

## **AUDIT COMMITTEE**

Minute of meeting of the Audit Committee held in the Hay Room, Dewar's Centre, Glover Street, Perth on Wednesday 16 September 2015 at 2.00pm.

Present: Councillors B Vaughan, A Stewart, H Anderson, D Cuthbert, J Giacomazzi, W Wilson and A Younger.

In Attendance: J Clark, M Easton, C Irons, M Morrison, A O'Brien, L Potter, L Simpson, J Symon, G Taylor and S Walker (all Chief Executive's Service); J Cockburn, (Education and Children's Services); S Mackenzie, B Renton and W Young (The Environment Service) and N Copland and J Gilruth (both Housing and Community Care).

Also in attendance: Councillor A Grant; B Malone, Chief Executive; S Boyle, N O'Connor and P Tate (all Audit Scotland) and I Waddell, Tayside Contracts.

Councillor Vaughan, Convener, Presiding.

### **566. WELCOME AND APOLOGIES/SUBSTITUTIONS**

The Convener welcomed everyone to the meeting.

### **567. DECLARATIONS OF INTEREST**

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

### **568. MINUTE**

The minute of meeting of the Audit Committee of 24 June 2015 (Arts. 419 – 428) was submitted and approved as a correct record and authorised for signature.

In relation to article 422(c), it was also noted that although Audit Scotland do not accord importance levels to their reviews, they would liaise with the Chief Internal Auditor regarding a system for grading relevant to the Council; however, the date for completion of an action was an indication of importance.

### **569. EXTERNAL AUDIT REPORTS**

#### **(i) Review of Main Financial Systems 2014/15**

There was submitted and accepted a report by Audit Scotland (15/373) on their review of the Council's main financial systems and their assessment of the systems of internal control put in place by management.

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**(ii) Roads Maintenance Partnership Investigation and Improvement Plan**

There was submitted a report by Audit Scotland on an investigation of the Roads Maintenance Partnership (15/374), together with an Improvement Plan by the Executive Director (Environment) (15/394).

Councillor B Vaughan referred to the Audit Scotland report which detailed areas for improvement.

Councillor A Stewart stated the report provided a background to what was happening in the Partnership and there was no evidence of inappropriate action, however, there were poor quality files making it difficult to give assurance in relation to the manipulation of information. Councillor A Stewart added this was a worry and it must be ensured that there was clarity of the actions being taken.

B Renton referred to previous investigations conducted and the commitment by herself and the Executive Director (Environment) to ensuring that improvements were implemented. The Partnership had been thoroughly investigated, including a Police Investigation, and there had been no substantiation of the allegations.

The investigations had shown that very robust processes were in place, although the filing had been identified as a problem, action had now been taken to remedy that and there would continue to be spot checks and quality assurance measures.

Councillor A Stewart proposed that a report on progress be submitted to a future meeting and Councillor B Vaughan advised that most of the actions in the improvement plan were completed or almost complete; however, B Renton confirmed a report would be submitted to a future meeting to give assurance that all actions were complete.

Councillor W Wilson stated the previous investigations carried out by the Council's Internal Audit; Tayside Contracts' Internal Audit; external consultants and an internal investigation by Legal Services gave a degree of assurance, he questioned why the poor quality of files and the lack of an audit trail had not been reported in previous investigations.

Councillor B Vaughan advised that it was important to separate the previous investigations which had considered the alleged wrong-doings, and the Audit Scotland investigation which had looked at the processes and procedures operated.

J Clark advised that her investigation started approximately two years ago, completing in April 2014 with a report to the Audit Committee in June 2014. Internal Audit had worked with the service to investigate the specific complaints made at that time. As a consequence of the findings, changes had been made to the process, but it had been

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premature to gauge the effectiveness of those changes. There had been no evidence of awarding contracts incorrectly, however, Internal Audit had not looked beyond the complaint investigation as it was known that Audit Scotland would be reviewing the Roads Maintenance Partnership.

Councillor W Wilson queried why it had been premature to examine the files and J Clark clarified that it would have been too early to see the effectiveness of the improvements made. J Clark added that she had concluded that the evidence trail and control issues were being addressed, and that the Audit Scotland review would look at these issues further.

Councillor W Wilson asked if Internal Audit had looked at the files in relation to the awarding of contracts and whether there was evidence of poor files at that time. J Clark advised she had looked at those files which were relevant to the investigation and noted that some improvement was needed, but she had acknowledged changes were to be implemented.

