

**PERTH AND KINROSS COUNCIL****Audit Committee - 18 June 2014****INTERNAL AUDIT YEAR END REPORT****Report by the Chief Internal Auditor****PURPOSE OF REPORT**

This report presents the year-end report and audit opinion of the Chief Internal Auditor for 2013/14, as set out in Section 7.

**1. BACKGROUND / MAIN ISSUES**

- 1.1 Internal Audit is an independent assurance function within Perth & Kinross Council. It contributes, in accordance with the Public Sector Internal Audit Standards, to the achievement of the Council's objectives by independently and objectively appraising and reviewing:
- (i) the completeness, reliability and integrity of information, both financial and operational;
  - (ii) the compliance with relevant policies, plans, procedures, laws and regulations;
  - (iii) the safeguarding of assets of all types;
  - (iv) the economy, efficiency, effectiveness and equity with which resources are employed;
  - (v) the conduct of operations and the achievement of planned objectives; and
  - (vi) the quality and reliability of the full range of internal controls, including risk management arrangements put in place by management in order to ensure the achievement of (i) to (v) above.
- 1.2 Perth & Kinross Council's internal controls include the full range of policies, procedures and practices intended to ensure the proper conduct of its operations and the achievement of its objectives. They include processes and procedures, organisational structures, job descriptions, authorisation limits, management supervision, risk management processes, reports and decisions.
- 1.3 It is the responsibility of management to devise, implement and maintain appropriate controls over the activities for which they are responsible. The role of Internal Audit is to provide an opinion to the Council as to the effectiveness of the controls that have been put in place by management in order to ensure that the organisation achieves its objectives. Internal Audit is thus a key part of the process by which the Council manages the risks that threaten the achievement of its objectives.

- 1.4 Internal Audit's work is planned in such a way as to take account of these risks. Prioritising work towards the areas of highest assessed risk enables the Council to identify and remedy the most material weaknesses in its framework of internal controls.
- 1.5 In line with the Code, Internal Audit undertakes a process of planning resulting in an annual plan. For 2013/14, the Internal Audit Plan covered the period from April 2013 to March 2014 and was approved by the Audit Committee in March 2013 [report 13/148 refers]. All Perth & Kinross Council's activities are reviewed as part of the planning process. The plan for 2013/14, taken as a whole, aimed to cover the most significant areas of risk within the resources available. The Internal Audit Plan also included a protocol with Services for the delivery of the plan.
- 1.6 This report summarises the audit work carried out in 2013/14 and presents the Chief Internal Auditor's opinion on the effectiveness of the Council's internal control environment for that year.

## **2. INTERNAL AUDIT'S WORK IN 2013/14**

- 2.1 This section presents an overview of Internal Audit's work during 2013/14 in its role as independent reviewer of the Council's systems of internal control.
- 2.2 During the year, Internal Audit has completed the remaining assignments which were outstanding at the end of March from the Internal Audit Plan for 2012/13. This resulted in the re-scheduling of some assignments during the year. The Audit Committee has been informed of developments throughout the year.
- 2.3 During the year there were two changes to planned work which were approved by Audit Committee. One planned audit, Youth Justice, was replaced during the year with Looked After Children: the Cottages [Reports 13/500 and 14/33 refer]. In addition, resources were made available to source a specialist IT audit and approval was sought from Committee for its focus to be on Interfaces [Report 14/33 refers].
- 2.4 All assignments to be delivered by the Council's Internal Audit team, covering the period from April 2013 to March 2014, have been completed and reports issued. The report for the Interfaces audit is currently in discussion with officers with a view to agreeing an action plan. 22 Internal Audit reports have been issued for 20 planned assignments, and 3 grants have been certified, representing 96% of the anticipated reports arising from Internal Audit work connected with the approved plan.
- 2.5 Unplanned assignments, as a result of investigations or additional requests from Services, have resulted in more than planned resources having been applied. Where appropriate, control issues highlighted as a result of this work have been reported to the Audit Committee.

- 2.6 In addition, Internal Audit undertook the audit of the accounts for the Society of Chief Officers of Transportation in Scotland (SCOTS).
- 2.7 The results reported here relate to all audit reports delivered against the 2013/14 plan, audit reports issued during the period from June 2013 to April 2014 and also unplanned assignments where reports have been presented to the Audit Committee.
- 2.8 All actions detailed within the reports issued during the year were accepted by management. These reports contain a total of 99 agreed actions, rated as follows:

Critical Risk	0 agreed actions
High Risk	16 agreed actions
Medium Risk	47 agreed actions
Low Risk	36 agreed actions

- 2.9 This represents a decrease in the proportion of critical- and medium- risk actions from 1% and 55% respectively in 2012/13 to 0% and 48% in 2013/4 and a corresponding increase in the proportion of high- and low-risk actions from 12% and 32% respectively to 16% and 36% respectively
- 2.10 Appendix A shows a summary of Internal Audit's work for Perth & Kinross Council during 2013/14 compared with the original plan as approved by the Audit Committee in March 2013, with the current status of each assignment. The Appendix does not detail additional work, such as internal investigations or non-audit tasks undertaken during the year, though some of these are described elsewhere in this report. It was originally planned that 20 audits would be undertaken within the year, along with additional assignments, including 3 grant claim certifications, for Perth & Kinross Council and an additional audit was added during the year. Internal Audit was actually involved with 35 assignments consisting of 21 planned audits, 3 grant certifications, the audit of SCOTS accounts, the provision of training, advice and guidance to officers within Housing & Community Care, an additional audit requested by a Service, 5 investigations and 3 requests for advice on controls.

