

AUDIT SUB-COMMITTEE

Minute of Meeting of the Audit Sub-Committee held in the Committee Room, 2 High Street, Perth on Wednesday 19 August 2009 at 3.00pm.

Present: Councillors J Law, K Baird, I Campbell (substituting for Councillor B Vaughan), A Gaunt and W Lumsden.

In Attendance: J Symon, J Clark, D Farquhar, E Crighton and M Cowdery (all Corporate Services); M Cochlan and M Kay (Chief Executive's); C Webb (Education and Children's Services); C Archibald, B Renton, R Bean (from Item 3) and N Brian (from Item 3) (Environment Services).

Also Attending: A Borrows and C Wyllie (Henderson Loggie, External Auditors).

Apology for Absence: Mr J Howie and Councillor B Vaughan.

Councillor Law, Convener, 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 20 May 2009 was submitted and approved as a correct record.

3. INTERNAL AUDIT FOLLOW-UP WORK

There was submitted a report by the Acting Chief Internal Auditor (09/380) 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 April to June 2009.

Prior to consideration of the Report, the Convener asked for the cooperation of all Services in reducing outstanding actions in particular those identified as of high importance.

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

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(i) 08/018 – Councillors Expenses

B Renton advised that the report on revised guidance would be submitted to the Modernising Governance Member/Officer Working Group.

(ii) Audit Scotland 2– Financial Strategy (Action Point 5)

In response to a question from Councillor Law on revised governance arrangements and joint financial risk assessments for the Community Planning Partnership, B Renton advised that a draft governance document was to be considered by the Community Planning Partnership and would be submitted to elected members and partner organisations thereafter.

(iii) 07/027 – Income/Debtors (Action Points 2, 3 and 8)

J Symon advised that the final draft guidelines had been issued to the Finance Division Management Team and actions would be completed by the end of August 2009.

(iv) Audit Scotland Following the Public Pound (Action Point 1)

J Symon reported that it was intended that the report on the revised Following the Public Pound Code would be submitted to the Strategic Policy and Resources Committee on 16 September 2009.

(v) 08/022 – School Examinations / Attainment

C Webb explained that the original audit had assessed the controls in place as strong and the actions outstanding were to assist in enhancing arrangements for registering pupils for examination; guidelines were being updated with key dates triggering actions to be taken. However, he pointed out that, on occasion, decisions were taken at a later stage, necessitating flexibility in the systems in place and it was not sufficient to only rely on the SEEMIS System for reports. In relation to Action Point 4, he advised that budgets were held centrally and there was a penalty for principal teachers for submission of late entries; this allowed decision making at the school level whilst ensuring that robust controls of management arrangements were in place. In relation to action point 7, he advised that the decision had been taken not to review the roles of support staff at this time as roles differed depending on the needs of each school. He noted that completion dates on actions were often determined by the academic year.

(vi) 04/013 – Direct Payments (Action Point 1)

J Clark reported that this matter, which had been outstanding for some time, had now been resolved the decision being in Perth and Kinross

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Council's favour. In response to a question from Councillor Law as to whether the cost defrayed to date would be refunded, J Clark advised this was subject to discussion with the other authority involved.

(vii) 07/003 – Community Care Financial Guardianship (Action Point 5)

J Clark reported that a meeting had taken place between officers and the Care Commission and a draft Memorandum of Understanding had been drawn up. Councillor Law requested that Internal Audit seek confirmation that the Memorandum of Understanding had been finalised.

(viii) 07/057(a) – Information Security (Action Point 6)

Councillor Law sought assurances that procurement guidelines had been followed in the acquisition of software systems and was advised by J Symon that, as adaptations were being made to the Council's own system, in addition to securing a new system, the process followed was as appropriate in each circumstance.

(ix) 08/032 – Car Parking (Action Point 3)

Councillor Law requested that he be advised of the outstanding issue following the meeting.

Resolved:

- (i) The current position in respect of the outstanding 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.

C WEBB AND E CRIGHTON LEFT THE MEETING AT THIS POINT.

4. INTERNAL AUDIT UPDATE

There was submitted a report by the Acting Chief Internal Auditor (09/381) presenting a summary of the status of Internal Audit's work for 2008/09 and 2009/10 against the annual plans and detailing: (1) finalised reports issued; (2) those assignments completed but where findings were under discussion with management; (3) assignments in progress; (4) the schedule of planned audits for 2008/09 and 2009/10 and (5) recommendations for revisals to the annual plan for 2009/10.

