

PERTH AND KINROSS COUNCIL**Audit Committee - 19 June 2013****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 2012/13, 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 Code of Practice for Internal Audit in Local Government in the United Kingdom (the Code), to the achievement of the Council's objectives by 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 a plan which is for no longer than one year. For 2012/13, the Internal Audit Plan covered the period from April 2012 to March 2013 and was approved by the Audit Sub-Committee in March 2012 [report 12/144 refers]. All Perth & Kinross Council's activities are reviewed as part of the planning process. The plan for 2012/13, taken as a whole, aimed to cover the most significant areas of risk within the resources available.
- 1.6 This report summarises the audit work carried out in 2011/12 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 2012/13

- 2.1 This section presents an overview of Internal Audit's work during 2012/13 in its role as independent reviewer of the Council's systems of internal control.
- 2.2 There has been a lower than anticipated available resource due to long term sickness. Additional resources were applied to assist in the completion of audit assignments within the year. The Audit Sub-Committee has been informed of developments throughout the year.
- 2.3 During the year, Internal Audit has completed a number of assignments which were outstanding at the end of March 2012 relating to previous financial years.
- 2.4 The Internal Audit Plan for 2012/13, covering the period from April 2012 to March 2013 has been completed. One planned audit, Home Care, has not been completed as approved by the Audit Sub-Committee [Report 12/519 refers]. 20 Internal Audit reports have been issued for 19 remaining planned assignments, and 3 grants have been certified, representing 100% of the anticipated reports arising from Internal Audit work connected with the approved plan.
- 2.5 Unplanned assignments as a result of investigations have resulted in more than planned resources having been applied to the area of Internal Audit's remit. Where appropriate, control issues highlighted as a result of this work has been reported to the Audit Sub-Committee and subsequently the Audit Committee.
- 2.6 In addition, reports outstanding from previous years have been finalised.
- 2.7 The results reported here relate to all audit reports delivered against the 2012/13 plan, audit reports issued during the period from April 2012 to June

2013 and also unplanned assignments where reports have been presented to the Audit Sub-Committee or the Audit Committee. Reports issued prior to April 2012 were taken into consideration in the year end opinion for 2011/12 as reported to Audit Sub-Committee in June 2012 [report 12/226 refers].

- 2.8 All actions detailed within the reports issued during they year were accepted by management. These reports contain a total of 248 agreed actions, rated as follows:

Critical Risk	2 agreed action
High Risk	30 agreed actions
Medium Risk	135 agreed actions
Low Risk	81 agreed actions

- 2.9 This represents a decrease in the proportion of critical- and high-risk actions from 4% and 15% respectively in 2011/12 to 1% and 12% in 2012/13 and a corresponding increase in the proportion of medium- and low-risk actions from 52% and 29% respectively to 55% and 32% respectively.
- 2.10 Appendix A shows a summary of Internal Audit's work for Perth & Kinross Council during 2012/13 compared with the original plan as approved by the Audit Sub-Committee in March 2012, 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. Internal Audit was actually involved with 24 assignments consisting of 19 planned audits, 3 grant certifications and 2 investigations.

Areas for Significant Improvement in Controls

- 2.11 During 2012/13, each audit report 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 increased on those reported last year from 4 to 9. 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 73 control objectives. These assessments of control at the time audits took place are broken down as follows:

Strong	20 Control Objectives
Moderately Strong	22 Control Objectives
Moderate	22 Control Objectives
Moderately Weak	5 Control Objectives
Weak	4 Control Objectives
Unacceptably Weak	0 Control Objectives

Follow Up of Action Plans

- 2.13 The Code of Practice highlights that 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 Code of Practice.
- 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 Sub-Committee and subsequently 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 role of the Chief Executive, Executive Directors and Senior Management Teams in ensuring that agreed actions are completed has developed 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 SUB-COMMITTEE AND AUDIT COMMITTEE

- 3.1 The Audit Sub-Committee operated within an approved 'Role and Remit' and, as a formally constituted Sub-Committee. In December 2012, the Scheme of Administration was revised and included provision for the establishment of an Audit Committee, which also operated with a 'Role and Remit' as approved by the Council in May 2013 [Report 13/224 refers]. The Sub-Committee, and subsequently the Committee, conducts its meetings in public, thus ensuring a high degree of accountability for its activities.

4 RESOURCES

4.1 Resources available to Internal Audit during the year have been affected by higher levels of absence than had been anticipated, as detailed in 3.2 above. As highlighted at 3.2, additional resources for completing the planned Internal Audit work for 2012/13.

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

	April 2011		April 2012		April 2013	
	No. (FTE)		No. (FTE)		No. (FTE)	
Qualified Staff	2	36%	2	36%	3.8	67%
Unqualified Staff	3.5	64%	3.5	64%	1.9	33%
Total	5.5	100%	5.5	100%	5.7	100%

4.3 Expenditure for 2012/13 on Internal Audit was £245,029 against a budget of £254,590.

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. 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 2013/14 Internal Audit Plan.
- 5.10 Whistleblowing arrangements have been in place throughout 2012/13.