Councillor B Vaughan asked for confirmation that Audit Scotland's investigation of the files went beyond that of the Internal Audit investigation. P Tate advised that Audit Scotland had looked at the process from initial measurement of the work through to final payment and J Clark advised that Internal Audit had looked at the awarding of contracts to a specific contractor.

B Malone referred to the four previous investigations each of which had a different scope and reiterated that there had been no evidence to substantiate the accusations made and no evidence of any wrongdoing. M Easton had undertaken the investigation for Legal Services and found the procedures appropriate although he had identified that some improvements were required.

Councillor B Vaughan assured members of the integrity of the process and that there had been no wrongdoing. There was an issue that the records could be better and they were being improved.

Councillor W Wilson highlighted that the Audit Scotland report stated the files did not provide a clear audit trail which made it almost impossible to detect any manipulation and no assurance could be given there had been no manipulation. He asked for assurance from The Environment Service and Tayside Contracts that they were happy to accept the conclusion of the report.

I Waddell advised the report refers to the documentation of the Council and had no bearing on the action of Tayside Contracts. In response to the previous investigations, mechanisms had been put in place to separate the two aspects of contracting of work in respect of the roads maintenance process.

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P Tate confirmed that Audit Scotland had looked at the processes and procedures of Perth & Kinross Council, and they have no remit with regard to Tayside Contracts.

B Renton added that while Audit Scotland had stated that no assurance could be given, there was no manipulation found and there were improvements to the system

M Easton advised the action plan would be implemented in full giving assurance that procedures would be followed in relation to quantities and costs. If there was any need to vary a contract, such as changes to the schedule of rates or an increase in costs, that would be noted and there would be an open book approach on pricing and costs.

Councillor D Cuthbert questioned if there had been an evaluation of the Quantity Surveyors pricing to ensure there were no discrepancies there as with no clear audit trail, costs could potentially increase.

B Renton responded that the work by Legal Services had ensured there was no element for possible manipulation. Also, a best value review was underway to give assurance that the procurement process was fit for purpose and continued to offer best value, however, once work was committed to there was potential for companies to increase their costs.

Councillor D Cuthbert asked when there was no audit trail, where would the required information be found, and P Tate advised that the lack of information on file was documented in the report.

Councillor B Vaughan referred to the key findings in the Audit Scotland report and the Improvement Plan by The Environment Service and requested a report be submitted to committee in a year to advise how the improvement plan had been embedded and adhered to.

Councillor W Wilson queried why revised processes had been agreed by the RMP Executive Board in June 2013 but had not been ratified by the Enterprise and Infrastructure Committee until January 2015. B Renton advised there had not been a delay in implementing the processes although there had been a delay in taking it to committee.

**Resolved:**

- (i) The findings of the review of the RMP by Audit Scotland be accepted.
- (ii) A report be submitted to this committee in six months on the progress made on the elements of the Improvement Plan submitted by The Environment Service.

M EASTON, B RENTON, I WADDELL AND W YOUNG LEFT THE MEETING AT THIS POINT.

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**570. DRAFT AUDITED ANNUAL ACCOUNTS 2014/15**

There was submitted a report by the Head of Finance (15/375) presenting the Council's Draft Audited Annual Accounts for the financial year 2014/15 in accordance with the Local Authority Accounts (Scotland) Regulations 2014 together with Audit Scotland's proposed Annual Audit Report to members and the Controller of Audit on the 2014/15 Audit.

Councillor B Vaughan commended Audit Scotland for the style and presentation of the report. Councillor W Wilson queried the use of the title, 'Depute Leader of the Council' as he believed that it should be 'Depute Leader of the Administration'. G Taylor advised neither title was used within the Council's Scheme of Administration, the reference being to the Vice Convener of the SP&R Committee would be used, however, terminology of Depute Leader of the Council was correct as a signatory to the annual accounts.

Councillor B Vaughan highlighted the key messages within the Audit Scotland report and that it was an unqualified report.

Councillor W Wilson referred to the review of Tayside Contracts' Minute of Agreement, mentioned in the significant findings from the audit, and the fact that it was hoped that a conclusion would be reached imminently.

L Simpson advised there had been a meeting three weeks ago when the outstanding issues had been resolved, and the revised document had now been received for signature.

S Boyle acknowledged and welcomed the comments on the style of report and added that the Council was financially managed very well, with an increase in useable reserves over the previous five years. Particularly during a backdrop of austerity, this was a notable result.

