

PERTH AND KINROSS COUNCIL**Audit Committee****24 June 2015****INTERNAL AUDIT YEAR END REPORT 2014/15****Report by the Chief Internal Auditor****PURPOSE OF REPORT**

This report presents the year-end report and audit opinion of the Chief Internal Auditor for 2014/15, as set out in Section 7.

1. BACKGROUND / MAIN ISSUES

1.1 Internal Audit is an independent, objective assurance and consulting activity within Perth & Kinross Council. In accordance with the Public Sector Internal Audit Standards (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. It contributes to the achievement of the Council's objectives by independently and objectively appraising and reviewing:

- (i) the completeness, reliability and integrity of information, both financial and operational;
- (ii) the compliance with relevant policies, plans, procedures, laws and regulations;
- (iii) the safeguarding of assets of all types;
- (iv) the economy, efficiency, effectiveness and equity with which resources are employed;
- (v) the conduct of operations and the achievement of planned objectives; and
- (vi) the quality and reliability of the full range of internal controls, including risk management arrangements put in place by management in order to ensure the achievement of (i) to (v) above.

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

- 1.3 It is the responsibility of management to devise, implement and maintain appropriate controls over the activities for which they are responsible. The role of Internal Audit is to provide an opinion to the Council as to the effectiveness of the controls that have been put in place by management in order to ensure that the organisation achieves its objectives. Internal Audit is thus a key part of the process by which the Council manages the risks that threaten the achievement of its objectives.
- 1.4 Internal Audit's work is planned in such a way as to take account of these risks. Prioritising work towards the areas of highest assessed risk enables the Council to identify and remedy the most material weaknesses in its framework of internal controls.
- 1.5 In line with the PSIAS, Internal Audit undertakes a process of planning resulting in an annual plan. For 2014/15, the Internal Audit Plan covered the period from April 2014 to March 2015 and was approved by the Audit Committee in April 2014 [report 14/137 refers]. All Perth & Kinross Council's activities are reviewed as part of the planning process. The plan for 2014/15, taken as a whole, aimed to cover the most significant areas of risk within the resources available. The Internal Audit Plan also included a protocol with Services for the delivery of the plan.
- 1.6 This report summarises the audit work carried out in 2014/15 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 2014/15

- 2.1 This section presents an overview of Internal Audit's work during 2014/15 in its role as independent reviewer of the Council's systems of internal control.
- 2.2 During the year there were two changes to planned work which were approved by Audit Committee. As a result of additional resources being made available, a review of the Audit Universe was undertaken mid-year and a further two assignments were added to the approved plan during the year (report 14/515 refers).
- 2.3 All planned assignments, covering the period from April 2014 to March 2015, have been completed and reports issued. 25 Internal Audit reports have been issued for 24 planned assignments and 3 grants have been certified, representing 100% of the anticipated reports arising from Internal Audit work connected with the approved plan.
- 2.4 Unplanned assignments, as a result of investigations or additional requests from Services, have resulted in more than planned resources having been applied. Where appropriate, control issues highlighted as a result of this work have been reported to the Audit Committee. Two such reports have been issued during the year.

- 2.5 In addition, Internal Audit undertook the audit of the accounts for the Society of Chief Officers of Transportation in Scotland (SCOTS).
- 2.6 The results reported here relate to all audit reports delivered against the 2014/15 plan, audit reports issued during the period from April 2014 to March 2015 and also unplanned assignments where reports have been presented to the Audit Committee.
- 2.7 All actions detailed within the reports issued during the year were accepted by management. These reports contain a total of 111 agreed actions, rated as follows:

Critical Risk	0 agreed actions
High Risk	7 agreed actions
Medium Risk	58 agreed actions
Low Risk	46 agreed actions