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

- 2.11 During 2013/14, each audit report was assigned an overall rating, summarising the strength of internal controls in the area under review. These ratings were intended to provide a guide to management in setting priorities for action and to inform the Audit Committee in their scrutiny role. The number of areas where controls have been described as 'moderately weak' or 'weak' have decreased on those reported last year from 9 to 1. There are no areas where controls have been described as 'unacceptably weak'.

- 2.12 Issued reports during this period contain an assessment of the control environment for a total of 36 control objectives. These assessments of control at the time audits took place are broken down as follows:

Strong	12 Control Objectives
Moderately Strong	11 Control Objectives
Moderate	12 Control Objectives
Moderately Weak	0 Control Objectives
Weak	1 Control Objectives
Unacceptably Weak	0 Control Objectives

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

- 2.13 The responsibility for considering (and accepting or rejecting) Internal Audit's findings rests with management. Final audit reports record the agreed plan of action, including the individuals responsible; the planned timescales for completion; and the evidence required by Internal Audit to verify completion of the action. The audit process is of little value unless action is taken to remedy deficiencies in internal control where these are identified. Hence, a significant part of Internal Audit's role is the following-up of progress with these action plans in line with the requirements of the Public Sector Internal Audit Standards.
- 2.14 A database for recording agreed actions is maintained for this purpose. Services are routinely requested to provide the agreed evidence of completion for actions which are due to have been completed. Where actions have not been completed, an update on progress is requested along with the reason for non-completion and a revised date for completion. The Audit Committee is informed of all actions which have not been completed, along with an Internal Audit opinion on the acceptability or otherwise of the response received from management.
- 2.15 The support of the Chief Executive, Executive Directors and Senior Management Teams in ensuring that agreed actions are completed has continued during the year.
- 2.16 In the Chief Internal Auditor's opinion, the procedures in place provide a sound basis for ensuring that progress against the agreed plans is exposed to the proper level of scrutiny.

## **3 THE AUDIT COMMITTEE**

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

3.2 The Audit Committee reviewed its effectiveness and a formal report of the outcomes was approved [Report 14/146 refers].

#### 4 RESOURCES

4.1 The Council approved a reduction in resources available to Internal Audit within 2013/14 [Report 13/53 refers].

4.2 Recent trends in internal audit staffing are as shown below:

	April 2012		April 2013		April 2014	
	No. (FTE)		No. (FTE)		No. (FTE)	
Qualified Staff	2	36%	3.8	67%	2.8	67%
Unqualified Staff	3.5	64%	1.9	33%	1.9	33%
Total	5.5	100%	5.7	100%	4.7	100%

4.3 Expenditure for 2013/14 on Internal Audit was £245,038 against a budget of £224,587. The additional expenditure was as a result of additional consultancy resources being made available and a delay in the implementation of revised staffing for Internal Audit.

#### 5 ANTI-FRAUD ACTIVITY

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

5.2 Nevertheless, Internal Audit has a number of responsibilities regarding the Council's anti-fraud and anti-corruption arrangements. The year 2012/13 saw a moderate level of audit activity in this area as described below.

##### The National Fraud Initiative

5.3 The National Fraud Initiative (NFI) is a large-scale 'data-matching' exercise that takes place every two years and takes place over two financial years. Perth & Kinross Council has participated in the 2012/13 exercise. The NFI involves the comparison of personal data held by public authorities in order to identify anomalies that may indicate fraud or error. This output then forms the basis for a process of investigation within each authority, in order to ensure that errors are recognised and corrected and that, where cases of possible fraud are identified, they are pursued appropriately.

5.4 This investigative process, which is driven by Audit Scotland, is co-ordinated by Internal Audit and includes overseeing Services' checking of a sample of identified anomalies within the period of the exercise, on the basis of an assessment of risk. Internal Audit facilitates the reporting of progress to Audit Scotland. There has been, and continues to be, an allocation of audit resources towards the completion of this task.

- 5.5 The 2012/13 exercise has been continued during the year and the Committee has been informed of progress. Arrangements have been put in place for the 2014/15 exercise. The Committee will continue to be advised of progress.

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

- 5.6 The Council's anti-fraud and corruption policies have been in place and have remained current throughout the year.
- 5.7 The Chief Internal Auditor is the Council's nominated Money Laundering Reporting Officer. There has been no relevant activity during the year.

