that reports are considered on a weekly basis by Locality Coordinators. This change took effect from January 2017 and reports are now being considered weekly and are also considered by the monthly Operations and Performance Scrutiny meetings.

|                                     |                                                                                    |
|-------------------------------------|------------------------------------------------------------------------------------|
| Importance:                         | Medium                                                                             |
| Responsible Officer:                | R Williams, Team Leader – Income Maximisation                                      |
| Lead Service:                       | Housing and Community Care                                                         |
| Date for Completion (Month / Year): | Completed                                                                          |
| Required Evidence of Completion:    | New guidelines for the activation and control of the escalation suspension process |

### Auditor's Comments

Satisfactory

### Action Point 3 - Content of rent arrears reports

Rent arrears can be divided into numerous categories for management reporting and control purposes, ie current and / or former tenant arrears, residential and / or non-residential arrears and arrears gross or net of debts written off. There is scope to improve the documentation of some procedures or guidelines for the production of some internal reports, some of which do not clearly specify the basis of arrears included.

### Management Action Plan

The Service will review the reports which are provided to ensure that they clarify the content and purpose.

|                                     |                                                                                             |
|-------------------------------------|---------------------------------------------------------------------------------------------|
| Importance:                         | Low                                                                                         |
| Responsible Officer:                | R Williams, Team Leader – Income Maximisation                                               |
| Lead Service:                       | Housing and Community Care                                                                  |
| Date for Completion (Month / Year): | August 2017                                                                                 |
| Required Evidence of Completion:    | Report production procedure produced and report contents to be specified within each report |

### Auditor's Comments

Satisfactory

#### Action Point 4 - Bad debt write off procedure

Individual tenant records had not been updated at the time of the review and the document does not provide guidance on the amendment of the rent records system for write offs once approved by the Strategic Policy & Resources Committee.

#### Management Action Plan

- 1) All relevant records have now been updated.
- 2) Procedures will be updated to ensure the appropriate treatment of bad debts which have been written off.

|                                     |                                               |
|-------------------------------------|-----------------------------------------------|
| Importance:                         | Low                                           |
| Responsible Officer:                | R Williams, Team Leader – Income Maximisation |
| Lead Service:                       | Housing and Community Care                    |
| Date for Completion (Month / Year): | 1) Completed<br>2) July 2017                  |
| Required Evidence of Completion:    | 2) Revised bad debt write off procedure       |

#### Auditor's Comments

Satisfactory

## Action Point 5 - Reconciliation and Bad Debt Provision Calculation

Financial ledgers are updated for all aspects of housing rents activities (rental income, arrears, in-year debt write-offs etc) via the input of monthly journals which are created based on monthly Northgate system reports.

It was noted that, whilst the monthly journal creation process incorporates a self-checking mechanism to ensure accuracy throughout the financial year, there is no journal to account for the value of write offs approved annually by SP&R Committee, and no reconciliation process to ensure that the housing rents system and financial ledgers are in agreement at year end.

Furthermore, the annual bad debt provision adjustment is calculated under the year-end accounting process and is based upon a rents system gross age of debt analysis report. The bad debt provision does not take account of bad debts approved for write off at the year end or any adjustments to assumptions to reflect the latest rent arrears collection performance.

### Management Action Plan

The processes and procedures which ensure the accuracy of the final accounts with regard to ensuring the reconciliation of the housing rents system and financial ledgers for arrears written off have been updated.

Procedures for the calculation of the annual bad debt provision have been updated.

|                                     |                                                                                                                    |
|-------------------------------------|--------------------------------------------------------------------------------------------------------------------|
| Importance:                         | High                                                                                                               |
| Responsible Officer:                | F Lambie, Accountant                                                                                               |
| Lead Service:                       | Corporate and Democratic Services                                                                                  |
| Date for Completion (Month / Year): | Completed                                                                                                          |
| Required Evidence of Completion:    | Procedure for accounting for annual bad debt write offs and reconciling rent system records with financial ledgers |

### Auditor's Comments

Satisfactory







# Perth and Kinross Council

Audit strategy  
Year ending 31 March 2017  
24 February 2017  
For Audit Committee consideration on 22 March 2017

# Contents

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## About this report

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

This report is for the benefit of Perth and Kinross Council and is made available to Audit Scotland and the Controller of Audit (together "the Beneficiaries"). This report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, even though we may have been aware that others might read this report. We have prepared this report for the benefit of the Beneficiaries alone.

Nothing in this report constitutes an opinion on a valuation or legal advice.

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

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

## Complaints

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Andy Shaw, who is the engagement leader for our services to Perth and Kinross Council, telephone 0131 527 6673 email: [andrew.shaw@kpmg.co.uk](mailto:andrew.shaw@kpmg.co.uk), who will try to resolve your complaint. If your problem is not resolved, you should contact Alex Sanderson, 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 6720 or email to [alex.sanderson@kpmg.co.uk](mailto:alex.sanderson@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 Russell Frith, Assistant Auditor General, Audit Scotland, 4<sup>th</sup> Floor, 102 West Port, Edinburgh, EH3 9DN.

