



Internal Audit Report
All Services
Gifts and Hospitality 12-20
May 2013

Final Report

Chief Executive's Service
Finance Division
Perth & Kinross Council
2 High Street
Perth PH1 5PH

Background and Introduction

This assignment forms part of the Internal Audit plan for 2012/2013 as approved by the Audit Sub-Committee on 27th March 2012.

In April 2011, the “Gifts and Hospitality Policy and Procedures” were introduced throughout the Council. These supplement the rules set out in the Council’s Financial Regulations and Employee Code of Conduct. The new rules, which accord with statutory guidance for the Bribery Act 2010, require staff to declare offers received of gifts and/or hospitality worth £25 or more to a senior manager within the relevant Service who will decide on acceptance or rejection. An officer nominated by the Executive Director should maintain a register recording all offers in each Service. With effect from April 2011, the register entries are collated and published on the Council’s website by Legal Services. However, it is the responsibility of Executive Directors to ensure that information provided to Legal Services is accurate, up to date and complete.

This audit examined the implementation of the above arrangements for employees in all Services. The records of all gifts and hospitality offered to staff in the first quarter of 2012/13 were reviewed to verify compliance with corporate guidance and instructions to staff. The audit did not examine the corresponding arrangements in place for councillors.

Acknowledgements

Internal Audit acknowledges with thanks the co-operation which was provided by staff in all Services for the duration of this audit.

Control Objectives and Opinions

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

Control Objective 1: To ensure that the Policy and Procedures have been cascaded throughout the Council.	
Auditor’s Comments:	
The Gifts and Hospitality Policy and Procedures were communicated to employees throughout the Council by a notice in the monthly Delayed Office Opening training session, and are brought to the attention of new staff during the induction procedure.	
However, since April 2011, there have been no Council-wide reminders, and Service communications to staff have been limited. In addition, there is scope to improve the corporate rules and procedures relating to gifts and hospitality.	
Strength of Internal Controls:	Moderate

Internal Audit Report

Control Objective 2: To ensure that arrangements are in place so staff who receive offers of gifts and hospitality duly record these and obtain written approval from senior management.

Auditor's Comments:

In two Services, the audit found forms detailing the acceptance of gifts and hospitality routinely authorised by staff at a lower grade than approved in the list of authorised managers. In another case, several members of a multi-Service team received an offer which only the team leader declared.

The Gifts and Hospitality Policy and Procedures do not provide any specific procedure for the authorisation of acceptance / decline of offers to members of the Executive Officer Team.

The audit found that most disclosures made by Council officers were submitted by a relatively small number of individuals and establishments. This may indicate an inconsistency in application of the arrangements and may not ensure general and uniform compliance with the policy and procedures on gifts and hospitality.

Strength of Internal Controls:

Moderate

Control Objective 3: To ensure that recorded cases are appropriately approved, collated and disclosed in the Service registers and the PKC public register.

Auditor's Comments:

One Service failed to report a high number of cases in 2011/12; another informed Internal Audit that an offer was not disclosed on the public register due to a technical issue with a database.

Audit found a lack of routine corporate-level checks on the information submitted by Services and destined for the public domain. The aim of quarter-end public reporting is not being met, with the most recent records on the Council's website being more than a year old.

Strength of Internal Controls:

Weak

Management Action and Follow-Up

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

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

Internal Audit Report

Appendix 3 contains an item which arose during audit testing but which does not relate directly to the Control Objective above. This will also be monitored via the follow up arrangements.

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

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

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

Feedback

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

Distribution

The final report will be distributed to:

B Malone, Chief Executive

D Burke, Executive Director, Housing and Community Care

J Valentine, Executive Director, The Environment Service

J Fyffe, Executive Director, Education & Children's Services

L Cameron, Head of Housing & Strategic Commissioning, Housing and Community Care

J Gilruth, Head of Community Care, Housing and Community Care

S Mackenzie, Head of Performance and Resources, The Environment Service

J Symon, Head of Finance

S Scott, Exchequer Manager (Systems & Payroll)

H Mackenzie, Head of Human Resources

I Innes, Head of Legal Services

D Henderson, Information Compliance Manager

G Boland, Service Manager Senior Business & Resources Manager, Education & Children's Services

S Watson, Communications Manager, Education and Children's Services

G Taylor, Head of Democratic Services

P Dickson, Complaints & Governance Officer

External Audit

Authorisation

The auditor for this assignment was R D Watt. The supervising auditor was D Farquhar.

