

PERTH AND KINROSS COUNCIL  
AUDIT COMMITTEE  
1 APRIL 2015

## **AUDIT COMMITTEE**

Minute of meeting of the Audit Committee held in the Hay Room, Dewar's Centre, Glover Street, Perth on Wednesday 1 April 2015 at 10.00am.

Present: Councillors B Vaughan, A Stewart, H Anderson, D Cuthbert, G Laing (substitute for J Giacomazzi), W Wilson and A Younger.

In Attendance: J Clark, C Irons, M Morrison, L Potter, J Symon and G Taylor (all Chief Executive's Service); J Cockburn (Education and Children's Services); J Dixon and J Valentine (the Environment Service) and J Beverley and N Copland (Housing and Community Care).

Also in attendance: S Boyle and P Tate, Audit Scotland.

Apologies: Councillor J Giacomazzi.

Councillor Vaughan, Convener, Presiding.

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

The Convener welcomed everyone to the meeting. An apology and substitute was noted as above.

### **239. DECLARATIONS OF INTEREST**

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

### **240. MINUTE**

The minute of meeting of the Audit Committee of 4 February 2015 (Arts. 75 - 80) was submitted and approved as a correct record subject to amendment to article 80 where the underspend should be £11.1million and not £1.1million and it was noted that details of the Tayside Contracts Minute of Agreement should be included in next year's planning process and not annual report as stated.

It was also noted that G Taylor would advise Councillor Wilson of when a report considering the Council's approach to undertaking corporate risk assessments would be submitted to the Executive officer Team. (Article 78(d) refers).

### **241. INTERNAL AUDIT PLAN, 2015/16**

There was submitted a report by the Chief Internal Auditor (15/144) on the proposed internal audit plan for the financial year 2015/16.

It was noted that all actions from the 2014/15 Audit Plan were now completed. Councillor Vaughan highlighted that each potential audit subject was assigned a priority rating from an assessment of four factors, as detailed in report 15/144.

PERTH AND KINROSS COUNCIL  
AUDIT COMMITTEE  
1 APRIL 2015

Five assignments would be co-sourced this year which freed up staff time to offer more support work to services.

J Clark advised there had been a high degree of consultation in developing the annual plan and assignments had been agreed with services with the details to be discussed with relevant Heads of Service following Committee approval.

A report would be submitted to the next Audit Committee detailing when reports were expected to be submitted to Committee.

The co-sourced assignments would still involve some internal work but would augment the resources within the team and also provide specialism.

In response to a question from Councillor Younger on weighting of the four assessment factors, J Clark confirmed they were weighted with the higher risk items being examined more frequently while ensuring there would be no overlap with external scrutiny and no duplication of effort.

Councillor Stewart referred to paragraph 1.8 which stated that detailed work in the area of adult health and social care had yet to be scoped in partnership with colleagues in the NHS although an allocation of resources had been provided. He queried when the approach would likely be agreed and if there was sufficient resources available.

J Clark advised a date had not yet been set but it would be within the next financial year, possibly around November, and sufficient resources had been allocated but this would be monitored.

Councillor Wilson asked if there would be joint discussion with NHS on the health and social care integration process and if there would be contact with audit resources nationally.

J Clark confirmed she was in regular contact with relevant NHS staff regarding the audit process and the requirement for joint reports and agreed timescales and also nationally, the Scottish Local Authorities Chief Internal Auditors Group (SLACIAG) were kept abreast of the integration process. Nationally there were differences in which organisation was taking the lead in the joint approach.

Councillor Wilson requested further information on the allocation of additional resources for the assignments and the co-sourcing arrangement.

J Clark advised the additional resources had been agreed in the budget process. J Clark also advised that co-sourcing differed from outsourcing in that the hard file was retained by the Council resulting in a greater ownership of the work, whereas, if outsourced the company would own the files.

As the Audit Team is a small team, co-sourcing allows the Council to procure specialist skills such as IT.

PERTH AND KINROSS COUNCIL  
AUDIT COMMITTEE  
1 APRIL 2015

Councillor Vaughan referred to Appendix A to report 15/144 which showed the allocation of audit days.

Councillor Laing agreed it was good to look at the overall position when an audit subject was not particular to one service.

Councillor Vaughan confirmed that although an audit may focus on one aspect particular to one service, the whole subject can affect all services.

Councillor Cuthbert referred to the fact that all 548 days which were available had all been allocated and questioned what would happen if other work was required and suggested audits be undertaken on 1) Community Campuses and their relationship with the public and 2) Community Councils.

Councillor Vaughan advised that any Councillor could request the Chief Internal Auditor to include any audit and they would be taken into account when the annual audit plan was being drawn up. In addition, if changes were required to the plan throughout the year the Chief Internal Auditor could report back to this Committee proposing changes to the plan.