Councillor A Stewart referred to the medium term financial plan where savings of £53million were required over the next five years, partly to be achieved through the transformation programme. Councillor Stewart hoped there would be balance achieved with the medium term financial plan, the transformation project and savings. J Symon advised there would be reports to the Strategic Policy and Resources Committee on 23 September 2015 on Revenue Monitoring and Transformation which would show the significant gap between the savings needed and what the Transformation Programme would deliver. Councillor Stewart added that he looked forward to the updates at SP&R.

Councillor W Wilson stated that substantial underspends were a mixed blessing as if money was not spent, services were not provided and savings were incorporated into the budget process. J Symon advised it was ensured the underspend in one year would be factored into the next and increasing reserves provided budget flexibility enabling funds to be moved from one year to the next. The underspend is managed in conjunction with the budget process.

Councillor B Vaughan stated it was harder and harder to achieve savings and it was important to budget in a different way and highlighted that Perth and Kinross

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Council was one of only eight Councils where the useable reserves were over 20% of the net revenue stream. Members agreed that the Head of Finance did an excellent job and there had been good progress in the capital programme outturn in 2014/15.

S Boyle advised this was a good achievement, not seen in other Councils and had served the Council well in 2014/15.

Councillor W Wilson queried if being second from the top of the league for other long term liabilities as a proportion of total debt (shown in Exhibit 5 of the Audit Scotland report) was a good place to be and S Boyle advised the position was not very different to the other Councils and was a factual chart showing the debt position.

Councillor B Vaughan advised the graphs were very helpful and went on to highlight the following specific areas under the Governance and Transparency section of the Audit Scotland report:

- Arm's-length External Organisations (ALEO's)
- Perth and Kinross being one of only two Scottish Councils that do not submit the electoral register as part of the National Fraud Initiative submission
- Different ways of working in the Health and Social Care Partnership and Community Planning

Councillor B Vaughan then referred to the comments in relation to one Statutory Performance Indicator - Responsiveness to Communities which was classed as an area for improvement. B Malone advised that there would be submitted to the SP&R Committee on 23 September 2015 an Audit Scotland report on Public Performance Reporting which rated Perth and Kinross Council as second in Scotland.

S Boyle made reference to Appendix I to the Audit Scotland report setting out significant audit risks which had been reported to the Audit Committee on 1 April 2015. B Vaughan referred to the timelines in Appendices II and III which she found very useful.

S Boyle concluded that a clean audit certificate was being issued with no qualifications and the accounts would be signed today to complete the audit process. S Boyle thanked J Symon and his team, S Walker and A O'Brien. With the report requiring to be prepared two months earlier than usual, there had been co-operation in abundance from staff and the management commentary was of a high standard due to the co-operation of staff.

Councillor B Vaughan stated the management commentary within the audited annual accounts was very good, making the report easier to understand.

J Symon advised that two amendments would be made: 1) In paragraph 5, Performance Management, a sentence would be deleted and 2) Section 22, valuation of assets, a figure would be corrected.

Councillor D Cuthbert congratulated the team on production of the report.

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**Resolved:**

- (i) The Audit Scotland's Draft Annual Audit Report to members and the Controller of Audit and covering memo on the 2014/15 Audit be noted.
- (ii) The Depute Leader of the Council, the Chief Executive and the Head of Finance be authorised to sign the Annual Accounts.
- (iii) The Council's signed Audited Annual Accounts for 2014/15 be submitted to the Council on 7 October 2015 for consideration.

B MALONE, COUNCILLOR A GRANT, A O'BRIEN, N O'CONNOR AND S WALKER LEFT THE MEETING AT THIS POINT.

**571. INTERNAL AUDIT FOLLOW-UP**

There was submitted a report by the Chief Internal Auditor (15/376) presenting a current summary of Internal Audit's 'follow up' work and detailing (1) a summary of the number of actions arising from internal and external audit reports; (2) the total number of agreed actions which Internal Audit would be following up, even where the originally agreed completion dates had not been reached; (3) the number of agreed actions reported as incomplete as at their original agreed completion date, a number of which had been allocated dates in the future for completion with progress to be reported to a future meeting; (4) the number of agreed actions which had yet to be followed up as their completion date had not been reached; and (5) detailed follow-up information on a Service-by-Service basis, in respect of actions agreed for completion in the period of April to June 2015.