This report is authorised for issue:

Jacqueline Clark
Chief Internal Auditor
Date: 31 May 2013

Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1	Rules on gifts and hospitality: (a) duplication and inconsistency	Medium
2	Rules on gifts and hospitality: (b) omission	Medium
3	Rules on gifts and hospitality: (c) controls	Medium
4	Rules on gifts and hospitality: (d) communication	Low
5	Rules on gifts and hospitality: (e) records	Low
6	Timeliness of publication on website	Low
7	Gifts & Hospitality: Chief Executive's Service	Low
8	Gifts & Hospitality: The Environment Service	High
9	Gifts & Hospitality: Education & Children's Services	Low
10	Gifts & Hospitality: Housing & Community Care	Low
11	The Council's Scheme of Administration	Medium

Appendix 2: Action Plan

Action Point 1 - Rules on gifts and hospitality: (a) duplication and inconsistency

The Gifts and Hospitality Policy and Procedures are referred to and linked to the Employees' Code of Conduct and Financial Regulations. There are also specific rules in the Council's procurement guidance with regard to acceptance of gifts and hospitality during tendering.

With regard to gifts and hospitality, there is significant overlap between the above corporate documents with general principles and specific rules being duplicated. Furthermore, this is repeated at Service level, with Service rules on gifts and hospitality produced by the three frontline Services reiterating corporate instructions rather than giving Service-specific guidance.

However, there are inconsistencies in the information provided in the three corporate documents. It is possible for an employee to adhere to one set of rules, but breach another. This risk is increased by the lack of reference in the Gifts and Hospitality Policy and Procedures to the rules on gifts and hospitality given in the Financial Regulations and Employee Code of Conduct.

The Gifts and Hospitality Policy states at paragraph 3 that offers may be accepted "in certain circumstances"; however, these are not defined in the paragraph. According to the Service, the intent of this phrase is, "subject to the above" – i.e., if the qualifying criteria identified in preceding paragraphs are met, then offers of gifts and hospitality may be accepted.

Management Action Plan

1. The Employee Code of Conduct is being amended to bring it in line with the Gifts and Hospitality Policy and is due to be presented to the Strategic Policy and Resources Committee on 12 June 2013.
2. The Financial Regulations will be revised during their next planned review.
3. Paragraph 3 of the Gifts and Hospitality Policy will be clarified.

Importance:	Medium
Responsible Officer:	1. H Mackenzie, Head of Human Resources 2. S Scott, Exchequer Manager (Systems) 3. I Innes, Head of Legal Services
Lead Service:	Chief Executive's Service

Internal Audit Report

Date for Completion (Month / Year):	1. June 2013 2. December 2014 3. December 2013
Required Evidence of Completion:	1. Copy of relevant section in reviewed Employee Code of Conduct 2. Copy of relevant section in reviewed Financial Regulations 3. Copy of revised Gifts and Hospitality Policy and Procedures, paragraph 3

Auditor's Comments

Satisfactory

Action Point 2 - Rules on Gifts and Hospitality: (b) omission

The Gifts & Hospitality Policy and Procedures do not provide guidance where a gift or hospitality has been offered to an Executive Director or to the Chief Executive.

Testing revealed one offer of hospitality made to all members of the Executive Officer Team which was declared by the Chief Executive only.

Management Action Plan

The Gifts and Hospitality Procedure will be amended to give explicit guidance in relation to Executive Directors and the Chief Executive.

Importance:	Medium
Responsible Officer:	I Innes, Head of Legal Services
Lead Service:	Chief Executive's Service
Date for Completion (Month / Year):	December 2013
Required Evidence of Completion:	Copy of revised Gifts and Hospitality Procedure

Auditor's Comments

Satisfactory

Action Point 3 - Rules on Gifts and Hospitality: (c) controls

Controls over the implementation of the Gifts and Hospitality Policy and Procedures within Services vary and are not included on the council's intranet, ERIC. Specifically:

- (a) Services are required to submit quarterly returns to Legal Services but this has not been incorporated into the procedure on ERIC;
- (b) prior to submission the return must be reviewed and approved by the Service Management Team but this rule has not been incorporated into the procedure on ERIC;
- (c) offers of gifts and hospitality published on the Council's website specify the date the relevant gift/hospitality was offered but the standard form on ERIC does not require this date to be recorded, which may give rise to inaccurate public disclosure;
- (d) the Gifts and Hospitality Policy and Procedures require the officer offered a gift/hospitality to ensure an appropriate entry is made in the Service register however in practice this officer can only provide the completed form and it is for the Service coordinator to ensure the entry in the Register.

Management Action Plan

The Gifts and Hospitality Policy will be amended taking account of the findings of the audit.