J Clark also confirmed that there was an allocation within the 548 days for unplanned work and ad-hoc advisory work and investigations.

Councillor Wilson queried the inclusion of both 'Supporting the National Fraud Initiative' (NFI) and 'Counter Fraud and Corruption'.

J Clark advised that the NFI was an annual exercise undertaken through Audit Scotland with the Council providing appropriate information and ensuring matters were thoroughly investigated. Counter Fraud and Corruption was reported to the Strategic Policy and Resources Committee on 11 February 2015 and arrangements would be rolled out with risk-based methodology in all services.

Councillor Wilson referred to Councillor Laing's previous comment in relation to corporate investigations and he estimated an approximate share of resources of a 60/40 split and questioned if enough resources and sufficient scrutiny were being directed to service delivery rather than corporate deliverance.

J Clark advised that she ensured there was balance across all services in the allocation of resources. There was a mix of inward and outward looking assignments with appropriate balance to meet objectives. Corporate audits were fundamental to the audit process and there were areas which needed to be looked at periodically to ensure reliance could be placed on systems for going forward with future plans. J Clark advised that account also had to be taken of external audits, such as those by the housing regulator.

Councillor Vaughan stressed that audits were not done in isolation and the plan showed if an area had been audited within the last three years, however, the balance of corporate and service work could be included within the annual process for next year's plan.

PERTH AND KINROSS COUNCIL  
AUDIT COMMITTEE  
1 APRIL 2015

Councillor Anderson considered that aspects of social housing should be given greater priority as the new build programme, the Housing Investment Plan and homelessness were priority 3 or 4.

J Clark advised where aspects were not a high priority it may be that there had been coverage within the previous three years and may be undertaken again within the next three years.

Councillor Younger queried the priority rating for Perth Harbour due to recent reports to committee.

J Clark advised the annual plan was drawn up at a certain time so there was a cut-off date for taking cognisance of other reports or issues.

Councillor Vaughan assured members an audit would be undertaken if it became more important.

Councillor Cuthbert referred to the section on Corporate IT and the importance of ensuring the systems worked. J Clark advised some areas had been covered within the past five years so had just missed out on being included this year.

Councillor Vaughan proposed that for future annual reports, audits within the previous five years instead of three years be listed.

Councillor Younger queried if the 3/5 years and the priority 4/5 were different cycles.

J Clark advised that potentially they were not different; while priority 4/5 should be done within 5 years they would not necessarily be done within 3 years depending on the use of weightings and an accumulative knowledge of areas.

**Resolved:**

The Internal Audit Plan for April 2015 to March 2016, as detailed in Report 15/144, be approved.

**242. INTERNAL AUDIT FOLLOW-UP**

There was submitted a report by the Chief Internal Auditor (15/151) 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 November and December 2014.

PERTH AND KINROSS COUNCIL  
AUDIT COMMITTEE  
1 APRIL 2015

The Convener congratulated Housing and Community Care for having no actions outstanding for this period.

Councillor Cuthbert requested information on the two high priority actions which were incomplete and if dates could be provided of when they should have been completed.

J Clark confirmed she would email the information to members.

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 a working group was now looking at the revised Code of Guidance for Following the Public Pound.

**(b) 14-07 – Data Protection – Action Point 8**

It was noted that the changes to the Data Protection Policy and Procedures were now uploaded to the intranet.

**(c) 14-07 – Disposal of Confidential Information – Action Point 15**

It was noted that information on security classification would be submitted to the Corporate Management Group in April.

Councillor Wilson expressed concern that advice on the disposal of confidential waste had been removed from ERIC resulting in a lengthy period without any guidance.

J Valentine advised that issues raised by Audit had been addressed and new disposal arrangements were in place, however, he would check the latest position regarding advice and inform members.

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

It was noted that the Minute of Agreement for Tayside Contracts had yet to be signed. The matter had been raised with the Chief Executives of the other Tayside authorities to resolve matters as quickly as possible.

**(e) Audit Scotland 7 – Action Point 6**

It was noted that a report to improve the privacy impact assessment process would be considered by the Corporate Management Group in June.

PERTH AND KINROSS COUNCIL  
AUDIT COMMITTEE  
1 APRIL 2015

**Environment Service**

**(a) 13-05– Roads Management Inspection and Maintenance – Action Point 9**

J Valentine advised that the Roads Inspection Manual and the Roads Management Plan were being combined. The Environment Service were currently assessing the road hierarchy and inspection frequency. He added that although roads conditions had improved the work being undertaken would determine what work was required.

In response to a question from Councillor Wilson, J Valentine confirmed local members would be consulted in a prioritisation process.

