



Internal Audit Report
The Chief Executive's Service, Finance Division
Reserves Strategy No. 15-08
August 2015

Final Report

Chief Executive's Service
Finance Division
Perth & Kinross Council
Blackfriars Development Centre
North Port
Perth PH1 5LU

Internal Audit

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

On 27th March 2013, the Council’s Audit Committee approved the PSIAS as the relevant standard for its Internal Audit activity.

Background and Introduction

This audit was carried out as part of the audit plan for 2015/16, which was approved by the Audit Committee on 1 April 2015.

In accordance with the existing statutory and regulatory framework, the Head of Finance as Responsible Financial Officer (or “Proper Officer”) is responsible for advising the Council on the level of Reserves it should hold.

To fulfil that remit the Head of Finance reports annually on the recommended strategy for managing the Council’s Reserves (with the exception of the Housing Revenue Account balances) in the context of setting the Council’s Revenue Budget. The Housing Revenue Account (HRA) balances are considered in a separate report to the Housing and Health Committee. CIPFA Local Authority Advisory Panel Bulletin (LAAP) 99 published in July 2014 provides guidance on the establishment and maintenance of Reserves and Balances and informs the preparation of these reports.

Reserve balances are scrutinised by Audit Scotland as part of their annual audit process and are reported on in the annual audited accounts.

Scope and Limitations

The purpose of the audit was to review the adequacy of the council’s arrangements in respect of the management of usable reserves. In order to arrive at an opinion on the achievement of the control objective, the audit included interviews with relevant staff within the Chief Executive’s Service Finance Division.

Control Objectives and Opinions

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

Control Objective - To ensure that there are appropriate controls over the management of usable reserves	
<p>Auditor's Comments:</p> <p>Appropriate guidance is sought on the establishment and maintenance of usable reserves and balances. The audit confirmed that effective arrangements are in place to ensure that usable reserves are held for appropriate purposes and that usable reserves movements are adequately monitored.</p> <p>Testing confirmed that reports on reserves strategies are prepared on an annual basis. The most recent report recommending a strategy for managing the Council's reserves (with the exception of the Housing Revenue Account (HRA) balances) was submitted to the Council in February 2015. In addition the Medium Term Financial Plan which was presented to the Council most recently in July 2015 provided an update on the reserves projections to reflect the position in the Unaudited Annual Accounts. There is however scope for improved clarity in the reserves strategy report narrative.</p> <p>The HRA reserves strategy was submitted to the Housing and Health Committee in January 2015. The uncommitted general reserve balance has remained at the same level for several years and after review of the 30 year business plan it was considered prudent that the reserves balance should remain at its current level for the next 5 years.</p>	
Strength of Internal Controls:	Strong

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.

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.

Acknowledgements

Internal Audit acknowledges and thanks the Finance Division for their co-operation during this audit.

Internal Audit Report

Feedback

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

Distribution

This report has been distributed to:

B Malone, Chief Executive

J Symon, Head of Finance

S Walker, Chief Accountant

A O'Brien, Corporate Accounting Manager

G Taylor, Head of democratic Services

P Dickson, Complaints & Governance Officer

External Audit

Authorisation

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

This report is authorised for issue:

Jacqueline Clark
Chief Internal Auditor
Date: 21 August 2015

Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1	Committee Reports	Low

Appendix 2: Action Plan

Action 1 - Committee Reports

There is scope to improve the clarity of the Reserves Strategy report to ensure that Elected Members are clear when changes in reserves will be reported to the Strategic Policy & Resources Committee.

In addition, the Reserves Strategy does not contain any narrative regarding the Capital Grants Unapplied balance.

The audit also revealed that there were discrepancies in the application of reserves narrative within Monitoring Report Number 1 for 2014/15 provided to the Strategic Policy & Resources Committee.

Management Action Plan

- 1) The content of reports will be reviewed for accuracy, clarity and ease of reading.
- 2) Narrative regarding The Capital Grants Unapplied will be included in future Reserves Strategy reports.

Importance:	Low
Responsible Officer:	S Walker, Chief Accountant
Lead Service:	Chief Executive's Service
Date for Completion (Month / Year):	1) & 2) February 2016
Required Evidence of Completion:	1) & 2) Copy of Reserves Strategy February 2016 report.

Auditor's Comments

Satisfactory