Importance:	Medium
Responsible Officer:	I Innes, Head of Legal Services
Lead Service:	Chief Executive's Service
Date for Completion (Month / Year):	December 2013
Required Evidence of Completion:	Copy of revised Gifts and Hospitality Policy

Auditor's Comments

Satisfactory

Action Point 4 - Rules on Gifts and Hospitality: (d) communication

While the arrangements for recording offers of gifts and hospitality continue to feature on ERIC and as part of the induction process for new employees, there have been no further initiatives to remind staff of their responsibilities, develop and roll out an e-learning package on the new arrangements or to encourage Services to develop specific guidance tailored to the needs of the Service.

The audit found that most declarations of offers of gifts and hospitality were made by a relatively small number of individuals and establishments. Whilst it may be the case that these officers have been the only recipients of offers within the Services, it may alternatively indicate that many employees are insufficiently aware of the rules or that there are inconsistencies in the application of the procedures.

In addition, the procedures explicitly empowered Services to develop further guidance specific to the needs of their staff, e.g. teachers and home helps. However, to date, neither Education and Children's Services nor Housing and Community Care have developed specific guidance for these or any other group of staff.

Management Action Plan

Staff will be reminded of the policy after it is amended to take account of the points in the report. Other initiatives to improve awareness and to investigate discrepancies will be considered as and when necessary thereafter.

Importance:	Low
Responsible Officer:	I Innes, Head of Legal Services
Lead Service:	Chief Executive's Service
Date for Completion (Month / Year):	March 2014
Required Evidence of Completion:	Copies of relevant communications to staff

Auditor's Comments

Satisfactory

Action Point 5 - Rules on Gifts and Hospitality: (e) records

The "Gifts and Hospitality Policy & Procedures" document issued in April 2011 specifies for how long the information submitted by staff on forms and recorded in Service registers will be kept: "The declaration forms will be retained for the current year plus one year for audit purposes. Entries on the register will be retained for three years".

However, since July 2011, the Council's records management policy has been to follow the recommended retention periods specified in the Scottish Council on Archives Records Retention Schedule. This source specifies a ten year retention period from the register entry date.

Management Action Plan

The business need for retention periods longer than currently stated will be investigated with reference to the Scottish Council on Archives.

Importance:	Low
Responsible Officer:	D Henderson, Information Compliance Manager
Lead Service:	Chief Executive's Service
Date for Completion (Month / Year):	December 2013
Required Evidence of Completion:	Outcome of the review

Auditor's Comments

Satisfactory

Action Point 6 - Timeliness of publication on PKC's public website

At the time of the policy's establishment, it was envisaged that the register shown on the website would be updated each quarter. However, this aim does not feature in the Gifts and Hospitality Policy and Procedures and has not been implemented.

Audit found that the public register has not been updated for some months. As at May 2013, the most recent entries disclosed on the Council's public website relate to March 2012.

Management Action Plan

The public register will be updated to include the missing information and on a quarterly basis thereafter.

Importance:	Low
Responsible Officer:	I Innes, Head of Legal Services
Lead Service:	Chief Executive's Service
Date for Completion (Month / Year):	October 2013
Required Evidence of Completion:	Copy of register upon release of missing information

Auditor's Comments

Satisfactory

Action Point 7 - Gifts & Hospitality: Chief Executive's Service

The audit found that one offer of hospitality declared by a Council officer was omitted from the register listing sent to Legal Services for upload to the Council's public website; the Service attributed this omission to a technical issue with a database.

Management Action Plan

Staff in the Chief Executive's Service will be reminded of their responsibilities in relation to Gifts and Hospitality.

Importance:	Low
Responsible Officer:	I Innes, Head of Legal Services
Lead Service:	Chief Executive's Service
Date for Completion (Month / Year):	June 2013
Required Evidence of Completion:	Communication with Chief Executive's Service officers.

Auditor's Comments

Satisfactory

Action Point 8 - Gifts & Hospitality: The Environment Service

In terms of Gifts & Hospitality, the Environment Service (TES) has developed (a) an instruction in TES' Operational Financial Regulations and (b) a specific Service procedure.

TES' Operational Financial Regulations require at Section 19 that all Heads of Service should remind staff annually, on 31st March, of their responsibilities with regard to the Employee Code of Conduct, including the rules on gifts and hospitality. However, the Service was unable to provide evidence that such a reminder had been issued to staff.

With regard to (b): aside from identifying the officer to whom relevant forms should be sent, the written procedure available to TES staff does not add Service-specific guidance to the corporate rules and information already available on ERIC.

In addition the audit found:

- 1) since the policy was introduced in 2011, none of the TES returns to Legal Services has been formally reviewed by the Service Management Team;
- 2) according to the Council's website, five offers of gifts/hospitality were made to TES staff during 2011/12. Audit found that TES approved a further eleven cases in 2011/12;
- 3) relevant TES staff were not aware of the requirement to provide quarterly returns to Legal Services during 2012/13 and no such returns were provided. Following audit query, an annual return listing 13 cases was submitted;
- 4) according to ERIC, only staff at Service Manager level and above can approve acceptance of gifts and hospitality. However, audit found in eight cases, approval had been given by managers below this grade. The Service stated that some of these were authorisations in respect of the Roads Maintenance Partnership.