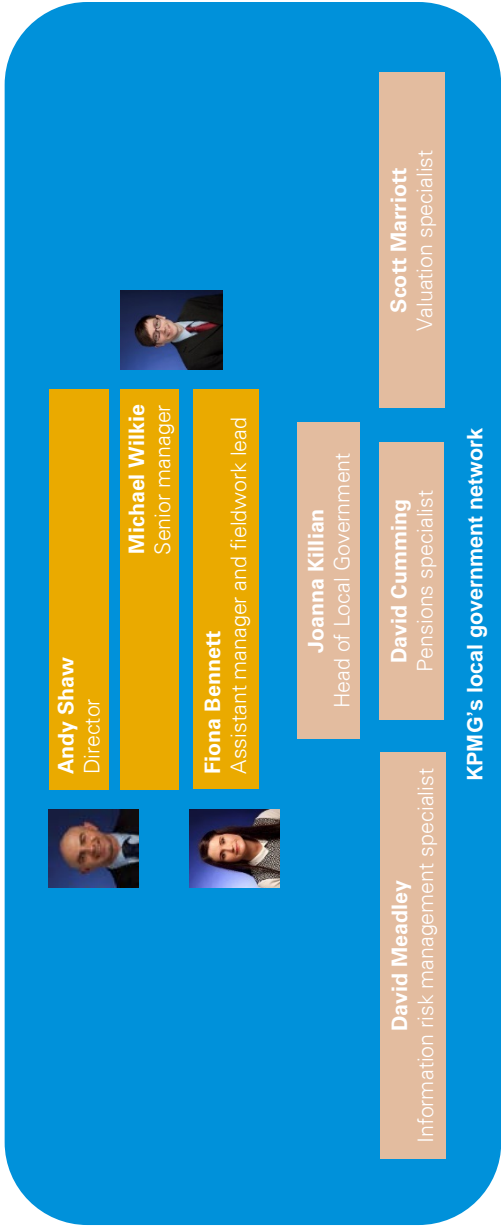
# Introduction

We are pleased to be appointed as the external auditor of Perth and Kinross Council ("the Council") for the period 2016-17 to 2020-21, inclusive. We look forward to working with officers and members over the course of our appointment. Our transition work commenced in November 2016, and we thank staff for the co-operation and welcome provided so far.

We set out below a short introduction to the KPMG team and the purpose of this report.

## Our team

The senior team involved in the external audit have significant experience in the audit of local authorities. The team is supported by specialists, all of whom work with a variety of local government and public sector bodies. All members of the team are part of our wider local government network, which is headed up by Joanna Killian. The diagram below sets out the senior members of the audit team. Contact details are provided on the back page of this report.



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## Financial statement audit



### Materiality

Group materiality for planning purposes has been based on last year's expenditure and set at £9.2 million, which equates to 2% of gross cost of services expenditure. This materiality is within the expected range. We will review the level of materiality on receipt of draft accounts for 2016-17.

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

### Significant risks

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

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

### Other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding have been identified as:

- presentation of the financial statements – 'telling the story';
- capital expenditure;
- highways network assets readiness; and
- consolidation of the Integration Joint Board.

**See pages seven to 11 for more details.**

## Wider Scope and Best Value



A new Code of Audit Practice was published in May 2016 and is applicable to all audits from financial year 2016-17. This requires auditors to assess and provide conclusions in the annual audit report in respect of four wider scope dimensions:

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

The Accounts Commission introduced a new framework for auditing Best Value ("BV") in 2016, integrated into the annual audit. Each year of the five year appointment we will perform audit activity over two of the seven BV areas. For 2016-17 the Accounts Commission has determined that Financial and Service Planning and Financial Governance and Resource Management will be covered.

**See pages 12 and 13 for more details.**

## Logistics



Our team is:

- Andy Shaw – Director;
- Michael Wilkie – Senior Manager; and
- Fiona Bennett – Assistant Manager.

Our work will be completed in four phases from December 2016 to September 2017 and our key deliverables are this audit strategy, an interim report and an annual audit report as outlined on **page 17**.

# Scope of audit

## Scope definition

The Accounts Commission has appointed KPMG LLP as auditor of Perth and Kinross Council ("the Council") in accordance with the Local Government (Scotland) Act 1973. The period of appointment is 2016-17 to 2020-21, inclusive.

## Purpose

This document summarises our responsibilities as external auditor for the year ending 31 March 2017 and our intended approach to issues impacting the Council's activities in the year.

## KPMG's planned audit work in 2016-17 will include:

- an audit of the financial statements and provision of an opinion on whether the financial statements:
- give a true and fair view in accordance with the applicable law and the Code of Practice on Local Authority Accounting in the United Kingdom ("the 2016-17 Code") of the state of the affairs of the Council as at 31 March 2017 and of the income and expenditure of the Council for the year then ended; and
- have been prepared in accordance with IFRS as adopted by the European Union, as interpreted and adapted by the 2016-17 Code, the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014 and the Local Government in Scotland Act 2003, participation in the shared risk assessment as part of the local area network;
- participation in the shared risk assessment as part of the local area network;
- completion of returns to Audit Scotland and certification of grant claims;
- a review and assessment of the Council's governance arrangements and review of the governance statement;
- a review of National Fraud Initiative arrangements;
- a review of arrangements for preparing and publishing statutory performance information; and
- developing a Best Value audit plan for the five-year period and perform risk assessed work in line with year one of this plan.

- the financial statements and related reports;
- corporate governance;
- prevention and detection of fraud and irregularities;
- standards of conduct for prevention and detection of fraud and error;
- financial position; and
- Best Value.

These responsibilities are outlined in appendix seven.

## Financial statements audit

Our financial statements audit work follows a four stage audit process, which is identified below. Appendix one provides more detail on the activities this includes. This report focuses on the planning stage of the audit. Our control evaluation will include a review of internal audit in line with the requirements of the Code and we will assess if we can place reliance on its work to support controls testing.



## Best Value audit activity

BV audit activity follows a process which is identified below, page 13 provides detail on the activities this includes. This report focuses on explaining the BV approach for the 2016- 17 audit and our annual audit report will conclude on the year one areas.



