

## **AUDIT SUB-COMMITTEE**

Minute of Meeting of the Audit Sub-Committee held in the Committee Room, 2 High Street, Perth on Wednesday 9 June 2010 at 2.00pm.

Present: Councillors K Baird, A Gaunt, W Lumsden and B Vaughan and Mr J Howie.

In Attendance: J Clark, G Taylor, J Symon, D Farquhar, K Donaldson (for item 3(i)), M Kay and L Greig (all Chief Executives); L Cameron (Housing and Community Care); H Hope (the Environment Service) and G Boland (Education and Children's Services).

Also Attending: M Richardson and C Wyllie (Henderson Loggie, External Auditors).

Councillor Baird, Presiding.

### **1. DECLARATIONS OF INTEREST**

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

### **2. MINUTE OF PREVIOUS MEETING**

The Minute of Meeting of the Audit Sub-Committee of 3 March 2010 was submitted and approved as a correct record.

### **3. INTERNAL AUDIT FOLLOW-UP**

There was submitted a report by the Chief Internal Auditor (10/327) detailing (1) outstanding actions arising from internal and external audit reports; (2) those agreed actions currently being followed-up, even where the originally agreed completion dates had not yet been reached; (3) the number of agreed actions reported as incomplete after the original agreed completion date; and (4) detailed follow-up information on a service-by-service basis, in respect of actions agreed for completion in the period December 2009 to March 2010.

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

#### **(i) 06/005 – Agency Workers (Action Point 8)**

Whilst it was noted that this action had remained outstanding for some time, J Clark reported that Internal Audit had been assured this action would be completed by the end of June 2010.

Councillor Vaughan expressed concern that it appeared that reorganisation within services was increasingly being cited as the reason for non completion of audit actions and it was agreed to request a representative from Human Resources to attend the meeting to

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provide further information on the reasons for the delay in completing the outstanding action.

K DONALDSON ENTERED THE MEETING SHORTLY THEREAFTER.

K Donaldson attended to provide additional information in relation to Action Point 8 and advised that, at the time of the audit being carried out, only one agency had been employed. Since that time, there had been a move towards participation in Procurement Scotland's National Framework Agreement, under which agencies appointed are to an approved list after vetting of employee policies and procedures etc. Unfortunately, there had been significant delays at a national level. Meantime, ad-hoc arrangements had been made with agencies as required. It was, however, anticipated that the national agreement would fully address the action point in a more formal arrangement.

K DONALDSON LEFT THE MEETING FOLLOWING HER CONTRIBUTION.

**(ii) 08/018 – Councillors Expenses (Action Points 2, 4 and 5)**

In response to a question from Councillor Vaughan as to the current position on the revised guidance, G Taylor advised that there had been a delay in issuing the revised guidance from the Scottish Local Authorities Remuneration Committee. It was now anticipated that a report would be prepared for submission to the Council meeting in September 2010. It was emphasised that elected members were currently adhering to guidance and that only minor amendments required to be approved in order to address changes in members' duties.

**(iii) 07/057(a) – Housing and Community Care - Information Security (Action Point 13)**

Councillor Baird noted that this action had been outstanding for some time. L Cameron reported that security was robust, with layers of security on both SWIFT and Northgate systems; whilst reliance was placed on software providers to develop functionality, this did not affect security measures in place for managing risk. J Clark agreed to await the outcome of the software review in July/August 2010 and assess if any further action was required.

**(iv) 08/030 – Flood Mitigation (Action Point 3)**

H Hope reported that this action was now complete and undertook to provide information thereon to Internal Audit.

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**(v) 08/032 – Car Parking (Action Point 4)**

H Hope reported that agreement had been reached between the car park operations manager and the Council's procurement manager on appropriate arrangements for servicing and procurement protocols for future tendering exercises for car parking ticket machines.