- 2.8 This represents a decrease in the proportion of high- risk actions from 16% in 2013/14 to 6% in 2014/15 and a corresponding increase in the proportion of medium- and low-risk actions from 48% and 36% respectively to 52% and 41% respectively. The number of critical-risk actions has remained consistent at nil.
- 2.9 Appendix A shows a summary of Internal Audit's work for Perth & Kinross Council during 2014/15 compared with the original plan as approved by the Audit Committee in March 2014, and updated in November 2014, along with the current status of each assignment. The Appendix does not detail additional work, such as internal investigations or non-audit tasks undertaken during the year, though some of these are described elsewhere in this report. It was originally planned that 22 audits would be undertaken within the year along with 3 grant claim certifications for Perth & Kinross Council. Two additional audits were added to the Internal Audit Plan during the year. Internal Audit was actually involved with 38 assignments consisting of 24 planned audits, 3 grant certifications, the audit of SCOTS accounts, 7 investigations and 2 requests for advice on controls.

Areas for Significant Improvement in Controls

- 2.10 During 2014/15, each audit report was assigned an overall rating, summarising the strength of internal controls in the area under review. These ratings were intended to provide a guide to management in setting priorities for action and to inform the Audit Committee in their scrutiny role. The number of areas where controls have been described as 'moderately weak' or 'weak' have increased on those reported last year from 1 to 2. There are no areas where controls have been described as 'unacceptably weak'.

- 2.11 Issued reports during this period contain an assessment of the control environment for a total of 40 control objectives. These assessments of control at the time audits took place are broken down as follows:

Strong	14 Control Objectives
Moderately Strong	12 Control Objectives
Moderate	12 Control Objectives
Moderately Weak	2 Control Objectives
Weak	0 Control Objectives
Unacceptably Weak	0 Control Objectives

Follow Up of Action Plans

- 2.12 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.
- 2.13 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.
- 2.14 The support of the Chief Executive, Executive Directors and Senior Management Teams in ensuring that agreed actions are completed has continued during the year.
- 2.15 Of the 111 actions agreed with management (see 2.7 above) 65 had a completion date within 2014/15. Of these 65, 57 have been verified by Internal audit as having been completed. This represents 88% of actions having been implemented.
- 2.16 In the Chief Internal Auditor's opinion, the procedures in place provide a sound basis for ensuring that progress against the agreed plans is exposed to the proper level of scrutiny.

3 THE AUDIT COMMITTEE

- 3.1 The Audit Committee operates within an approved 'Role and Remit' and, as a formally constituted Committee of the Council. The Committee conducts its meetings in public, thus ensuring a high degree of accountability for its activities.
- 3.2 The Audit Committee reviewed its effectiveness on an annual basis and highlights any development requirements. No specific issues were identified for development in 2015.

4 RESOURCES

- 4.1 Expenditure for 2014/15 on Internal Audit was £220,798 against a budget of £217,783. The additional expenditure was as a result of additional consultancy resources being applied for additional assignments during the year.
- 4.2 Recent trends in internal audit staffing are as shown below:

	April 2013		April 2014		April 2015	
	No. (FTE)		No. (FTE)		No. (FTE)	
Qualified Staff	3.8	67%	2.8	60%	2.8	60%
Unqualified Staff	1.9	33%	1.9	40%	1.9	40%
Total	5.7	100%	4.7	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 2014/15 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 2014/15 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 Audit Scotland. There has been, and continues to be, an allocation of audit resources towards the completion of this task.
- 5.5 The 2012/13 exercise has concluded during the year and the Audit Committee have been informed of the outcomes. The 2014/15 exercise has commenced and the Audit Committee has been informed of the arrangements in place and will continue to be advised of progress.

Anti-Fraud and Anti-Corruption Policies

- 5.6 The Council's anti-fraud and corruption policies have been revised during the year. The Chief Internal Auditor has worked with colleagues in Legal Services to review the arrangements within the Council and has presented a Counter-Fraud and Corruption Strategy, along with associated policies, to the Strategic Policy and Resources Committee. Arrangements are under way for rolling out and embedding these arrangements throughout the Council within 2015/16.
- 5.7 The Chief Internal Auditor is the Council's nominated Money Laundering Reporting Officer. There has been no relevant activity during the year.