It was noted the completion date was December 2015 and that this had been agreed when originally submitted to the Audit Committee in September 2013.

It was also noted that the completion date could not be brought forward at this stage and the time to agree completion dates was when initially reported to the committee.

J Valentine added that the December deadline would be met with a report submitted to the Enterprise and Infrastructure Committee in November, however, the production of the Inspection Manual could be affected by changes to national policy later this year.

**(b) Audit Scotland 4 – Action Point 2**

It was noted the Roads Asset Management Plan would be completed in June 2015 with it's submission to the Enterprise and Infrastructure Committee.

**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.

**243. INTERNAL AUDIT UPDATE**

There was submitted a report by the Chief Internal Auditor (15/152) presenting a summary of Internal Audit's work against the 2014/15 Annual Plan.

J Clark advised a report on the Counter-Fraud and Corruption Strategy implementation would be submitted to the Audit Committee on 24 June 2015.

With regard to Health and Social Care Integration, Internal Audit has, and will continue to work closely with colleagues in other Local Authorities and with the

PERTH AND KINROSS COUNCIL  
AUDIT COMMITTEE  
1 APRIL 2015

Health Board with regard to the assurance arrangements for the Integration Scheme. J Clark advised she had received assurances over the process adopted within Perth and Kinross Council which resulted in the report which was presented to Council on 25 March 2015.

J Clark advised members that as an Audit Committee, they would receive a joint report from her and the Health Board's Head of Internal Audit, Tony Gaskin, at an appropriate time on the financial governance, assurance and risk assessment framework, as detailed in the guidance provided by the Integrated Resource Advisory Group. There are resources within the 2015/16 Internal Audit to allow this to happen.

Councillor Vaughan congratulated J Clark and her team and all services as this was the first time in eight years that all work in the Internal Audit Plan had been completed within the year. The control objectives were getting stronger and there were fewer matters to follow up. Also two years ago only approximately 50% of work was completed and starting with a clean sheet was commendable.

Councillor Wilson queried if the report should state that the Chief Internal Auditor reports regularly to the Audit Committee rather than periodically and J Clark advised she understood this was wording from the Public Sector Internal Audit Standards (PSIAS) but would check for future reports.

J Clark confirmed that all reports for the undertaken work had also been finalised and four were already prepared for submission to the June Committee.

Councillor Wilson referred to the absence of a report for whistle-blowing investigations and J Clark advised there would only be a report if additional controls were required and these would be reported to committee, however, as the whistle-blower was anonymous she was unable to feedback directly to them. For the completed investigation, no additional controls were necessary.

**Resolved:**

- (i) The Internal Audit Plan would be completed within the year be noted.
- (ii) The progress made on Internal Audit's work against the Plan for 2014/15 be noted.

The Committee considered the following final reports:-

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

**(a) 14 - 14 – General Ledger Assignment**

There was submitted a report by the Chief Internal Auditor (15/153) on the audit to ensure (i) the adequacy of the control framework over access to and operation of the general ledger system; (ii) that the coding structure of accounts cannot be modified without authorisation; (iii) that amendments made to data held within the general ledger (ie

PERTH AND KINROSS COUNCIL  
AUDIT COMMITTEE  
1 APRIL 2015

journal entries) were complete, accurate and valid and (iv) that outputs from the general ledger system were complete, accurate and valid and were produced in a consistent and appropriate format in a timely manner.

J Clark highlighted the service would ensure the completion of processes, however, there were no weaknesses.

In respect of control objective four, it was noted that assurance had been given that suspense accounts would be reconciled on a regular basis.

In respect of Action Point 2, Councillor Cuthbert asked for information with regard to leavers and J Symon advised that MyView would be used to ensure that leavers were removed from systems.

**Resolved:**

Internal Audit's findings, as detailed in Report 15/153, be noted.

**(ii) Housing and Community Care**

**(a) 14-16 – Housing Repairs**

There was submitted a report by the Chief Internal Auditor (15/154) on the audit to provide assurance over the arrangements in place (i) for repairs to be undertaken on time, to specification and within budget and (ii) to provide appropriate performance information.

J Clark highlighted that the audit had focussed on the handling of emergency repairs and on Housing Repairs and Improvements Service compliance with the performance information framework for repairs set out by the Scottish Housing Regulator.

**Resolved:**

Internal Audit's findings, as detailed in Report 15/154, be noted.

**(b) 14-18 – Housing Benefits**

There was submitted a report by the Chief Internal Auditor (15/155) on the audit to ensure (i) there were adequate and appropriate controls in place over the administration of housing benefit claims to provide for accurate and timely payment to qualifying claimants and (ii) the adequacy of arrangements for the transfer of responsibilities and information to the Department of Work and Pensions.