Management Action Plan

1. A report on Gifts and Hospitality was considered by the Senior Management Team in May 2013.
2. The returns to enable disclosure on the Council website will be reviewed by the Senior Management Team prior to publication.
3. The ERIC pages will be updated to include the authorised signatories within the Roads Maintenance Partnership.
4. Compliance across the Service will be monitored as part of the quarterly monitoring report to the Service Management Team.

Internal Audit Report

Importance:	Medium
Responsible Officer:	S Mackenzie, Head of Performance & Resources
Lead Service:	The Environment Service
Date for Completion (Month / Year):	1. Completed 2. – 4. August 2013
Required Evidence of Completion:	1. Copy of report to SMT 2. & 4. Copy of Report and minute of meeting where gifts and hospitality return is discussed 3. Updated ERIC page

Auditor's Comments

Satisfactory

Action Point 9 - Gifts & Hospitality: Education & Children's Services

In the single declaration entry on the register for Education & Children's Services (ECS) for the quarter April-June 2012, the authorising manager did not record a "Reason for acceptance" on the form approving acceptance of hospitality. Audit confirmed the ECS explanation that acceptance of hospitality in this case was consistent with the responsibilities of the officer concerned, and was fully in accord with PKC's policy on hospitality.

In addition, one offer of hospitality made to a multi-Service team was declared by the team leader, but not disclosed by other team members to their respective Services.

Management Action Plan

Education & Children's Services' Admin Manual will be updated to advise all Line Managers who approve gifts and hospitality that they must provide a reason for acceptance when completing the form.

Importance:	Low
Responsible Officer:	S Watson, Communications Manager
Lead Service:	Education & Children's Services
Date for Completion (Month / Year):	Complete
Required Evidence of Completion:	Page(s) from revised Admin Manual

Auditor's Comments

Satisfactory

Action Point 10 - Gifts & Hospitality: Housing & Community Care

Audit found that in both cases recorded by Housing & Community Care (HCC) during 2012/13, acceptance was authorised by an officer at a level below that permitted by HCC's approval policy as recorded on ERIC. Furthermore, in both cases the approving officer may have stood to benefit from the approval decision – albeit to an extent well below the £25 policy threshold (i.e., £750 shared between around 50 staff).

Management Action Plan

The Heads of Housing & Strategic Commissioning and Community Care will issue instructions to all managers to revisit the gifts and hospitality policy and procedures in relation to the above and to ensure their staff are aware of their responsibilities under this policy.

Importance:	Low
Responsible Officer:	1. L Cameron, Head of Housing & Strategic Commissioning 2. J Gilruth, Head of Community Care
Lead Service:	Housing & Community Care
Date for Completion (Month / Year):	May 2013
Required Evidence of Completion:	Copy of instructions issued by: 1. Head of Housing & Strategic Commissioning 2. Head of Community Care

Auditor's Comments

Satisfactory

Appendix 3: Matter Arising During the Audit

Action Point 11 - The Council's Scheme of Administration

The Gifts and Hospitality Policy and Procedures introduced in April 2011 anticipated in part the requirements of the Bribery Act 2010, effective from July 2011. According to the Act's accompanying statutory guidance, bribery may take the form of inappropriate gifts and hospitality: and in the event that an employee bribes or is bribed, an employer may be prosecuted for failing to prevent such conduct. The Act includes a statutory defence: an employer will not be liable to prosecution if it can show that bribery occurred despite measures being in place to prevent such conduct. The Gifts and Hospitality Policy and Procedures constitute such measures, but the forms which bribery may take extend beyond gifts and hospitality. Audit Scotland has noted that compliance with the Act requires PKC to conduct a risk assessment of PKC's current arrangements; this has yet to be done.

In November 2011, the Executive Officer Team were informed of the implications for PKC of the Bribery Act 2010, and that a senior officer should be tasked with implementing appropriate measures. However, no report has been submitted to the Council on the subject. The Council's Scheme of Administration does not refer to the Bribery Act 2010; consequently, no senior officer or Committee has been explicitly tasked with implementing or supervising relevant measures.

Management Action Plan

The implications of the Bribery Act 2010 are currently being assessed and will be reported to the Executive Officer Team.

Importance:	Medium
Responsible Officer:	I Innes, Head of Legal Services
Lead Service:	Chief Executive's Service
Date for Completion (Month / Year):	October 2013
Required Evidence of Completion:	Copy of report to Executive Officer Team

Auditor's Comments

Satisfactory