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 2012/13 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 Code of Practice has been adopted by Perth & Kinross Council as the relevant professional standard. A review of Internal Audit's compliance with the code was undertaken within the year to ensure full compliance, where possible. New professional standards, the Public Sector Internal Audit Standards, were published within the year for implementation in April 2013. These were reviewed and the outcome of this review was reported to the Audit Committee [Report 13/147 refers].

Audit Independence

- 6.2 Internal Audit should be independent of the activities that it audits to enable auditors to perform their duties in a way that allows them to make impartial and effective professional judgements. The Code of Practice sets out a number of requirements to ensure that this can be achieved.
- 6.3 Internal Auditors should not have operational responsibilities aside from their audit duties.
- 6.4 The right of the Chief Internal Auditor to report within the Council is set out in existing policies and procedures. If required, the Chief Internal Auditor would have unrestricted access to the Chief Executive, the Executive Officer Team, the Council and its members.

Audit Sub-Committee

- 6.5 The Code of Practice sets out the preferred model for local authorities as having independent audit committees. At Perth & Kinross Council, the decision was taken to retain the structure of the Audit Sub-Committee reporting to Scrutiny Committee prior to a full review of the Council's arrangements. In every other regard, the Audit Sub-Committee fulfilled the requirements for the preferred model as laid down in the Code. In December 2012, Council approved the establishment of an independent Audit Committee.

Internal Audit's Planning Framework

- 6.6 The Code of Practice introduced a requirement for internal audit plans to be fixed for no more than one year. Rather than successively review each phase of a three-year audit plan, a process of annual planning is undertaken.
- 6.7 The methodology used for audit planning ensures that the requirement of the Code of Conduct for establishing a risk-based Internal Audit plan is fulfilled.
- 6.8 The audit plan for 2012/13 was developed over the period December 2011 to February 2012 and covered the period of April 2012 to March 2013. As a result of external scrutiny, the deletion of one assignment from the plan was submitted for approval during the year.

Performance Measures

- 6.9 Internal Audit's prime performance measure is the completion of the approved audit plan. As stated in 6.8 above, there was one request for a revision during the year. Of the remaining 22 assignments planned for completion in the 2012/13 Audit plan (19 audits and 3 grant certification assignments), 22 have been fully completed and reported on as at June 2013. This represents 100% of the planned work for the year. However, at the end of March 2013, the planned work which had been fully completed and reported was 48%.

- 6.10 Further work is required to develop information systems in such a way as to support a full range of performance indicators. The Scottish Local Authority Chief Internal Auditors' group has carried out some work during the year on establishing a suite of benchmarking measures. Once this has been completed, the Chief Internal Auditor will bring proposals to the Audit Committee on relevant indicators.

Quality Assurance of Internal Audit

- 6.11 A quality assurance system was in place in Internal Audit within 2012/13. These arrangements will be reviewed in line with the new Public Sector Internal Audit Standards, as highlighted in a previous report to the Audit Committee [Report 13/147 refers].

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 2012/13, subject to management implementation of the agreed actions detailed in Internal Audit reports and summarised at Section 2 above.

8. CONCLUSION AND RECOMMENDATION(S)

- 8.1 It is recommended that the Committee notes the completion of Internal Audit's planned work for 2012/13 and notes the progress of work against the plan for 2013/14.

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*Reports to be presented to a Member / Officer Group, Committee, Sub-Committee or the Council **must be signed off** by the Chief Executive or the relevant Executive Director.*

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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

Strategic Implications	Yes / None
Community Plan / Single Outcome Agreement	None
Corporate Plan	Yes
Resource Implications	
Financial	None
Workforce	None
Asset Management (land, property, IST)	None
Assessments	
Equality Impact Assessment	Yes
Strategic Environmental Assessment	None
Sustainability (community, economic, environmental)	None
Legal and Governance	None
Risk	None
Consultation	
Internal	Yes
External	None
Communication	
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 2012/13 Internal Audit Summary

APPENDIX A – THE 2012/13 INTERNAL AUDIT SUMMARY

Audit Subject	2012/13 Audit Plan	2012/13 Status
Following the Public Pound	Planned	Complete
Protection of Vulnerable Groups	Planned	Complete
Housing Rents	Planned	Complete
Contracts & Tendering Arrangements	Planned	Complete
Maximising Attendance	Planned	Complete
Capital Budgeting / Monitoring	Planned	Complete
Home Care	Planned	Removed
Comfort Funds	Planned	Complete
Owner Occupier Accommodation Related Costs	Planned	Complete
Payroll	Planned	Complete
Insurance	Planned	Complete
Business Continuity	Planned	Complete
School Funds	Planned	Complete
Mental Health Services	Planned	Complete
Public Performance Reporting	Planned	Complete
Centrally Procured Travel Arrangements	Planned	Complete
Credit Cards	Planned	Complete
Gifts & Hospitality	Planned	Complete
Financial Management of Primary Schools	Planned	Complete
ECS Change Fund	Planned	Complete