# Financial statements audit planning



## Materiality

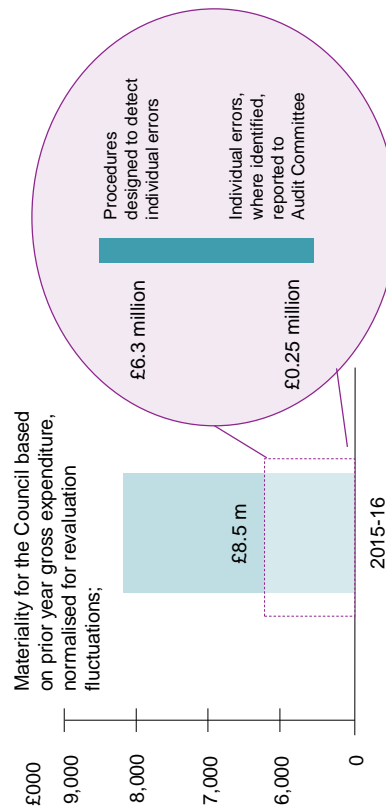
We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment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

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

Materiality for planning purposes has been set at £8.5 million for the Council's standalone accounts, and at £9.2 million for the group accounts. In both cases this equates to 2% of cost of services expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

## Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.



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

An individual difference is considered to be clearly trivial if it is less than £0.25 million.

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

## Group audit

In addition to the Council we deem the following subsidiaries and associates to be significant in the context of the group audit:

- Perth and Kinross Integration Joint Board
- Tayside Contracts Joint Committee

To support our audit work on the Council's group accounts, we seek to place reliance on the work of firms who are the auditors to these subsidiaries. We will liaise with them in order to confirm that their programme of work is adequate for our purposes and they satisfy professional requirements.

The Council's group structure and scoping of subsidiaries, associates and joint ventures is provided at appendix six.

We will report the following matters in the annual audit report:

- deficiencies in the system of internal controls or instances of fraud which the subsidiary auditors identify;
- limitations on the group audit, for example, where the access to information may have been restricted; and
- instances where our evaluation of the work of the subsidiary auditors gives rise to concern about the quality of that auditor's work.



# Financial statements audit planning (continued)

**Risk assessment:** Our planning work takes place during December 2016 to February 2017. This involves: risk assessment; determining the materiality level; and issuing this audit plan to communicate our audit strategy. We use our knowledge of the Council, discussions with management and review of Council papers to identify areas of risk and audit focus categorised into financial risks and wider dimension risks as set out in the Code.

| Significant risk                                       | Why                                                                                                                                                                                                                                                                                                                                                                                                     | Audit approach                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
|--------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Financial statement risks</b>                       |                                                                                                                                                                                                                                                                                                                                                                                                         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| <b>Fraud risk from management override of controls</b> | Professional standards require us to communicate the fraud risk from management override of controls as a significant risk; as the standards consider management to typically be in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. | <ul style="list-style-type: none"> <li>Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to the audit of the Council.</li> <li>Strong oversight of finances by management provides additional review of potential material errors caused by management override of controls.</li> <li>In line with our methodology, we will carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the Council's normal course of business, or are otherwise unusual.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| <b>Fraud risk from income revenue recognition</b>      | Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.                                                                                                                                                                                                                                                                  | <p>We have considered the fraud risk from revenue recognition for the Council for each of its significant revenue streams and summarise our view of revenue recognition risk for each below.</p> <ul style="list-style-type: none"> <li>Non-ringfenced government grants are agreed in advance of the year, with any changes requiring government approval. There is no estimation or judgement in recognising this stream of income and we do not regard the risk of fraud to be significant.</li> <li>The other major sources of income are from annual local taxes and rental income (council tax, non-domestic rates and housing revenues). These revenues are prescribed by law and other specific regulations, which prescribe the period in which annual local taxes and rental income is recognised as revenue. This minimises the level of judgement required in revenue recognition by management and we do not regard the risk of fraud from this revenue recognition as significant.</li> <li>We consider the fraud risk from recognition of other income to be significant. Other income relates primarily to charges or service income from varying different streams and therefore we consider there to be judgement in recognising this income.</li> <li>The potential for other income to be incorrectly recognised will be addressed through controls testing and substantive procedures. We will consider each source of income and analyse results against budgets and forecasts, performing substantive analytical procedures and tests of details.</li> </ul> |

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# Financial statements audit planning (continued)



| Significant risk                                    | Why                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Audit approach                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|-----------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Revaluation of property, plant and equipment</b> | <p>Under the 2016-17 Code and IFRS, property, plant and equipment ("PPE") is required to be held on the balance sheet at fair value. In order to comply with these accounting requirements, Council assets are subject to rolling valuations; with nursery, primary and secondary schools, outdoor centres, tips (former landfill sites) and investment properties being subject to valuation in 2016-17. The total value of PPE as at 31 March 2016 was £1,056 million, therefore the revaluation is likely to be significant. Furthermore, the Council holds £18 million of investment property, which must be revalued on an annual basis.</p> <p>As with any local authority which performs valuations, this is an inherently judgemental area and is therefore an area of financial statement risk..</p> | <p>Our audit approach includes:</p> <ul style="list-style-type: none"> <li>■ review by KPMG of the in-house valuation team and of the use of any other experts; this will consider their objectivity, independence, experience and integrity;</li> <li>■ selecting a sample of assets to agree to supporting evidence and re-perform the revaluation calculations;</li> <li>■ review of material manual journals posted to both the fixed asset and revaluation accounts; and</li> <li>■ review of impairment indicators for those items that have been revalued.</li> </ul>                                                                                                                                                          |
| <b>Retirement benefits</b>                          | <p>The Council accounts for its participation in the Tayside pension fund and in accordance with IAS 19 <i>Retirement benefits</i>, using information obtained in a valuation report prepared by actuarial consultants.</p> <p>Actuaries use membership data and a number of assumptions in calculations based on market conditions at the year end, including a discount rate to derive the future liabilities back to the year end date and assumptions on future salary increases.</p> <p>IAS 19 requires the discount rate to be set by reference to yields on high quality (i.e. AA) corporate bonds of equivalent term to the liabilities. The calculation of the pension liability is inherently judgemental for all local authorities and represents an area of financial statement risk.</p>         | <p>Our audit approach to IAS19 includes:</p> <ul style="list-style-type: none"> <li>■ review by KPMG specialists of the financial assumptions underlying actuarial calculations and comparison to our central benchmarks;</li> <li>■ testing of scheme rolled-forward liabilities;</li> <li>■ reviewing the valuation of scheme assets, including assessing the risk of error or bias in the valuations and re-performing asset valuations;</li> <li>■ testing of the level of contributions used by the actuary to those actually paid during the year;</li> <li>■ testing of membership data used by the actuary to data from the Council; and</li> <li>■ agreeing actuarial reports to financial statement disclosures.</li> </ul> |