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

**Chief Executive's Service**

**(a) 12-02 – Following the Public Pound – Action Point 23**

It was noted that following submission to the Executive Officer Team in September 2015, the revised Local Code of Guidance would, following consultation, be submitted to a future meeting of either the Strategic Policy and Resources Committee or Council for approval.

**(b) 12-24 – Purchasing Controls – Action Point 2**

In response to a question from Councillor W Wilson, L Simpson advised that given that procurement legislation was changing, the contract review would encompass a review and redesign of internal and external processes to ensure compliance.

It was noted that Legal Services were working jointly with Dundee and Angus Councils, as well as the procurement team and the external consultant to dovetail their work with the procurement review to make best use of resources, ensure consistency of approach and avoid duplication of effort.

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**(c) 14-07 Data Protection – Action Point 15**

Councillor B Vaughan asked for clarification that the Data Protection report on the information security classification had been submitted to the August meeting of the Corporate Management Group and L Simpson confirmed that it had.

**(d) Audit Scotland 6 – Action Point 11**

L Simpson confirmed that as advised earlier in the meeting there had been difficulties in setting a tri-Council meeting but matters were now progressing and the revised Minute of Agreement was now ready for signing.

Councillor W Wilson queried if there were sufficient resources within Legal Services to deal with the current and anticipated workload. L Simpson advised that following her recent appointment, she was taking an opportunity to review workload and reallocate some work.

**Housing and Community Care**

**(a) 14-11 Management of Contracts – Action Point 6**

It was noted the report on guidance and contract management would now be submitted to the Council meeting in December 2015.

**Resolved:**

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

**572. INTERNAL AUDIT UPDATE**

There was submitted a report by the Chief Internal Auditor (15/377) presenting a summary of Internal Audit's work against the 2015/16 Annual Plan.

J Clark highlighted that Scott Moncrieff had been appointed to co-source the delivery of assignments within the Internal Audit Plan and in response to a question from Councillor W Wilson, advised they had been appointed under a framework agreement.

It was noted that Internal Audit had been involved with six areas of unplanned activity and there were no implications for this additional work at present.

Councillor W Wilson asked about the process of tracking whistleblowing. J Clark advised the Internal Audit Annual Report would refer to it and highlight any issues or actions.



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**Resolved:**

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

The Committee considered the following final reports:-

**(i) Chief Executive's Service**

**(a) 15-01 – Following the Public Pound**

There was submitted and noted a report by the Chief Internal Auditor (15/378) on providing advice and assurance on the revisions to the Code of Guidance.

It was noted that Internal Audit had acted on a consultancy basis with Legal Services and there was extensive work required to ensure the document was fit for purpose and easy to understand.

**(b) 15-03 – Complaints**

There was submitted a report by the Chief Internal Auditor (15/379) on the audit to ensure the adequacy of the systems within Services and corporately that identifies and resolves complaints.

J Clark advised the strength of internal controls was moderately strong. Councillor W Wilson suggested this rating should be higher when dealing with complaints. J Clark advised when the action points were implemented it would be a strong control.

Councillor B Vaughan requested that further testing of school handbooks be undertaken and J Cockburn agreed to refer this to S Watson, Team Leader, Business Services in Education and Children's Services.

Councillor B Vaughan expressed disappointment that the questionnaire had not yet been issued to complainants regarding their experience during the handling of their complaint.

L Simpson advised that the questionnaire had been delayed to ensure it followed the requirements of the Scottish Public Service Ombudsman/Complaints Handlers Group and was now with services for consultation.

It was noted that the questionnaire would be issued to complainants in the new year.

**Resolved:**

Internal Audit's findings, as detailed in Report 15/379, be noted.

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**(c) 15-08 – Reserves Strategy**

There was submitted a report by the Chief Internal Auditor (15/380) on the audit to ensure that there were appropriate controls over the management of usable reserves.

**Resolved:**

Internal Audit's findings, as detailed in Report 15/380, be noted.

**(ii) Environment Service**

**(a) 15-05 – Corporate Health and Safety**

There was submitted a report by the Chief Internal Auditor (15/381) on the audit to ensure the adequacy of the arrangements in place over the management of corporate health and safety.

Councillor B Vaughan referred to the strong controls and that there were no actions required.

Councillor W Wilson commended the staff and S Mackenzie confirmed he would feedback that to staff.

**Resolved:**

Internal Audit's findings, as detailed in Report 15/381, be noted.

**(b) 15-42 – Blue Badge Misuse Procedures**

There was submitted a report by the Chief Internal Auditor (15/382) on the audit to ensure that there were adequate controls over cases where blue badges had been misused.