**4. INTERNAL AUDIT UPDATE**

There was submitted a report by the Chief Internal Auditor (10/316) presenting a summary of the status of Internal Audit's work for 2009/10 against the annual plan and detailing: (1) those assignments completed but where findings were under discussion with management; (2) assignments in progress; (3) the schedule of planned audits for 2009/10 and previous years; and (4) proposing amendments to planned assignments.

J Clark expanded on the background to the recommended changes, referring to the high level of absences in Internal Audit in the current year, the level of unplanned work and the impact of the limited resources and work outstanding on the audit plan for 2010/11.

In response to questions from Mr Howie on (1) what contingency had been allowed for unplanned work in the original audit plan and (2) the process of decision-making to set aside planned work to deal with unplanned work, J Clark advised that by their nature, it was difficult to predict the level of unplanned assignments, which could be as a result of concerns raised by management, whistleblowing and other events. When approached, a risk based assessment was carried out as to whether Internal Audit should investigate, which involved as a minimum a level of information gathering. In many cases, no further action was required. Mr Howie expressed concern that Internal Audit should not be used to replace management responsibility and enquired if discussions took place with External Audit on their involvement in unplanned work. M Richardson advised that the Chief Internal Auditor was best placed to judge whether it was necessary for someone independent of management to carry out an assignment but confirmed that Henderson Loggie had been contacted to discuss the content of the Audit Plan.

Councillor Vaughan expressed concern at the impact of unplanned work, in addition to other factors, on the completion of the Audit Plan and considered that greater priority should be given to audit activities. J Clark stressed that Internal Audit did not wish to stop managers approaching them with issues as this shaped Internal Audit's understanding of the control environment and assisted in assessing risk in developing future audit plans. J Clark advised that her priorities were to consider the strategy of developing the small Internal Audit team and the revised content of the Internal Audit Plan 2010/11 and how this would be achieved.

It was noted that audits marked under as un-resourced in Appendix C to Report 10/316 had been removed from the Plan by the Sub-Committee at its meeting on 19 August 2009 (Art 616(11)4)

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**Resolved:**

- (i) The progress of Internal Audit's work against the plans for 2009/10 be noted.
- (ii) The planned assignment 09/014, Licensing Board, be replaced by the unplanned work within the Legal Division of the Chief Executive's Service.
- (iii) The 2010/11 Internal Audit Plan be submitted to the next meeting of the Sub-Committee for approval.
- (iv) The 2009/10 Internal Audit Plan be completed in the intervening period.

The Sub-Committee considered the following final reports:-

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

**(a) 09/001 – Registrars**

There was submitted a report by the Chief Internal Auditor (10/317) setting out the results of the Internal Audit Review of controls in place to ensure that (1) the functions of the Registrar are carried out in accordance with relevant legislation, best practice and internal procedures; (2) records are complete, accurate, and securely maintained; (3) effective control over income sources is maintained; and (4) adequate plans are maintained for continuous improvement, targets have been set and progress is monitored and appropriately reported.

G Taylor, Head of Democratic Services, was present to answer members' questions and confirmed that the Service Level Agreement which had been amended to take account of points raised in the audit as referred to in Action Point 5 had been accepted and would be in place by the end of that week. Discussions on arrangements in Blairgowrie Area Office would be held with Housing and Community Care to address Action Point 4.

**Resolved:**

The findings, recommendations and action plan as detailed in Report 10/317 be noted.

**(b) 09/007 – Treasury Management**

There was submitted a report by the Chief Internal Auditor (10/318) setting out the results of the Internal Audit Review of controls in place to ensure that (1) the Council's Treasury Management Policy and Practices comply with the CIPFA Code of Practice on Treasury Management in Public Services; (2) treasury management transactions are correct, properly authorised, recorded, reconciled and held securely; and (3) there is regular reporting and compliance monitoring of treasury management activities.

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J Symon, Head of Finance, was present to answer members' questions on the report and advised that the issue referred to in Action Point 3 related solely to a former member of staff.