# Financial statements audit planning (continued)



| Other focus area                                                             | Why                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         | Audit approach                                                                                                                                                                                                                                                                                                                                                                                                            |
|------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Presentation of the financial statements – ‘telling the story’</b></p> | <p>During past years, CIPFA has been working with stakeholders to develop better accountability through the financial statements as part of its ‘telling the whole story’ project. The key objective of this project was to make financial statements more understandable and transparent to the reader in terms of how Councils are funded and how they use the funding to serve the local population. The outcome of this project resulted in two main changes in respect of the Code as follows:</p> <ul style="list-style-type: none"> <li>■ Allowing Councils to report on the same basis as they are organised by removing the requirement for the Service Reporting Code of Practice (“SeRCOP”) to be applied to the Comprehensive Income and Expenditure Statement (“CIES”).</li> <li>■ Introducing an Expenditure and Funding Analysis (“EFA”) which provides a direct reconciliation between the way Councils are funded and prepare their budget and the CIES. This analysis is supported by a streamlined Movement in Reserves Statement (MIRS) and replaces the current segmental reporting note.</li> </ul> <p>As a result of these changes, retrospective restatement of CIES (cost of services), EFA and MIRS is required from 1 April 2016 in the financial statements.</p> <p>New disclosure requirements and restatement requires compliance with relevant guidance and correct application of applicable Accounting Standards. Though less likely to give rise to a material error in the financial statements, this is an important material disclosure change in this year’s financial statements, worthy of audit understanding.</p> | <p>As part of our audit:</p> <ul style="list-style-type: none"> <li>■ We will assess how the Council has actioned the revised disclosure requirements for the CIES, MIRS and the new EFA statement as required by the Code.</li> <li>■ We will check the restated numbers and associated disclosures for accuracy, correct presentation and compliance with applicable Accounting Standards and Code guidance.</li> </ul> |



# Financial statements audit planning (continued)

| Other focus area                | Why                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Audit approach                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
|---------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Consolidation of the IJB</b> | <p>The IJB was established in 2015-16, and took on full delegated functions from 1 April 2016. The consolidation of this new entity will have a material impact on the 2016-17 financial statements. There will be a number of intra group transactions to be recognised.</p> <p>The Council will also have shared risk over the IJB with NHS Tayside, as well as obligations for delivery of services as requested by the IJB. Strong monitoring and reporting will be required within the Council to ensure all statutory requirements are met and risk is managed at an appropriate level.</p>                                                                                                                         | <p>Our audit approach includes:</p> <ul style="list-style-type: none"> <li>■ testing the high level consolidation controls;</li> <li>■ reviewing the group consolidation instructions;</li> <li>■ agreeing the intra group transactions and consolidated amounts to those of the IJB financial statements;</li> <li>■ discussing with management the overall reporting and monitoring arrangements in place within the Council to meet its obligations to the IJB;</li> <li>■ confirming the accounting treatment is appropriate with a particular focus on the treatment of reserves. We will consider the arrangements in respect of any balance of unspent or overspent funds at the year end; and</li> <li>■ reviewing the joint internal audit work completed by the NHS Tayside internal auditors over the IJB.</li> </ul> |
| <b>Highways network assets</b>  | <p>The 2016-17 Code intended to introduce accounting for Highways Network Assets in accordance with the Code of Practice on Transport Infrastructure Assets ("the transport code"). These assets must be recognised and measured at depreciated replacement cost. This requirement has now been dropped, however it is expected the requirement will be included in the 2017-18 Code.</p> <p>Although there is no requirement to account for these in the 2016-17 financial statements, the Council should be preparing for the future impact.</p> <p>Given the scale of this exercise across all UK local authorities it presents a risk of material misstatement as it involves complex estimations and judgements.</p> | <p>Our audit approach includes:</p> <ul style="list-style-type: none"> <li>■ discussions with management to understand their processes and plans to prepare for the integration of the highway network asset balances;</li> <li>■ reviewing the Council's planned approach to the revaluation of assets and their use of resources and external advice; and</li> <li>■ comparing against the requirements of the Transport Code and the Code to determine the Council's readiness for implementation.</li> </ul>                                                                                                                                                                                                                                                                                                                 |

# Financial statements audit planning (continued)



| Other focus area           | Why                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Audit approach                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|----------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Capital expenditure</b> | <p>The Council has a capital budget of just under £300 million over the next five years. This is split between £219 million for the composite budget and £80 million for the housing investment programme. The expected spend in 2016-17 is £100 million with £81 million for the composite budget and £19 million for the housing investment programme.</p> <p>Due to the significance of this capital investment programme and inherent risk of delivering it in line with budget, we consider this to be an other focus area for our audit work to ensure the classification of costs between operating and capital expenditure is appropriate.</p> | <p>Our audit approach includes:</p> <ul style="list-style-type: none"> <li>■ reviewing the capital plan and discussing the monitoring of this by teams across the Council;</li> <li>■ understanding the processes to verify the appropriate recording of capital and other expenses in the financial records and that authorisation by appropriate individuals has occurred;</li> <li>■ selecting a sample of capital item additions to agree to invoice to verify appropriateness of classification of items between expenditure and capital expenditure;</li> <li>■ selecting a sample of expense items to agree to invoice to verify appropriateness of items expense allocation and clarification;</li> <li>■ testing of reallocation of assets under the course of construction to fixed asset categories at the period end to ensure appropriate categorisation; and</li> <li>■ reviewing accounting treatment of developer contributions to significant capital projects.</li> </ul> |

