PERTH & KINROSS COUNCIL

Securing the future… • *Improving services* • *Enhancing quality of life* • *Making the best use of public resources*

Council Building
2 High Street
Perth
PH1 5PH

14 May 2019

A Meeting of the **Audit Committee** will be held in **the Council Chamber, 2 High Street, Perth, PH1 5PH** on **Wednesday, 22 May 2019** at **09:30** .

If you have any queries please contact Committee Services on (01738) 475000 or email Committee@pkc.gov.uk.

KAREN REID
Chief Executive

Those attending the meeting are requested to ensure that all electronic equipment is in silent mode.

Please note that the meeting will be recorded and will be publicly available on the Council's website following the meeting.

Members:
Councillor Eric Drysdale (Convener)
Councillor Stewart Donaldson (Vice-Convener)
Councillor Audrey Coates
Councillor David Illingworth
Councillor Xander McDade
Councillor Mike Williamson
Councillor Willie Wilson

Audit Committee

Wednesday, 22 May 2019

AGENDA

MEMBERS ARE REMINDED OF THEIR OBLIGATION TO DECLARE ANY FINANCIAL OR NON-FINANCIAL INTEREST WHICH THEY MAY HAVE IN ANY ITEM ON THIS AGENDA IN ACCORDANCE WITH THE COUNCILLORS' CODE OF CONDUCT.

1	**WELCOME AND APOLOGIES**	
2	**DECLARATIONS OF INTEREST**	
3	**MINUTE OF THE MEETING OF THE AUDIT COMMITTEE OF 27 MARCH 2019 FOR APPROVAL AND SIGNATURE** (copy herewith)	**5 - 10**
4	**INTERNAL AUDIT FOLLOW UP** Report by Chief Internal Auditor (copy herewith 19/157)	**11 - 16**
5	**INTERNAL AUDIT UPDATE** Report by Chief Internal Auditor (copy herewith 19/158)	**17 - 28**
5(i)	**CORPORATE AND DEMOCRATIC SERVICES**	
5(i)(a)	**18-14 - WELFARE REFORM** (copy herewith 19/163)	**29 - 34**
5(ii)	**HEALTH AND SOCIAL CARE PARTNERSHIP**	
5(ii)(a)	**18-22 CARERS' ACT IMPLEMENTATION** (copy herewith 19/159)	**35 - 40**
6	**FURTHER FOLLOW UP OF FINANCIAL ASSESSMENT & CHARGING** Report by Chief Internal Auditor (copy herewith 19/160)	**41 - 54**
7	**INTERNAL AUDIT ANNUAL REPORT 2018/19** Report by the Chief Internal Auditor (copy herewith 19/161)	**55 - 68**
8	**SAFEGUARDING PUBLIC MONEY: ARE YOU GETTING IT RIGHT?** Report by the Chief Internal Auditor (copy herewith 19/162)	**69 - 120**

9 INTERIM MANAGEMENT REPORT AND AUDIT STATUS SUMMARY - YEAR ENDING 31 MARCH 2019 **121 - 142**

Report by KPMG, External Auditor (copy herewith 19/164)

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You can also send us a text message on 07824 498145.

All Council Services can offer a telephone translation facility.

AUDIT COMMITTEE

Minute of meeting of the Audit Committee held in the Council Chamber, 2 High Street, Perth on Wednesday 27 March 2019 at 9.30am.

Present: Councillors E Drysdale, S Donaldson, A Coates, D Illingworth, X McDade, M Williamson and W Wilson.

In Attendance: J Clark, C Irons, S Mackenzie, M Morrison, L Potter, L Simpson, D Stokoe and S Walker (all Corporate and Democratic Services); J Cockburn (Education and Children's Services); M Cassidy, F Crofts and P Marshall (Housing and Environment).

Also In Attendance: C Connor, KPMG

Councillor Drysdale, Convener, Presiding.

152. WELCOME AND APOLOGIES/SUBSTITUTIONS

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

153. DECLARATIONS OF INTEREST

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

154. MINUTE

The minute of meeting of the Audit Committee of 30 January 2019 (Arts. 40-45) was submitted and approved as a correct record and authorised for signature.

With regard to Art. 45(ii)(a) the Convener thanked staff involved for the helpful training session held for Audit Committee members on 11 March 2019 on the IT systems in place within the Council.

155. INTERNAL AUDIT FOLLOW UP

There was submitted a report by the Chief Internal Auditor (19/96) presenting a current summary of Internal Audit's follow up work.

It was noted that S D'All was recorded as the Deputy Manager but was now the Roads Maintenance Partnership Manager.

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.

156. INTERNAL AUDIT UPDATE

There was submitted a report by the Chief Internal Auditor (19/97) presenting a summary of Internal Audit's work.

Councillor X McDade asked what areas would be covered by the audit 18-06 on Corporate Governance and L Simpson advised that a review of all governance arrangements was being undertaken for the Council to achieve CIPFA accreditation and Standing Orders were to be made clearer. L Simpson added that with the Council's new Chief Executive and the implementation of the Perth and Kinross Offer the governance would be reviewed to accommodate changes being made and agreed to provide an update on the position to a future Committee.

Councillor S Donaldson stated it would be very positive to have external accreditation for the governance arrangements. He asked about the Workforce Planning audit and J Clark advised the audit would take cognisance of the external audit and the best value review of the implementation of the workforce plan.

Resolved:
(i) The progress of assignments from the 2018/19 Audit Plan, be noted.
(ii) The outcome of consultancy work, be noted.

157. INTERNAL AUDIT UPDATE

(i) All Services

(a) 18-16 – Sales Ledger

There was submitted a report by the Chief Internal Auditor (19/98) on an audit to ensure (1) that the Council identifies and properly and timeously records all sales ledger transactions; (2) that the Council identifies and pursues outstanding debt appropriately and (3) that adequate system controls were in place to ensure the integrity of the system.

It was noted that in testing thirty-seven sales invoices covering all three services, six had not been raised timeously. This was due to a backlog of invoices to be raised but the situation was being addressed and new procedures had been drawn up.

Resolved:
Internal Audit's findings, as detailed in Report 19/98, be noted.

(ii) Corporate and Democratic Services

(a) 18-21 – General Data Protection Regulation

There was submitted a report by the Chief Internal Auditor (19/99) on an audit to ensure that the Council was progressing

the implementation of the of the new General Data Protection Regulation (GDPR) requirements.

Resolved:
Internal Audit's findings, as detailed in Report 19/99, be noted.

(b) 18-23 – Local Action Partnerships

There was submitted a report by the Chief Internal Auditor (19/100) on an audit to ensure (1) that the Council was making progress towards appropriate arrangements being in place to meet the requirements of the Community Empowerment Act (Scotland) 2015 and (2) that Local Area Partnerships were identifying their priorities and making progress in delivering them.

In response to a question from Councillor M Williamson, D Stokoe advised that support from Council officers and training would be provided to community representatives on the Local Action Partnerships. Training was being arranged for a Saturday late morning/early afternoon to be held in Perth. The Convener suggested alternative training venues be considered if Perth was not suitable for all representatives.

J Clark advised the audit was on the support being provided to the Partnerships and L Simpson added it was looking at the framework and the systems of internal controls in place for the partnerships to deliver and enable them to work effectively. She clarified that this was not an audit as regards outputs/outcomes

Councillor W Wilson asked if the audit had been a useful exercise for the service; D Stokoe confirmed that the process had been helpful and enabled his to team to focus on their planned work for the next twelve months and reassured them that they were on course to deliver that.

Resolved:
Internal Audit's findings, as detailed in Report 19/100, be noted.

(iii) Housing and Environment

(a) 18-20 – Carbon Reduction and Climate Change

There was submitted a report by the Chief Internal Auditor (19/101) on an audit to ensure that the Council (1) has an awareness of current and emerging climate change responsibilities in regards to emission reductions and has appropriate arrangements in place to assist in deliverance of these and (2) is complying with the mandatory reporting

requirements of the Climate Change (Duties of Public Bodies: Reporting Requirements) (Scotland) Order 2015.

Councillor X McDade expressed concern that services were not aware of what others in the Council were doing and were operating within silos and J Clark agreed that work across the organisation did not appear to be co-ordinated. P Marshall confirmed that issue was being addressed and that a report had been presented to the Enterprise and Infrastructure Committee. He confirmed that a transformation project had been agreed and M Cassidy has been appointed as the Low Carbon/Climate Change Transition Co-ordinator.

He advised that cross-cutting activities were now being co-ordinated across the Council and this needed to be shared with staff and Councillors.

A Climate Change Plan is being developed and a Climate Change Workshop had taken place.
P Marshall added it was important to have a Low Carbon agenda across all of Perth and Kinross and not only within the Council.

Councillor S Donaldson asked if a detailed briefing could be provided to all elected members. P Marshall advised that this would be done but that it was sensible to await the outcome of the new legislation which is progressing at the moment.

M Cassidy advised that a workshop on 1 March 2019 had been well attended by officers from all services and it had provided an opportunity to share information and views. Input from staff had helped develop the Climate Change Plan.

Councillor W Wilson asked if the audit had helped and P Marshall confirmed it had as it had highlighted and echoed what was being said and shared across the Council.

Resolved:
Internal Audit's findings, as detailed in Report 19/101, be noted.

158. PERTH AND KINROSS COUNCIL EXTERNAL AUDIT STRATEGY

There was submitted a report by the External Auditor, KPMG, (19/102) presenting the external Audit Strategy for 2018/19.

C Connor, KPMG, gave a detailed summary of the report.

S Walker advised the draft accounts would be submitted to the Audit Committee in June 2019 and the best Value report would be submitted to the

Council meeting in June 2019 and there were no plans to submit that to the Audit Committee.

The Convener thanked C Connor for her presentation on the Audit Strategy.

Resolved:
The external Audit Strategy for 2018/19, be noted.

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PERTH AND KINROSS COUNCIL

Audit Committee

22 May 2019

INTERNAL AUDIT FOLLOW UP

Report by Chief Internal Auditor (Report No. 19/157)

PURPOSE OF REPORT

This report presents a current summary of Internal Audit's 'follow up' work relating to actions due for completion in February and March 2019.

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. Internal Audit request evidence from Services which confirms that actions have been implemented and, therefore, controls have been improved.

1.2 There were 44 actions arising from Internal Audit reports. Of these, 13 had a completion date of February and March 2019. 11 of these actions have been completed and details of the 2 actions which have yet to be completed are included within Appendix 1.

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 audit work; and
(ii) Consider the most appropriate action to be taken to progress the agreed action plans, taking into account the recorded audit opinions.

Author

Name	Designation	Contact Details
Jackie Clark	Chief Internal Auditor	InternalAudit@pkc.gov.uk

If you or someone you know would like a copy of this document in another language or format, (on occasion only, a summary of the document will be provided in translation), this can be arranged by contacting *Jackie Clark*

Council Text Phone Number 01738 442573

ANNEX

1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

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	Yes
Consultation	
Internal	Yes
External	None
Communication	
Communications Plan	None

1. Strategic Implications

Corporate Plan

1.1 The Council's Corporate Plan 2018– 2022 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.

1.2 This report relates to all of these objectives.

2. Assessments

Equality Impact Assessment

2.1 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.

2.2 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.

Risk

2.3 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

Internal

3.1 The Chief Executive and the Executive 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 1 – Actions with a completion date up to March 2019 which have yet to be completed

Appendix 1

Actions with a completion date up to March 2019 which have yet to be completed

Finding	Action	Action owner & Service	Date(s)	Current status	Internal Audit Opinion
16-22 - Roads Maintenance Partnership Action Point : 7a - Road Maintenance Partnership Agreement Importance: Medium Audit Committee Date: April 2017 An Enterprise and Infrastructure Committee (EIC) report of 21 January 2015 reported that the initial Road Maintenance Partnership (RMP) agreement was for a three year period expiring 31 March 2015.The relevant minutes contain a resolution for an extension for a further year and also that the agreement be subject to an ongoing review to ensure it continues to be fit for purpose. The agreement also seeks to develop systems and procedures that ensure	The Partnership continues to operate under the Memorandum Of Understanding in relation to Tayside Contracts operation and the authorised delegated powers of PKC officers within the Partnership. There is currently a Scottish Government drive towards collaborative working and this may change the way the Partnerships (PKC, Angus and Dundee City) move forward hence no further agreement has been put in place. When the output of the collaborative working group is reported to Committee the status of the Partnership will be clarified.	B Renton Executive Director (Housing & Environment)	Jan 2018 Jun 2018 Oct 2018 Mar 2019 Jun 2019	The decision on way forward for the RMP was taken on 30 November 2018 and a Committee report will go to Environment & Infrastructure Committee in May 2019.	Accepted

compliance with BS EN ISO 9001/9002. At the date of audit testing no update report had been presented to the EIC and the partnership agreement had expired.					
18-15 - Payroll Action Point 4 - Reporting Structure - Budgets Importance: Medium Audit Committee Date: January 2019 As a consequence of ongoing changes in the Council structure, reporting lines for some officers have been changed in the current financial year. However, the associated budget has yet to be transferred to reflect these changes. As a consequence of this, the ResourceLink / MyView system has not been updated to reflect these changes and managers may not be receiving accurate reports for all the officers for which they have responsibility.	Services are required to confirm reporting arrangements to the MyView Team to ensure that the system is updated and that reporting arrangements for managers are accurate.	S Walker, Chief Accountant Corporate & Democratic Services	Mar 2019 Jun 2019	Following the approval of the Building Ambition virement at Strategic Policy & Resources Committee in April 2019, the Chief Accountant has contacted the relevant officers in Services to request that reporting arrangements be verified as correct by June.	Satisfactory

PERTH AND KINROSS COUNCIL

AUDIT COMMITTEE

22 May 2019

INTERNAL AUDIT UPDATE

Report by the Chief Internal Auditor (Report No. 19/158)

PURPOSE OF REPORT

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

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 2018/19, as approved by Audit Committee in March 2018 (report 18/109) and June 2018 (report 18/221).

1.3 Between April 2018 and 31 March 2019, Internal Audit has been contacted on 12 occasions to provide advice, assurance and / or assistance to services regarding specific issues. Since April 2019, Internal Audit has been contacted 3 times for these purposes. Internal Audit will follow up on these areas during the year, where necessary. Where control issues arise as a result of this work, Internal Audit will provide the Audit Committee with a report.

1.4 Internal Audit is also undertaking work arising from the Integrated Joint Board's Audit Plan.

1.5 Internal Audit has continued to work with Services to ensure that matches arising from the National Fraud Initiative are being investigated appropriately.

1.6 Appendix 1 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 2 shows the areas of work being undertaken following the Audit Committee's consideration of the Internal Audit work plan for 2018/19. This shows that all work approved as part of the 2018/19 has been completed.

2. OUTCOMES FROM CONSULTANCY WORK

2.1 Within the Internal Audit Plan, there are a number of assignments which were identified as 'consultancy'. Following approval from Audit Committee of a revised reporting process for consultancy assignment (Report 16/306), this

report provides a summary of completed work with regard to such assignments, where appropriate.

2.2 The scope of Internal Audit Assignment 18-04 Arms Length External Organisations (ALEOs) was to continue to provide resources to ensure that there is an appropriate governance framework for Live Active Leisure, Horsecross Arts and Culture Perth & Kinross.

2.3 The Head of Public Sector Reform, Culture and Community Development acts as contract manager for the Service Level Agreements in place with each of the above organisations. Where issues arise with the management of the Service Level Agreements, these are escalated internally in order to ensure that the Council is aware of the risks associated with the use of ALEOs.

2.4 During 2018/19, the Scrutiny Committee has received presentations from each of the bodies and had the opportunity to challenge the representatives on their fulfilment of objectives on the part of the Council. Horsecross Arts has appeared before the Committee on two occasions and remains an area of concern. A report was presented to the Strategic Policy & Resources Committee in April 2019 regarding the transformation projects relating to the ALEOs. This report also highlighted specific issues in relation to Horsecross Arts, which has resulted in the Council exercising its Sole Member Company powers, including the establishment of an Advisory Board, chaired by the Head of Culture and Community Services.

2.5 Internal Audit resources are being made available to support Council officers and this Board in fulfilling its responsibilities in order to ensure that the Council's objectives can be delivered and to ensure that the Council's statutory responsibilities for Best Value and Following the Public Pound are not breached.

2.6 The scope of Internal Audit Assignment 18-05 Transformation was to continue to provide resources to support the transformation agenda. Internal Audit has kept up to date with development of the governance surrounding transformation and included a more detailed audit of one transformation project within planned Internal Audit work (Internal Audit assignment 18-17 REACH).

2.7 Revised governance arrangements for the delivery of the Capital and Transformation Programme have been agreed, with the first meeting of the Strategic Investment and Improvement Board due to take place in April 2019.

2.8 The achievement of the programme remains a high priority area for the achievement of the Council's objectives, and therefore will continue to be included within future Internal Audit plans.

2.9 The scope of Internal Audit Assignment 18-06 Corporate Governance was for Internal Audit to be aware of and to contribute to the corporate governance of the Council. The Chief Internal Auditor is a member of Policy and Governance Group, which has recently refreshed its role and remit to better reflect the

governance needs of the organisation, in line with the revised remit for the Corporate Management Group. The role of this group includes oversight of governance, risk and internal control and Internal Audit's role will continue into future years.

2.10 The scope of Internal Audit Assignment 18-07 Commissioning Strategy was to provide advice and support to the Service for the implementation and monitoring of the Strategy.

2.11 The implementation and monitoring of the strategy is the responsibility of the Commissioned Services Board which has met on a regular basis throughout 2018 and has overseen reviews of the commissioned services within its remit. There is evidence that re-commissioning has been and is being carried out to achieve improvements in line with strategic priorities. This approach has also ensured that the full savings identified have been achieved.

2.12 The scope of Internal Audit Assignment 18-13 Workforce Planning was to review arrangements in place throughout the Council to ensure that there are plans for a sustainable workforce. Workforce management measures have been developed during the year, and progress has been reported through the Annual Workforce Report in December 2018. These have included the continuation of the measures to recruit to hard-to-fill posts and recruitment, retention and development initiatives. Workshops have been held with managers to develop workforce management areas highlighted within the plan to help shape future priorities. Workforce management will remain as a significant risk for the Council, in terms of having the right people with the right skills in the right place, and this area will remain within the Internal Audit plan in order to review the effectiveness of the specific measures within the Plan.

2.13 A review of the Tay Cities Deal (Internal Audit Assignment 18-18) was included within the plan with the scope to be decided depending upon its progress. The Auditor has reviewed publicly available information to ascertain the nature of the Tay Cities Deal and progress to date, and has carried out a brief initial assessment of where Internal Audit may be able to add value to review of this process going forward.

2.14 A meeting was held with J Valentine, Depute Chief Executive and access has been provided to the Tay Cities Deal information hub. It is known that there is ongoing scrutiny of City Region deals through the Scottish Parliament's Local Government and Communities Committee and that this is the subject of an Audit Scotland review, which is due to be reported on in late 2019. The Chief Internal Auditor has been in communication with her colleagues in the other Councils involved and a programme of audit activity will be developed once the full scope of continuing assessment is understood to maximise the value that Internal Audit can add and to minimise any duplication.

2.15 The scope of Internal Audit Assignment 18-24 IDEA Implementation & Continuous Auditing was to develop the opportunity for utilisation of this data extraction and analysis software in order to add value to systems and create opportunities for reducing the risks of fraud and error. Internal Audit has

utilised IDEA for some financial systems audits and has worked with the Financial Systems Team in developing reports which highlight opportunities to match income and expenditure systems to ensure that the Council does not pay individuals / organisations where debt is owed to the Council. The utilisation of this software tool will continue to develop over time and with other Services.

2.16 The scope of Internal Audit Assignment 18-27 Inclusion Services was to provide advice and support to the Service for the future delivery of Inclusion Services. The service manages the strategic and operational provision for meeting additional support needs (ASN) within PKC. The service includes the Educational Psychology Service and comprises of central officers; an Early Years Inclusion team; an English as an Additional Language (EAL) team; Visual Impairment and Hearing Impairment Services; Pupil Support Teachers and Assistants.

2.17 The ongoing development and implementation of the review of Inclusion Services is designed to bring about cultural change, service redesign and a shift in resources to improve the effectiveness of inclusive education for children and young people with ASN. The project is being undertaken using the existing capacity and resources of the Education and Children's Services Inclusion Services team. There have been some capacity issues within the team in 2018/19 due to a range of factors, not all of within the control of the Service, and project management resources have been made available to assist.

2.18 Additional capacity has been allocated to this work stream to ensure that the implementation plan arising from the review can be taken forward at an appropriate pace.

2.19 Following discussion with the Head of Service (Secondary & Inclusion) Internal Audit will continue to offer consultancy support to the Service as part of the Internal Audit Plan for 2019/20.

2.20 The scope of Internal Audit Assignment 18-28 Risk Management was to continue to support Services with embedding adequate arrangements in line with the approved risk management policy and strategy.

2.21 Internal Audit has continued to provide advice, support and guidance for the roll-out of risk management, in line with the Management of Risk framework and has contributed to this as part of the Planning, Performance & Risk Group. The Strategy and Policy has been reviewed and progress is being made with refreshing the process guide. The Risk Appetite statement and Risk Registers for 2019/20 will be considered by the Audit Committee.

2.22 The outcomes from all consultancy assignments are taken into account when considering the Internal Audit universe, from which future Internal Audit plans are derived.