**Resolved:**

The findings, recommendations and action plan as detailed in Report 10/318 be noted.

**(c) 09/040(b) – IHRP System Controls**

There was submitted a report by the Chief Internal Auditor (10/319) setting out the results of the Internal Audit Review of system controls within the Integrated Human Resources and Payroll System.

**Resolved:**

The findings as detailed in Report 10/319 be noted.

**(d) 09/040(c) – IHRP Phase 2**

There was submitted a report by the Chief Internal Auditor (10/320) setting out the results of the Internal Audit Review of the second phase of the implementation of the Integrated Human Resources and Payroll System (Resource Link).

**Resolved:**

The findings as detailed in Report 10/320 be accepted.

**(ii) Chief Executive's Service and Housing & Community Care**

**(a) 09/008 – Purchases / Creditors Ledger**

There was submitted a report by the Chief Internal Auditor (10/321) setting out the results of the Internal Audit Review of the Council's policies and procedures employed for the requisition, purchase, receipt and payment of goods and services.

**Resolved:**

The findings, recommendations and action plan as detailed in Report 10/321 be noted.

**(iii) Education & Children's Services and Housing & Community Care**

**(a) 09/012 – ICT Purchasing**

There was submitted a report by the Chief Internal Auditor (10/322) setting out the results of the Internal Audit Review of

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the Council's arrangements for the purchase of computer equipment and peripherals.

G Boland, Education and Children's Services, was present to answer members' questions and provide information in relation to recording of disposal of obsolete equipment to ensure that such equipment is deleted from the asset register, the use of unannounced visits as a control mechanism, arrangements for oversight of equipment during decants, ensuring all confidential information is secure, and arrangements to record computers purchased through Tesco vouchers for schools as Council assets.

**Resolved:**

The findings, recommendations and action plan as detailed in Report 10/322 be noted.

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

**(a) 09/020 – School Transport (Entitlement)**

There was submitted a report by the Chief Internal Auditor (10/323) setting out the results of the Internal Audit Review of controls in place to ensure (1) that Council policy on school transport entitlement has been determined upon the basis of legislation and national guidance, and is integrated with the Council's plans and strategies; (2) there are adequate and appropriate procedures based on the Council's policy, which provide effective guidance to staff and to members of the public and to verify that these procedures are being applied in practice; (3) that pupils eligible for free transport, in terms of relevant entitlement and criteria, duly receive such transport; and (4) that pupils ineligible for free transport do not receive it.

G Taylor, Head of Democratic Services confirmed that the amendment to the Scheme of Administration recommended in Action Point 8 would be submitted to Council at its meeting on 30 June 2010 for approval.

**Resolved:**

The findings, recommendations and action plan as detailed in Report 10/323 be noted.

**5. EXTERNAL AUDIT REPORTS**

**(i) Financial Statements Audit Plan for 2009/10**

There was submitted a report by the External Auditor (10/324) on (1) the approach taken to the audit of the Council's financial statements for

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the year ended 31 March 2010; (2) providing an update on their interim audit work to date; (3) noting progress with the action plans agreed the previous year as a result of their interim and grant work; and (4) identifying issues for the year end audit.

M Richardson, External Auditor, was present to speak to the report and advised on the issues raised in relation to the key systems reviewed annually and the assessment of risk work to be carried out following the year end. She noted that, whilst substantial assurance could be placed on the majority of controls in place for the main systems, some key issues and control weaknesses had been identified, which could impact on External Audit's approach for the year end, and which were currently being discussed with management. In relation to follow-up action from the previous year, the one area of high risk which had been identified had now been addressed by the update to the Integra system.

**Resolved:**

The findings, recommendations and action plan as detailed in External Audit's Report on the Financial Statements Audit Plan for 2009/10 be noted.

**(ii) Audit Progress Report 2009/10**

There was submitted and noted a report by the External Auditor (10/325) setting out the progress against the External Auditor's operational plans for 2009/10.

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