# Wider scope and Best Value



We are required to assess and provide conclusions in the annual audit report in respect of four wider scope dimensions; financial sustainability, financial management, governance and transparency and value for money. We set out below an overview of some of the areas we will consider as part of the wider scope requirements of our annual audit. We will provide narrative on these areas in the annual audit report.

| Risk                                                     | Why                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | Audit approach                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|----------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Wider dimension risks</b>                             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| <b>Financial sustainability and financial management</b> | <p>Financial sustainability looks forward to the medium and longer term to consider whether the Council is planning effectively to continue to deliver its services or the way in which they should be delivered.</p> <p>Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.</p> <p>The Council is delivering a transformation plan, to consider efficient delivery of services against a backdrop of continuing reductions in funding.</p> | <ul style="list-style-type: none"> <li>■ We will consider the Council's long term financial plans and its ability to adapt to the changing landscape in local government funding. This will involve consideration of the 2017-18 budget and longer term financial plans from 2018-19 and beyond, including sensitivity analysis.</li> <li>■ We will consider how the Council's transformation programme is progressing and any potential impact on financial and service planning.</li> <li>■ Best Value work, as set out on page 13, will consider Financial and Service Planning and Financial Governance and Resource Management.</li> </ul> |
| <b>Governance and transparency</b>                       | <p>Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.</p>                                                                                                                                                                                                                                                                                                                                               | <ul style="list-style-type: none"> <li>■ We will consider the effectiveness of scrutiny and governance arrangements, by evaluating the challenge and transparency of the reporting of financial and performance information.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                         |
| <b>Value for money</b>                                   | <p>Value for money is concerned with how effectively resources are used to provide services.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | <ul style="list-style-type: none"> <li>■ We will specifically consider statutory performance indicators, performance reporting and arrangements to provide for continuous improvement.</li> <li>■ In the context of the Council's capital plan and procurement procedures, we will consider the arrangements to provide for value for money.</li> </ul>                                                                                                                                                                                                                                                                                         |

# Wider scope and Best Value (continued)



The Accounts Commission introduced a new framework for auditing BV in 2016, integrated through the annual audit approach.

## Shared risk assessment

Local area networks ("LANs") are established for each local Council. These bring together local scrutiny representatives in a systematic way to agree a shared risk assessment. As the new external auditor for 2016-17, we are a key member of the shared risk assessment process for the Council.

A national scrutiny plan sets out how Scotland's scrutiny agencies coordinate their work and focus on the key issues at each council. This plan is underpinned by a local scrutiny plan for individual councils.

The process to begin the shared risk assessment for 2017-18 has begun, and a local scrutiny plan will be agreed with management by 31 March 2017, followed by publication in Spring 2017.

Those areas of risk identified in this process inform the Best Value risk assessment and feed into the prioritisation of reviews over the five year cycle. This will be reassessed on an annual basis.

## Best value and continuous improvement

Best Value audits have previously been carried out by central teams within Audit Scotland's performance audit and best value ("PABV") group in partnership with local auditors. The timing, nature and extent of these is determined as part of the shared risk assessment process.

The Accounts Commission has developed a new approach to Best Value for 2016-17, with emphasis on driving continuous improvement and providing a Best Value report for each Council at least once every five years. The new arrangements will develop a joint responsibility of best value between PABV and local auditors. Under the approach, our role will be expanded to include scoping, planning, gathering evidence and contributing to best value audit reports.

There are seven statutory BV audit areas to be covered over the five year BV cycle, as set out below. For 2016-17, the Accounts Commission has directed that Financial and Service Planning and Financial Governance and Resource Management will be audited. We will complete the Best Value audit programme for each area to inform our risk assessment. We will then focus in our on the areas of most significance to the Council, following discussion with management.

Our interim report, to be presented to the audit committee in June 2017, will set out more details of the areas to be covered in years one and two of our Best Value work.

| Seven statutory BV audit areas                 |  |                                |  |
|------------------------------------------------|--|--------------------------------|--|
| Performance and outcomes                       |  | Improvement                    |  |
| Leadership, scrutiny and governance            |  | Equal opportunities            |  |
| Partnership working and empowering communities |  | Financial and service planning |  |
| Financial governance and resource management   |  |                                |  |



# Appendices

# Mandated communications with the Audit Committee

| Matters to be communicated                                                                                                                                                                                                                                                                 |  | Link to Audit Committee papers                                                                                                                            |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|-----------------------------------------------------------------------------------------------------------------------------------------------------------|
| ■ Relationships that may bear on the firm's Independence and the integrity and objectivity of the audit engagement partner and audit staff (ISA 260 and Combined Code)                                                                                                                     |  | ■ See next page                                                                                                                                           |
| ■ The general approach and overall scope of the audit, including levels of materiality, fraud risks, business risks and audit responses and engagement letter (ISA 260)                                                                                                                    |  | ■ Main body of this paper                                                                                                                                 |
| ■ Disagreement with management about matters that, individually or in aggregate, could be significant to the entity's financial statements or the auditor's report (ISA 260)                                                                                                               |  | ■ In the event of such matters of significance we expect to communicate with the Audit Committee throughout the year.                                     |
| ■ The potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements (ISA 260)                                                                                                |  | ■ Formal reporting will be included in our annual audit report for the September 2017 Audit Committee meeting, which focuses on the financial statements. |
| ■ Audit adjustments, whether or not recorded by the entity that have, or could have, a material effect on the entity's financial statements (ISA 260)                                                                                                                                      |  |                                                                                                                                                           |
| ■ The selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the entity's financial statements (ISA 260)                                                                                                                |  |                                                                                                                                                           |
| ■ The auditor's view on valuations and related disclosures (ISA 260)                                                                                                                                                                                                                       |  |                                                                                                                                                           |
| ■ Material uncertainties related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern (ISA 260)                                                                                                                                 |  |                                                                                                                                                           |
| ■ Expected modifications to the auditor's report (ISA 260)                                                                                                                                                                                                                                 |  |                                                                                                                                                           |
| ■ Other matters warranting attention by those charged with governance, such as effectiveness of internal controls relevant to financial reporting, material weaknesses in internal control, questions regarding management integrity, and fraud involving management (ISA 260 and ISA 240) |  |                                                                                                                                                           |

# Auditor independence

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

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

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

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

We will communicate any significant judgements made about threats to objectivity and independence and the appropriateness of safeguards put in place.