3. CONCLUSION AND RECOMMENDATIONS

3.1 This report presents a summary of Internal Audit's work.

3.2 It is recommended that the Committee notes:

i) the completion of all assignments from the Internal Audit Plan for 2018/19

ii) the outcomes from consultancy work.

Author(s)

Name	Designation	Contact Details
Jackie Clark	Chief Internal Auditor	Internal Audit@pkc.gov.uk

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Council Text Phone Number 01738 442573

ANNEX

1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

Strategic Implications	**Yes / None**
Community Plan / Single Outcome Agreement	None
Strategic 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	Yes
Consultation	
Internal	Yes
External	None
Communication	
Communications Plan	None

1. Strategic Implications

Community Plan/Single Outcome Agreement

Corporate Plan

1.1 The Council's Corporate Plan 2018 – 2022 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.

1.2 This report relates to all of these objectives.

2. Assessments

Equality Impact Assessment

2.1 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.

2.2 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.

Risk

2.3 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

Internal

3.1 The Chief Executive and Head of Legal and Governance 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 1 – Audit Activity Completed Since The Last Report To Audit Committee
Appendix 2 – Work Completed from the 2018/19 Internal Audit Work Plan

Appendix 1

INTERNAL AUDIT UPDATE

Internal Audit Activity Completed Since The Last Report To Audit Committee

Audit No.	Audit Title	Service
18-04	Arms Length External Organisations	Corporate & Democratic Services
18-05	Transformation	Corporate & Democratic Services
18-06	Corporate Governance	Corporate & Democratic Services
18-07	Commissioning Strategy	Education & Children's Services
18-08 (b)	Financial Assessment & Charging Follow Up	Corporate & Democratic Services
18-13	Workforce Planning	Corporate & Democratic Services
18-14	Welfare Reform	Corporate & Democratic Services
18-18	Tay Cities Deal	Corporate
18-22	Carer's Act	Health & Social Care Partnership
18-24	IDEA Implementation and Continuous Auditing	Corporate & Democratic Services
18-27	Inclusion Services	Education & Children's Services
18-28	Risk Management	Corporate

Appendix 2

Work Commenced from 2018/19 Internal Audit Work Plan as at April 2019

Audit No.	Audit Title	Original Anticipated Audit Committee	Assignment brief approved	Factual accuracy confirmed	Draft Report issued	Final Report issued	Audit Committee Date ^
18-01	Initial Review of Controls following a Significant Fraud	May 2018	April 2018	April 2018	Outcome provided to Audit Committee. No separate report.		**May 2018**
18-02	Detailed Review of Controls following a Significant Fraud	November 2018	April 2018	December 2018	December 2018	December 2018	**January 2019**
18-04	Arms Length External Organisations	January 2019	March 2019	March 2019	March 2019	March 2019	**May 2019**
18-05	Transformation	March 2019	April 2018	March 2019	March 2019	March 2019	**May 2019**
18-06	Corporate Governance	March 2019	March 2019	March 2019	March 2019	March 2019	**May 2019**
18-07	Commissioning Strategy	March 2019	March 2019				**May 2019**
18-08	(a) Financial Assessment & Charging Follow Up	June 2018	April 2018	May 2018	May 2018	May 2018	**June 2018**
	(b) Further Follow Up of Financial Assessment & Charging	March 2019	February 2019	March 2019	March 2019	March 2019	**May 2019**
18-09	Bus Service Operators Grant	September 2018	Completed and grant claim certified. No report required on this occasion.				
18-10	Bus Service Operators Grant	March 2019	This grant certification is no longer required as the certification can now be undertaken annually, as confirmed by the Scottish Governement.				
18-11	School Estate Strategy	November 2018	September 2018	November 2018	December 2018	December 2018	**January 2019**

18-12	Management of Contracts	September 2018	July 2018	August 2018	August 2018	September 2018	**November 2018**
18-13	Workforce Planning	January 2019	March 2019	March 2019	March 2019	March 2019	**May 2019**
18-14	Welfare Reform	January 2019	March 2019	March 2019	March 2019	March 2019	**May 2019**
18-15	Payroll	November 2018	September 2018	December 2018	December 2018	December 2018	**January 2019**
18-16	Sales Ledger	November 2018	November 2018	December 2018	December 2018	March 2019	**March 2019**
18-17	Residential Services	January 2019	November 2018	December 2018	December 2018	December 2018	**January 2019**
18-18	Tay Cities Deal	March 2019	March 2019	March 2019	March 2019	March 2019	**May 2019**
18-19	LEADER	November 2018	September 2018	November 2018	November 2018	November 2018	**January 2019**
18-20	Carbon Reduction Commitment & Climate Change	March 2019	February 2019	February 2019	February 2019	March 2019	**March 2019**
18-21	General Data Protection Regulations	May 2019	February 2019	February 2019	March 2019	March 2019	**March 2019**
18-22	Carers Act	May 2019	March 2019	March 2019	March 2019	March 2019	**May 2019**
18-23	Local Action Partnerships	May 2019	February 2019	February 2019	March 2019	March 2019	**March 2019**
18-24	IDEA Implementation and Continuous Auditing	March 2019	March 2019	March 2019	March 2019	March 2019	**May 2019**
18-25	Community Empowerment	March 2019	February 2019	Not applicable	Not applicable	Not applicable	**March 2019**
18-27	Inclusion Services	May 2019	March 2019	March 2019	March 2019	March 2019	**May 2019**
18-28	Corporate Risk Management	March 2019	April 2018	March 2019	March 2019	March 2019	**May 2019**

Internal Audit Report
Various, Corporate
Welfare Reform
Assignment No18-14
March 2019

Final Report

(Report No.19/163)

Legal and Governance
Corporate and Democratic Services
Perth & Kinross Council
Council Offices
2 High Street
Perth
PH1 5PH

Internal Audit

"Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes". Public Sector Internal Auditing Standards (PSIAS)

The Council's Audit Committee approved the PSIAS as the relevant standard for its Internal Audit activity.

Background and Introduction

This audit was carried out as part of the audit plan for 2018/19, which was presented to the Audit Committee on 27th June 2018.

The Welfare Reform Act 2012 introduced significant reforms to the UK welfare system in the last 60 years. According to the Department of Work and Pensions (DWP) the Act aims to "make the benefit system fairer and more affordable, to help reduce poverty, worklessness and welfare dependency and to reduce levels of fraud and error".

The Welfare Reform Act included the following key provisions:

The phased introduction of Universal Credit, the abolition of Council Tax Benefit, the phased replacement of Disability Living Allowance (DLA) with Personal Independence Payment (PIP) for working-age adults, changes to housing benefit in relation to under-occupancy in the social housing sector (the bedroom tax), the introduction of a cap on the total amount of benefit that working-age people can receive (the Benefit Cap), a new requirement on lone parents whose youngest child has reached the age of five to look for work meaning they must claim Jobseekers Allowance instead of income Support and the introduction of a new Claimant Commitment that sets out the particular job-seeker activities that any claimant must undertake in order to receive benefits. Universal Credit Full Service was launched in Perth & Kinross on the 13th June 2018.

Universal credit has been the subject of two previous internal audit consultancy reports Final Report 16/313 and Update Report 17/53. There were no actions arising from either of these reports.

Scope and Limitations

The audit included interviews with officers, and a review of documentation to ensure that there is awareness within the Council of the impact of Welfare Reform on Services. The audit was carried out over the period from June 2018 to March 2019.

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: To ensure that the Council has an understanding of the impact of Welfare Reform on Services
Internal Audit Comments: Audit testing and review of documentation confirmed that officers within the Council have an understanding of the impact of Welfare Reform on Services. This is evidenced by the following: The Joint Welfare Reform Steering Group, which is chaired by The Revenues, Benefits and Welfare Rights Service Manager, has Multi-Agency representation and is the main communication forum. The Revenues Benefits and Welfare Rights Service take a leading role in respect of welfare reform, ensuring that all changes are identified and effectively communicated to enable timeous and effective planning and implementation by relevant parties. This group includes representatives from relevant officers throughout the council and key partner organisations. It meets on a regular basis with updates from the Revenues Benefits and Welfare Rights Service also being sent to this group frequently. In addition quarterly meetings are held between Revenues Benefits and Welfare Rights Service and the Regional DWP to discuss Welfare Reform including Universal Credit and there are also Welfare Reform operational monthly meetings with local Job Centre Plus. The Welfare Rights Team within Revenues & Benefits have designed, developed and delivered extensive training to frontline staff across the Council, to Councillors and to Partner organisations. The Service organised training events to highlight the implications of the launch in June 2018 of Universal Credit Full Service. There are extensive online resources which can be found using a link from the main Perth & Kinross website page. This enables access to information regarding all aspects of the benefits system including Universal Credit. There is also a PKC Welfare Rights Team Facebook page and a recently created child poverty online survey to gather information on how Welfare Reform has impacted on families with children. In addition a Child Poverty Working Group has been established and a Child Poverty Lead Officer appointed. Welfare benefit advice and information is available to all residents/households. There is a Universal Credit Booklet which has been widely distributed and available online describing the new benefit process and how to claim. An Employee Wellbeing project, a collaborative approach between Welfare Rights, HR and Employment & Payroll teams, is being progressed to raise council employees' awareness of Welfare Reform. The Welfare Rights Team also issued a Universal Credit Newsletter for Employers which highlights issues employees may experience due to Universal Credit. In addition a Housing Matters news bulletin for staff provided a reminder of information about Universal Credit. It is noted that the Welfare Rights Team is the only agency in Perth & Kinross accredited to undertake benefits advice work and representation at the highest level as per the Scottish Government Standards with the accreditation being renewed in October 2018. The Revenues, Benefits and Welfare Rights Service Manager provided a briefing on the Social Security Agency to the elected member who attended the CoSLA Health and Wellbeing Board in December 2018.

Welfare reform progress is monitored by Corporate IT and Revenues Management Team and Corporate & Democratic Services Management Team

The financial impact to the Council of Welfare Reform has been taken into account in the budget setting processes. It is acknowledged that uncertainty continues regarding the likely level of non-payment of rents arising from the introduction of Universal Credit. In the 2019 budget setting process an additional adjustment in the Housing Revenue Account bad and doubtful debt provision of 1.5% was agreed taking it to 5%. It further stated that this provision will be reviewed during 2019/20 once the impact of full live service has been established. A review of any future years' provisions and adjustments will be reflected in future budget setting exercises along with a programme of proactive measures to minimise potential increases in rent arears and future write offs. These measures include rephasing the review of Revenues and Benefits Team budgets from 2019/20 to 2020/21 to ensure that the team can provide support to individuals as the introduction of Universal Credit rolls out across Perth & Kinross.

It was also acknowledged that there remains a risk of reduced council tax collection levels due to increases in the level of the tax, and the ongoing impact of welfare reform.

A Welfare Reform and Universal Credit update was presented to Corporate Management Group in October 2018 which highlighted the anticipated impacts of UC including a greater difficulty to collect and receive debts owed to the Council and more complexity delivering advice and administration of benefits and concessions. A report submitted to EOT by the Chief Operating Officer in October 2018 provided an update which also considered the wider implications for the Council as a result of Universal Credit. A verbal briefing on Universal Credit key issues was provided to the Community Planning Partnership Board in December 2018.

Strength of Internal Controls:	Strong

Management Action and Follow-Up

There are no actions arising from this audit. As such, no management action plan is required.

Acknowledgements

Internal Audit acknowledges with thanks the co-operation of L Brady, Service Manager, Revenue and Benefits and N Sutherland, Team Leader, Welfare Rights during this audit.

Feedback

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

Distribution

This report has been distributed to:

K Reid, Chief Executive

J Valentine, Depute Chief Executive

A Taylor, Head of Corporate IT & Revenues

L Brady, Service Manager Revenue & Benefits

L Simpson, Head of Legal & Governance

S Mackenzie, Head of Finance

Committee Services

External Audit

Authorisation

The auditor for this assignment was M Morrison. The supervising auditor was J Clark

This report is authorised for issue:

_____

J Clark
Chief Internal Auditor
Date: 22 March 2019

Internal Audit Report
Adult Social Work & Care
Carers' Act Implementation
Assignment No. 18-22
March 2019

Final Report

(Report No. 19/159)

Legal and Governance
Corporate and Democratic Services
Perth & Kinross Council
Council Offices
2 High Street
Perth
PH1 5PH

Internal Audit

"Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes" Public Sector Internal Auditing Standards (PSIAS).

The Council's Audit Committee approved the PSIAS as the relevant standard for its Internal Audit activity.

Background and Introduction

This audit was carried out as part of the audit plan for 2018/19, which was approved by the Audit Committee on 27 June 2018.

The Carers (Scotland) Act 2016 came into force on 1 April 2018 and sets out responsibilities for local authorities and health boards to deliver carer support, work closely with carers, and where relevant the Integrated Joint Boards (IJB). The Act defines an unpaid carer as an "individual who provides or intends to provide care for another individual (the "cared for person")". Identification of carers (including "hidden carers"), carer involvement, a preventative approach and offering information and advice to carers are key to implementing the Act.

As part of the joint working arrangements and delegation to the Perth Kinross Joint Integration Board (P&K IJB) a Transformation Project 'Shifting the Balance of Care' invested in additional Carers Support with the aim to reduce carer breakdown and long term placements in residential care. In September 2018, a Carers Programme Board was created specifically to manage delivery of this service. Shared working with external bodies also includes the third sector for Carers.

Perth & Kinross Council (PKC) and Health and Social Care Partnership (P&K HSCP), work in partnership with Perth & Kinross Association of Voluntary Service (PKAVS) and are commissioned to offer support and inclusion for Carers.

P&K HSCP Annual Performance Report 2017-2018 included National Health & Wellbeing Outcome 6 –'People who provide unpaid care are supported to look after their own health and wellbeing, including to reduce any negative impact of their caring role on their health and wellbeing'.

41% of carers who responded to the Health and Clinical Excellence survey in 2017/18 in Perth & Kinross feel supported to continue in their caring role which sits above the Scotland average of 37%.

Scope and Limitations

The audit reviewed support processes for adult carers as defined in the Act. P&K HSCP provide support for Adult Carers which are defined by the Act as being at least 18 years old and not a Young Carer. Education & Children's Services support Young Carers who are defined as being either under 18 years or 18 years but still at school. Young Carers have been excluded from the scope of this audit and will be included for consideration in a future internal audit plan.

The audit has reviewed the arrangements that have been put in place by the Partnership to support the implementation of the Carers (Scotland) Act 2016. The effectiveness of these arrangements will be assessed over time and therefore no assessment of this has been undertaken as part of this audit.

The audit included interviews with officers and a review of documentation to ensure that the Council has adequate arrangements in place for the implementation of the Carers (Scotland) Act 2016. Audit testing was carried out during March 2019.

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: To ensure that the Council has adequate arrangements in place for implementation of the Carers [Scotland] Act 2016.
Internal Audit Comments: Audit testing and review of documentation confirmed that the Council has adequate arrangements in place to support the implementation of the Carers (Scotland) Act 2016. This is evidenced by the following: Guidance to support implementation of the Carers Act defines responsibilities and duties of local authorities including – • Adult Carer Support Plan • Local Eligibility Criteria • Provision of support, waiving of charges and replacement care • Carer involvement in service planning • Local Carer Strategy • Information and advice for carers • Short Breaks Services Statement These responsibilities were reviewed and findings are reported below: • The Council website describes PKC's duty to provide the carer with an opportunity to speak to someone about what help would be useful in their caring role. It states that an Adult Carer Support Plan will be written outlining the support which may help the carer remain in a caring role and provides contact details. This is a change from previous legislative duties to carry out a 'carer's assessment'. Evidence of a standard support plan confirmed that it identifies the carer's personal outcomes, needs and the support to be provided by the Partnership to meet these needs. PKAVS publicises support and offers a similar service for both Adult and Young Adult Carers by offering online forms on its website Hub. • The Council's obligation to set local eligibility criteria has been met with the publication on the Council's website in January 2018 of a local eligibility criteria framework for adult carers. This framework was developed and designed in

consultation with local carers between October to December 2017 and determines the level of support a carer can expect to receive as well as whether the support will be provided to the carer under a mandatory duty or a discretionary power.

- Provision of support, waiving of charges and replacement care duties include consideration of whether support should take the form of, or include a break from caring. Charging depends on the impact of caring on the carer in accordance with Waiving of Charges Regulations and Eligibility Criteria. A decision matrix is being developed to assist Team Leaders to decide on support, waiving of charges and replacement care for short term breaks. Both PKAVS and the Perth and Kinross Council websites detail various short breaks for carers and the support available including Respitality which aims to connect local organisations that support unpaid carers with hospitality and leisure providers who provide free access to their facilities.
- Sections 29 and 30 of the Act require local authorities to involve individual carers in decision making. A survey called 'Getting it Right for Carers across Perth and Kinross' on behalf of P&K HSCP ran in October 2018 and informed the Carers strategic direction. A list of outputs from this consultation was published on the PKAVS hub website. Carer involvement in Perth and Kinross service planning was evident in events such as the annual Carers' Conference. The latest conference held in November 2018 was a joint effort between PKAVS Carers Hub Team and P&K HSCP with unpaid carers and professional delegates contributing views and sharing experiences. Smaller conference type events are planned for localities during Carers Week in June 2019.
- A draft Local Carers' Strategy for 2019 – 2022 was evidenced and reported to be in line with the draft overarching Perth & Kinross Health & Social Care Strategic Commissioning plan. An updated Strategic Commissioning Plan is due to be presented for approval to the Integrated Joint Board in September 2019. The revised Carers' Strategy incorporates input from the Carers' Conference and a Carers Workshop held in December 2018. There has also been an online Carer Services evaluation survey. The Carers' Strategy is due to be presented at the Carers Programme Board in March 2019.
- P&K HSCP commissioned PKAVS to provide an Information and Advice Service as required by Section 34 of the Act. The PKAVS online resource Carers Hub has specific site areas offering information, support and advice to different Carers by age group as well as parents and professionals. PKAVS set up a Carers Telephone and Support Service in February 2018 providing not only a simple route to contacting someone to talk to about caring issues, but also providing a valuable and valued support to Carers on a regular basis. There is also information on the Council website with resources by areas including Carers and money matters; news and events; health and wellbeing; support and short breaks, plus an email address, phone number and address of the Early Intervention and Prevention Team. PKAVS also provide training for Carers such as first aid and moving and handling.
- A Short Breaks Services Statement for local carers and cared-for persons was approved and published in December 2018 to comply with section 35 of the Act. This is available online on the Council website with different options of short breaks, information and contact details to assist carers' choices and

applications for support. PKAVS website also provides links to the full statement. This provides definitions of terms and can be obtained in other formats and languages if required. A one page summary of the statement is also available online.	
Strength of Internal Controls:	Strong

Management Action and Follow-Up

There are no actions arising from this audit. As such, no management action plan is required.

Acknowledgements

Internal Audit acknowledges with thanks the co-operation of K Sharp, Service Manager and A Gallacher, Business Improvement Officer during this audit.

Feedback

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

Distribution

This report has been distributed to:

K Reid, Chief Executive

J Valentine, Depute Chief Executive

G Patterson, Chief Officer, Health & Social Care Partnership

D Fraser, Head of Adult Social Work and Social Care

K Sharp, Service Manager and Carers Strategic Lead

P Henderson, Service Manager (Strategic Lead Older People)

A Gallacher, Business Improvement Officer

L Simpson, Head of Legal and Governance Services

S Mackenzie, Head of Finance

Committee Services

External Audit

Authorisation

The auditor for this assignment was N Duncan. The supervising auditor was M Morrison.

This report is authorised for issue:

_____

J Clark
Chief Internal Auditor
Date:

PERTH AND KINROSS COUNCIL

Audit Committee

22 May 2019

FURTHER FOLLOW UP OF FINANCIAL ASSESSMENT & CHARGING

Report by Chief Internal Auditor (Report No. 19/160)

PURPOSE OF REPORT

This report presents a summary of the Service's response to the outcomes of Internal Audit's report on Financial Assessment & Charging and provides an update on the implementation of the agreed action plan.

1. BACKGROUND

1.1 The Assessment & Charging Team complete financial assessments for clients accessing residential and non-residential community care services. Information gathered from these assessments is then used to evaluate the individual's financial situation and set an appropriate level of contribution for chargeable services being provided to them, where applicable.

1.2 An audit of Financial Assessment & Charging was undertaken as part of the 2016/17 Internal Audit Plan. The report was considered by Audit Committee in September 2016 (report 16/416 refers). This report highlighted that, due to the number and content of issues raised, there would be benefit to internal audit carrying out a more detailed follow up review of the actions. This approach was approved by the Audit Committee.

1.3 As a result of the follow up work undertaken in August and September 2017, the Audit Committee was informed that Internal Audit concluded that many of the control issues highlighted had not been addressed or sustained (report 17/384 refers). As a result of this, the Service commissioned a wholescale review of the assessment and charging arrangements, with support from an external consultant. In addition, a Charging Governance Board was established with a remit which included ensuring that the previously agreed Internal Audit actions were fully implemented. The Chief Internal Auditor sits on this Board, along with the Section 95 Officer and the Monitoring Officer.

