

AUDIT COMMITTEE

Minute of meeting of the Audit Committee held in the Hay Room, Dewar's Centre, Glover Street, Perth on Wednesday 30 March 2016 at 2.00pm.

Present: Councillors B Vaughan, A Stewart, D Cuthbert, J Giacobazzi, L Simpson (substituting for W Wilson) and A Younger.

In Attendance: J Clark, C Irons, M Morrison, L Simpson, G Taylor and S Walker (all Corporate and Democratic Services); D Adams and J Cockburn, (Education and Children's Services); S D'All, S Mackenzie, B Renton and A Warrington (The Environment Service) and N Copland and J Wylie (Housing and Community Care).

Also in Attendance: S Boyle and P Tate, Audit Scotland

Apologies: Councillors H Anderson and W Wilson

Councillor Vaughan, Convener, Presiding.

274. WELCOME AND APOLOGIES/SUBSTITUTIONS

The Convener welcomed everyone to the meeting. Apologies and a substitution were noted as above.

275. DECLARATIONS OF INTEREST

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

276. MINUTE

The minute of meeting of the Audit Committee of 3 February 2016 (Arts. 75–79) was submitted and approved as a correct record and authorised for signature.

In relation to Corporate and Democratic Services (Item 78(f) refers), the Convener advised that the Depute Chief Executive, HCC (Corporate and Community Development Services) and Chief Operating Officer confirmed that the Heads of Service had given assurance that there were adequate resources to complete all actions required by Internal Audit and that he would continue to monitor the position.

In relation to the Crieff Primary Assurance Review (item 79(c) refers) the Convener referred to the update provided by Education and Children's Services to Committee members.

277. INTERNAL AUDIT FOLLOW-UP

There was submitted a report by the Chief Internal Auditor (16/143), presenting the Committee with a current summary of Internal Audit's follow up work.

Officers from the relevant Services were present to answer members' questions on the progress on outstanding actions as follows:

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Corporate and Democratic Services

(a) Audit Scotland 9 – Action Point 2

It was noted the Following the Public Pound guidance had been drafted and would be considered by the Executive Officer Team before being submitted to the Strategic Policy and Resources Committee in June 2016.

Housing and Community Care

(a) 15-11b – Beechgrove House Care Home – Action Point 1

It was noted there had now been five volunteers and a meeting would be held within the next few days to establish a new Comfort Fund Committee.

(b) 15-41 – Assessment and Charging Community Meals – Action Point 2

It was noted that progression of automated invoicing was not considered a priority by the Senior Management Team at present due to the costs involved and the small number of clients which would benefit.

N Copland confirmed that a review had been undertaken which had confirmed the SWIFT system was capable of automated invoicing, but to implement that change to the system would cost a substantial amount of money and only a very small number of people would benefit; therefore, continuing with a manual system would be more cost effective.

(c) 15-41 – Assessment and Charging Community Meals – Action Points 5 & 6

It was noted there was ongoing discussion with the service provider to ensure there were adequate audit processes in place.

In response to a question from Councillor A Younger, N Copland agreed to provide information to her on the two trials of different processes for receipting cash and cheque income which had already taken place; and also on processes in place in other Council areas.

The Environment Service

(a) 13-05 – Roads Management Inspection and Maintenance – Action Point 9

It was noted the Roads Inspection Manual was being reviewed and the review had included discussion with other Councils. The recent change to the defect intervention level had also had an impact.

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S D'All confirmed that November 2016 was a realistic deadline with the manual scheduled to be submitted to the Enterprise and Infrastructure Committee on 9 November 2016.

S D'All agreed to forward a copy of the existing manual to Councillors D Cuthbert and L Simpson.

B Renton assured members that there was a commitment to deliver the Roads Inspection Manual and although it had been hoped to submit it to Committee at an earlier date, this had been delayed due to additional work arising from the severe weather and the need to work with other Councils to achieve a consistent approach.

Resolved:

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

278. INTERNAL AUDIT UPDATE

There was submitted a report by the Chief Internal Auditor (16/144) presenting a summary of Internal Audit's work against the 2015/16 Annual Plan.

Resolved:

The progress made on Internal Audit's work against the Plan for 2015/16 be noted.

The Committee considered the following final reports:-

(i) Corporate and Democratic Services

(a) 15-27 - Transformation

There was submitted a report by the Chief Internal Auditor (16/145), on a consultancy assignment to provide management and elected members with an overview of Internal Audit's involvement with, and the current position of the transformation agenda across the Council.

Resolved:

Internal Audit's findings, as detailed in Report 16/145, be noted.