J Clark further advised that the revised programme proposed was to ensure the plan was achievable and realistic within resources available and took account of audits outstanding from the previous year. In response to an enquiry from Councillor Lumsden as to the level of work involved in carrying out investigations, J Clark advised that individual circumstances varied; initial stages involved discussion of the issues and offering advice to ensure a consistency of approach, which may lead to Internal Audit looking in more detail at the controls in place; this was not always

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required as concerns were often unfounded. Councillor Lumsden expressed concern that it appeared two assignments in progress were to be cancelled, but was advised that these had not yet progressed to an approved brief. Councillor Law also expressed concern that, just months after agreeing the Audit Plan, it was necessary to alter this significantly. He was advised that (a) in view of sickness absence and staffing resources required to finalise the 2008/09 plan, the proposals were a realistic response to the resources available; (b) priority had been given to completion of work outstanding to meet the deadline for the Statement of Assurance and (c) when the original proposals for the 2009/10 annual plan had been put forward, current difficulties could not have been foreseen.

Councillor Law enquired if the External Auditors were satisfied that they had sufficient information to place reliance on, or if the current position would entail additional charges for work undertaken. C Wyllie advised that the contents of the report had been discussed with Henderson Loggie who were satisfied that Internal Audit had formulated their recommendations based on an assessment of risk, giving priority to those with financial implications. Henderson Loggie had worked with Internal Audit to minimise additional work required and, as a result, there would be no additional fee charged in the current year. As a pragmatic view of the difficulties faced had been taken on a risk-based approach, it was also envisaged that there would be no impact on external audit's work in the forthcoming year. Councillor Law commented that the original plan appeared to have been overly ambitious.

Councillor Law asked if the revised plan would affect the ability to address the significant governance issues in relation to community engagement contained in Internal Audit's Year End Report for 2008/09 (Report 09/389 refers); C Wyllie advised that External Audit had a wider remit than financial and, if the current resourcing issue in Internal Audit were to continue, it may be necessary for Henderson Loggie to assess whether Internal Audit was functioning fully as part of the governance arrangements, and, if so, the Council may wish to consider if Internal Audit was the best way to gain assurance in this area. J Clark pointed out that the Single Outcome Agreement audit dealt with community engagement issues.

Resolved:

- (i) The progress of Internal Audit's work against the plans for 2008/09 and 2009/10 be noted.
- (ii) The proposed amendments to 2008/09 and 2009/10 plans as presented at Section 3 of Report 09/381 be approved.
- (iii) Internal Audit keep the plan under constant review, with a view to carrying out an additional audit if resources allowed.

The Sub-Committee considered the following final reports:-

(i) Chief Executive's

(a) 08/006 – Single Outcome Agreement

There was submitted a report by the Acting Chief Internal Auditor (09/382) setting out the results of the Internal Audit

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Review of controls in place in relation to the Single Outcome Agreement to ensure that governance arrangements existed to ensure proper reporting and accountability and that monitoring arrangements existed to provide feedback to ensure that adequate progress is being made and to take remedial action if required.

Resolved:

- (i) The findings, recommendations and action plan as detailed in Report 09/382 be noted.
- (ii) Elected Members be kept informed at all stages in light of their leadership role in the governance process.

M COCHLAN LEFT THE MEETING AT THIS POINT.

(ii) Corporate Services, Education and Children's Services, Housing and Community Care

(a) 08/012 – Bank Accounts

There was submitted a report by the Acting Chief Internal Auditor (09/383) setting out the results of the Internal Audit Review of controls in place to ensure that Council bank accounts, maintained by the Services, are properly administered, effectively safeguarding Council resources.

J Symon was present to answer members' questions on the report. He provided information on the two major categories of bank accounts held, the main accounts being managed by the Exchequer Incomes team and a significant number of small non-Council accounts primarily school funds held by individual schools and comfort funds in residential homes; as a Council member of staff was involved in the management of these non-Council funds, procedures were in place to ensure adequate controls were adhered to. He confirmed a register was kept of all Council accounts, with separate registers held within Education and Children's Services and Housing and Community Care for non-Council accounts.

In relation to Action Point 9, J Symon advised that robust internal controls existed for handling bank mandates and that any risk rested with the bank to ensure there was no unauthorised activity and that cheques were examined against the signatory list provided.

In relation to Action Point 11, Councillor Law enquired as to the cost of auditing non-Council funds and was advised by C Archibald that the cost of the necessary processes was minimal in view of the level of funds held. He also provided information

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on the controls in place in relation to the timetable for completion of accounts.

Resolved:

- (i) The findings, recommendations and action plan as detailed in Report 09/383 be noted.
- (ii) In relation to Action Point 14, the Head of Finance amend the terminology in the financial regulations to non-Council bank accounts.

(iii) Corporate Services

(a) 08/016 – BACS

There was submitted a report by the Acting Chief Internal Auditor (09/384) setting out the results of the Internal Audit Review of controls in place to ensure that (1) BACS repayments are authorised properly and paid correctly and (2) income received through BACS is properly recorded.

Resolved:

The findings, recommendations and action plan as detailed in Report 09/384 be noted.

(iv) The Environment Service

(a) 08/029 – Development Management and Planning Applications (Art. 211(ii)/08)

There was submitted a report by the Acting Chief Internal Auditor (09/385) setting out the results of the Internal Audit Review of the effectiveness of the Development Control function and of controls in place to ensure that (1) planning application determination procedures are sound and (2) enforcement procedures are sound.