1.4 In June 2018, the Audit Committee received a further update report on the implementation of agreed actions (report 18/220 refers). This report highlighted that, whilst procedures and processes had been put in place for some of the actions, the sustainability of the actions and controls was uncertain. Furthermore, there were a number of actions where improvements had yet to be implemented, but where plans were in place to ensure their implementation. The Audit Committee approved the proposal to review the actions in the 4th quarter of 2018/19 and to report on the outcome.

1.5 The scope of the work undertaken by Internal Audit was to ensure that the Service had implemented and sustained the management action plans as agreed in the Internal Audit Report 16-07 on Financial Assessment & Charging. The assignment did not undertake a complete review of all arrangements in place within assessment and charging.

2. SUMMARY OF OUTCOMES

2.1 The agreed action plan contained 15 actions arising from 7 action points, of which 14 were to be completed by the Financial Assessment and Charging team with the aim of improving the controls in place. The remaining action was partially allocated to the Heads of Community Care and has been completed. Appendix 1 contains details of the originally agreed actions and Internal Audit commentary on how the actions have been completed.

2.2 As described in report 18/220, Internal Audit has been monitoring progress on these actions since the completion of the original report.

2.3 Internal Audit has again met with the Service in March 2019 and reviewed the evidence in place to confirm that these actions have now been fully completed and sustained over a period of time.

2.4 Of the 14 actions agreed by the Financial Assessment and Charging Team, 13 have been completed and sustained. One action, in respect of annual billing procedures and controls, is partially completed.

2.5 There has been engagement with the Charging Board regarding factors impacting on annual billing processes, such as timing of rates received and introduction of Franks Law.

3. PROPOSALS

3.1 Internal Audit proposes to continue to support the Financial Assessment and Charging Team through the Charging Board until the remaining action has been fully concluded.

3.2 Opportunities for utilising data matching software to assist in control processes within this action will also be investigated for future years.

3.3 Internal Audit proposes that no further report is brought back to the Committee regarding this Audit. Financial Assessment and Charging will remain within the Audit Universe and, as part of Internal Audit Planning process, will be considered on an annual basis for inclusion within future Internal Audit Plans.

4. CONCLUSION AND RECOMMENDATIONS

4.1 It is recommended that the Committee notes the progress made by the Financial Assessment and Charging Team in implementing the actions agreed in the 16-07 Financial Assessment and Charging Report.

4.2 It is also recommended that the Committee requests that the Chief Internal Auditor continues to work with the Service, through the Charging Board, until the remaining action has been fully concluded.

Author

Name	Designation	Contact Details
Lorna Ferguson	Internal Auditor	InternalAudit@pkc.gov.uk

Approved

Name	Designation	Date
Jackie Clark	Chief Internal Auditor	March 2019

If you or someone you know would like a copy of this document in another language or format, (on occasion only, a summary of the document will be provided in translation), this can be arranged by contacting *Jackie Clark*

Council Text Phone Number 01738 442573

ANNEX

1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

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	Yes
Consultation	
Internal	Yes
External	None
Communication	
Communications Plan	None

1. Strategic Implications

Corporate Plan

1.1 The Council's Corporate Plan 2018-2022 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.

1.2 This report relates to all of these objectives.

2. Assessments

Equality Impact Assessment

2.1 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.

2.2 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.

Risk

2.3 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

Internal

3.1 The Chief Executive and the Depute Chief Executive 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.

Appendix 1

2018 Financial Assessment and Charging Extended Follow Up

Scope: To continue working with Financial Assessment and Charging to be able to ensure that matters arising from Internal Audit 16-07 and Extended Follow Up 17-07 are dealt with and evidence provided.

The table below gives an overview of progress made and evidence provided.

Audit Action Point	Sub Action	16-07 Management Action Plan	Sept 2017 complete	June 2018 complete	Feb 2019 complete	Comment
1.1	1	Information available on the pkc.gov.uk/care charges site and information leaflets provided to clients will be reviewed to ensure up to date information is available.	No	Yes	Yes	Some information was uploaded following Internal Audit's visit in August 2017. Following discussions in April 2018, the information relating to 2018/19 has been uploaded.
1.2	2	A version control document which outlines all documents/webpages for clients and staff which require review and update will be introduced.	No	Yes	Yes	In August 17 this document had not been amended, and was not used as a control, to ensure all relevant information was updated with 2017/18 rates. The document appeared to be up to date in May 2018. A new and more detailed version control document was provided in February 19 which also incorporated the review of team procedures

1.3	3	Operational staff will be reminded of the requirement to complete the Financial Assessment Request. Reports detailing noncompliance will be provided regularly to Community Care Management Team.	No	Yes	Yes	Whilst the Community Care Management Team no longer exists, evidence of the reminder has been received by Internal Audit.
1.4	4	Procedures will be collated, updated as required and uploaded to the team SharePoint site.	No	No	Yes	Appropriate procedures are available for staff on the Assessment & Charging Team SharePoint Site.
Action Point 2 – Previous Internal Audit Actions Importance Rating: High						
2.1	1	Specific areas highlighted such as lone working procedure and cash handling will be updated immediately. Due to changes in the roles, responsibilities and working practices of the Financial Assessment Officers, previous procedures may no longer be relevant. These will be reviewed and where appropriate reinstated; where they are no longer valid, procedures will be reviewed and/or prepared as part of the wider team review of procedures	In part	In part	Yes	Independent review of procedures in June 2018 had revealed that, whilst there have been updates to these procedures they could benefit from further development and are not held centrally, in line with 1.4 above. In addition, Internal Audit has been informed that the daily movement sheets are not always fully completed. The review undertaken in February revealed that procedures have been introduced as per the action and there is an agreement amongst all interviewed that cash is not handled and any cheques received are dealt with immediately. A spot check by Auditor verified that daily movement sheets are being completed and signed off as appropriate.

2.2	2	The previously agreed action in relation to manual bills has been reinstated. Clients impacted will be invoiced.	No	In part	Yes	The originally identified clients were invoiced at the time that the issue was highlighted but some control issues remained outstanding at the review in June 2018. Procedures have been introduced subsequently and there is evidence that controls are operating effectively, with clients being invoiced appropriately over a prolonged period.
Action Point 3 – Data Protection Importance Rating: High						
3.1	1	The Service accept that data protection security checks require to be undertaken, and will liaise with the Information Security Manager to agree a protocol which is appropriate for this client base.	Yes	Yes	Yes	There is a Telephone Security Measure procedure in place and accessible to staff. Previous testing and management confirm that this is being followed.
3.2	2	Management will liaise with the Information Security Manager and consider implementation of call recording facilities within the current review of performance and quality and available resources.	Yes	Yes	Yes	The Service and the Information Compliance Manager considered the issue of call recording and decided not to progress with recording calls.

Action Point 4 – Supervisory Oversight Importance Rating: High						
4	1	The Service will review and document procedures and oversight checks for the full scope of the Financial Assessments and charging process. This will include reviewing the arrangements for the oversight of the allocation of work within the team alongside verifying FAs and invoices and ensuring that there is an adequate audit trail. As per the third action at Action Point 1, the Service will review how errors are communicated to Community Care teams	No	No	Yes	New arrangements were put in place in June 2018 to manage new referrals to the Assessment & Charging team through a single point in order to have a clear understanding of cases in the system. There are now processes in place which support appropriate management oversight, these are backed up by written procedures and the Auditor was able to verify that controls have been operating over an extended period.
Action Point 5 – Annual Review Process Importance Rating: High						
5.1	1	The 59 cases identified above have been reviewed (those who had not received an annual invoice).	Yes	Yes	Yes	Evidence was provided that all of these cases had been reviewed. Sample checks highlighted revealed that invoices were raised appropriately.

5.2	2	The Service will document the annual review procedures and ensure that an audit trail and control checks are implemented. Should any historic cases be highlighted, relevant action will be taken.	No	No	In part	In June 2018, the Service was in the process of documenting the annual review procedure and there was scope to be explicit about control checks. Internal Audit were informed as part of routine follow up that no further cases had come to light during the review. However, a full review was undertaken in March 2018 and this highlighted 413 instances where changes had been made to services provided which may have required the team to be involved. Some changes dated back to 2013. The Service worked through these cases to ensure that appropriate action was taken. The February 2019 review revealed that a timeline chart and checklist have been designed to enhance control by outlining required activity and anticipated dates for completion. At the time of the audit, however, owing to external factors, this years' annual reassessment has been delayed and therefore this has not been fully completed. In addition there is evidence that the Service is considering the best way of taking this forward which may see development of a different document. The Service advises that there is a draft procedure for staff but this has to be updated in line with a recent decision taken by the Charging and Governance Board regarding unit cost uplift and direct interaction/update with the DWP system. There is evidence of discussion and awareness of issues surrounding annual billing at the Charging Board.

Action Point 6 – Deprivation Recording Importance Rating: Low						
6	1	The form used to assess deprivation cases has been amended	Yes	Yes	Yes	A revised form was in use in June 2018, however there is no overarching document which records cases where deprivation may have occurred. A review of 3 completed forms revealed that there was scope to develop further processes to ensure clarity around rationale and timeliness. In February 2019, there is evidence that the form is being considered by a panel, signed off by more than one person and there is a traceable history through minutes. There is evidence of plans being progressed to allow for easier reporting of deprivation cases considered.
Action Point 7 – Credit Notes & Invoices on Hold Importance Rating: High						
7.1	1	The Service will implement a procedure which outlines steps requiring to be taken to investigate the need for a credit note to be issued; this should also document audit trail requirements for rationale of issuance	No	In part	Yes	In June 2018, Internal Audit found that there was evidence of procedures in use. The use of the e-form for raising credit notes resulted in improvements to the process. However the detailed calculations which have taken place are not always retained. This has caused difficulty in the verification of the accuracy of the credit notes raised. In February 2019, there is evidence of procedures and an audit trail of information, verifying the rationale for raising the credit notes and their authorisation.

7.2	2	The Service will document the review of the credit note control report along with resultant discussions/actions	No	Yes	Yes	Evidence has been provided showing appropriate oversight and conversations relating to credit note control There is an appropriate procedure and evidence of Management receiving and investigating instances where a credit note has been raised against an invoice raised by the same advisor, and feeding back to advisors as necessary.
7.3	3	The Service will undertake a one-off exercise to ensure that all invoices on hold are reviewed with appropriate action taken. Additionally, the Service will introduce a documented control which provides assurance that invoices which have been placed on hold are being reviewed on a regular, at least once a quarter, basis.	No	In part	Yes	There is evidence that on-hold invoices have been reviewed. It was noted that all services ceased relate to either the current or previous financial years invoices which would suggest service ceased are being completed timeously. In June 2018, it was noted that regular checking of invoices which remain on hold has been undertaken in most cases but there is scope to increase the frequency of these reviews. The February 2019 review found that the Service has produced a documented procedure which formalises the intended on-hold review procedure. This outlines categorisation of on-hold types, whether these are reviewed by the Assessment & Charging Team or Sales Ledger, and commits the team to quarterly review of all on-hold categories. There is evidence that the Service is reviewing invoices which are on hold more frequently. Additionally the Service has provided evidence that most invoice types subject to review by the Assessment & Charging Team are being reviewed once a quarter.

PERTH AND KINROSS COUNCIL

Audit Committee

22 May 2019

INTERNAL AUDIT ANNUAL REPORT 2018/19

Report by the Chief Internal Auditor (Report No. 19/161)

PURPOSE OF REPORT

This report presents the year-end report and audit opinion of the Chief Internal Auditor for 2018/19, as set out in Section 7.

1. BACKGROUND / MAIN ISSUES

1.1 The Public Sector Internal Audit standards (PSIAS) require the Chief Internal Auditor to provide an annual opinion which must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The report must incorporate the opinion, a summary of the work that supports this opinion, a statement on conformance with the PSIAS and the results of the quality assurance and improvement programme. This report fulfils this requirement.

1.2 Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. In accordance with the PSIAS, it helps the council accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.

1.3 Perth & Kinross Council's internal controls include the full range of policies, procedures and practices intended to ensure the proper conduct of its operations and the achievement of its objectives. They include processes and procedures, organisational structures, job descriptions, authorisation limits, management supervision, risk management processes, reports and decisions.

1.4 It is the responsibility of management to devise, implement and maintain appropriate controls over the activities for which they are responsible. The role of Internal Audit is to provide an opinion to the Council as to the effectiveness of the controls that have been put in place by management in order to ensure that the organisation achieves its objectives. Internal Audit is thus a key part of the process by which the Council ensures the management of the risks that threaten the achievement of its objectives.

1.5 Internal Audit's work is planned in such a way as to take account of these risks. Prioritising work towards the areas of highest assessed risk enables the

Council to identify and remedy the most material weaknesses in its framework of internal controls.

1.6 In line with the PSIAS, Internal Audit undertakes a process of planning resulting in an annual plan. For 2018/19, two reports contained the content of work to be undertaken as part of Internal Audit's planned workload. These were considered and approved in March 2018 (report 18/109) and in June 2018 (report 18/221). Taken together, these form the Internal Audit Plan for 2018/19. All Perth & Kinross Council's activities are reviewed as part of the planning process. The plan for 2018/19, taken as a whole, aimed to cover the most significant areas of risk within the resources available whilst ensuring that there was a balance of coverage for all Services.

1.7 This report summarises the audit work carried out in 2018/19 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 2018/19

2.1 This section presents an overview of Internal Audit's work during 2018/19 in its role as independent reviewer of the Council's systems of internal control.

2.2 The Internal Audit Plans approved in March and June 2018 included 21 planned internal audit assignment. Of these, 15 were assurance audits and 6 were consultancy / enabling assignments. In addition, resources were included within the Plan to provide a resource for the Chief Internal Auditor of the Health & Social Care Partnership's Integrated Joint Board and to certify a grant claim within the year.

2.3 All planned assignments, covering the period from April 2018 to March 2019, have been undertaken. Some assignments, by their nature, will continue into 2019/20. This is due to their being consultancy over projects which extend beyond one financial year. These assignments will be included in work-plans for 2019/20. 15 Internal Audit reports have been issued for Internal Audit assignments and one grant has been certified, representing 100% of the anticipated reports arising from Internal Audit work connected with the approved plan.

2.4 Unplanned assignments, as a result of investigations or additional requests from Services, have been undertaken during the year. Where appropriate, control issues highlighted as a result of this work are reported to the Audit Committee.

2.5 The results detailed in this report relate to all audit reports issued relating to Internal Audit's work during the period from April 2018 to March 2019, both planned and unplanned.

2.6 All findings detailed within the reports issued during the year were accepted by management. These reports contain a total of 55 agreed actions, compared with 92 actions in 2017/18. The table below details the rating of the

importance of these actions. The figures in brackets relate to the rating of individual actions for the financial year 2017/18:

Critical Risk	0 (0) agreed actions
High Risk	7 (2) agreed actions
Medium Risk	40 (50) agreed actions
Low Risk	8 (40) agreed actions

2.7 This represents an increase in the proportion of high and medium-risk actions from 2% and 47% respectively in 2017/18 to 13% and 73% in 2018/19. There is a corresponding decrease in the proportion of low-risk actions from 37% in 2017/18 to 14%. As in the previous 2 years, there were no actions arising of a critical nature.

2.8 Appendix A shows a summary of Internal Audit's work for Perth & Kinross Council during 2018/19 compared with the original plan as approved by the Audit Committee in April and June 2018 along with the current status of each assignment. The Appendix details additional work, such as internal investigations or non-audit tasks undertaken during the year, where this has resulted in a report to Audit Committee. Internal Audit was actually involved with 39 assignments consisting of 25 planned audit and consultancy assignments, a grant certification, 13 pieces of unplanned work / requests for advice.

Areas for Significant Improvement in Controls

2.9 During 2018/19, each audit report was assigned an overall rating, summarising the strength of internal controls in the area under review. These ratings were intended to provide a guide to management in setting priorities for action and to inform the Audit Committee in their scrutiny role. There has been one area where controls have been described as 'moderately weak' compared with no areas described as such in 2017/18. There are also no areas where controls have been described as 'weak' or 'unacceptably weak'.

2.10 Issued reports during this period contain an assessment of the control environment for a total of 26 control objectives. This compares with 24 control objectives assessed during 2017/18. These assessments of control at the time audits took place are broken down as follows, with the relevant figures for 2017/18 being recorded in brackets:

Strong	9 (10) Control Objectives
Moderately Strong	9 (10) Control Objectives
Moderate	7 (4) Control Objectives
Moderately Weak	1 (0) Control Objectives
Weak	0 (0) Control Objectives
Unacceptably Weak	0 (0) Control Objectives

2.11 Overall, this represents a decrease in the proportion of strong- and moderately strong-rated control objectives over the two years, these being 35% for 2018/19 compared with 42% for 2017/18. The proportion of moderate- rated objectives has increased from 17% in 2017/18 to 27% for 2018/19, with the 4% being the objective rated as 'moderately weak'.

2.12 During 2018/19, the Council has continued to develop its approach to risk management in line with best practice following Internal Audit involvement in this area in 2015/16. A revised risk management strategy was approved by the Strategic Policy and Resources Committee in February 2017 (report 17/63 refers) and the supporting arrangements have been refreshed during 2018/19. Internal Audit continues to work closely with the Head of Legal and Governance Services to support services to embed effective risk management into their day to day business activities.

Follow Up of Action Plans

2.13 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 individual(s) responsible; the planned timescales for completion; and the evidence required by Internal Audit to verify completion of the action. The audit process is of little value unless action is taken to remedy deficiencies in internal control where these are identified. Hence, a significant part of Internal Audit's role is the following-up of progress with these action plans in line with the requirements of the Public Sector Internal Audit Standards.

2.14 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, Depute Chief Executive, Executive Directors and Senior Management Teams in ensuring that agreed actions are completed has continued during the year.

2.16 Of the 55 actions agreed with management (see 2.6 above) 32 had a completion date within 2018/19. Of these 32, 28 have been verified by Internal Audit as having been completed. This represents 86% of actions having been implemented within the year.

2.17 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, with its meetings routinely recorded and available to view via a link from the Committee's webpage, thus ensuring a high degree of accountability for its activities.

4 RESOURCES

4.1 Internal Audit's budget for 2018/19 was £242,625. Whilst the final outturn figures are not yet available, it is projected that expenditure for 2018/19 on Internal Audit will be in the region of £187,000. This underspend is primarily due to slippage in staffing within the year, however this has not impacted on the delivery of the Internal Audit Plan.

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

	April 2017		April 2018		April 2019	
	No. (FTE)		No. (FTE)		No. (FTE)	
Qualified Staff	1.7	37%	1.7	44%	2.7	57%
Unqualified Staff	2.9	63%	2.2	56%	2.0	43%
Total	4.6	100%	3.9	100%	4.7	100%

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 2018/19 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 is participating in the 2018/19 exercise. The NFI involves the comparison of personal data held by public authorities in order to identify anomalies that may indicate fraud or error. This output then forms the basis for a process of investigation within each authority, in order to ensure that errors are recognised and corrected and that, where cases of possible fraud are identified, they are pursued appropriately.

5.4 This investigative process, which is driven by Audit Scotland, is co-ordinated by Internal Audit and includes overseeing Services' arrangements for

uploading the data securely and the checking of a sample of identified anomalies within the period of the exercise, on the basis of an assessment of risk. Internal Audit facilitates the reporting of progress to our External Auditors, KPMG. There has been an allocation of audit resources towards the completion of this task.

5.5 The 2018/19 exercise has commenced, with data being uploaded in line with requirements and work has commenced with investigating identified matches.

Anti-Fraud and Anti-Corruption Policies

5.6 The Council's Counter-Fraud and Corruption Strategy, along with associated policies, have been in place since February 2015. These remain largely fit for purpose and are currently being refreshed to ensure that they take account of recently highlighted good practice.

5.7 The Chief Internal Auditor is the Council's nominated Money Laundering Reporting Officer. There have been no cases where money laundering was suspected during the year.

'Whistleblowing' Arrangements

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

5.9 Three contacts were made with Internal Audit of a 'whistleblowing' nature within the year, compared with four in 2017/18. These cases were investigated and, as there were no control implications arising, detailed reports were not provided to the Audit Committee. The outcomes have fed into the updating of the Audit Universe and in the planning exercise for the 2019/20 Internal Audit Plan.

5.10 Whistleblowing arrangements have been in place throughout 2018/19 and are supported by a Whistle-blowing Policy, which is included within the Counter-Fraud and Corruption Strategy. In line with the Counter-Fraud and Corruption Strategy, the Whistle-blowing arrangements are currently subject to a refresh (see 5.6 above).

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, as highlighted within 2.4 above. An allowance is made for work of this sort within the audit plan and for 2018/19 the time spent on

investigations was contained within the existing resources in the Internal Audit team.

5.12 The year 2018/19 saw a number of investigations requiring input from Internal Audit. Investigative work undertaken within the year has resulted in agreed improvements which will enhance the Council's internal control environment. Where there is scope for improvement to the control environment identified by investigations, this is reported to the Audit Committee.

6 COMPLIANCE WITH AUDITING STANDARDS

6.1 The Public Sector Internal Audit Standards (PSIAS) have been adopted by Perth & Kinross Council as the relevant professional standards. The outcome of a review of the Standards was reported to Audit Committee and this report remains current (Report 13/147 refers).

6.2 The Chief Internal Auditor has undertaken a self-assessment of compliance with the PSIAS and has concluded that the function is generally compliant with the PSIAS.