(b) 15-33 – Job Evaluation and Design

There was submitted a report by the Chief Internal Auditor (16/146) on the audit to ensure (1) the Council had a robust policy in place for job evaluation; (2) all Services and individuals understand their role in the process and the responsibilities of

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Human Resources; (3) that the job evaluation criteria were applied consistently with independent checks in place and (4) Council roles were benchmarked on a regular basis both internally and externally.

Councillor A Stewart queried how an expansion of existing benchmarking arrangements could be managed and J Clark advised she would request an update from Human Resources and pass this to members. In response to a question from Councillor D Cuthbert, J Clark also agreed to arrange for information on how the benchmarking was undertaken to be circulated to members.

Resolved:

Internal Audit's findings, as detailed in Report 16/146, be noted.

(c) 15-35 – IT Application Review – Optimum

There was submitted a report by the Chief Internal Auditor (16/147) on the audit to ensure (1) there were adequate system administration and user procedures; (2) there were robust logical access controls; (3) there was effective user account management which ensured only authorised users have access; (4) user access levels were appropriate and ensured adequate segregation of duties in relation to the administration and operation of the system; (5) access to amend system parameters were restricted to authorised users; (6) all data interfaces ensured complete and accurate transfer of data; (7) there were effective data input and validation controls; (8) adequate backup, recovery and continuity procedures were in place and (9) there were appropriate audit facilities within the system to allow effective and regular monitoring of the application.

Councillor D Cuthbert queried the deadline of June 2016 for the completion of Action Point 2, and J Clark advised that this was determined by the amount of development work required. J Clark confirmed that when an audit was co-sourced, the agreement of a completion date would be a three-way process involving the co-sourcee, Internal Audit and the Service.

Resolved:

Internal Audit's findings, as detailed in Report 16/147, be noted.

(d) 15-36 – SEEMIS

There was submitted a report by the Chief Internal Auditor (16/148) on the audit to ensure (1) there were adequate system administration and user procedures; (2) there were robust logical access controls; (3) there were effective user account

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management which ensured only authorised users had access; (4) user access levels were appropriate and ensured adequate segregation of duties in relation to the administration and operation of the system; (5) access to amend system parameters were restricted to authorised users; (6) all data interfaces ensured complete and accurate transfer of data; (7) there were effective data input and validation controls; (8) adequate backup, recovery and continuity procedures were in place and (9) there were appropriate audit facilities within the system to allow effective and regular monitoring of the application.

D Adams advised that Control Objective 9 had been considered weak, as SEEMIS was now an old system and it was not possible to incorporate all changes required. However, a request had been submitted for audit facilities to be included in the new version of the product which was expected to be in place within the next three to four years.

Councillor D Cuthbert referred to data backups covered by Action Point 2 and D Adams advised that backup was the responsibility of SEEMIS LLP and that the Council was seeking assurance that backups were being checked and for regular reporting of backup and disaster recovery activities.

Resolved:

Internal Audit's findings, as detailed in Report 16/148, be noted.

(ii) Education and Children's Services

(a) 15-10 – Modernising the School Office

There was submitted a report by the Chief Internal Auditor (16/149) on the audit to (1) follow up on Internal Audit Consultancy Report 14-17 Online Payments In Schools to ensure appropriate controls exist within the procured system and to ensure the integrity of the control environment; (2) to review the internal controls planned or in place for the efficient and effective management of modernising the finance functions, the business management functions, catering and MRM (the management system for Live Active Leisure) and (3) to ensure that Devolved School Management (DSM) was in accordance with current guidelines, and that the guidelines provided appropriate guidance to officers dealing with services provided under these arrangements.

It was noted that details of ParentPay were available on ERIC.

Resolved:

Internal Audit's findings, as detailed in Report 16/149, be noted.

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(b) 15-15 – Named Person Service

A revised version of the report by the Chief Internal Auditor (16/150) was tabled on the audit to ensure that adequate arrangements were in place for the implementation of the Named Person Service in accordance with the Children and Young People (Scotland) Act 2014.

Councillor A Stewart stated the report gave confidence that the Council had done what was required in terms of the Children and Young People (Scotland) Act 2014 and therefore a situation should not arise where the procedure had not been followed or where anyone was in difficulty.

Councillor B Vaughan confirmed training would be undertaken for relevant officers who would undertake the role of Named Persons.

Resolved:

Internal Audit's findings, as detailed in Report 16/150, be noted.

(c) 15-23 – Place Based Scrutiny

There was submitted a report by the Chief Internal Auditor (16/151), on the consultancy assignment to provide advice and support on place-based scrutiny, and also on reviewing associated documentation.

Resolved:

Internal Audit's findings, as detailed in Report 16/151, be noted.

(iii) Environment Service

(a) 15-13 – School Transport Contracts

There was submitted a report by the Chief Internal Auditor (16/152), on the audit to ensure that the management arrangements for education transport contracts were adequate.