J Clark advised that following an allegation being received by The Environment Service regarding the misuse of a blue badge an investigation was undertaken of procedures.

S Mackenzie assured that a very small proportion of misuse had been discovered and procedures had been updated to deal with such misuse. S Mackenzie also referred to a report submitted to the Enterprise and Infrastructure in March 2015 on the Disabled Persons' Parking Badges (Scotland) Act 2014 which came into force on 30 March 2015 and gave powers of enforcement.

Councillor B Vaughan stated it was sad that anyone would misuse a blue badge.

Councillor A Stewart stated it was good to hear of the current position and was pleased that it was a small number of individuals misusing the badges as it could be lucrative and requested assurance that it could not now happen.

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S Mackenzie advised that the updated procedure would include guidance for parking attendants who came across suspected misuse in the course of their duties and the process to be followed in other situations where misuse was reported to or suspected by Parking Services. The procedure would also include steps to be taken to secure the blue badge where there was evidence that misuse was taking place.

Councillor W Wilson asked if there had been an improvement in the previous twelve months and a reduction in numbers. S Mackenzie advised figures had not been tracked and the new legislation was a more recent change with the transfer of powers to the Council from Police Scotland.

**Resolved:**

Internal Audit's findings, as detailed in Report 15/382, be noted.

S MACKENZIE LEFT THE MEETING AT THIS POINT.

**(iii) Housing and Community Care**

**(a) 15-20 – Housing Investment Programme**

There was submitted a report by the Chief Internal Auditor (15/383) on the audit to ensure the adequacy of the management, monitoring and reporting arrangements of the Housing Improvement Programme.

It was noted that internal controls would be strong when the actions were completed.

**Resolved**

Internal Audit's findings, as detailed in Report 15/383, be noted.

**(b) 15-41 – Assessment & Charging: Community Meals**

There was submitted a report by the Chief Internal Auditor (15/384) on the audit to ensure (i) that financial control over income due for non-residential care services outwith the Contributions Policy were adequate and (ii) the Community Meals contract was properly administered to ensure that vulnerable clients were protected from the risk of fraud.

Councillor B Vaughan noted that there were two aspects to the review: invoicing and payment methods.

J Clark advised this audit was carried out as an addition to the approved audit plan for 2015/16 following the receipt of information regarding the Council not raising an invoice on a timely basis.

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It was noted there had been some errors in the process resulting in a moderately weak internal control, however, new arrangements have been made with the contractor for the delivery of meals and payment methods.

Councillor B Vaughan stated the community meals service was for the very vulnerable so it was disappointing there were issues in the delivery of the service.

Councillor A Stewart agreed it was a regrettable situation and asked how many clients were affected by not issuing invoices and J Clark advised there were four clients.

N Copland advised the reason for the non-issue of invoices was due to a change of staff.

In response to a question from Councillor H Anderson, J Gilruth advised the clients who received the community meals would be in their own home.

Councillor W Wilson expressed concern that debt of £28,304.57 between four clients had been able to be accumulated.

N Copland advised the sum covered the cost of meals and other care and confirmed that staff had visited the four clients and explained the position to them or their named carer.

N Copland added that the service was reviewing the options available for utilising SWIFT to automate the invoicing process for non-residential clients.

Councillor D Cuthbert asked why a reconciliation of income due and expenditure for meals had only taken place for two of the four clients and N Copland advised there were special payment arrangements for those two clients with the Council acting as an agent for the clients in making payment.

J Clark advised that from September 2015 there was a new contractor and there should be a choice of payment method, with discussion to take place on Direct Debits.

J Gilruth stated there were significant cost implications for the Council in providing 500 meals a day at a cost of £300,000 per year and he would discuss with J Clark options for extra costs being met by clients.

Councillor B Vaughan proposed all Scottish Councils working together on this matter and J Gilruth advised it would depend on the service model but there would be discussions with other Local Authorities.

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**Resolved:**

Internal Audit's findings, as detailed in Report 15/384, be noted.

(iv) **Education and Children's Services**

(a) **15-09 – New School Governance**

There was submitted a report by the Chief Internal Auditor (15/385) on the consultation review to provide advice and assurance over the governance arrangements for the new schools; Kinross Primary School, Tulloch Primary School and the secondary school at Bertha Park.

**Resolved:**

Internal Audit's findings, as detailed in Report 15/385, be noted.

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