6.3 There is a requirement for an external review of compliance with the PSIAS to be undertaken every 5 years. This was undertaken during the year by the Acting Chief Internal Auditor for South Ayrshire Council. This took the form of a validated self assessment, the outcome of which was reported to Audit Committee in November 2018 (report 18/358 refers). This report verified that Perth & Kinross Council's Internal Audit function fully conforms with the PSIAS.

Code of Ethics

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

Public Sector Internal Audit Standards

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

Performance Measures

6.6 Internal Audit's prime performance measure is the completion of the approved audit plan. Performance against the approved audit plan has been highlighted in Section 2 of this report. All assignments from the 2018/19 plan have been completed. Where appropriate, Internal Audit will have continued involvement in some areas of business activity into 2019/20.

Quality Assurance of Internal Audit

6.7 There is a requirement for the annual report to contain a statement on conformance with the PSIAS and the results of the quality assurance and improvement plan.

6.8 An External Quality Assessment of the Internal Audit function has been undertaken which verifies full compliance with the PSIAS.

6.9 A quality assurance system was in place in Internal Audit throughout 2018/19 which ensured the quality of Internal Audit work was of a consistent and professional standard.

6.10 Improvements highlighted as required by the Chief Internal Auditor as part of the Quality Assurance and Improvement Plan for 2018/19 have been addressed as follows:

- The audit manual continues to be reviewed and updated;
- Arrangements are in place to document and review potential conflicts of interests on the part of Internal Audit staff in line with the Code of Ethics;
- Improvements in the process for capturing requests for Internal Audit advice have been embedded.

6.11 Further improvements will continue into 2019/20 regarding the formalising of professional development records and a refresh of the Counter Fraud & Corruption Strategy.

7 AUDIT OPINION

7.1 In the Chief Internal Auditor's opinion, reasonable reliance can be placed on the Council's risk management and governance arrangements, and systems of internal control for 2018/19, 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.

Author(s)

Name	Designation	Contact Details
Jackie Clark	Chief Internal Auditor	Internal.Audit@pkc.gov.uk

If you or someone you know would like a copy of this document in another language or format, (on occasion only, a summary of the document will be provided in translation), this can be arranged by contacting *Jackie Clark*

Council Text Phone Number 01738 442573

ANNEX

1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

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	Yes
Consultation	
Internal	Yes
External	None
Communication	
Communications Plan	None

1. Strategic Implications

Corporate Plan

1.1 The Council's Corporate Plan 2018 – 2022 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.

1.2 This report relates to all of these objectives.

2. Assessments

Equality Impact Assessment

2.1 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.

2.2 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

Internal

3.1 The Chief Executive and the Head of Legal & Governance 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 2018/19 Internal Audit Summary

APPENDIX A

THE 2018/19 INTERNAL AUDIT SUMMARY

Audit Subject	**2018/19 Audit Plan**	**2018/19 Status**
Initial Review of Controls following a Significant Fraud	Planned	Completed
Detailed review of Controls following a Significant Fraud	Planned	Completed
IDEA implementation	Planned	Completed for 2018/19; ongoing into 2019/20 and beyond
Arms Length External Organisations	Planned	Completed
Transformation	Planned	Completed
Corporate Governance	Planned	Completed
Commissioning Strategy	Planned	Completed
Financial Assessment & Charging Follow Up	Planned	Completed
Further Follow Up of Financial Assessment & Charging	Planned	Completed
Bus Service Operators Grant	Planned	Completed
School Estate Strategy	Planned	Completed
Management of Contracts	Planned	Completed
Workforce Planning	Planned	Completed
Welfare Reform	Planned	Completed
Payroll	Planned	Completed
Sales Ledger	Planned	Completed
Residential Services	Planned	Completed
Tay Cities Deal	Planned	Completed
LEADER	Planned	Completed
Carbon Reduction Commitment & Climate Change	Planned	Completed
General Data Protection Regulations	Planned	Completed
Carers Act	Planned	Completed
Local Action Partnerships	Planned	Completed

Audit Subject	2018/19 Audit Plan	2018/19 Status
Community Empowerment	Planned	Completed
Audit Subject	**2018/19 Audit Plan**	**2018/19 Status**
Inclusion Services	Planned	Completed for 2018/19; consultancy proposed to continue into 2019/20
Corporate Risk Management	Planned	Completed
Cash Office Controls	Unplanned	Completed

PERTH AND KINROSS COUNCIL

Audit Committee

22 May 2019

SAFEGUARDING PUBLIC MONEY: ARE YOU GETTING IT RIGHT?

Report by the Chief Internal Auditor (Report No. 19/162)

PURPOSE OF REPORT

This report advises the Audit Committee of the publication of the above report and requests consideration of its contents.

1. BACKGROUND / MAIN ISSUES

1.1 Audit Scotland is the body which provides the Auditor General and the Accounts Commission with the services they need. It provides independent assurance that money is spent properly, efficiently and effectively. In addition, Audit Scotland publishes a wide range of reports on matters of public interest.

1.2 In April 2019, the Accounts Commission published a document by Audit Scotland as part of How Councils Work: an improvement series for councillors and officers. This document is entitled Safeguarding Public Money: Are you getting it right? and is attached as Appendix 1.

1.3 Following each part of the report, there is a checklist. Councillors should consider their position in relation to the questions raised in all 8 checklists and how they would wish to take these forward.

2. CONCLUSION AND RECOMMENDATIONS

2.1 This report presents a report published by the Accounts Commission.

2.2 It is recommended that the Committee:

2.2.1 notes the content of the Safeguarding Public Money: Are you getting it right? report; and

2.2.2 agrees for a meeting to be arranged to discuss the response to the Checklists contained within the report.

Author(s)

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Council Text Phone Number 01738 442573

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Legal and Governance	None
Risk	Yes
Consultation	
Internal	Yes
External	None
Communication	
Communications Plan	None

1. Strategic Implications

Community Plan/Single Outcome Agreement

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Equality Impact Assessment

2.1 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.

2.2 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.

Risk

2.3 The risks are associated with the level of engagement of Elected Members with publications likely to assist Council's discharge their functions.

3. Consultation

Internal

3.1 The Chief Executive and Head of Legal and Governance 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 1 – How Councils Work: an improvement series for councillors and officers - Safeguarding Public Money: Are you getting it right?

How councils work:
an improvement series for councillors and officers

Safeguarding public money: are you getting it right?

ACCOUNTS COMMISSION

Prepared by Audit Scotland
April 2019

The Accounts Commission

The Accounts Commission is the public spending watchdog for local government. We hold councils in Scotland to account and help them improve. We operate impartially and independently of councils and of the Scottish Government, and we meet and report in public.

We expect councils to achieve the highest standards of governance and financial stewardship, and value for money in how they use their resources and provide their services.

Our work includes:

- securing and acting upon the external audit of Scotland's councils and various joint boards and committees
- assessing the performance of councils in relation to Best Value and community planning
- carrying out national performance audits to help councils improve their services
- requiring councils to publish information to help the public assess their performance.

You can find out more about the work of the Accounts Commission on our website: www.audit-scotland.gov.uk/about-us/accounts-commission

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

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Audit team

The core audit team consisted of Carol Calder and Douglas Black, with support from other colleagues, under the general direction of Antony Clark.

Links

PDF download

Web link

Key messages

Councils provide valuable public services but face a complex, uncertain environment that places evolving demands and expectations on them. Increasingly, councils deliver services through multi-faceted partnership working across organisational, functional and geographical boundaries – such as for the provision of health and social care services.

It is challenging for councils to prioritise how they use their finite resources. Councils' decreasing budgets contrast with rising demands on many of their services, including care of vulnerable elderly people. This means that effective risk management and strong internal controls are more important now than ever before.

1 An effective system of internal controls and risk management helps councils to safeguard their finances; ensures they implement their policies; and helps them to deliver high-quality services. Controls include procedures for paying the right sum of money to the right person at the right time; keeping confidential data secure; and minimising a council's exposure to fraud and corruption.

2 There are signs from councils' internal auditors and the work of councils' external auditors that standards of internal controls may be strained. Some recurring weaknesses are becoming apparent among councils and the consequences could be serious, including the loss of significant amounts of public money, impacts on services and reputational damage.

3 Ultimately, councillors are accountable for scrutinising a council's use of public money. Senior officers have the primary responsibility for ensuring internal controls and risk management operate effectively and that a council's internal auditing function provides a valuable and objective view.

4 Councillors should seek assurances from officers that a rigorous system of internal controls is in place. Scrutiny and audit committees have leading roles, but every committee and councillor has a scrutiny role too.

About this report

1. The Accounts Commission aims to help councils improve their use of public money, alongside its role as the local government public spending watchdog. Our *How councils work* (HCW) reports support councils' drive for continuous improvement. We select topics from recurring themes in our Best Value assurance reports; performance audits; the work of councils' external auditors; and our annual overview of local government.

2. Our previous HCW reports have examined:

- The roles, responsibilities and working relationships of councillors and council officers in achieving Best Value (2010); and a follow-up (2016).
- The relationships between councils and their arm's-length external organisations (ALEOs) (2011).
- The value of good-quality cost information in making informed policy decisions and scrutinising performance (2012).
- The importance of effective performance management systems (2012).
- Good practice in managing councils' major capital investments (2013).
- Charging for council services (2013).
- Options appraisal (2014).

3. Scotland's councils face complex, challenging financial pressures. Rising demand for many of the diverse services councils provide must be met despite tightening budgets for numerous services, and significant uncertainty stemming from external factors including the UK's planned withdrawal from the EU.

4. In 2017/18, councils' net revenue expenditure totalled £12.4 billion.[1] If councils could save one per cent by improving their financial management, risk management and internal controls, they could potentially free-up an extra £124 million for providing public services.

5. Scotland's 1,227 councillors have multi-faceted responsibilities and constantly make difficult decisions when prioritising and allocating their council's finite resources.[2] With so much at stake, it is more important than ever that the impact of their decisions on communities and individuals is transparent and clearly understood. This requires an organisational culture that is open to candid discussions about risks and recognises the importance of scrutinising decisions.[3]

6. This report aims to reinforce the importance of councils having effective internal controls. Although these may have a low profile, they are fundamental to maintaining a council's finances; securing its core values; safeguarding public money; and minimising the reputational impact on a council if things go wrong. In places, anonymised, real-life case studies illustrate the importance of internal controls and the consequences if they fail. Checklists are featured to help councillors and officers assess their council's situation and, where necessary, to identify and plan improvements.

7. The Accounts Commission expects councillors to use this report to ensure that they:

- have a good understanding of the main risks facing their council and how well these risks are being managed
- are assured that appropriate internal controls are in place and, where weaknesses have been identified, effective action is being taken to address them
- are kept aware of the outcome of any significant risk occurring; the failure of internal controls; and what remedial actions are being taken.

Part 1

Internal controls help councils to manage risk

Councils can use internal controls to manage risks

A control is an action taken by management … to manage risk and increase the likelihood that established objectives and goals will be achieved.[4]

8. A council is responsible for having an effective system of internal controls to safeguard public funds and help secure value for money. A system of internal controls has five main components (Exhibit 1).

Exhibit 1

Internal control components

The five main components are interdependent.

Control environment

The overall attitude, awareness and actions of councillors and senior officers to control activities and their importance in the council. This includes the high-level structures, culture and values across the council to provide a basis for carrying out internal controls.

Risk assessment process

Risk assessments should be carried out regularly. By identifying and evaluating risks, the council can assess the need for control activities.

Information systems

Councils use these systems (manual and computerised) to record financial transactions and non-financial data; and maintain accountability for related assets, liabilities and equity.

Control activities

Policies and procedures that senior management apply to ensure that their decisions and instructions are implemented; and risks are mitigated (treated) to achieve their objectives.

Monitoring of activities

Ongoing assessment by management of the control system's performance. Communication helps to monitor progress against the council's objectives.

Source: Financial Reporting Council

9. Control activities help to ensure council policy is applied, and they can generate feedback on whether intended actions were implemented and achieved their desired objectives. They comprise policies that establish what should be done, and procedures to implement these policies. In addition to the component arrangements for handling risk, five control categories are identified in the International Standards on Auditing, regarding the sorts of areas where risks occur:

- Authorisation
  - Officers handle only those processes and transactions that fall within the scope of their role.
- Physical
  - The physical security of assets, including adequate safeguards such as secured access to premises and records.
  - The authorisation for access to computer programs and data files.
  - The periodic counting and comparison with amounts shown on control records (for example, comparing the results of cash, security and inventory counts with accounting records).
- Information processing
  - Allow data to be processed in a specific way.
  - Application controls, which apply to the processing of individual tasks. Examples include checking the arithmetical accuracy of records, and manual follow-up of computer-generated exception reports.
  - General ICT controls, which are policies and procedures relating to many applications, such as controls that restrict access to computer systems which could change financial information without leaving an audit trail.
- Performance reviews
  - Monitoring performance versus budgets, forecasts, and prior period performance; and reviews comparing different data sets.
- Segregation of duties
  - Assigning different people the responsibilities of authorising transactions, recording transactions, and maintaining custody of assets. This is intended to reduce opportunities for someone to both perpetrate and conceal errors or fraud.[5]

10. It is the responsibility of officers to develop, implement and maintain reliable controls. Accounting regulations require a council to review, at least annually, the effectiveness of its system of internal controls. The findings from such a review must be considered by the audit committee (or equivalent) before it approves the council's annual governance statement, which is included in its published annual accounts.[6] The governance statement is where a council reports publicly on the extent to which it complies with its own code of governance, which in turn should be consistent with good governance principles. It should include:

- an acknowledgement of responsibility for ensuring that there is a sound system of governance (incorporating the system of internal control) and reference to the council's code of governance

- reference to, and assessment of, the effectiveness of key elements of the governance framework and the role of those responsible for the development and maintenance of the governance environment
- an opinion on the level of assurance that the governance arrangements can provide and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework
- an agreed action plan showing actions taken, or proposed, to deal with significant governance issues
- reference to how issues raised in the previous year's annual governance statement have been resolved
- a conclusion – a commitment to monitoring implementation as part of the next annual review.

11. A council's external auditor is required to express a separate opinion in their independent auditor's report on whether:

- the information given in the council's annual governance statement is consistent with its financial statements
- the annual governance statement has been prepared in accordance with the *Delivering good governance in local government: framework 2016*.[7]

Risk management helps to safeguard public money

Risk management is about identifying risks; assessing the impact they will have if they come to pass; the likelihood of that happening and making plans to mitigate, or 'treat', those risks.[8]

12. A council needs to understand its risks before it can manage them, and each council will have its own set of local circumstances, risks and challenges. Councils have some risks in common but their level and how they manifest themselves vary from place to place and over time. Risks can arise or change owing to factors such as: changes in the regulatory or operating environment; recruiting new staff and staff turnover; implementing revamped or new information systems; adopting new technologies; and organisational restructuring. Understanding and proactively acting on risks reduces the likelihood of a council being impacted by adverse events; suffering a policy or service failure; or omitting to benefit from opportunities.

13. The impact of risks can be categorised in various ways and here is one approach for illustration:

- Compliance – with laws, regulations and good practice.
- Finance – risks to the funding available for providing quality services; and to the council's ongoing financial sustainability.
- People – risks to employees' health, safety, wellbeing and morale; and to the organisational culture within services and the council overall.
- Reputation – risks to a council overall, its values, councillors and officers.

- Change – including risks with major construction projects and a council's organisational transformation plans.
- Impact – including the consequences of bad weather for services, and a council's responsibility to champion and demonstrate good practice concerning its social responsibilities.

14. A council is responsible for having an effective and appropriate risk-management function.[9] A good practice approach consistently integrates planning and risk management at corporate and service levels, and helps a council to:

- set and achieve its strategic objectives
- comply with its legal and policy obligations
- ensure the rigour of its decision-making
- prioritise the allocation and use of its finite resources
- deliver high-quality services.

15. A risk management cycle typically has seven steps (Exhibit 2). An underlying principle is to identify risks and their root causes at the earliest opportunity; assess risks' potential impact; introduce controls to mitigate (treat) those risks; and continually review the council's position.

Exhibit 2

Risk management aspects

There are seven key steps.

1		**Identify** the risks to the council
2		**Assess** the impact of the results
3		**Assess** the likelihood of the risks occurring
4		**Prioritise** all risks, assessing the principal risks
5		**Identify** how controls can be put in place to help mitigate risks
6		**Monitor** risks and the effectiveness of controls
7		**Report** regularly to senior officers and to councillors

Source: Audit Scotland

A council needs to use one or more risk registers

A risk register is a key document which, together with service performance data and financial information, equips senior officers and councillors with an assessment of a set of issues.[10]

16. A risk register supports the identification, assessment and monitoring of risk. It can inform the understanding of trends; drive action planning; and help in sharing good practice across the council. A large, complex organisation like a council is likely to need a strategic, corporate-level risk register; and a more operationally focused risk register for each service and major programme of change or development – such as improvements to the school estate or a major new ICT programme. A risk register can capture where key risks sit and:

- the ownership and responsibility for how each risk will be managed
- the regularity of reports to officers and councillors on the handling of risk
- the basis for periodically updating the council's approach to risk.

17. Once a risk is identified, its significance is assessed in terms of the likelihood of it occurring and, if it occurred, what the consequences would be. Typically, likelihood is categorised on a numerical scale such as one to five, with one being rare and five almost certain. Impact will also be assessed on a similar scale, with one being insignificant and five being severe. Likelihood and impact are multiplied to obtain a single overall risk score between one and 25.

18. Few risks can be avoided altogether but an effective, self-aware risk culture enables councillors and officers consciously to take the right risks in an informed, responsible way. A council that is consistently risk-averse may not be well-placed to benefit from new opportunities. How acceptable a risk is deemed to be will depend on the type of risk involved; may vary among council services; and be influenced by factors such as the sums of money involved, or the potential consequences should the risk materialise.

19. It is for each council to have a clear approach to managing risk and articulating its risk appetite in ways that balance risk and opportunity and reflect the specific and varied nature of risks across different service and policy areas. For example, a council's risk appetite could range between being risk-averse (where the avoidance of risk and uncertainty is a key organisational objective) and risk-hungry (where the council is eager to be innovative and to choose options offering potentially higher rewards, despite greater inherent risk).

20. A council must monitor and control risks. It is important to evaluate each risk's score before and after mitigating action to curb it. Based on a risk's score, there are four options. In picking one, factors to consider include costs, feasibility, probability, and potential impact.

- Terminate – avoid the risk altogether by deciding not to proceed with an activity. For example, if a project is very high-risk, it may be prudent to cancel the project altogether or handle it differently.
- Transfer – to another person or organisation that bears all or part of the risk. This could mean moving some work to a different type of organisation; working in partnership to share the risk; or taking out insurance.

- Mitigate – identify measures to reduce the risk. Risks should be monitored regularly to ensure mitigation measures remain effective.

- Tolerate – it is sometimes appropriate to accept and live with a risk, for instance if the cost of mitigating it exceeds the potential benefits.

Internal controls and risk management are increasingly important

21. The outlook is that reductions in funding for councils may increase financial pressures on them, especially in services that are unprotected by funding dedicated to their sole use – such as road maintenance, waste disposal and 'back-office' functions such as finance, personnel and ICT services.

22. Further savings will become progressively more important to councils' financial sustainability but could be increasingly difficult to achieve.[11] Sound internal controls are therefore essential for ensuring councils can extract the maximum possible value from their budgets within a tolerable level of risk. Risk is often unavoidable, but it always needs managed actively. The rewards in a well-managed situation can outweigh the risks for individuals, councils and for residents.

Councillor checklist 1

Internal controls and risk management

The following questions may help you to think about internal controls and risk management in your council.

Is the answer Yes, Maybe/Partly, or No? Is action required? If so, what action and who by?

Internal controls

- Do internal controls link with key corporate and service-level risks?
- Do internal controls apply to both financial and non-financial risks?
- Has the council identified the weakest internal controls?
- Are officers improving weak internal controls and minimising the risks they pose?
- Does internal auditing evaluate controls' effectiveness, and report to the audit committee?
- Does the audit committee take appropriate action?
- Does the council publicly review its system of internal controls annually?

Risk management

- Is risk management actively led, supported and promoted by councillors and senior officers?
- Does the council have an up-to-date, corporate-level, risk management strategy?
- Does the corporate risk management strategy address the council's risk appetite?
- Does the council have up-to-date corporate-level and service-related risk registers?
- Is risk management embedded in business practices at both corporate and service levels?
- Does systematic evaluation and prioritisation of risks and opportunities lead to timely action?
- Are key risks and action to mitigate them monitored and reported on throughout the year?
- Do officers' reports to committees cover both financial and non-financial risks?
- Is there sufficient, timely training and ongoing support on controls and risk for you and relevant officers?

Part 2

Weak controls can have serious consequences

There are signs that standards of internal controls may be strained

23. An effective system of internal controls works to prevent foreseeable problems from happening in the first place. When things do go wrong, symptoms of significant weaknesses in controls can include:

- Major financial transactions are not appropriately scrutinised by councillors.
- Fraud is not prevented by the council's internal controls.
- A risk assessment process is absent, where it would ordinarily be expected.
- The council's risk management process does not identify where risk assessment is ineffective, such as a failure to identify a risk of material misstatement in the annual accounts.
- There is an ineffective response to identified significant risks (for example, an absence of controls over such a risk).
- Previously issued financial statements have had to be reissued to correct a material misstatement due to error or fraud.[12]

24. However, developing and implementing an internal control is not cost-free and implementing increasing numbers of controls may not be helpful or sustainable. Consequently, there are balanced judgements to be struck. The challenge is to consolidate only the most suitable controls into systems and operations.