### **'Whistleblowing' Arrangements**

- 5.8 In order to ensure that the Council meets the standards set out in its anti-fraud and corruption policy, some aspects of the Council's 'whistleblowing' arrangements are managed by Internal Audit. This includes the maintenance of a dedicated e-mail address and telephone line for employees with concerns at work, which is routed to Internal Audit. The Council also supports the national charity 'Public Concern at Work' that upholds the rights of those who raise concerns about wrongdoing at their place of work and which operates a free legal advice 'hotline'.
- 5.9 One contact was made with Internal Audit of a 'whistleblowing' nature within the year. This case was fully resolved and the outcomes have been taken into consideration in the planning exercise for the 2014/15 Internal Audit Plan.
- 5.10 Whistleblowing arrangements have been in place throughout 2013/14.

### **Investigations**

- 5.11 Internal Audit's role includes the assessment of any concerns that are raised through the above arrangements and the conduct of internal investigations where appropriate. A small time allowance is made for work of this sort within the audit plan. As highlighted in 2.5 above, the time spent on investigation work within the year exceeded the budgeted time.
- 5.12 The year 2013/14 saw a number of investigations requiring input from Internal Audit. Investigative work undertaken within the year has resulted in agreed improvements which will enhance the Council's internal control environment.

## **6 COMPLIANCE WITH AUDITING STANDARDS**

- 6.1 The Public Sector Internal Audit Standards has been adopted by Perth & Kinross Council as the relevant professional standard. The outcome of a review of the Standards was reported to Audit Committee and this report remains current [Report 13/147 refers]. External Audit has also concluded that Internal Audit operates largely in accordance with the Standards and is working towards full compliance [Report 14/145 refers].

## Code of Ethics

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

## Standards

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

## Performance Measures

- 6.4 Internal Audit's prime performance measure is the completion of the approved audit plan. Performance against the approved audit plan has been highlighted in Section 2 of this report. As at 31 March 2013, 48% of audits from the 2012/13 Internal Audit Plan had been fully completed and reported. As at 31 March 2014, the remaining 52% of the 2012/13 assignments had been completed along with 92% of assignments from the 2013/14 plan.

## Quality Assurance of Internal Audit

- 6.5 A quality assurance system was in place in Internal Audit within 2013/14. The effectiveness of these arrangements, including refreshing the Internal Audit Manual in line with the Public Sector Internal Audit Standards, has commenced and will continue into 2014/15.

## 7 AUDIT OPINION

- 7.1 **In the Chief Internal Auditor's opinion, reasonable reliance can be placed on the Council's systems of internal control for 2013/14, subject to management implementation of the agreed actions detailed in Internal Audit reports and summarised at Section 2 above.**

## 8. CONCLUSION AND RECOMMENDATION

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

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## 1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

*The undernoted table should be completed for all reports. Where the answer is 'yes', the relevant section(s) should also be completed*

<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	None
<b>Consultation</b>	
Internal	Yes
External	None
<b>Communication</b>	
Communications Plan	None

### 1. Strategic Implications

#### 1.1 Corporate Plan

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

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

1.1.2 This report relates to all of these objectives.

## **2. Assessments**

### **2.1 Equality Impact Assessment**

- 2.1.1 Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.
- 2.1.2 The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

## **3. Consultation**

### **3.1 Internal**

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

## **2. BACKGROUND PAPERS**

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

## **3. APPENDICES**

Appendix A – The 2013/14 Internal Audit Summary

## APPENDIX A – THE 2013/14 INTERNAL AUDIT SUMMARY

<b>Audit Subject</b>	<b>2013/14 Audit Plan</b>	<b>2013/14 Status</b>
Revenue Monitoring	Planned	Complete
Software Licenses	Planned	Complete
Procurement	Planned	Complete
MOT Testing	Planned	Complete
RMP Inspection & Maintenance	Planned	Complete
Non-Domestic Rates	Planned	Complete
Council Tax Reduction Scheme	Planned	Complete
Youth Justice	Planned	Replaced
Contract Monitoring: School Catering & School Cleaning	Planned	Complete
Works Awarded After Value For Money Assessment	Planned	Complete
Financial Management of All-Through Schools: Pitlochry & The Community School of Auchterarder	Planned	Complete
Voids Management	Planned	Complete
Payroll	Planned	Complete
Scottish Welfare Fund	Planned	Complete
Planned advice consultancy – Spend Profiling	Planned	Complete
Internal Control Review	Planned	Complete
Financial Management of Libraries: AK Bell Library & Scone Library	Planned	Complete
Fleet Management	Planned	Complete
Capital Programme	Planned	Complete
Welfare Reform	Planned	Complete
Cycling Walking Safer Streets Grant Claim	Planned	Complete
Bus Service Operators Grant (6 monthly)	Planned	Complete
Bus Service Operators Grant (6 monthly)	Planned	Complete
Looked After Children – The Cottages	Replacement	Complete
Interfaces	Planned	Report in discussion