'Whistleblowing' Arrangements

- 5.8 In order to ensure that the Council meets the standards set out in its 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 Two contacts were made with Internal Audit of a 'whistleblowing' nature within the year. These cases were fully resolved and, where necessary, the outcomes have been reported to Audit Committee. The outcomes have also fed into the updating of the Audit Universe and in the planning exercise for the 2015/16 Internal Audit Plan.
- 5.10 Whistleblowing arrangements have been in place throughout 2014/15 and are now supported by a Whistle-blowing Policy, which is included within the Counter-Fraud and Corruption Strategy.

Investigations

- 5.11 Internal Audit's role includes the assessment of any concerns that are raised through the above arrangements and the conduct of internal investigations

where appropriate. A small time allowance is made for work of this sort within the audit plan. As highlighted in 2.4 above, the time spent on investigation work within the year exceeded the budgeted time.

- 5.12 The year 2014/15 saw a number of investigations requiring input from Internal Audit. Investigative work undertaken within the year has resulted in agreed improvements which will enhance the Council's internal control environment.

6 COMPLIANCE WITH AUDITING STANDARDS

- 6.1 The Public Sector Internal Audit Standards 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]. External Audit has also concluded that Internal Audit operates largely in accordance with the Standards and is working towards full compliance [Report 15/158 refers].

Code of Ethics

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

Standards

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

Performance Measures

- 6.4 Internal Audit's prime performance measure is the completion of the approved audit plan. Performance against the approved audit plan has been highlighted in Section 2 of this report. As at 31 March 2014, 92% of audits from the 2013/14 Internal Audit Plan had been fully completed and reported. As at 31 March 2015, the remaining 8% of the 2013/14 plan (1 assignment) had been completed along with 100% of assignments from the 2014/15 plan.

Quality Assurance of Internal Audit

- 6.5 A quality assurance system was in place in Internal Audit within 2014/15. The effectiveness of these arrangements, including refreshing the Internal Audit Manual in line with the Public Sector Internal Audit Standards will continue in 2015/16.

7 AUDIT OPINION

- 7.1 In the Chief Internal Auditor's opinion, reasonable reliance can be placed on the Council's systems of internal control for 2014/15, subject to management implementation of the agreed actions detailed in Internal Audit reports and summarised at Section 2 above.

8. CONCLUSION AND RECOMMENDATION

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

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1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

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

1. Strategic Implications

1.1 Corporate Plan

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

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

- 1.1.2 This report relates to all of these objectives.

2. Assessments

2.1 Equality Impact Assessment

- 2.1.1 Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.

- 2.1.2 The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

3. Consultation

3.1 Internal

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

2. BACKGROUND PAPERS

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

3. APPENDICES

Appendix A – The 2014/15 Internal Audit Summary

APPENDIX A – THE 2014/15 INTERNAL AUDIT SUMMARY

Audit Subject	2014/15 Audit Plan	2014/15 Status
Business Continuity Follow Up	Planned	Complete
Flood Mitigation	Planned	Complete
School Attendance Management	Planned	Complete
Adult Support & Protection	Planned	Complete
Housing Standard Delivery Plan	Planned	Complete
Petty Cash	Planned	Complete
Data Protection	Planned	Complete
Employee Expenses	Planned	Complete
Financial Management of Secondary Schools: Blairgowrie High School	Planned	Complete
Financial Management of Secondary Schools: Perth Grammar School	Planned	Complete
Rent Arrears	Planned	Complete
Management of Contracts	Planned	Complete
Quality of Residential Care	Planned	Complete
Management of Relationship with Live Active Leisure	Planned	Complete
General Ledger	Planned	Complete
IT Change Management	Planned	Complete
Housing Repairs	Planned	Complete
Online Payments in Schools	Planned	Complete
Housing Benefits	Planned	Complete
Regulatory Services	Planned	Complete
Capital Projects	Planned	Complete
Integrated Adult Health & Social Care	Planned	Complete
Property System	Planned	Complete
Discretionary Housing Payments	Planned	Complete
Implementation of Children & Young People Scotland Act	Planned	Complete
Cycling Walking Safer Streets Grant	Planned	Complete
Bus Service Operators Grant (6 monthly)	Planned	Complete
Bus Service Operators Grant (6 monthly)	Planned	Complete