External auditors report their concerns about controls

25. Through their audit reports and plans, councils' external auditors flag concerns about councils' internal controls as a result, for example, of the trend in reduction of finance staff. Recurring weaknesses are becoming apparent with certain types of controls, particularly those relating to:

- information processing controls, such as for key financial systems
- performance reviews, such as making effective use of computer-generated reports that usefully highlight patterns and exceptions
- segregation of duties, including ensuring that a council officer cannot perform both Human Resources (HR) and payroll functions, and so create fictitious employees; and ensuring an officer cannot both make a purchase from a supplier and arrange the payment for it.

26. Case studies in Exhibit 3 (page 16) illustrate a range of situations where:

- controls worked well
- controls were weak, but problems were averted
- weak controls enabled a problem to occur, but corrective action was taken.

The failure of internal controls can cause numerous problems

Public money can be lost

27. Even where a council's controls are theoretically robust, risks can arise if they are implemented weakly (Case study 1). Controls need to be applied:

- consistently – by all relevant parts of the council and its various services
- responsively – in good time, such as when one part of the council relies on being supplied with information by another council function or service
- sustainably – without intermittent interruptions in their use.

Case study 1

Overpayments to current and former employees cost a council £21,000

Between April 2015 and February 2018, the council made over 800 salary overpayments totalling approximately £812,000 to a combination of actual and former employees. An eighth of former employees were still paid after leaving the council, usually due to a delay in a department notifying Payroll Services staff that someone had left. Six overpayments exceeded £10,000 and the highest was £15,500. At the time of the external audit, there were no documented procedures for preventing or recovering payroll overpayments. In March 2018, the council issued a Payroll Overpayment Process Guide, which outlined the steps to recover an overpayment of salaries/wages. In April 2018, in conjunction with HR, Payroll Services also issued procedural guidance to managers on avoiding salary overpayments. By March 2018, the council had:

- Recovered around £351,400 of overpayments, taking an average of 101 days, and written off £21,000.
- Recovered 58 per cent of overpayments from actual employees and 27 per cent from former employees.

Source: Audit Scotland

Exhibit 3

Control activity case studies

There are five categories of control activities.

Control activity	Controls worked well
Authorisation controls Officers handle only those processes and transactions that fall within the scope of their role. For example: • The purchasing manager evidences authorisation of a purchase requisition through their signature. • The head of HR reviews and signs off the payroll before payments are made to employees.	**Authorisation controls** Journal entries are raised and approved by different officers, as appropriate. Each journal entry is supported with back-up detail that enables the authoriser to know the journal entry is correct.
Physical controls Controls over access to files ensure that data is restricted to authorised users; and only changed if permitted. For example: • Buildings are secured by keycard locks. • Safes are locked routinely. • Fire and burglar alarms are maintained. • Access to computer servers is restricted.	**Physical controls** An officer's access rights to the council's IT network are automatically removed at midnight on the day s/he leaves the council. The system is linked to leaving dates held in the HR and payroll systems. The same process automatically removes access to third parties who have been granted temporary access to the council network. Additionally, inactive computer accounts are automatically disabled after 30 days.
Information processing controls Allow specific data to be processed in a specific way. For example: • Application Controls typically apply to the processing of specific types of transactions, such as invoicing customers or paying suppliers. • IT General Controls help ensure the secure, continuing operation of information systems.	**Information processing controls** The council purposely tolerates low reported levels of Blue (disabled parking) Badge misuse because pursuing the return of a badge when its holder dies could be insensitive. Instead, the council's Blue Badge team receives updates on deceased customers through the UK-wide 'Tell Us Once' scheme. A person's badge is cancelled through the national Blue Badge system and the local Parking Unit is informed.
Performance reviews Allow management to review information to highlight any exceptions. For example: • Senior officers regularly use computer-generated reports that show exceptions to normal patterns. • There are regular reviews of debtors. • Actual spend is compared to the original budget.	**Performance reviews** A comprehensive compliance system produces weekly reports on processing activity and accuracy. Reports detail trends in processing errors detected through the quality procedures in place and they report on bank amendment reviews. Reports are also reviewed monthly by the director and the head of accountancy. This approach allows senior management to identify issues with individuals; spot trends, and target staff training.
Segregation of duties Mitigates a risk that people could commit a fraud or error and conceal it. For example: • Access to payments and supplier accounts is controlled. • HR staff cannot also access the payroll function.	**Segregation of duties** The council introduced a new computer system that integrated the management of HR, payroll, and financial management functions. The risk of fraud was minimised by consulting internal audit at the design stage, and ensuring that officers could not access multiple parts of the computer system, and so arrange to create and pay a fictitious employee.

continued...

Exhibit 3 (continued)

Controls were weak, but problems were averted	Weak controls enabled a problem to occur
Authorisation controls Documents setting out the council's financial management and governance arrangements referred to superseded structures and roles. Differences between obsolete written procedures and the processes actually being followed meant that controls were weakened, or not fully complied with. The council brought its Scheme of Delegation into line with its revised structure and strengthened its related controls.	**Authorisation controls** The council approved a new Scheme of Governance including refreshed Financial Regulations. These required purchase orders to contain a contract reference number. Orders for £50,000 or over should be approved by an officer at Head of Service level or above. In one year, 117 orders for £50,000 or over were raised through the council's procurement system. Of these, 73 per cent had neither head of service nor committee approval because of weak application of the control.
Physical controls There was no formal communication process to ensure access to IT systems was removed promptly when an employee left the council. This generated a risk of fraud or manipulation of systems by former employees. Arrangements are now in place that automatically remove access rights to the council IT network at midnight on the day someone leaves the council. This is linked to leaving dates held by HR and the payroll system.	**Physical controls** Mobile telephones worth £5,400 were stolen from a council store. The door entry system's code was widely known among employees; fire exits were left open; and the phones were not recorded on the council's asset tagging system on delivery. An internal audit review introduced improved controls, including periodic changes to door entry codes, closing fire doors, regular physical checks of stock, and applying the council's asset tagging system.
Information processing controls Information from a third party suggested an adviser of a consortium delivering a project had falsified claim evidence. This consisted of emails about client activities, which the adviser could edit. Evidence of eligibility of benefits and identification was tampered with. The investigation by the internal audit section prevented payment on the ineligible claims. The adviser resigned. Controls and evidence standards have been tightened, and consortium supervisors have been trained about tampered evidence.	**Information processing controls** Confidential tax forms containing personal data on around 900 actual or former employees were sent to the wrong people. The council apologised to affected people, and reported the breach to the Information Commissioner's Office. The internal audit section found procedures had been in place, but human error had occurred. Remedial actions comprised revised procedures with additional quality assurance.
Performance reviews An exercise to check payroll data with service managers was two years old. Dated and incomplete checks risked undetected payroll errors. Personnel conducted a full verification exercise, but services responded on only 79 per cent of staff. The council further improved its verification of payroll data. Overall, overpayments are now a small percentage of the paybill and are pursued to ensure repayment.	**Performance reviews** An officer diverted £6,000 of school fund income, triggering an internal audit investigation. The fraud was possible because reconciliations and spot checks on accounts and cash balances were not made. The employee denied theft but admitted failing to bank school fund income. A report was made to the Procurator Fiscal. Regular checks and bank reconciliations, signed off by the headteacher, have been introduced by the council to deter a recurrence.
Segregation of duties Five council officers had access to both the HR and payroll areas of the council's computer system, potentially enabling them to create – and pay – a fictitious new employee. The council is undertaking a comprehensive review and implementing a new 'people manager module' to change some HR staff's access permissions to computer systems.	**Segregation of duties** A £1.1 million fraud spanning over five years was detected when year-end procedures found that an invoice for £7,000 lacked supporting evidence. A payment had been made to an officer who could insert fake invoices and suppliers' details. Internal audit and Police Scotland found fundamental control weaknesses. The officer was jailed for over five years. All but £19,000 is being recovered, and controls have been improved to help avoid further anomalous payments.

Source: Audit Scotland

Public money can be lost through corruption or fraud

28. Fraud and corruption can be perpetrated in various ways that can include, for example, fraud or corruption by a council officer or a councillor; a resident attempting to exploit a service; or a fraudster acting alone or in a wider plot. Councils' internal auditing functions routinely share intelligence on actual or potential frauds, enabling them quickly to review the suitability of their own controls. Some councils have teams of officers dedicated to counter-fraud work, and others rely primarily on officers within the internal audit section alone.

29. The National Fraud Initiative (NFI) is a UK-wide, counter-fraud exercise that is conducted every second year and is coordinated in Scotland by Audit Scotland. It uses computerised tools to compare information on people held by different public bodies and on different financial systems. The NFI identifies potential inconsistencies, called 'matches', that suggest potential fraud or error. Examples include matching council tax records to the electoral register, to spot unreported changes affecting a resident's eligibility for a council tax discount.

30. The most recent NFI exercise, on 2016/17, identified £18.6 million of 'outcomes' in Scotland including around £11.9 million among councils (Exhibit 4, page 19).[13] An NFI outcome describes the overall amounts for fraud, overpayments and error that are detected by the NFI exercise and an estimate of future losses that it prevents. Examples include housing benefits being stopped or reduced; council tax discounts being reduced or removed; and 'Blue Badges' for parking being stopped or flagged for future checks. High levels of outcomes could be due to increased fraud and error in the system, better detection of fraud and error or poor internal controls. Once an overpayment has been identified, a council can consider how to recover the money involved. The NFI also has an important deterrent effect that cannot be measured.

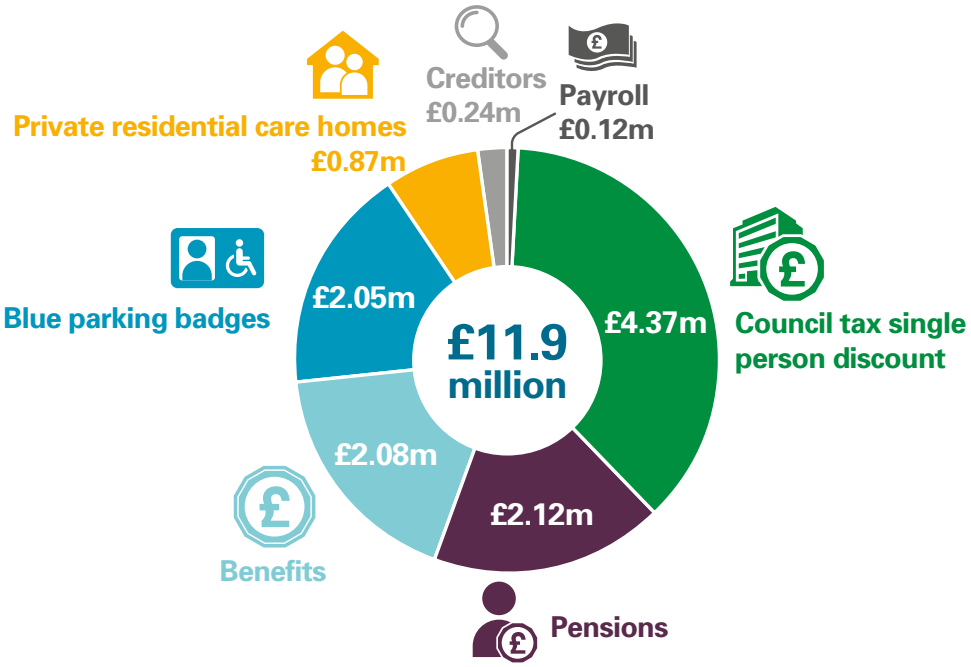
31. Most public bodies take advantage of opportunities provided by the NFI, and Audit Scotland disseminates information on instances of fraud in its quarterly technical bulletins. The frauds they cover have all been facilitated by people exploiting weaknesses in internal controls. Councils could use the NFI and these bulletins to consider promptly whether the same weaknesses apply in their own systems and what the necessary remedial actions may be for them.

32. Councils should ensure they have sufficient capacity in place to prevent frauds; investigate suspicious matches or other problems; and correct errors. It is more cost-effective to invest staff time in deterring or preventing fraud using good internal controls than to take remedial action afterwards. Investigating a fraud can cost a great deal of staff time and prosecuting a fraudster can incur substantial legal costs with no guarantee that the money lost will be recovered. It is for each council to decide how to organise, resource and pursue its fraud work.

Exhibit 4

The results of the 2016/17 National Fraud Initiative in Scottish councils

The NFI identified £11.9 million of 'outcomes' among councils.



These four aspects jointly accounted for 90 per cent of the NFI savings identified in councils

Council tax
People living on their own, or with no countable adults in the household, are eligible for a 25 per cent Single Person Discount.

Pensions
The NFI provides councils that administer pensions with an efficient and effective way of checking that they are paying the right pension to the right people; are not paying pensions to retirees who have died; and take account of people who retired but later returned to work.

Benefits
The NFI helps councils and the UK's Department for Work and Pensions to identify benefit frauds and errors – often caused by undeclared occupational pensions and undeclared public sector employment.

Blue parking badges
People with mobility problems can park for free in certain circumstances. Sometimes, a badge is used or renewed after the badge holder has died. Councils do not always try to recover a deceased person's badge to avoid distressing their family. But councils can ensure a badge is not renewed incorrectly.

These three aspects jointly accounted for ten per cent of the NFI savings identified in councils

Housing
This includes continuing to make payments to a care home for a resident after the person has died.

Creditors
The NFI helps to identify duplicate payments and ensure payments are made only to appropriate creditors.

Payroll
For example, legitimate employees may be in breach of their conditions of service or European Union working time limits; some employees could be working illegally in the UK; a council could inadvertently continue paying a former employee, or overpay a current employee.

Note: Some figures include late outcomes from the 2014/15 NFI work.
Source: Audit Scotland

Weak controls can have many other consequences

33. These can include an impact on:

- confidence in the council's integrity and reliability, including among residents, other public bodies and the council's business partners
- compliance with legislation and regulation, with the potential for costly and time-consuming legal action, such as on public liability matters
- the security of confidential financial, commercial and personal data
- the funding available for providing public services
- specific individuals – for example, if their confidential information is inadvertently published, or their personal safety is jeopardised
- additional external audit work.

Councils have duties to whistleblowers

Whistleblowing is about ensuring that if someone sees something wrong in their workplace, they are able to raise this within their organisation, to a regulator, or wider.

34. The Public Interest Disclosure Act protects employees and other workers who raise concerns about wrongdoing they believe is occurring. An employee must have a genuine and reasonable belief that the wrongdoing is taking place, and also that the disclosure is a matter in the public interest.[14] Where the statutory conditions are met, the employee should be protected from detrimental treatment. Every council should have a whistleblowing policy which complies with the legislation and the Whistleblowing Code of Practice.[15] A council that does not provide a safe whistleblowing route for its officers could discourage employees from raising legitimate concerns, and miss an opportunity to address a problem before it becomes a crisis.

Controls regarding cyber-security are increasingly important

35. Digital technology is becoming central to the way public services are delivered, with scope to improve and transform services and how users interact with public bodies. Citizens' expectations of public bodies' digital services are also rising. However, there is the potential for inadvertent data breaches, and also for malicious cyber-attacks to access and abuse sensitive information on a huge scale. Councils are required to meet high standards of information security and few serious issues have arisen among councils.[16, 17] Nonetheless, effective internal controls on access to information and its uses remain vital. If a council suffered a serious cyber-attack, the impact could be damaging, sustained, and include:

- interruptions to the provision of public services
- exposure of citizens' money and confidential data to theft and abuse
- financial damage to the council and its commercial partners
- costly remedial work to restore and re-secure computer systems.

Councillor checklist 2

Fraud and corruption

The following questions may help you to think about fraud and corruption in your council.

Is the answer Yes, Maybe/Partly, or No? Is action required? If so, what action and who by?

- Does the council have a fraud and corruption strategy for all its business, including its partnerships?
- Have cases of fraud and corruption been identified in each recent year?
- Have there been successful prosecutions for fraud or other criminal behaviour?
- Of the money lost to fraud/corruption, what percentage has been successfully recovered?
- Is the whistleblowing policy monitored for take-up; and are concerns acted upon?
- Are staff and other resources for fraud investigation proportionate to risks that the council faces?
- Are all allegations of fraud or corruption risk-assessed, and investigated accordingly?
- Are fraud alerts and good practice shared among council services in a timely way?
- Are there cost-effective measures for recovering money lost to fraud and corruption?
- Does the council actively take part in the National Fraud Initiative and act on its findings?
- Is comprehensive information on fraud and corruption reported to a relevant committee?
- Is there sufficient timely training and ongoing support for officers and councillors, including you?

Councillor checklist 3

Consequences of weak controls

The following questions may help you to think about how your council deals with weak controls.

Is the answer Yes, Maybe/Partly, or No? Is action required? If so, what action and who by?

- Which services have been most affected by weak controls, and why?
- Has internal auditing tracked, assessed and reported to a committee on weak controls' impacts?
- Have consequences of weak controls for ongoing service delivery been assessed?
- Could the council do more to anticipate longer-term risk trends, such as cyber-crime?
- Is there sufficient timely training and ongoing support for officers and councillors, including you?

Controls have practical limitations

36. Since a council constantly evolves, its officers need a programmed approach that updates existing controls and creates new ones as and when required. Internal controls operate within practical constraints, such as when the cost of introducing and enforcing a control would probably outweigh the impact of something going wrong (Exhibit 5).

37. The more senior an officer is, the more authority and opportunity s/he is likely to have for inappropriately overriding well-intentioned controls without being detected. However, the annual audit reports on the 2016/17 external audits of councils found no evidence of inappropriate management override of controls.

Exhibit 5

Internal controls

Numerous factors can limit the system of internal controls.

Relevance/obsolescence

Control-related activities or processes can become irrelevant over time as technologies and business needs change. Changes in key personnel could also cause a control to become obsolete.

Cost

Beyond a certain point, the cost of installing or improving a control could outweigh the benefits likely to be gained from applying it.

Collusion

Two or more officers work together to circumvent existing controls for their own purposes. If officers collude to perpetrate a fraud, typically by overriding management controls, it can be difficult for management to detect it.

Human error

There is always a risk of people making genuine mistakes, including in the operation of control activities themselves. The risk can be exacerbated by factors such as a lack of adequate motivation or training, time pressure, an adverse working environment, or excessive workloads.

Unusual or infrequent transactions

Control activities may be less suited to unusual and/or infrequent types of transactions.

Management override

Many processes have a facility to permit a management override function, so there is a risk that this facility could be abused; for example, by inflating reported figures to boost an officer's reputation.

Source: Financial Reporting Council

Councils' external auditors evaluate their internal controls annually

In determining whether the auditor has identified one or more deficiencies in internal control, the auditor may discuss the relevant facts and circumstances of their findings with the appropriate level of council management. This discussion provides an opportunity to alert management on a timely basis to deficiencies they may not have been aware of.[18]

38. International auditing standards require a council's external auditors to report significant deficiencies in internal controls to its audit committee, regardless of whether the deficiencies have been resolved by council management. This is part of the external auditor's responsibility for assessing the suitability and effectiveness of a council's corporate governance and it includes reporting on whether a council:

- has arrangements to ensure systems of internal control work effectively
- can demonstrate the effectiveness of budgetary controls in communicating accurate and timely financial performance information
- has established appropriate and effective arrangements for preventing and detecting fraud and corruption.[19]

39. Councils have sound, reliable systems of internal control that work well most of the time but can have weaknesses that could be damaging. It is in a council's interest to invest in internal controls that help reduce the risk of problems materialising and safeguard the resources it can devote to public services.

Part 3

Officers and councillors both have important roles

Councillors are ultimately accountable for councils' use of public money

Councillors and council officers have distinct but complementary roles

40. The full council (comprising all elected councillors) is the governing body of the council and determines the council's policy direction. It is ultimately responsible for ensuring that suitable services are delivered by officers. Councillors are elected to determine policy, and the role of officers is to implement these through day-to-day management of services. Officers advise and serve the whole council, and councillors have a right to expect officers to provide them with advice which is expert, impartial and candid.

41. In practice, councillors' responsibilities include:

- oversight of risk and the system of internal controls
- ensuring public money is spent on the council's intended purposes
- protecting public money from misuse, including fraud and corruption
- ensuring public spending is clearly accounted for, and publicly reported on
- scrutinising the council's operation and performance.

Culture and behaviours are important

42. A national code of conduct applies to all councillors. The Ethical Standards in Public Life etc (Scotland) Act 2000 introduced a framework which required Scottish ministers to issue a code of conduct for councillors. The latest version was introduced in July 2018 by the Standards Commission for Scotland. It sets out a range of principles that councillors must follow, including leadership, honesty, objectivity, stewardship and accountability.[20]

43. It is important that:

- full council, cabinet, committee and board meetings are held regularly
- there is trust between councillors and senior officers
- councillors and officers recognise and respect their distinct roles
- a culture of openness to challenge helps councillors and officers to recognise the importance of scrutiny; be open to candid discussions about risks and related controls; and promote this culture across the council and the partnerships it is involved in.

Scrutiny works best when officers provide councillors with timely, good-quality information

44. A council should be transparent about its decisions and the quality of the services it provides, so that the public and the council's partners can be confident it is making informed decisions; and safeguarding public money. This involves the council's leadership being open to scrutiny and accountable for their plans and performance. Every councillor – not just those who sit on the council's audit committee, scrutiny committee, or equivalent committees – has a valuable scrutiny role to play at corporate, local area and electoral ward levels.