### General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standards. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values;
- Communications;
- Internal accountability;

- Risk management; and
- Independent reviews.

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

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

We have considered the fees charged by us to the Council and its affiliates for professional services provided by us during the reporting period. We have detailed the fees charged by us to the Council and its related entities for significant professional services provided by us during the reporting period in the table below, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2017 can be analysed as follows:

| Services provided to the Council and its group in respect of: | 2016-17<br>(excl VAT) |
|---------------------------------------------------------------|-----------------------|
| Audit of the financial statements                             | 129,326               |
| Other audit related services                                  | 27,000                |
| Total non-audit services                                      | 27,000                |
| Total                                                         | 150,571               |

The ratio of non-audit fees to audit fees for the year was 0.21: 1.

We do not consider that the total non-audit fees create a self-interest threat since the absolute level of fees is not significant to our firm as a whole.



# Auditor independence (continued)

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out in the following table

| Disclosure       | Description of scope of services                                                                                                                                                                        | Principal threats to Independence | Safeguards Applied                                                                                                                                                                                                                                            | Basis of fee | Value of Services Delivered in the year ending 31 March 2017 | Value of Services committed but not yet delivered |
|------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|--------------------------------------------------------------|---------------------------------------------------|
| VAT claim advice | Support with VAT claims in respect of sporting services. Originally agreed on a contingent fee basis, however amended to a fixed fee on appointment as external auditor in line with Ethical Standards. | Self-review                       | Self-review—engagement delivered by a team separate from the external audit team and does not involve actions which directly impact on the financial statements. KPMG did not assume a management role and the claims relate to the application of tax rules. | Fixed fee    | £27,000                                                      | -                                                 |

## Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit Committee.

## Confirmation of audit independence

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

This report is intended solely for the information of the Audit Committee of Perth and Kinross Council and should not be used for any other purposes.

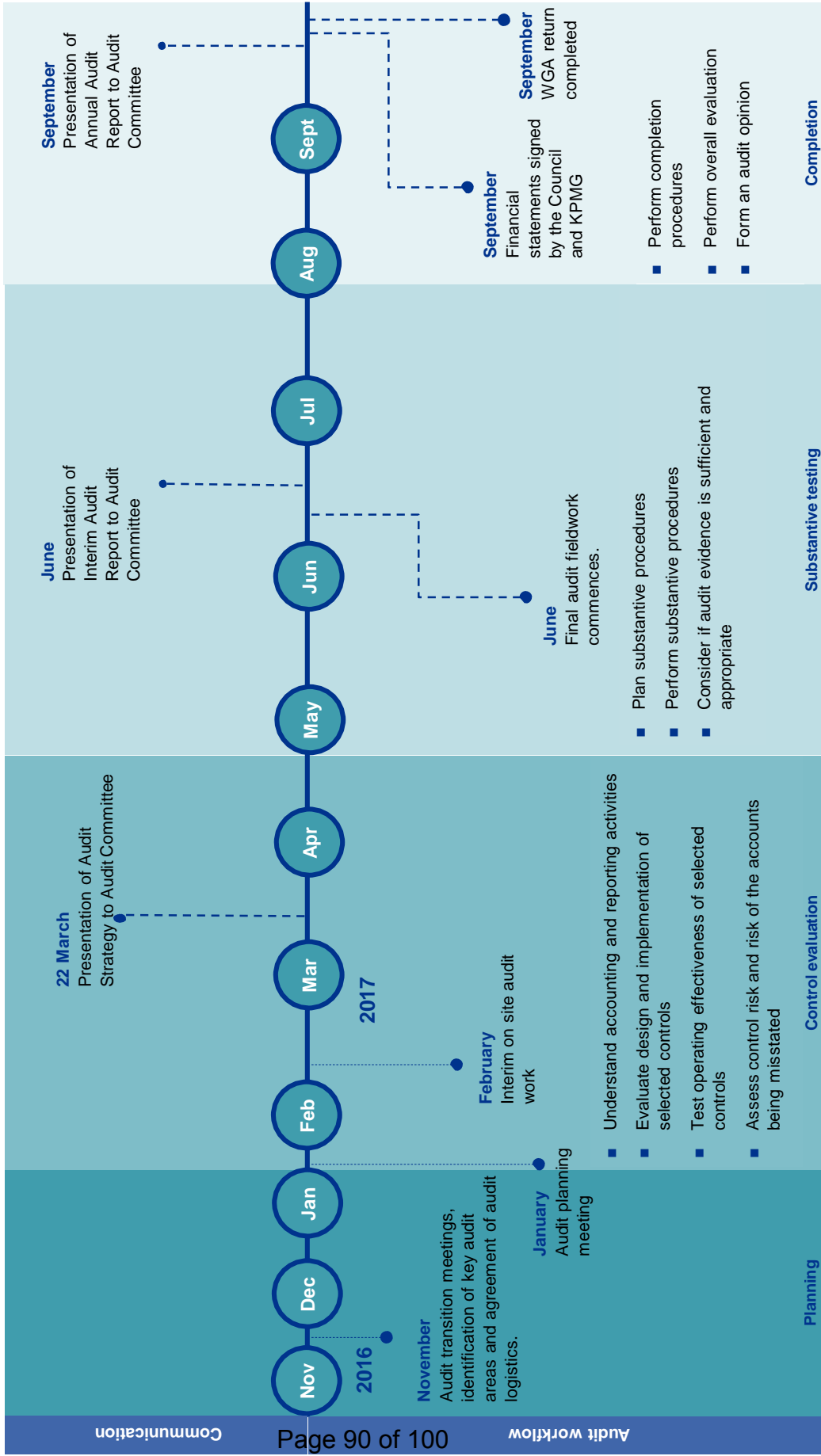
We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