It was noted the action required would be completed by the July 2015 deadline.



PERTH AND KINROSS COUNCIL  
AUDIT COMMITTEE  
1 APRIL 2015

**Resolved:**

Internal Audit's findings, as detailed in Report 15/155, be noted.

**(iii) Environment Service**

**(a) 14-19 – Regulatory Services**

There was submitted a report by the Chief Internal Auditor (15/156) on the audit to ensure the adequacy of the arrangements in place to enable regulatory services to carry out their enforcement functions.

Councillor Vaughan referred to recent press coverage on food hygiene statistics when Perth and Kinross Council received a low rating.

J Valentine advised that local authorities reporting to the Food Standards Agency (FSA) on food hygiene statistics appeared in a Which magazine report, adding that he was disappointed that the FSA had not responded to the Which report.

J Dixon provided the background to the report and concluded that differences of approach in Scotland would affect the comparison with authorities elsewhere in the UK and may have adversely affected the ranking of some Local Authorities in Scotland. J Dixon added that at present and over the last ten years 98% of businesses in Perth and Kinross have achieved a PASS at their last inspection and the enforcement policy used in this area was highlighted as good practice by the Food Standards Agency in Scotland (FSAS) auditors following their most recent audit of the food hygiene team in November 2014.

J Clark advised the audit had not focussed on food hygiene as this was reported on annually by the FSA and all aspects were positive with nothing to add by audit.

Councillor Anderson agreed it was disappointing that there had been no reply from the FSA as the Which report had affected a lot of people in Perth and Kinross by incorrect reporting and he hoped it would now be picked up by the press and correctly reported.

Councillor Wilson acknowledged the useful update on the misunderstanding caused by a lack of knowledge on the differing systems. He referred to potential damage to the tourist industry and appreciated Andrew Fairlie's comments in response to the article.

**Resolved:**

Internal Audit's findings, as detailed in Report 15/156, be noted.

PERTH AND KINROSS COUNCIL  
AUDIT COMMITTEE  
1 APRIL 2015

**(b) 14-20 – Capital Projects**

There was submitted a report by the Chief Internal Auditor (15/157) on the audit to ensure the adequacy of the management, monitoring and reporting arrangements of capital projects.

Councillor Vaughan advised the focus of the audit was to test various aspects of the management, monitoring and reporting arrangements for three capital projects relating to the Perth Office Programme, Lewis Place refurbishment and Rattray Community Facilities.

J Clark advised there were improvements to be made to improve procedures.

Councillor Wilson asked what action would be needed to change the strength of internal control from moderately strong to strong and J Clark advised it would just take time to demonstrate the improvements made. J Valentine agreed the new systems were in place but would need time to bed in.

**Resolved:**

Internal Audit's findings, as detailed in Report 15/157, be noted.

**244. AUDIT SCOTLAND ANNUAL AUDIT PLAN 2014/15**

There was submitted and noted a report by Audit Scotland (15/158) on the Audit Scotland Annual Audit Plan 2014/15.

S Boyle advised that the planning process was now underway for the 2015/16 plan which ran from November to October and this would be the penultimate year of Audit Scotland's appointment.

S Boyle summarised the report referring to areas covered such as the audit of financial statements, charitable trusts and the findings of the shared risk assessment process in a Local Scrutiny Plan.

S Boyle advised that the ISA 260 report and the draft annual audit report would be combined in future and the combined report would be submitted to the committee in September 2015. S Boyle thanked management for the work required to achieve this.

S Boyle referred to audit issues and risks included in the report and new regulations introducing some changes to the contents of financial statements.

S Boyle also highlighted information on management override of controls adding that although it was not assumed Local Authorities would manipulate their accounting records it was an area to be aware of.

PERTH AND KINROSS COUNCIL  
AUDIT COMMITTEE  
1 APRIL 2015

S Boyle advised that the agreed audit fee was £281,000 and not £283,000 as noted in the report.

Councillor Wilson queried the number of days work included within the fee and S Boyle advised the number of days were not reported as the fee was based on the work to be undertaken. Councillor Wilson also asked for clarification of the term Local Scrutiny Plan and S Boyle advised it was a new term for what used to be the Assurance and Improvement Plan which had been refocused to be more risk based. He advised he would provide more information on this to the next meeting when the relevant report would be considered.

Councillor Wilson questioned the adequacy of internal audit and S Boyle advised work had already been undertaken on the adequacy. J Clark added that a review of compliance standards had been undertaken and there would be continued implementation. An external quality assessment was to be undertaken by peers in other local authorities in 2016/17. In the meantime, an internal review would be undertaken, however, some lack of IT was being dealt with already.

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