Councillor B Vaughan referred to the large number of pupils transported to school on a daily basis and stated this audit was on the contract management arrangements in place within The Environment Service's Public Transport Unit. J Clark advised there would be future reviews on (1) the arrangements within Education and Children's Services for the assessment of the entitlement for school transport and (2) the tendering process for the education transport contracts.

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Councillor A Stewart sought assurance that the action points would be progressed and A Warrington acknowledged there was a wide range of actions to progress and although written procedures required to be put in place, staff were experienced in their role.

Resolved:

Internal Audit's findings, as detailed in Report 16/152, be noted.

(b) 15-18 – Planning Applications

There was submitted a report by the Chief Internal Auditor (16/153) on the audit to ensure the adequacy of the arrangements in place for managing the planning applications process in respect of local planning applications.

Councillor D Cuthbert queried why only local development applications had been covered by the audit and J Clark advised that focussing on one area allowed more in-depth testing.

Councillor D Cuthbert expressed concern at the finding that not all staff in Development Planning were aware of the Council's Bribery and Corruption Policy and that this could be the position across the Council. B Renton advised this was being addressed and a review would be undertaken to ensure all Services were aware of the policy.

Resolved:

Internal Audit's findings, as detailed in Report 16/153, be noted.

(c) 15-50 – Roads Maintenance Partnership

There was submitted a report by the Chief Internal Auditor (16/154) on the audit to provide an update on progress made on the elements of the Roads Maintenance Partnership Improvement Plan as submitted by The Environment Service to the Audit Committee on 16 September 2015.

B Renton advised that significant improvements had been made since the audit and the importance of the checklist, which had been introduced last April, had been stressed to staff. J Clark added that the checklist made the process more effective.

Councillor B Vaughan highlighted that an audit relating to the activities of the Roads Maintenance Partnership had been recommended for inclusion in next year's audit plan.

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B Renton added that in addition to quality assurance and monitoring, the Service was visiting other Councils who were leading on the use of electronic filing and work was being done on benchmarking with other Councils.

Resolved:

Internal Audit's findings, as detailed in Report 16/154, be noted.

(iv) Housing and Community Care

(a) 15-22 – Self-Directed Support

There was submitted a report by the Chief Internal Auditor (16/155) on the audit to ensure (1) the appropriateness of the framework and the management of self-directed support and the implementation thereof; (2) the adequacy of performance reporting and the process that reviews existing self-directed support outcomes and (3) the adequacy of financial reporting of self-directed support.

It was noted that in response to Action Point 2 a report had been submitted to the Housing and Health Committee on 9 March 2016 on discharging strategic responsibilities in relation to Self-Directed Support. However, Action Point 4 had been combined with Action Point 7, changing the completion date from March to June 2016. Due to a change of Service Manager a later completion date for Action Point 8(1) had been agreed.

Resolved:

Internal Audit's findings, as detailed in Report 16/155, be noted.

279. INTERNAL AUDIT PLAN 2016/17

There was submitted a report by the Chief Internal Auditor (16/156) presenting the strategy for the delivery of Internal Audit and the proposed Internal Audit Plan for 2016/17.

J Clark outlined the process of compiling the risk-based Plan. The Plan included consultancy work and traditional audit work together with scope for any unplanned work, such as whistleblowing.

Councillor B Vaughan also advised that the Plan took account of any planned external audit or scrutiny.

Councillor D Cuthbert advised it would be useful to have a comparison with the previous year and J Clark agreed to provide that to members.

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Councillor B Vaughan stressed that the Plan could be amended throughout the year if required and highlighted the inclusion of a reserve list. J Clark confirmed the reserve list was a new element to the Plan and listed assignments which could be considered if resources allowed.

Councillor A Stewart stated it was useful to have a reserve list with audits which would be achieved if possible within the 2016/17 Plan but if not, these would be progressed in the following year.

It was noted the wording would be amended for two assignments within Appendix B to Report 16/156 to clarify that the adequacy of arrangements for the management of rent arrears would be reviewed separately to the arrangements in place for the identification and collection of housing rents.

Resolved:

The Internal Audit Plan for 2016/17, as detailed in appendices A to E to report 16/156, be approved.

280. AUDIT SCOTLAND FINANCIAL REPORTING AND SCRUTINY: WHY THE ACCOUNTS MATTER

There was submitted a report by the Head of Finance (16/157) advising of a recent Audit Scotland publication entitled *Financial Reporting and Scrutiny: Why the Accounts Matter* that was published in February 2016.

P Tate, Audit Scotland, referred to the annual accounts as a vital part of the accountability framework which provided elected members with the information they required to scrutinise the use of funds in the year and to make budgetary decisions for the future. While the Audit Scotland report was not specific to Perth and Kinross Council, it provided a useful list of questions for elected members to consider as part of the accounts scrutiny and approval process. The report also noted some areas for improvement in the compilation and consideration of the annual accounts.