KPMG LLP



# Timeline



# Audit outputs

| Output                                                          | Description                                                                                                                                                                                                                                                                                                         | Report date                                                                                                                                                                                                                |
|-----------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Audit strategy</b>                                           | <ul style="list-style-type: none"> <li>Our strategy for the external audit of the Council and its Group, including significant risk and audit focus areas.</li> </ul>                                                                                                                                               | <ul style="list-style-type: none"> <li>By 31 March 2017</li> </ul>                                                                                                                                                         |
| <b>Interim audit report</b>                                     | <ul style="list-style-type: none"> <li>We summarise our findings from our interim audit work.</li> </ul>                                                                                                                                                                                                            | <ul style="list-style-type: none"> <li>By 31 May 2017</li> </ul>                                                                                                                                                           |
| <b>Independent auditor's report</b>                             | <ul style="list-style-type: none"> <li>Our opinion on the Council's financial statements.</li> </ul>                                                                                                                                                                                                                | <ul style="list-style-type: none"> <li>By 30 September 2017</li> </ul>                                                                                                                                                     |
| <b>Annual audit report</b>                                      | <ul style="list-style-type: none"> <li>We summarise our findings from our work during the year.</li> </ul>                                                                                                                                                                                                          | <ul style="list-style-type: none"> <li>By 30 September 2017</li> </ul>                                                                                                                                                     |
| <b>NFI report</b>                                               | <ul style="list-style-type: none"> <li>We report on the Council's actions to investigate and follow-up NFI matches.</li> </ul>                                                                                                                                                                                      | <ul style="list-style-type: none"> <li>By 30 June 2017</li> </ul>                                                                                                                                                          |
| <b>Whole of Government Accounts</b>                             | <ul style="list-style-type: none"> <li>We report on the pack prepared for consolidation and preparation of the Whole of Government Accounts.</li> </ul>                                                                                                                                                             | <ul style="list-style-type: none"> <li>By 30 September 2017</li> </ul>                                                                                                                                                     |
| <b>Audit reports on other returns</b>                           | <ul style="list-style-type: none"> <li>We will report on the following returns:               <ul style="list-style-type: none"> <li>- Current issues return.</li> <li>- Technical database.</li> <li>- Fraud returns.</li> </ul> </li> </ul>                                                                       | <ul style="list-style-type: none"> <li>To submit by:               <ul style="list-style-type: none"> <li>- February, April, August and November 2017</li> <li>- 7 July 2017</li> <li>- 26 May 2017</li> </ul> </li> </ul> |
| <b>Audit reports to support Audit Scotland's wider analysis</b> | <ul style="list-style-type: none"> <li>We will report on the following matters:               <ul style="list-style-type: none"> <li>- ALEOs.</li> <li>- European funding risks.</li> <li>- Health &amp; social care integration progress.</li> <li>- Role of Boards and their contribution.</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>To submit by:               <ul style="list-style-type: none"> <li>- Jan/Feb 2017</li> <li>- Spring 2017</li> <li>- Spring 2017</li> <li>- 30 June 2017</li> </ul> </li> </ul>      |
| <b>Grant claim audits</b>                                       | <ul style="list-style-type: none"> <li>We provide an opinion on:               <ul style="list-style-type: none"> <li>- Education maintenance allowance, Housing Benefit, Non domestic rates and Criminal Justice social work</li> </ul> </li> </ul>                                                                | <ul style="list-style-type: none"> <li>To submit by:               <ul style="list-style-type: none"> <li>- July 2017, November 2017 and August 2017</li> </ul> </li> </ul>                                                |

# FEES

Audit Scotland has completed a review of funding and fee setting arrangements for 2016-17. An expected fee is calculated by Audit Scotland to each entity within its remit. This expected fee is made up of four elements:

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

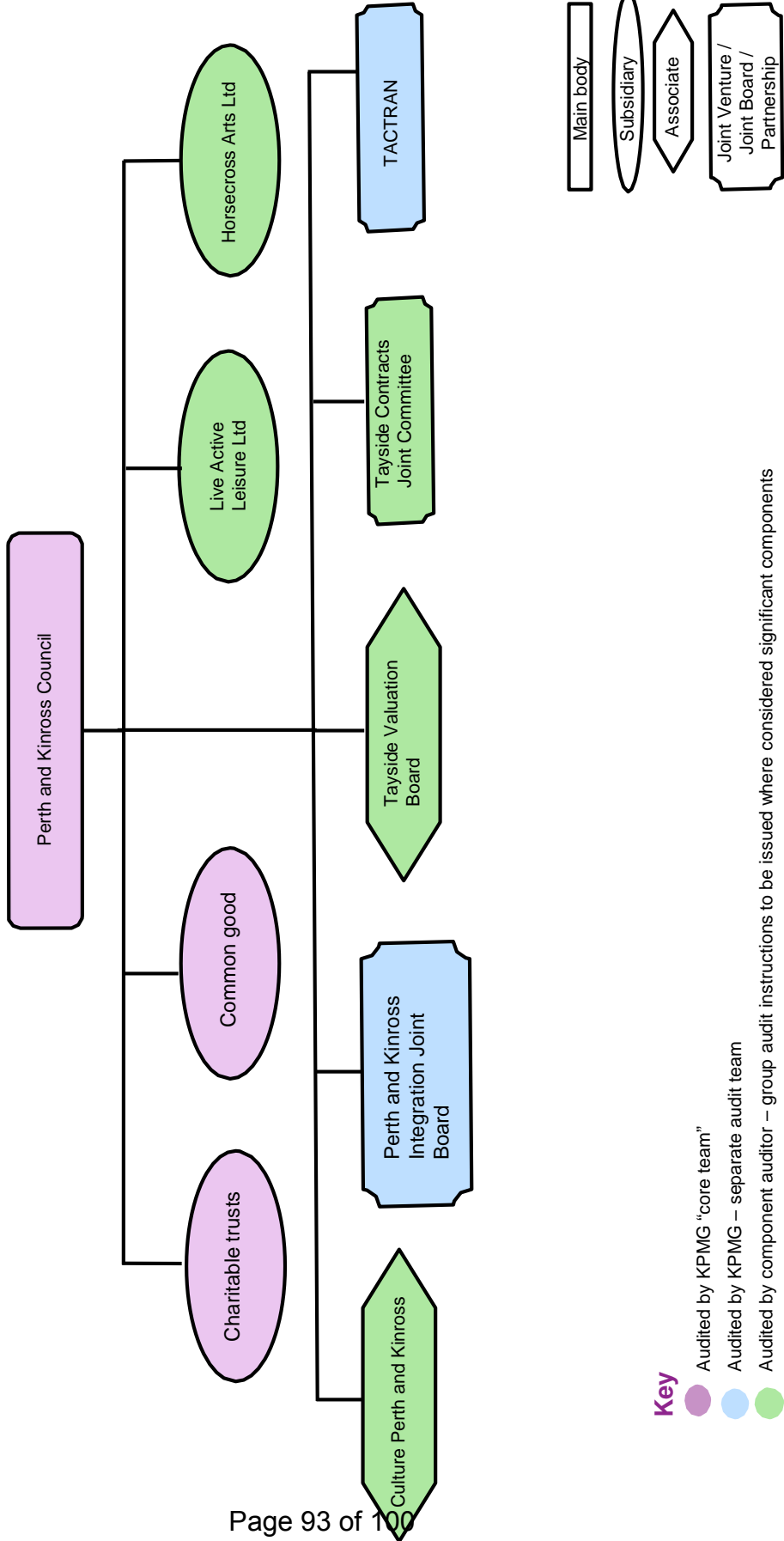
The expected fee for each body assumes that it has sound governance arrangements in place and operating effectively throughout the year, prepares comprehensive and accurate draft accounts and meets the agreed timetable for the audit.

We are in discussions with management regarding the auditor remuneration for 2016-17. Should we be required to undertake significant additional audit work in respect of any of the areas of audit focus or other matters arise, we will discuss with management the impact of this on our proposed fee.

|                                              | 2016-17<br>£ (incl VAT) |
|----------------------------------------------|-------------------------|
| Auditor remuneration                         | 164,148                 |
| Pooled costs                                 | 13,640                  |
| Contribution to PABV                         | 87,950                  |
| Contribution to Audit Scotland costs         | 9,360                   |
| <b>Total Council audit fee</b>               | <b>275,098</b>          |
| Audit of Perth and Kinross Charitable Trusts | 3,600                   |
| <b>Total fee</b>                             | <b>278,098</b>          |

# Group financial statements

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



# Responsibility in relation to fraud

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

## Management responsibilities

- Adopt sound accounting policies.
- With oversight from those charged with governance, establish and maintain internal control, including controls to prevent, deter and detect fraud.
- Establish proper tone/culture/ethics.
- Require periodic confirmation by employees of their responsibilities.
- Take appropriate action in response to actual, suspected or alleged fraud.
- Disclose to Audit Committee and auditors:
  - any significant deficiencies in internal controls.
  - any fraud involving those with a significant role in internal controls.

## KPMG's identification of fraud risk factors

- Review of accounting policies.
- Results of analytical procedures.
- Procedures to identify fraud risk factors.
- Discussion amongst engagement personnel.
- Enquiries of management, Audit Committee, and others.
- Evaluate broad programmes and controls that prevent, deter, and detect fraud.

## KPMG's response to identified fraud risk factors

- Accounting policy assessment.
- Evaluate design of mitigating controls.
- Test effectiveness of controls.
- Address management override of controls.
- Perform substantive audit procedures.
- Evaluate all audit evidence.
- Communicate to Audit Committee and management.

## KPMG's identified fraud risk factors

- Whilst we consider the risk of fraud at the financial statement level to be low for the Council, we will monitor the following areas throughout the year and adapt our audit approach accordingly.
  - Revenue recognition
  - Cash
  - Procurement
  - Management control override
  - Assessment of the impact of identified fraud.

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

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

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

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



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

| Responsibilities of auditors                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |  |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|
| Appointed auditor responsibilities                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |  |
| <p>Auditor responsibilities are derived from statute, this Code, International Standards on Auditing (UK and Ireland), professional requirements and best practice and cover their responsibilities when auditing financial statements and when discharging their wider scope responsibilities. These are to:</p> <ul style="list-style-type: none"> <li>■ undertake statutory duties, and comply with professional engagement and ethical standards;</li> <li>■ provide an opinion on audited bodies' financial statements and, where appropriate, the regularity of transactions;</li> <li>■ review and report on, as appropriate, other information such as annual governance statements, management commentaries, remuneration reports, grant claims and whole of government returns;</li> <li>■ notify the Auditor General when circumstances indicate that a statutory report may be required;</li> <li>■ participate in arrangements to cooperate and coordinate with other scrutiny bodies (local government sector only);</li> <li>■ demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies: <ul style="list-style-type: none"> <li>■ effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets;</li> <li>■ suitability and effectiveness of corporate governance arrangements; and</li> <li>■ financial position and arrangements for securing financial sustainability.</li> </ul> </li> </ul> <p>Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work in accordance with the Code, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.</p> |  |

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

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

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

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



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