R Bean and N Brian were present to answer members' questions on the findings of the report.

Councillor Law noted that it was evident from improvements identified in the Report that efforts had been made within the service to resolve a number of structural difficulties raised in the previous audit report. R Bean advised further on the action taken to mitigate problems faced by the service in relation to effecting planning change, the challenges faced in implementing the new Planning Act and dealing with the significant volume of planning applications, by identifying improvements through the kaizen process, by enhancing the content of reports and identifying the Council's priorities for enforcement. An additional

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Enforcement Officer had enabled greater monitoring to be carried out.

N Brian referred to the requirements of the new legislation which placed greater emphasis on public consultation within the planning process. It was noted however, that planning would continue to be a controversial area.

In relation to Action Point 2, Councillor Lumsden enquired if additional information could be placed on Public Access (a) referring the public to the availability of paper files and (b) also on enforcement action. R Bean explained the difficulty in making changes to a national proprietary portal, but agreed to give consideration to the feasibility of including a link to other information; in relation to enforcement action information being provided, he expressed concern as to confidentiality, but noted that the enforcement regime was to change; new government guidance was awaited and a report would be submitted thereon to the Enterprise and Infrastructure Committee in October.

Resolved:

The findings, recommendations and action plan as detailed in Report 09/385 be noted.

R BEAN AND N BRIAN LEFT THE MEETING AT THIS POINT

(b) 08/030 – Flood Mitigation

There was submitted a report by the Acting Chief Internal Auditor (09/386) setting out the results of the Internal Audit Review of controls in place (1) to ensure compliance with the Flood Prevention (Scotland) Act 1961 etc and the Council's reporting arrangements, (2) to maintain existing flood prevention works to optimum effectiveness, (3) to consider new flood mitigation schemes in accordance with the principles of risk management and cost benefit and (4) to implement Scottish Planning Policy 7: Planning and Flooding, for new developments.

J Clark confirmed the key person dependency had been addressed and action taken to ensure all information was available to the entire team. B Renton agreed to ensure that this good practice was continued.

Resolved:

The findings, recommendations and action plan as detailed in Report 09/386 be noted.

(c) 08/032 – Car Parking

There was submitted a report by the Acting Chief Internal Auditor (09/387) setting out the results of the Internal Audit Review of controls in place to ensure that there are (1) adequate controls over cash collections and income sources are appropriately reconciled within the car parking service, (2) adequate security arrangements in respect of cash collections and banking, and insurance cover is appropriate for the risk involved, (3) adequate controls over the recording and banking of income and that income is banked in a timely manner and (4) adequate procedures for monitoring income received against system management information.

Councillor Campbell enquired how cash taken was reconciled with the length of time paid for and not used and was advised by D Farquhar that the system did not operate on a time basis but on number of tickets issued.

In relation to Action Point 9, Councillor Campbell enquired if applications for blue badges could be made at a local level and B Renton agreed to review the current arrangements to reflect a customer first approach.

Resolved:

- (i) The findings, recommendations and action plan as detailed in Report 09/387 be noted.
- (ii) The Head of Performance and Resources review the current process for issue of blue badges to identify if local arrangements can be made.

5. EXTERNAL AUDIT REPORT

(i) Financial Statements Audit Plan for 2008/09

There was submitted a report by the External Auditor (09/388) on the approach taken to the Audit of the Council's Financial Statements for the year ended 31 March 2009; providing their overall conclusions of the interim audit work to date; highlighting key local risk issues which may have an impact on their approach to the year-end audit, noting progress with their agreed 2007/08 SMART Action Plan and reporting their findings from their 2007/08 NDRI Grant Claim work.

C Wyllie, External Auditor, was present to speak to the report and answer members' questions on the issues raised in relation to reliance put on the work of Internal Audit, confirming that the expected key controls were in place with the exception of the audit of Housing Rents which would entail Henderson Loggie carrying out detailed testing to

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cover the reconciliation of the movements between the various software systems.

Inconsistencies had been identified in recording of findings in Internal Audit files on Statutory Performance Indicators and Data Protection audits, and, as agreed, a review of working practices would be undertaken by the Acting Chief Internal Auditor with a view to completion by the end of September 2009.

Resolved:

- (i) The findings, recommendations and action plan as detailed in the External Auditor's Report on the Financial Statements Audit Plan for 2008/09 be noted.
- (ii) The Acting Chief Internal Auditor provide information to Councillor Law following the meeting on how best to collate information on take up of procurement contracts negotiated.

6. INTERNAL AUDIT YEAR END REPORT FOR 2008/09

There was submitted a report by the Acting Chief Internal Auditor (09/389) setting out the Chief Internal Auditor's Report and audit opinion for 2008/09.

Councillor Law recognised that a great deal of successful work had been carried out by Internal Audit and he extended his thanks to the Section for the work completed, which equated to 70% of the originally approved plan.

Resolved:

The contents of Report 08/389 be noted.

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