45. Officers are responsible for providing committees with timely, good-quality reports that inform transparent decision-making by councillors. If a significant issue arises in a long gap between committee meetings, it may be helpful for officers to provide councillors with additional, intervening briefings on material developments. Similarly, councillors may need to be proactive in seeking out further information from officers to assure themselves that they have sufficient knowledge to hand before making a difficult decision.

46. Good councillor-officer working relationships are vitally important. It is mutually beneficial for councillors and officers, especially those in the corporate management team, to nurture constructive working relationships. Coalition and minority administrations are now more common and bring a different dimension to communication within councils. They may require a more nuanced approach that balances different political interests and involves compromises across party lines.[21]

The audit committee has an important role

47. This committee (or the equivalent committee that performs this role) provides the council with independent assurance on the adequacy of the council's governance arrangements; risk management framework; internal control system; and the integrity of financial and non-financial performance reporting.

48. An audit committee must have clear terms of reference that set out its members' independent role in scrutinising the council's decisions, performance and risks.[22] The Accounts Commission believes that effective, transparent scrutiny is best achieved when the chair of the committee is not a member of the administration. The chair should provide leadership and critical thinking, and work well with other committee members in scrutinising and challenging the council's work and performance. Committee members need the necessary skills and training to do their job, with ongoing support by officers and access to independent advice.

49. The core functions of an audit committee should include:

- Being satisfied that the council's annual governance statement properly reflects the risk environment and any actions required to improve it, and demonstrates how governance helps achieve the council's objectives.
- Considering the effectiveness of the council's risk management arrangements and its control environment.
- Considering the reports and recommendations of external audit and inspection agencies, along with their implications for governance, risk management or control.

- Reviewing the council's financial statements, the external auditor's opinions and reports to councillors.[23]

50. The audit committee's role in relation to internal audit is to:

- oversee its independence, objectivity, performance and professionalism
- support the effectiveness of its auditing processes
- promote its effective use within the council's assurance framework.[24]

Councillor checklist 4

Audit committee

The following questions may help you to think about the audit committee in your council.

Is the answer Yes, Maybe/Partly, or No? Is action required? If so, what action and who by?

- Do audit committee councillors have a clear remit that addresses the latest guidance by the Chartered Institute of Public Finance and Accountancy (CIPFA)?
- Does the chair of the committee manage committee meetings effectively?
- Does the chair routinely liaise with the head of internal audit before committee meetings?
- Do the committee's councillors attend routinely, prepare well and challenge officers appropriately?
- Does the committee approve internal audit's annual workplan and reports?
- Can internal audit report to senior officers and the audit committee without fear or favour?
- Do officers provide committee members with timely, well-written and useful reports?
- Do internal audit reports set out comprehensively and clearly what needs to improve, and how?
- Does the committee endorse and track improvements proposed by internal audit?
- Has the committee identified the top five risks to the council?
- Is there sufficient timely training and ongoing support for officers and councillors, including you?

Councillors should scrutinise risks from partnership working

51. Councils have extensive experience of working closely with diverse organisations. This includes delivering some services through the third and private sectors; and through arm's-length external organisations (ALEOs). It involves partnership working with other public sector bodies such as the NHS and community councils, which have a statutory basis in a council's partnership working too.

52. Changing models of service delivery are bringing more numerous and more complicated partnerships, collaborative ways of working and generating an increasingly complex governance and accountability landscape. On some issues, the centre of gravity in discussion and decision-making is moving away from councils themselves, yet councillors must remain sighted on their duties to their council and their council remains accountable to the local communities it serves.

53. It is therefore increasingly important that councillors and officers have an appropriate level of understanding of their roles and the necessary skills, and are alert to the potential for conflicts of interest. Councillors should expect officers to report to them on the activities, finances and performance of each partnership in achieving its intended outcomes.

Community Planning Partnership

54. Community planning is the process by which councils and other public bodies work with local communities, businesses and voluntary groups to plan and deliver better services and improve the lives of residents. The process is led by 32 Community Planning Partnerships (CPPs), each covering a council's geographical area. Governance and accountability arrangements in CPPs are complex given the range of partners involved, all of whom are accountable to different bodies and are not formally accountable to the CPP board.[25] The Local Government in Scotland Act 2003 provided the initial statutory basis for community planning.[26] It aimed to:

- enable public bodies to work together to deal with complex, long-term challenges that a single organisation cannot deal with, for example inequalities in health, employability and levels of crime
- involve local communities more in decisions that affect people's lives.[27]

Community Planning Partnership (CPP)

A statutory forum for the council, NHS and other public and third sector bodies, such as charities and voluntary groups, to work with local communities to plan and deliver better services.

55. The Community Empowerment (Scotland) Act 2015 introduced new statutory duties for community planning alongside other changes intended to give local people more say in how public services are planned and run.[28] The Scottish Government's statutory guidance on community planning places local communities at the heart of public service delivery and clarifies expectations of CPPs.

56. The act compelled councils to work with their statutory community planning partners to produce a jointly owned Local Outcome Improvement Plan (LOIP). A CPP's board is required to ensure its LOIP focuses on achieving priority outcomes for residents. The act also required each CPP to produce individual Locality Plans for specific communities within the CPP's wider geographical area. These are to reflect the views of local communities; focus on addressing local needs; reduce inequalities; and improve outcomes for a locality's residents. An important function of the CPP's board is to share ownership of the LOIP and Locality Plan(s) and manage their implementation.

57. In making tough choices about spending their budgets, councils and their CPP partners should liaise with communities about the sustained impact of decreasing council spending on public services and any opportunities for improving services.[29] Slow progress or insufficient scrutiny of progress by councillors could risk CPP partners, including the council, falling short of their strategic ambitions and adversely affect the public.

58. Having sound controls within the council for community planning matters will reinforce transparent decision-making and support scrutiny of councils by the public. For its part, the council needs suitable internal controls for managing the risks that it may be exposed to. There are particular risk and control issues associated with community asset transfers, in which communities choose to take responsibility for specific land and buildings from the council. Well-intended residents may lack the council's expertise in financial management, property management and service delivery. The council therefore has a responsibility to conduct due diligence work on the community organisation that would assume responsibility for any transferred asset.

Health and social care integration

59. The Public Bodies (Joint Working) (Scotland) Act 2014 aims to ensure that health and social care services are well integrated, so that people receive the care they need at the right time and in the right setting. The reforms affect everyone who receives, delivers and plans health and care services in Scotland. The Act was intended to help shift resources away from the acute hospital system towards preventative and community-based services. However, there is still a lack of agreement about whether this is achievable in practice.

60. The act requires councils and NHS boards to collaborate in new partnerships, known as Integration Authorities (IAs). The size of IAs varies depending on council boundaries. NHS boards have between one and six IAs within their boundary.[30] Of the 31 IAs in Scotland, 30 are Integration Joint Boards (IJBs) and in Highland the NHS board and council each lead integrated services. Clackmannanshire and Stirling councils have created a single IA with NHS Forth Valley. A report produced by Audit Scotland in November 2018 found that:

- numerous IAs have had leadership changes in the past few years
- there is significant variation in the role and remuneration of IAs' chief officers (COs) and chief financial officers (CFOs)
- there is evidence of a lack of support services for IAs, in relation to HR, finance, legal advice, improvement, and strategic commissioning. This will limit the progress that they are able to make
- cultural differences between partner organisations are proving to be a barrier to achieving collaborative working.[31]

61. An IJB is a separate legal entity that is responsible for strategic planning and commissioning of health and social care services across a partnership's area. Membership of the IJB comprises a mix of voting and non-voting members. It includes elected members from the council; non-executive directors from the NHS; and representatives from service users, carers and the voluntary sector. The IJB must appoint a chief officer and finance officer (who may also be chief officer).

Integration authority (IA)

A partnership between a council and the NHS to ensure health and social care services are well integrated, so that people receive the care they need at the right time and in the right setting.

Integration Joint Board (IJB)

A separate legal entity, responsible for strategic planning and commissioning of the wide range of health and social care services across the partnership's geographical area.

A short guide to the integration of health and social care services in Scotland April 2018

Health and social care integration – update on progress November 2018

62. A council and NHS board delegate budgets to the IJB, which decides how to use this funding to achieve its objectives. The IJB directs the NHS board and council to deliver public services. In 2017/18, IAs directed £8.9 billion of health and social care resources. IJBs directed £8.3 billion of this, money previously managed separately by councils and NHS boards. In total, 29 per cent (£2.4 billion) of IJB funding was allocated from councils and £5.9 billion (71 per cent) from the NHS.[32]

63. The scale and complexity of ongoing organisational change; significant financial and demographic pressures; and the level of resources involved make it imperative that councils, NHS boards and IAs have rigorous systems of risk management and internal control. It is important that risk management and assurance arrangements apply across IAs and their health and social care partners so that risks from delegated services are regularly monitored.

64. With partnership working increasing in scope and complexity, the corresponding nature of evolving controls may itself pose a risk to effective oversight and scrutiny by councillors and a council's senior officers. A councillor who sits on an IJB needs to be clear about the expectations of their role and alert to scope for conflicts of interest between their council and its partners.

Arm's-length external organisations

65. These organisations (ALEOs) have been established by many councils to deliver services traditionally provided by a council itself, such as leisure centres and parks. Councillors have a leadership role in the options appraisal process that makes the case for establishing an ALEO at the outset. For example:

- Have officers provided councillors with all the information they need to make informed decisions about risks and benefits?
- Is the risk of failure so high that risks are better managed in-house?
- Are the likely benefits of options other than ALEOs outweighed by their implementation costs?
- Are there opportunities to share risks and benefits with partner bodies?[33]

Arm's-length external organisation (ALEO)

A separate organisation that is established by a council to provide services on its behalf.

Councils' use of arm's-length organisations May 2018

66. ALEOs can bring financial and operational benefits, with more potential for innovation but also considerable risks. Once an ALEO is operating, councillors need to oversee its financial and service performance; financial sustainability; associated risks; and seek assurance from council officers that suitable controls are in place for managing these risks. Risks include a potential conflict of interest where a councillor sits on an ALEO's board, especially should it encounter financial difficulties.

67. Oversight, accountability and good management are essential. In managing their links with ALEOs, councils should continue to apply the statutory code of practice on Following the Public Pound and annually review the governance arrangements for its links with major ALEOs.[34] It is also councillors' responsibility to decide whether an ALEO remains the optimum way of providing a service or whether there are other valid options, such as bringing a service back in-house.

City region and growth deals

68. These are agreements between the UK Government, Scottish Government, and councils' other regional partners. They are intended to help deliver long-term strategies that improve regional economies. Each deal is specific to its region and can include measures relating to issues such as housing, transport, infrastructure and culture. They provide regions with the opportunity to set their own priorities and decide where to target investment, through programmes agreed among a deal's partners. In return, the UK Government and Scottish Government contribute funding for Scotland's six City Region deals (Exhibit 6). Deals differ in their stage of development and funding arrangements.

City region deal
An agreement between the UK Government, Scottish Government and one or more councils to invest in cities and their regions.

69. Some councils participating in city region or growth deals may risk gaps between their income and spending in future years, which could threaten their financial sustainability if risks are not managed carefully. So it is important for councillors to:

- ensure their council has clear, effective governance arrangements that underpin partnership working with other organisations in the deal – whether they are in the public, private or third sectors
- ensure council officers are managing suitable internal controls that help to identify and manage risk
- scrutinise the impact of borrowing on their council's revenue expenditure commitments, such as the costs and durations of loan repayments.

Exhibit 6

City region deals and growth deals
There are deals across Scotland.

Geography	Deal type	Participating Scottish councils
Aberdeen City	City region deal	Aberdeen City, Aberdeenshire
Argyll and Bute	Growth deal	Argyll and Bute
Ayrshire	Growth deal	East Ayrshire, North Ayrshire, South Ayrshire
Borderlands	Growth deal	Dumfries and Galloway, Scottish Borders
Edinburgh and South-East Scotland	City region deal	East Lothian, City of Edinburgh, Fife, Midlothian, Scottish Borders, West Lothian
Falkirk	Growth deal	Falkirk
Glasgow City	City region deal	East Dunbartonshire, East Renfrewshire, Glasgow City, Inverclyde, North Lanarkshire, Renfrewshire, South Lanarkshire, West Dunbartonshire
Inverness and Highland	City region deal	Highland
Islands	Growth deal	Eilean Siar (Western Isles), Orkney, Shetland
Moray	Growth deal	Moray
Stirling and Clackmannanshire	City region deal	Clackmannanshire, Stirling
Tay Cities	City region deal	Angus, Dundee City, Fife, Perth and Kinross

Note: Fife Council and Scottish Borders Council are each involved in two deals. Three English councils are also involved in the Borderlands growth deal: Carlisle City Council, Cumbria County Council and Northumberland County Council.
Source: Scottish Government, City region deals, Growth deals

Councillor checklist 5

Partnership working

The following questions may help you to think about partnership working in your council.

Is the answer Yes, Maybe/Partly, or No? Is action required? If so, what action and who by?

- Do the council's governance and internal controls mitigate partnerships' risks to the council?
- Does the council have risk registers concerning its various partnerships?
- What resources (such as staff, buildings and money) does the council contribute to partnerships?
- Does each partnership have a clear purpose and explicit, outcome-based objectives?
- Are governance arrangements for each partnership clear, documented and fit for purpose?
- Does the council apply the code of practice on 'Following the Public Pound' to each arm's-length external organisation?
- Does the council have sound reasons for having a representative on a partnership's board?
- If you sit on a partnership's board, do you appreciate what is required of you and the linked risks?
- Is there good-quality, transparent and publicly accessible performance information?
- Are concerns about risks posed by partnerships escalated suitably within the council?
- Is there sufficient timely training and ongoing support for officers and councillors, including you?

Councils need to invest in councillors' personal development

70. One of the Accounts Commission's strategic audit priorities is that councillors and officers have the right knowledge, skills and support to design, develop and deliver effective services in the future.[35] The Scottish public has high expectations of councillors and officers and how well they should conduct themselves in undertaking their council duties. They should meet those expectations by ensuring that their conduct is consistently above reproach.[36] The Accounts Commission has published a number of reports that could be useful to councillors, including:

- *Roles and working relationships: are you getting it right?*, 2010; and *Follow-up messages for councils* in 2016.
- *Arm's-length external organisations (ALEOs): are you getting it right?*, 2011.
- *Social work in Scotland*, September 2016.

71. Following a local government election, a good induction process is valuable for all councillors. Some councillors may need additional, tailored support on a specific topic or skill, such as their role on an audit committee or planning committee; their position as a board member of an IJB or ALEO; the type of finance involved; or the potential impact of a decision on a group of service clients.

72. Councillors need sustained, ongoing continuing professional development (CPD) that builds on their knowledge and experience; is tailored to their roles; and relates to the expertise they need for making transparent, defensible decisions about safeguarding public money. Long-serving councillors can also benefit from investing time and effort in their ongoing CPD, not least because technology, the council's operating environment, its financial situation and the risks it faces all evolve constantly. Councillors should be involved in developing their council's CPD programme so that it best meets their future needs.

Councillor checklist 6

Councillors' continuing personal development

The following questions may help you to think about the personal development opportunities in your council.

Is the answer Yes, Maybe/Partly, or No? Is action required? If so, what action and who by?

- After the last election, was the general induction programme for councillors successful?
- Do officers give you good support on knowledge topics (such as internal controls)?
- Do officers give you good support on personal skills (such as chairing meetings)?
- Do you fully understand your roles and duties at council, cabinet, committee and ward levels?
- Have you made good use of the Improvement Service's support and publications?
- Do you have a personalised CPD programme?
- Do you actively participate in, and benefit from, the support made available to you?
- Do officers monitor and understand councillors' take-up of training and development?
- Where you do not engage fully in training and development, how could officers help more?
- Does CPD for councillors help you to be effective in your governance and scrutiny roles?

Officers are responsible for delivering council policy and managing services

73. Each council must have these four 'statutory officers', who all have specific duties and discharge their role as part of their wider responsibilities in the council:

- Head of paid service[37]
- Chief financial officer[38]
- Monitoring officer[39]
- Chief social work officer.[40]

74. These officers have an important, independent role in promoting and enforcing good governance; ensuring councils comply with legislation; overseeing the council's key controls; managing risk, and ensuring the delivery of council services. Statutory officers must have sufficient influence and experience to undertake their roles. Cohesive, effective corporate management depends on postholders in these roles having the necessary status and capacity within their council.

75. To ensure that councillors are clear on the purpose of these roles, a council's scheme(s) of delegation should set out what they involve and why they are important. The role of statutory officers should feature in induction schemes for all newly elected councillors. Councillors and committees should know when to seek assurance from these officers so that their council operates legally and responsibly.[41]

Head of paid service

76. This officer, usually called the chief executive, is responsible to councillors for the staffing and smooth running of the council and for ensuring the work of its various services is coordinated. S/he must ensure the other statutory officers have sufficient influence and scope to conduct their roles. For example, this could mean them being in, or attending, the corporate management team.

77. Councillors and the chief executive may need to balance the benefits of including all statutory officers as full members of the corporate management team against the potential merits of a slimmer, potentially cheaper, management structure – but one that may risk appearing to devalue the role of certain officers or complicate lines of communication among officers and councillors.

78. The chief executive has a complex, multi-faceted role that blends relatively clear accountability to councillors for the operational management of the workforce and service delivery with an important involvement in diverse partnership working over which s/he will have influence but perhaps limited direct authority. This situation provides some context to the council's need for a dynamic, evolving approach to risk management and the linked controls which are necessary.

Chief financial officer

79. The chief financial officer (CFO) has a key role to play in balancing control and compliance with value creation and performance. Better value for money releases resources that can be recycled into higher priorities without increasing taxation. Helping to secure positive social outcomes within affordable funding therefore lies at the heart of the CFO's role.[42]

80. The CFO (often called the Section 95 or s95 officer) underpins sound corporate management and ideally sits on the corporate management team. To deliver on their responsibilities, the CFO must manage a finance function that is sufficiently resourced and professionally qualified (Exhibit 7).

Exhibit 7

The role of the chief financial officer

The postholder is responsible for the proper administration of the council's finances.

In a public service organisation
the chief financial officer:

is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the authority's strategic objectives sustainably and in the public interest.

must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer-term implications, opportunities and risks are fully considered, and alignment with the authority's financial strategy.

must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded always and used appropriately, economically, efficiently and effectively.

To deliver these responsibilities
the chief financial officer:

must lead and direct a finance function that is resourced to be fit for purpose.

must be professionally qualified and suitably experienced.

Source: Chartered Institute of Public Finance and Accountancy

81. The Local Authority Accounts (Scotland) Regulations 2014 impose responsibilities on the CFO about accounting records and supporting information; control systems; and annual accounts – which, in Scotland, include the financial statements and annual governance statement.[43] Also, the CFO needs to assure themself and councillors that decisions made by the council will be affordable. In practice, many of the CFO's day-to-day responsibilities are delegated or outsourced but the CFO should retain oversight and overall control, and have sufficient access to the corporate management team.

82. The CFO helps to safeguard public money by:

- Applying strong controls in all areas of financial management, risk management and asset control.
- Implementing effective systems of internal control that include standing financial instructions, operating manuals, and compliance with codes of practice to secure probity.
- Ensuring that the council has effective arrangements for internal auditing of the control environment and systems of internal control, as required by professional standards in line with CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom.[44]
- Promoting arrangements to identify and manage key business risks, including safeguarding assets, risk mitigation and insurance.
- Applying discipline in financial management, including appropriate segregation of duties.
- Implementing suitable measures to prevent and detect fraud and corruption.
- Ensuring that any partnership arrangements are underpinned by clear and well-documented internal controls.[45]

Monitoring officer

83. In essence, the monitoring officer (MO) ensures that the council operates properly. Their work includes reporting on the legality of matters; on potential maladministration; and the conduct of councillors and officers. The MO should contribute to the promotion and maintenance of high standards of conduct by providing advice and support to councillors on the interpretation and application of the Councillors' Code of Conduct.[46] Councillors and senior officers should send clear signals to the workforce about how people should behave and interact.

84. The Accounts Commission has found through its Best Value work that in some cases the MO role can be undermined because of a lack of trust and respect between councillors and officers.[47] It may be difficult for the MO to challenge the behaviours of senior officers or councillors. The MO might need to judge carefully both how to act and when, since intercepting potential problems quickly can help prevent, deter or resolve unhelpful behaviour before they become more serious.[48]

Chief social work officer

85. This officer (CSWO) must be a qualified social worker; registered with the Scottish Social Services Council; and of sufficient seniority and experience in both the strategic and operational management of social work services.[49] Often, a CSWO is also responsible for the delivery of services such as adult social care, children's services or criminal justice social work. The CSWO provides officers and councillors with professional advice on social work and social care services, and discharges specific duties on the council's behalf.[50, 51, 52]

86. The CSWO's role has diversified significantly in recent years, and is becoming more difficult to fulfil within integrated partnership arrangements. A council's partnership with the NHS is typically through an Integration Joint Board which oversees the delivery of integrated health and social care services, and carries risks that include financial matters and risks to the health and wellbeing of service clients. In health and social care, an important control can be oversight of permission to access information on vulnerable people, and in which circumstances. Such risks require corresponding internal controls within the council. Councillors need to ensure that the CSWO has the status, capacity and access (to other statutory officers and councillors) to enable them to fulfil their statutory responsibilities to the council effectively.