Councillor A Stewart stated the list of questions provided a very useful checklist and clarified what should be achieved through elected members questioning.

Councillor B Vaughan referred to the areas for improvement and welcomed changes to the accounts which would make them more easily understood.

Although the revenue budget monitoring was considered at the Strategic Policy and Resources Committee where members were alerted to issues, it would be helpful for members to have more information on what was contained in the accounts and it would be appreciated if they were simplified.

Resolved:

The Audit Scotland report *Financial Reporting and Scrutiny: Why the Accounts Matter* be noted and the checklist attached as Appendix 1 to Report 16/157 be used by members in scrutinising the unaudited and audited Annual Accounts.

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281. AUDIT SCOTLAND - 2015/16 ANNUAL AUDIT PLAN FOR PERTH AND KINROSS COUNCIL

There was submitted the Annual Audit Plan 2015/16 for Perth and Kinross Council prepared by Audit Scotland (16/158).

S Boyle, Audit Scotland, advised that the five-year appointment of Audit Scotland came to an end this year and following discussion with the Chief Executive the auditors beyond 2015/16 would be known by the end of June 2016.

S Boyle referred to the Annual Audit Plan which was framed by the Code of Audit Practice, outlining the audit approach and the reporting arrangements with the annual accounts submitted to the Audit Committee on 28 September 2016.

S Boyle also referred to issues and risks noted in the Plan and supplemented by Appendix 2 to Report 16/158; also to cyber security; and the audit fee.

Councillor A Stewart noted that the Plan stated that the Council continued to show a good understanding of the financial challenges it faced, and had been proactive in preparing financial plans to manage budget reductions, but there was an underspend of 2.5% of gross expenditure, and he asked if that was considered to be positive or negative. In terms of the thirty-nine transformation reviews, Councillor A Stewart asked if that was considered excessive or adequate.

S Boyle responded that an underspend could be positive or negative depending on whether it was a planned underspend giving budget flexibility or just unable to progress planned expenditure. In relation to the success of the programme, transformation, would be determined by achievability.

S Walker advised that it was not that the Council was not spending the agreed revenue budget but that there had been delays in projects. In addition there had been additional Council Tax income available and accelerated savings.

Councillor D Cuthbert queried the setting of the planning materiality at £4.1million and the performance materiality at £2m. S Boyle advised the overall materiality was £4.1m but based on performance there was a trigger set of £2m and when that trigger was reached different audit work would be undertaken to review the position.

S Boyle added that consolidation of groups was required, such as Culture Perth and Kinross, which needed to be consolidated into the group accounts.

S Walker advised some groups were already consolidated and Culture Perth and Kinross would be added.

Councillor A Younger referred to the continuing mention of duplication of effort and inefficient use of time and queried how this could be monitored and reported to the Council. S Boyle advised this would be reported back through the Annual Audit Report to this Committee in September.

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Councillor B Vaughan said she was delighted to see the audit fee had not increased and added that she felt the Council had been very prudent in financial planning, however, there was an issue of underspend as services could be lost unnecessarily and the Council should review matters and report to relevant committees. With regard to public sector reform, Councillor B Vaughan stressed it was important how this was taken forward and that it was important to keep in mind the significant audit risks identified. In conclusion, Councillor B Vaughan added that she would be delighted to have the same audit team for another year.

Resolved:

The Audit Scotland Annual Audit plan 2015/16 be approved.

282. NATIONAL FRAUD INITIATIVE PROGRESS REPORT

There was submitted a report by the Chief Internal Auditor (16/159) (1) outlining the action that had been taken by the Council in response to the requirements of the National Fraud Initiative for 2014/15 and (2) updating members on the outcome of the exercise to verify the accuracy of Single Person Discount for Council Tax.

J Clark advised the 2014/15 initiative had been concluded and outcomes highlighted. Overpayments had been identified and progress was being made on recovery of those.

Councillor D Cuthbert asked how Perth and Kinross compared to other Council's in the savings achieved and J Clark advised that information was not yet available but a national report would be published in due course.

Councillor B Vaughan advised that although it was a large exercise for the recovery of a small amount of money, the initiative also had a deterrent effect.

J Clark added that the work provided assurance on the Council's systems.

Resolved:

- (i) The National Fraud Initiative Progress report which outlines the action taken by the Council in response to the requirements of the National Fraud Initiative and the outcomes for the 2014/15 exercise, be noted.
- (ii) The actions taken by the Revenues and Benefits Service as a result of the non-provision of electoral register information and the outcomes of this exercise, be noted.

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