Chief education officer

87. There is currently no legal requirement for councils to have a post named the chief education officer because the relevant legislation has not been implemented.[53] Nonetheless, many councils have an officer who is their lead officer for their education service, called the director of education or similar, either as part of the corporate management team or perhaps at a lower level where large departments span multiple services.

88. With education typically accounting for a large share of a council's expenditure, it is important for the head of the education service to not only have a strong professional knowledge of education but also a solid understanding of financial management; to liaise closely with the corporate finance function; and have oversight of the large share of the service's budget that is delegated to individual schools.

89. In addition, some Scottish Government funding streams are outwith the core local government finance settlement and are allocated to councils for specific purposes. For example, the Scottish Government's budget for 2019/20 includes £62.0 million of Attainment Scotland Fund to provide councils and schools with additional means to provide targeted literacy, numeracy, and health and wellbeing support for children and young people in greatest need.[54]

90. The chief education officer has responsibility for the education service having rigorous internal controls. These could include processes for ensuring that changes in staffing are passed quickly and accurately to the corporate payroll function, and that schools operate within the education service's scheme of devolved school management. Should controls at school or service-level go awry and result in money being defrauded or misspent, there is the potential for substantial consequences for numerous schoolchildren; shortfalls in compliance with national requirements; and reduced funds available for spending by other council services.

Officers who manage a service need to understand its inherent risks

91. Officers require a thorough understanding of how a service is provided; what its costs are; who the service users and other stakeholders are; and exercise ownership of the internal controls that regulate business management of the service and its associated risks.

92. Depending on their role and position in the council, officers may need a suitable level of understanding of finance, risks and controls. Council services need a joined-up approach both vertically – so that an individual service and overall corporate management share the same perspective on risk – and horizontally – so that different services across the council follow the same overall approach to risk.

93. However, there are indications from the independent external audit of councils that incremental budget cuts over successive years, combined with recruitment challenges, may have eroded the capacity of councils' back-office functions – including aspects such as financial management and risk management. This could make financial management riskier and underline the importance of sound controls being in place to contain and manage these risks.

Councillor checklist 7

Statutory officers and chief education officer

The following questions may help you think about the statutory officers and chief education officer.

Is the answer Yes, Maybe/Partly, or No? Is action required? If so, what action and who by?

- Are the roles of these officers clearly set out in the council's governance documents?
- Do these officers sit on the corporate management team, or have ready access to it?
- Are these officers sufficiently resourced to discharge their roles and responsibilities?
- Do these officers have the influence needed for ensuring the council operates effectively?
- Do councillors and committees understand how and when to consult these officers?
- Do these officers give helpful, timely, impartial support to councillors and other officers?
- Do these officers have a constructive relationship with the senior management team?
- Do you have confidence in your council's key officers?
- Is there sufficient timely training and ongoing support for officers and councillors, including you?

Internal auditing helps evaluate and improve how well things work

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps a council to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.[55]

94. Audit and scrutiny are both important, but their distinction can be unclear. Generally, scrutiny asks whether the council is doing the right thing, and it questions policy proposals and the performance and quality of services. Audit examines the regularity of governance and financial management, including how well the council has applied its resources to achieve its objectives.

95. Accounting regulations compel councils to operate a professional and objective internal auditing service.[56] The service brings a valuable, independent scrutiny activity. Its remit can extend beyond the council to scrutiny of the council's involvement in partnerships and alternative service delivery models, such as ALEOs. The CFO must secure and support internal auditing arrangements and ensure that the council's audit committee (or the committee with this role) receives the advice and information necessary for both functions to operate effectively.[57] There are four main types of internal auditing work (Exhibit 8, page 39).

96. Key features are that internal auditing:

- operates independently of the day-to-day running of the council
- provides a service to all levels of the council
- objectively assesses operations' effectiveness, efficiency and value for money
- forms an integral part of the framework of business controls.

97. It is important for the officer who leads the internal auditing function to have unrestricted, 'open door' access to the chief executive. This enables internal auditing staff to bring problems directly to the attention of the council's most senior officer, if necessary. In addition, the arrangement equips the chief executive with objective, independent information on the operation of the council and an early warning system regarding potentially serious issues. However, it is not necessary for the chief executive to be the line manager of the head of internal auditing.

98. Internal and external audit have different but complementary roles. A council's external auditor is appointed by the Accounts Commission and is wholly independent of the council. By contrast, a council appoints its own internal auditing function, which may be provided by:

- An in-house function serving one council – which is still the norm.
- An in-house function serving two or more councils – Aberdeen City and Aberdeenshire; Clackmannanshire and Falkirk; Midlothian and Scottish Borders.
- Co-sourcing – where an in-house team is supplemented by a private firm.

- A private firm appointed by the council – no Scottish councils at present.
- In addition to these arrangements, Glasgow City Council provides services to several organisations.

Exhibit 8

Types of internal auditing work

The work helps to safeguard public money, as illustrated by this sample of scenarios.

Type	Explanation	Scenario
Systems	This is the review and evaluation of the manual and computer systems by which an organisation regulates and controls its activities. The internal audit section would evaluate the design of controls to conclude on their effectiveness and efficiency; and test their application to ensure users have been following procedures as intended.	Internal audit reported to the audit committee before, during and after a major new computer system was introduced to integrate previously disjointed systems. This approach gave assurance on the new computer system's controls from an early stage.
Contracts	This can involve a review of any area of activity regarding a high-value and potentially high-risk contract, such as for care-at-home services or the construction of a new building.	Internal audit reported to the audit committee on the council's compliance with legislation; national guidance; council policy and internal controls regarding the procurement of a new nursery school.
Investigations	Internal audit can be called on to investigate internal or external fraud, operational losses, breaches of security, or where customers have raised serious concerns with senior management. Other investigation work includes due diligence assessments.	Internal audit supplemented its annual summary report on fraud to the audit committee with a report that focused on a serious case of corruption. Internal audit recommended the upgrading of preventative controls in future.
Regularity or compliance	Inspection is the continuous, periodic examination of procedures and transactions to ensure they comply with an established set of instructions. This type of internal auditing does not necessarily consider the appropriateness of procedures, simply that they are followed.	Internal audit reported to the audit committee on the system for paying grants to local community bodies, including the extent to which claimants and officers followed proper procedures and claimants submitted valid or falsified evidence. Internal audit identified scope for strengthening controls in future.

Source: Audit Scotland, Financial Reporting Council

99. Internal auditing is an important link in a council's system of internal control. The purpose, authority and responsibility of internal auditing may be defined in its Audit Charter.[58] It must provide an annual opinion on the state of the council's arrangements in relation to governance, risk management and internal control. It may also carry out advisory and consulting work, where the aim is to support management in improving systems and controls.

100. Internal auditors in the public sector follow the Public Sector Internal Audit Standards (PSIAS), which have been mandatory since 2013. The scope and volume of internal auditing activity in a council is a matter for its management and those responsible for its governance.[59] However, the PSIAS require that the head of internal auditing communicates its plans and resource requirements, including significant interim changes, to senior management for review and approval. A council must assess the efficiency and effectiveness of its internal auditing service, and the findings should be considered by the audit committee as part of its annual review of internal controls.

101. The head of internal auditing must communicate the impact of resource limitations. Where s/he believes that the level of agreed resources will impact adversely on the provision of the annual internal audit opinion, the consequences must be brought to the attention of 'the board' – which, in a council, is normally the audit committee or its equivalent (Exhibit 9).

Exhibit 9

Recommended audit committee practice for effective internal audit oversight.

The audit committee has a range of responsibilities
Take responsibility for the provision of internal audit, including how it is provided.
Assess and approve the internal audit charter (terms of reference) and review it regularly.
Ensure a close working relationship with the head of internal audit.
Assess the resourcing of the internal audit function.
Monitor the quality of internal audit work, whether in-house or externally sourced.
Evaluate, approve and regularly review the risk-based annual internal audit plan.
Oversee the relationship between internal audit and centralised, corporate risk monitoring.
Ensure the collective assurance roles of internal audit, other internal assurance providers and external audit, are coordinated and optimised.
Assess internal audit findings and the breadth and depth of internal audit reports.
Monitor management's implementation of internal audit's recommendations.

Source: CIPFA and others

102. The internal auditing function can find itself operating in a challenging organisational environment. It is vital for it to be independent of activities it examines, so that it can give impartial, unbiased judgements to councillors. However, there are benefits from internal auditing advising on building in suitable systems and controls at a project's outset. There are risks that internal auditing:

- lacks the staffing capacity it needs – in the context of councils becoming more complex and especially in small or remote councils, where staff recruitment and retention may be more challenging
- lacks a credible voice in the council – perhaps through the head of internal auditing not being able to express concerns directly to the chief executive or audit committee, or in an organisational culture reluctant to hear bad news
- lacks impact when it escalates its concerns – such as when high priority recommendations are not being implemented wholly and promptly.

103. External and internal auditors liaise on their respective audit roles. The external auditor considers the extent to which s/he can rely on the work of internal audit. This cooperation aims to promote good working relationships, and to minimise unnecessary duplication of effort.

Councillor checklist 8

Internal auditing function

The following questions may help you to think about internal auditing in your council.

Is the answer Yes, Maybe/Partly, or No? Is action required? If so, what action and who by?

- Does internal auditing (IA) follow Public Sector Internal Audit Standards and other reputable guidance?
- Is IA objective; free from undue influence; and independent in its thinking, work and reports?
- Is IA suitably located in the council's structure?
- Is IA sufficiently resourced to recruit, retain and develop the staff it requires?
- Is IA free of operational responsibilities that could risk compromising its independence?
- Is IA's work aligned with the council's strategies, objectives and risks?
- Does IA give senior officers and councillors clear, timely, objective, risk-based assurance?
- Does the head of IA have unrestricted access to the chief executive?
- Does the head of IA give committees the information they need to make informed decisions?
- Is there sufficient timely training and ongoing support for officers and councillors, including you?

Endnotes

1 *Local government in Scotland: Financial overview 2017/18*, Accounts Commission, November 2018.

2 Councillors' roles, conduct and pay, Scottish Government website.

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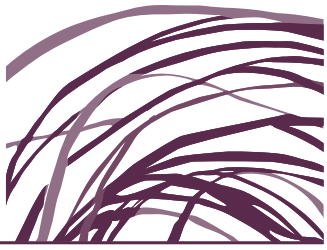
Appendix

Summary of checklists for councillors



The following questions may help you to think about internal controls and risk management in your council.

Is the answer Yes, Maybe/Partly, or No? Is action required? If so, what action and who by?

Checklist 1. Internal controls and risk management

- Do internal controls link with key corporate and service-level risks?
- Do internal controls apply to both financial and non-financial risks?
- Has the council identified the weakest internal controls?
- Are officers improving weak internal controls and minimising the risks they pose?
- Does internal auditing evaluate controls' effectiveness, and report to the audit committee?
- Does the audit committee take appropriate action?
- Does the council publicly review its system of internal controls annually?
- Is risk management actively led, supported and promoted by councillors and senior officers?
- Does the council have an up-to-date, corporate-level, risk management strategy?
- Does the corporate risk management strategy address the council's risk appetite?
- Does the council have up-to-date corporate-level and service-related risk registers?
- Is risk management embedded in business practices at both corporate and service levels?
- Does systematic evaluation and prioritisation of risks and opportunities lead to timely action?
- Are key risks and action to mitigate them monitored and reported on throughout the year?
- Do officers' reports to committees cover both financial and non-financial risks?
- Is there sufficient, timely training and ongoing support for you and relevant officers?

Checklist 2. Fraud and corruption

- Does the council have a fraud and corruption strategy for all its business, including its partnerships?
- Have cases of fraud and corruption been identified in each recent year?
- Have there been successful prosecutions for fraud or other criminal behaviour?
- Of the money lost to fraud/corruption, what percentage has been successfully recovered?
- Is the whistleblowing policy monitored for take-up; and are concerns acted upon?
- Are staff and other resources for fraud investigation proportionate to risks that the council faces?
- Are all allegations of fraud or corruption risk-assessed, and investigated accordingly?
- Are fraud alerts and good practice shared among council services in a timely way?
- Are there cost-effective measures for recovering money lost to fraud and corruption?
- Does the council actively take part in the National Fraud Initiative and act on its findings?
- Is comprehensive information on fraud and corruption reported to a relevant committee?
- Is there sufficient timely training and ongoing support for officers and councillors, including you?

Checklist 3. Consequences of weak controls

- Which services have been most affected by weak controls, and why?
- Has internal auditing tracked, assessed and reported to a committee on weak controls' impacts?
- Have consequences of weak controls for ongoing service delivery been assessed?
- Could the council do more to anticipate longer-term risk trends, such as cyber-crime?
- Is there sufficient timely training and ongoing support for officers and councillors, including you?

Checklist 4. Audit committee

- Do audit committee councillors have a clear remit that addresses the latest guidance by the Chartered Institute of Public Finance and Accountancy (CIPFA)?
- Does the chair of the committee manage committee meetings effectively?
- Does the chair routinely liaise with the head of internal audit before committee meetings?
- Do the committee's councillors attend routinely, prepare well and challenge officers appropriately?
- Does the committee approve internal audit's annual workplan and reports?
- Can internal audit report to senior officers and the audit committee without fear or favour?
- Do officers provide committee members with timely, well-written and useful reports?
- Do internal audit reports set out comprehensively and clearly what needs to improve, and how?
- Does the committee endorse and track improvements proposed by internal auditing?
- Has the committee identified the top five risks to the council?
- Is there sufficient timely training and ongoing support for officers and councillors, including you?

Checklist 5. Partnership working

- Do the council's governance and internal controls mitigate partnerships' risks to the council?
- Does the council have risk registers concerning its various partnerships?
- What resources (such as staff, buildings and money) does the council contribute to partnerships?
- Does each partnership have a clear purpose and explicit, outcome-based objectives?
- Are governance arrangements for each partnership clear, documented and fit for purpose?
- Does the council apply the code of practice on 'Following the Public Pound' to each arm's-length external organisation?
- Does the council have sound reasons for having a representative on a partnership's board?
- If you sit on a partnership's board, do you appreciate what is required of you and the linked risks?
- Is there good-quality, transparent and publicly accessible performance information?
- Are concerns about risks posed by partnerships escalated suitably within the council?
- Is there sufficient timely training and ongoing support for officers and councillors, including you?

Checklist 6. Councillors' continuing personal development

- After the last election, was the general induction programme for councillors successful?
- Do officers give you good support on knowledge topics (such as internal controls)?
- Do officers give you good support on personal skills (such as chairing meetings)?
- Do you fully understand your roles and duties at council, cabinet, committee and ward levels?
- Have you made good use of the Improvement Service's support and publications?
- Do you have a personalised CPD programme?
- Do you actively participate in, and benefit from, the support made available to you?
- Do officers monitor and understand councillors' take-up of training and development?
- Where you do not engage fully in training and development, how could officers help more?
- Does CPD for councillors help you to be effective in your governance and scrutiny roles?

Checklist 7. Statutory officers and chief education officer

- Are the roles of these officers clearly set out in the council's governance documents?
- Do these officers sit on the corporate management team, or have ready access to it?
- Are these officers sufficiently resourced to discharge their roles and responsibilities?
- Do these officers have the influence needed for ensuring the council operates effectively?
- Do councillors and committees understand how and when to consult these officers?
- Do these officers give helpful, timely, impartial support to councillors and other officers?
- Do these officers have a constructive relationship with the senior management team?
- Do you have confidence in your council's key officers?
- Is there sufficient timely training and ongoing support for officers and councillors, including you?

Checklist 8. Internal auditing function

- Does internal auditing (IA) follow Public Sector Internal Audit Standards and other reputable guidance?
- Is IA objective; free from undue influence; and independent in its thinking, work and reports?
- Is IA suitably located in the council's structure?
- Is IA sufficiently resourced to recruit, retain and develop the staff it requires?
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Report No. 19/164

KPMG

Perth and Kinross Council

Interim management report and audit status summary

Year ending 31 March 2019

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For Audit Committee consideration on 22 May 2019

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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.

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Introduction

Purpose of document

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

This report provides the Audit Committee with an update on:

- Significant risks and other focus areas (pages four to eight)
- The results of the control testing (pages nine to 12).
- Best Value and wider scope (page 13).
- An emerging area relating to the statutory loans fund (page 13).
- Update on prior year recommendations (page 17).

Significant risks and other focus areas in relation to the audit of the financial statements as identified in our audit strategy document, dated 27 March 2019, are:

- fraud risk from management override of controls;
- fraud risk from income and expenditure recognition;
- revaluation of property, plant and equipment; and
- retirement benefit obligations.

The other focus area identified was:

- capital expenditure.

Acknowledgements

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

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Significant risks and other focus areas

Significant risks and other focus areas update

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

Significant Risk	Update from our audit strategy
Fraud risk from management override of controls A presumed risk we are required to consider covers fraud risk from management override of control. Management is typically in a position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. This is a presumed risk per International Standards of Audit ("ISA") *The auditor's responsibilities relating to fraud in an audit of financial statements* 240.	We performed controls testing over non-pay expenditure, bank reconciliations, revenue budget monitoring, and budget capital monitoring. In addition, we tested a sample of procurement arrangements for compliance with the relevant regulatory frameworks and internal controls. Our testing did not identify any instances where management override of controls had occurred. Substantive procedures will be performed during the year-end audit, including testing journals that are considered high-risk, assessing accounting estimates, and significant unusual transactions that are outwith the Council's normal course of business.

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Significant risks and other focus areas (continued)

Significant risks and other focus areas update (continued)

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Significant Risk	Update from our audit strategy
Fraud risk from expenditure Under ISA 240 there is a presumed risk that income may be misstated due to improper recognition of income. This requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. **Income** We consider that the Council's significant income streams, which include taxation and non-specific grant income are free of management judgement or estimation. We do not consider recognition of the remaining income sources to represent a significant risk for the Council as there are limited incentives and opportunities to manipulate the way income is recognised, and these are not likely to be materially inappropriate. We did not identify any such errors or manipulation in the prior year. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area beyond our standard fraud procedures. **Expenditure** We consider that there is not a risk of improper recognition of expenditure in respect of payroll costs, financing and investment expenditure, or depreciation. These costs are routine in nature and not at risk of manipulation. This relates to a significant proportion of council expenditure. As other operating expenditure is unlikely to be material, we also rebut the assumed risk in respect of this account. We have not rebutted the assumed risk in respect of the remaining expenditure of £210.5 million.	We performed testing of controls over the reconciliation of the housing rent systems (Northgate and Integra). For Council Tax and Non Domestic Rates we performed testing of controls over applications for relief, as well as performing tests of control over reconciliations of the Council's valuation rolls against the roll provided by the Tayside Valuation Board. See details on page 12. We performed testing of controls over BACS payment authorisations, procurement tenders, and review of payments over £75,000. See further details of controls testing on page ten. Substantive procedures will be performed during the year-end audit. We will analyse results against budgets and forecasts, performing substantive analytical procedures and tests of detail.

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Significant risks and other focus areas (continued)

Significant risks and other focus areas update (continued)

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Significant Risk	Update from our audit strategy
Revaluation of property, plant and equipment The 2018-19 Code of Practice on Local Authority Accounting ("2018-19 Code") requires that where assets are subject to revaluation, their year-end carrying value should reflect the appropriate fair value at that date. In common with other councils, the Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. In 2018-19 community centres, day care centres, halls and town halls, hostels, libraries, public toilets, residential homes, miscellaneous operational properties, investment properties, and shops will be subject to revaluation and we expect the movement to be material. The revaluation model also includes revaluation of assets with significant capital investment, and consideration of impairment indicators for all Council assets. The Council uses a valuation date of the 1 April 2018 for the 31 March 2019 year end in respect of all properties except those classed as investment properties, which have a valuation date of 1 August 2018. Therefore we consider there to be a risk of a material movement in valuation between these dates. Given the quantum of the asset carrying values and the inherent use of assumptions in their valuation, we consider there to be an increased risk of misstatement.	We met with the Estates team and discussed the areas being revalued in 2018-19 as well as reviewing the five year rolling programme. The valuation date is 1 April 2018 as in prior years, except for investment properties with a valuation date of 1 August 2018, with management performing an assessment of whether the valuations as at that date remain appropriate as at 31 March 2019. We continued to assess that the Estates team has sufficient qualifications, objectivity and independence to carry out valuations for the Council. As part of our year-end audit, we will use our valuation specialist to review the assumptions used to consider whether they are reasonable and in line with the 2018-19 Code, with a focus on assets revalued under depreciated replacement cost, which is the most judgemental valuation basis. A sample of revaluations will be considered in more detail, including the roll forward to 31 March 2019 and management's consideration of impairment triggers. We will test that revaluations are correctly disclosed in the accounts and that the accounting entries relating to the revaluation are correct.

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Significant risks and other focus areas (continued)

Significant risks and other focus areas update (continued)

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Significant Risk	Update from our audit strategy
Retirement benefit obligations The net pension liability (£98.4 million as at 31 March 2018, including assets of £756.1 million) represents a material element of the Council's Balance Sheet. The Council is an admitted body of Tayside Pension Fund, which had its last triennial valuation completed as at 31 March 2017. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the overall valuation. There are financial assumptions and demographic assumptions used in the calculation of the Council's valuation, such as the discount rate, inflation rates, and mortality rates etc. The assumptions should also reflect the profile of the Council's employees, and should be based on appropriate data. The basis of the assumptions should be derived on a consistent basis year to year, or updated to reflect any changes. There is a risk that the assumptions and methodology used in the valuation of the Council's pension obligation are not reasonable. This could have a material impact on the net pension liability accounted for in the financial statements.	The Council participates in a scheme which requires all data including starters, leavers and changes of hours to be uploaded to an online system for transfer to Tayside Pension Fund each month. This data is taken directly from this system by the administrator. In our experience, we expect two controls to exist to effectively mitigate the risk of material misstatement over the overall pension liability. These are that management tests the provision of data to the fund is complete and accurate, and that management review the assumptions provided by Tayside Pension Fund to consider appropriateness for the Council's workforce. These are discussed in more detail on page 11. During the year-end audit, a review of relevant assumptions and testing against our understanding of the Council will take place, for example salary increase assumptions. Prior to the fieldwork beginning in July, we will request details of management's assumptions for 2018-19 to facilitate this consideration and benchmarking by our internal actuary.

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Significant risks and other focus areas (continued)

Significant risks and other focus areas update (continued)

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Other focus area	Update from our audit strategy
Capital expenditure The Council has a ten year £576 million capital plan, which includes the Cross Tay Link Road, A9/A85 road junction improvement project and Perth City Hall upgrade. The expected spend in 2018-19 is £70.8 million. Due to the significance of this capital investment programme and complexity of some of the projects, we consider there to be a risk of misstatement. This is in respect of ensuring that the classification of costs between operating and capital expenditure is appropriate and in respect of capturing all relevant costs and contributions. We also consider that any large capital project inherently brings a fraud risk to an entity.	We tested controls over capital monitoring and procurement of capital projects, the findings of which are outlined on page nine. We reviewed the capital budget and plan for 2018-19 and future years, and will carry out substantive procedures over capital spend at the year-end audit. This will include substantive sampling methods to evaluate the appropriateness of capital or revenue accounting classification by reference to supporting documentation, review of manual journals and testing of additions.

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Control Framework

System Controls

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In accordance with ISA 330 *The auditor's response to assessed risks*, we designed and performed tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls over the main financial systems. Interim audit testing took place during February and March 2019. Overall we concluded that the control environment is effective.

Test	Description	Results
Bank reconciliations	Bank reconciliations are prepared monthly by a member of the income team and reviewed by a more senior officer. We tested a sample of two months for each of the eight bank accounts to verify they had been authorised and completed on a timely basis. A further test of control will be completed for the year end reconciliations.	Those reconciliations subject to tested were completed and authorised as expected. No exceptions noted. ***Satisfactory***
Capital budget monitoring	Management monitor capital expenditure on all projects throughout the year . All large projects and any smaller projects nearing their approved spend will be considered by the Strategic Investments Group (''SIG'') and then by the Strategic Policy and Resource committee (''SP&R'') as appropriate. Approval is required for any overspends or adjustments against original budgets. The Council has a robust revenue budget setting process, with involvement of key members of staff across the Council. Performance against revenue budget is monitored on a regular basis and formally reported to the Strategic Policy and Resources Committee ("SP&R") via the budget monitoring reports in September, November, February and April. We considered the year to November 2018 report to conclude whether a sufficient level of detail was presented to and considered by the committees and that a level of precision is used to determine which variances require further analysis and discussion.	Per prior year recommendation three (page 19), management implemented a level of precision over which variances are considered. This threshold was set at £50,000. Our testing concluded that budget monitoring arrangements over capital and revenue expenditure are designed and implemented effectively. As management introduced the threshold in December 2018, we did not test the operating effectiveness of the implementation of the use of the threshold as part of our interim testing however we will test whether the control has been implemented during the year end audit. ***Satisfactory***

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Control Framework (continued)

System Controls (continued)

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Test	Description	Results
Authorisation of payroll, and service establishment approval	A sample of two months control sheets were tested, which record that the stages of the payroll process have been completed, before authorising the payroll and completing the BACS runs. This includes a key control over any exceptions or variances in net pay. A sample of two months' BACS runs were reviewed to test the payment schedule was reconciled to the net pay analysis report and appropriately authorised. The annual service establishment report was reviewed to determine whether it had been reviewed by each service to confirm all employees are still actively employed by the Council.	Those controls sheets tested recorded key stages of the pay run and had been marked as completed, with the pay run being marked as ready for processing. The sample of exception reports tested were marked as reviewed and investigated. Both BACS runs subject to testing had been reconciled and authorised by an authorised signatory in advance of the pay run. Our testing indicated that all four services had completed and signed the service establishment report as expected. ***Satisfactory***
Review of cost of services expenditure	The Council has a well-defined process covering the payment of services provided. We considered and tested management's review and authorisation of payments to an individual supplier that exceed £75,000. A sample of 40 payments were tested.	Our testing of the 40 payments indicated that there are adequate segregation of duties between those entering data, and those authorising the payment. ***Satisfactory***
Authorisation over procurement contracts	The Council has well-defined processes for the awarding of contracts, with written procedures to be followed for each contract type and value. Procurement testing covered a sample of ten contracts awarded in the year, split between those which had gone through the quotation process and those which required to be tendered. Our approach was designed to test whether correct procurement route had been followed based on value and reviewed the evidence of the tender evaluation process.	Our testing concluded that the selected contracts had followed the correct procurement route based on value. ***Satisfactory***

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Control Framework (continued)

System Controls (continued)

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Test	Description	Results
BACS authorisation	BACS payment runs must be approved by an authorised member of the finance team. We tested a sample of 20 BACS payments to verify they had been authorised.	Our testing identified that 19 of the 20 samples were correctly signed and authorised by the appropriate officer. One item sampled was not signed, however, the payment had been authorised within the banking system by the appropriate officer. We considered this to be a mitigating control, and therefore concluded that overall, the control was operating effectively. ***Satisfactory***
Transfer of pensionable data, and management review of assumptions.	We furthered our understanding of the process management undertake to transfer data to Tayside Pension Fund, and their assessment of the actuarial assumptions.	We discussed and walked through the process undertaken by Management during the January 2019 payroll and pension processes. We were satisfied that the following controls were designed and implemented appropriately: – Management have controls over the transfer of new starts, leavers, and other changes to employee data to the Tayside Pension Fund; and that – Management have controls over the authorisation of the payment of pension contributions to the Tayside Pension Fund. ***Satisfactory*** We discussed management's review of pension assumptions with regard to the 2018-19 financial statements. On the understanding that indicative assumptions are proposed by Tayside Pension Fund, management should consider whether these assumptions are appropriate for Perth and Kinross Council and its workforce. It is recommended that management that a formally documented review of these assumptions is completed once the assumptions are proposed for the year ended 31 March 2019. ***Recommendation one***

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Control Framework (continued)

System Controls (continued)

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Test	Description	Results
Housing rents system	We planned to test two months' reconciliations between the housing rents system (Northgate) and the general ledger (Integra) to indicate whether officers completed this reconciliation on a timely basis and any reconciling items were followed up and investigated.	The reconciliation has not been carried out for the full year, but management intend to carry it out on a cumulative basis to 31 March 2019. We will consider the cumulative reconciliation as part of our year-end audit. It is recommended that the control is carried out monthly by management. We plan to test the year end reconciliation as part of our year end audit. It is recommended that this control is completed monthly as expected. ***Recommendation two***
Council Tax and Non-Domestic Rates	For each of Council Tax and Non-Domestic Rates reliefs, we tested 25 applications for relief from account holders to test whether they had been authorised by an appropriate officer within the Local Taxes team. For Non-Domestic Rates, we tested a sample of five reconciliations of the Council's valuation roll against the valuation roll provided by the Tayside Valuation Joint Board. For Council Tax, we plan to test the annual reconciliation of the Council Tax valuation roll against that roll provided by the Tayside Valuation Joint Board as part of the year end audit.	Our testing relating to both sets of samples identified no issues or errors. ***Satisfactory***
Review of valuations	As a result of KPMG's recommendations in the 2017-18 audit, management agreed to introduce a senior officer review of valuation reports. This will allow senior officers to challenge and scrutinise the valuation before the finance team make accounting adjustments. The Estates team will make the valuation reports available to us in April 2019, and we intend to test this implemented control at the end of April 2019.	We confirmed that the Senior Estates Surveyor retired during the year, and that the role has been filled. We have confirmed that management have appointed two external valuation experts to support their assessment of valuations undertaken internally. We will report our findings over the operating effectiveness of this control in our annual audit report.

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Wider Scope and Best Value

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

Test	Audit update
Best Value	In year three of our audit appointment (2018-19), we will, in conjunction with Audit Scotland, carry out a full Best Value audit over the Council, having begun planning in early 2019. The report will be completed and reported to the Accounts Commission on 8 August 2019. We have held planning discussions with officers including the Chief Executive on 19 February 2019 to agree the scope of our Best Value Assurance Report ("BVAR"). We, in conjunction with Audit Scotland, have met with a range of stakeholders including the Executive Officer Team of the Council, operational staff, residents and other bodies such as the Perth and Kinross Integration Joint Board and Police Scotland. From these meetings and review of relevant documents, we will draw out key themes and emerging issues to be included in the final report.
Wider Scope	Specific risks in this area are set out in our audit strategy document and include demand pressures on the Council's services and the ability to achieve savings set out in the transformation programme. As part of our audit work during planning and interim, we carried out the following procedures; – reviewed update reports on transformation projects presented to committee for progress against savings targets; – read the budget proposals, and attended the budget meeting of the Council; – held meetings with various officers including the Chief Executive, Head of Finance, Head of Legal and Governance, and Chief Internal Auditor; – reviewed policies and procedures and how these support officers in making informed financial decisions; and – reviewed budget monitoring reports to understand over and underspends against budget for different services in the year. We use the above to inform our work on the four wider scope areas above and Best Value, and will report our conclusion in our Annual Audit Report. **Statutory Loans Fund – Financial sustainability and financial management** We understand that the Council is using legislation introduced in 2016 to review and amend the statutory repayment of the loans fund. This enables Councils to provide for a prudent repayment schedule. We will review the Council's proposed prudent loans fund repayment schedule, assessing if it is in accordance with legislation.

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Appendices

Appendix one

Action Plan

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The action plan summaries specific recommendations arising from our work, together with related risks and management's responses.

Priority rating for recommendations		
Grade one (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the Council or systems under consideration. The weaknesses may therefore give rise to loss or error.	Grade two (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.	Grade three (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the control to meet their objectives in any significant way. These are less significant observations than grades one or two, but we still consider they merit attention.

Finding and risk	Recommendation	Original actions
1. (Grade two) Transfer of pensionable data and management review of assumptions - *Audit dimension: financial management*		
Our understanding is that the pension assumptions used for the purpose of calculating the pension liability as at 31 March 2019 is that management use assumptions recommended by Tayside Pension Fund. There is a risk that the assumptions used for the purpose of calculating the pension liability are not relevant or appropriate for the Council and its workforce.	We recommend that management formally document their review of the assumptions used in the pension liability calculation, explaining why the assumptions used are deemed to be appropriate for the Council.	**Management response:** Agreed **Implementation date**: 30 June 2019 **Responsible officer**: Head of Finance
2. (Grade two) Housing rents system - *Audit dimension: financial management*		
The reconciliation between the housing rents system (Northgate) and the general ledger system (Integra) has not operated consistently on a monthly basis throughout 2018-19 as expected. The reconciliation will be performed at year end however there is a risk of material misstatement in financial reporting during the year if this is not performed on a monthly basis.	We recommend that the reconciliation is performed on a monthly basis as expected going forward.	**Management response:** Noted. The reconciliation identified is routinely carried out. There were two occasions in 2018/19 when this did not take place due to conflicting demands however going forward the reconciliations will be reinstated **Implementation date**: 30 June 2019 **Responsible officer**: Head of Business & Resources, Housing & Environment

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Appendix two

Prior Year Recommendations

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This section provides an update on prior year external audit recommendations, to determine whether they have been addressed. The table below summarises the recommendations made during the 2017-18 audit.

Original finding and risk	Recommendation	Original actions	Status
1. (Grade two) Valuation of property, plant and equipment - *Audit dimension: financial management*			
We could not identify a control over the revaluation process for property plant and equipment. This gives rise to a risk that the valuations are misstated. One misstatement was identified in the valuations tested as at 31 March 2018. In addition, there is a risk of loss of expertise and continuity in the team due to the retiral of the Senior Estates Surveyor.	We recommend that management engages an external valuation provider to reperform a sample of high risk valuations, or to review and challenge the valuations	**Management response:** The Council will engage an external valuation provider to re-perform a sample of high risk valuations. **Implementation date**: 30 May 2019 **Responsible officer**: Investment Manager	The estates team have identified a number of high-risk assets, and indicated that an external valuation would be completed in parallel with an internal valuation. These valuations are due to be internally reported and considered in February 2019. We will consider the processes the Estates team have undertaken to benefit from these external valuations, and report on the findings in the annual audit report in September 2019.

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Prior Year Recommendations (continued)

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Original finding and risk	Recommendation	Original actions	Status
2. (Grade two) Valuation documentation and compliance - *Audit dimension: financial management*			
During the course of our audit, we tested a sample of revaluations undertaken by the internal valuation team. Our internal valuation specialist expected the valuation file to contain back-up for any assumptions, however documentation was not robust and several clarifications were sought on the inputs to the valuations. Our internal valuation specialist highlighted the RICS requirements to measure any land or building asset prior to revaluation if there has been a material change to the asset. Whilst we understand many Council assets have not undergone a material change, we could not obtain the level of documentation expected for asset measurements.	We recommend that management ensures valuations are carried out in compliance with all appropriate RICS standards, including documentation, judgements and measurements.	**Management response:** The Council will ensure that valuations are carried out in compliance with all appropriate RICS standards. Documentation and measurements will be stored on the new Corporate Property system (Concerto). **Implementation date:** 31 March 2019 **Responsible officer:** Investment Manager	In December 2018, the Estates team communicated the intention to introduce a control over the valuation process. This will take the form of a review of the valuation by a more senior officer, which aims to ensure sufficient documentation and challenge surrounding the valuation evidence which will be audited by KPMG. As discussed on page 10, this control was considered as part of our interim work, and completion of the 2018-19 valuation cycle in April. We will report our findings in our annual audit report in September 2019.

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Prior Year Recommendations (continued)

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Original finding and risk	Recommendation	Original actions	Status
3. (Grade three) Revenue and capital monitoring - *Audit dimension: financial management*			
During our review of the revenue and capital monitoring reports, we were unable to identify a defined 'level of precision'. This level of precision acts as a cut-off for those reading the report, and sets a variance that for all differences in excess, management explain the reasons. In this way, where there is no explicit commentary, members can assume there is no variance above the defined precision. We recognise that management's monitoring reports are detailed and that variances are discussed. Setting a level of precision strengthens this control which is operating effectively. There is a risk that variances may not be given sufficient prominence, or that variances are not reported.	We recommend that management introduces a set threshold for which any variances against budget in excess are reported.	**Management response:** The Council will update the financial regulations to explicitly set out a level of precision of £50,000, whereby all variances (Revenue & Capital) in excess of this will be reported to the Strategic policy and Resources ("SP&R") Committee. However there will be many instances whereby the Committee reports will discuss variances that are less than this amount in order to recognise the importance of elected member scrutiny of Council finances. **Implementation date**: 31 December 2018 **Responsible officer**: Chief Accountant	Financial Regulations were amended to indicate that all variances exceeding £50,000 will be reported to the SP&R Committee. As discussed on page nine, we tested both the revenue and capital monitoring reports as part of our audit work in February 2019. The report reviewed as part of our controls work was for November 2018 and was therefore before the implementation of the £50,000 threshold. No issues were noted as a result of our interim testing however we will follow up on this control recommendation again during the year end audit to test whether the threshold has been implemented.

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Prior Year Recommendations (continued)

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Original finding and risk	Recommendation	Original actions	Status
4. (Grade two) General IT controls - *Audit dimension: financial management*			
Certain IT and business staff are assigned highly privileged access to the Council's IT systems (Integra, ResourceLink and Northgate), and are required to perform user administration, system development and configuration, and to ensure ongoing support and maintenance activities. We note that the Council does not monitor the activities performed by these accounts; security and event log auditing is either not enabled or not reviewed. For the purpose of relying on system generated reports for the external audit, we could not establish if the activities performed by these users were appropriate during the year. The weaknesses in the access assigned includes, but is not limited to: – the privileged access assigned allows users within the business to perform activities that should be segregated and/or pro-actively logged and reviewed to ensure appropriate; and – review of privileged users is not undertaken or documented in a robust manner. Where privileged access is not robustly controlled, the risk is increased that: – unauthorised access is gained to process erroneous or fraudulent transactions, – unauthorised changes are made to data, and system settings; – unauthorised changes are not detected and appropriate action taken; – IT / operational system downtime is experienced; and – the system does not function as intended by management. During testing over key systems, we did not identify any specific issues or errors.	Management should ensure that: – a formal, documented and agreed policy is established that guides the Council's management of highly privileged access; – user accounts are only used by the approved and appropriate persons; – each time the highly privileged accounts are used there should be a requirement that a supporting and approved incident ticket or change request is logged and retained; – the feasibility of implementing system audit logging for these highly privileged accounts is assessed, and if this is possible, a periodic review is performed over a sample of higher risk activity to ensure this was authorised and appropriate; and – the logs are secured and retained in a segregated area that cannot be accessed by the users of the IT systems.	**Management response:** The current policy will be developed to increase the level of monitoring and governance associated with highly privileged access. IT will investigate the feasibility of audit logging for highly privileged accounts and where feasible, a secure segregated storage area will be identified and a sample review of higher risk activity will be implemented. **Implementation date**: 30 June 2019 **Responsible officer**: Information Security Manager	Management have indicated that: – the Council's security policy has been reviewed and approved, along with the information security management system (ISMS) standards to confirm that management are satisfied with that a formal policy adequately covers highly privileged access; – highly privileged accounts are issued on a need-to-have basis, and the responsibility for these accounts is held with the information asset manager; – although IT staff are required to log actions in detail whenever administrative tasks are carried out, there is no policy or control that logs all privileged user action within each system; and – although logs are kept securely segregated from systems managers and users, they are accessible to privileged IT users. These logs did not cover all key financial systems. Our planned audit approach was designed on the basis that we would not rely on these IT controls.

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Prior Year Recommendations (continued)

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Original finding and risk	Recommendation	Original actions	Status
5. (Grade three) Internal policy updates - *Audit dimension: financial management*			
Policies and procedures are held on the Council's intranet which is available to all staff. From a review of key policies we identified that a number have not been updated on a timely basis. Two versions of the communications security policy were found. The most up to date version of this policy was dated 2010, however it is required to be reviewed every three years. The most recent whistleblowing policy does not contain all information outlined in Protect's whistleblowing code of practice. There is a risk employees access policies and procedures which are not relevant to the current risk environment or contain out of date information therefore causing error or breach of laws and regulations.	It is recommended that: – a review is carried out of existing polices on the intranet and any old or superseded policies are removed; – the whistleblowing policy is updated to contain all items required by the whistleblowing code of practice; and – a checklist should be kept of the key polices and when these were last updated, with evidence of review within the required timescale.	**Management response:** Noted. The Council is satisfied that all key policies and procedures in respect of financial and workforce management, regulatory controls and compliance and general governance are fit for purpose and reviewed appropriately. The Council does not have the resources to undertake a comprehensive review of all existing policies however any changes in legislation, national policy or where applicable industry best practice is reflected as a matter of course. The existing Whistleblowing policy will be refreshed to incorporate the Protect Code of Practice (formally Public Concern at Work). **Implementation date**: ongoing, with whistleblowing updated for 31 March 2019 **Responsible officer**: Information Compliance Manager, with whistleblowing the Chief Internal Auditor.	Management agreed to update the whistleblowing policy to reflect the Protect Code of Practice. We confirmed that this update has been completed. .

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Prior Year Recommendations (continued)

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Original finding and risk	Recommendation	Original actions	Status
6. (Grade two) Following the public pound - *Audit dimension: value for money*			
We discussed with management the approach undertaken for ensuring Council's compliance with its Following the Public Pound code ("FtPP"). In prior years, the Council presented annually to the SP&R Committee to ensure value for money and best practice arrangements are in place in relation to the Council's use of companies, trusts and other arm's length bodies. We were unable to verify that such an exercise had been undertaken during 2017-18. There is a risk that the Council may not be complying with the FtPP Code, and may not be demonstrating its value for money in the use in other external parties.	We recommend that management reverts to the FtPP reporting undertaken in prior years, whereby the results are communicated to the relevant committee of the Council, or consider an alternative in order to provide assurance over use of public funds.	**Management response:** For 2017/18, detailed information in respect of FtPP activities was available on the Elected Members internal intraweb site. This will now be made publicly available. For 2018/19, the Council will revert to providing a comprehensive update to the SP&R Committee on the Council's FtPP code. **Implementation date:** 30 June 2019 **Responsible officer:** Corporate Procurement Manager	Through discussion with management, and as per management's response for 2017-18, the Council will revert to providing a comprehensive update to the SP&R Committee before 30 June 2019. As a result of this finding, the Council retrospectively published the report as an addendum to the Strategic Policy and Resources Committee meeting of 13 June 2018. The update is still currently in progress. We will report on our findings in our annual audit report in September 2019.

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