

## AUDIT SUB-COMMITTEE

Minute of Meeting of the Audit Sub-Committee held in the Committee Room, 2 High Street, Perth on Wednesday 25 May 2011 at 2.00pm.

Present: Councillors K Baird, A Gaunt, W Lumsden, B Vaughan and A Wylie.

In Attendance: J Clark, D Farquhar, S Mackenzie, G Taylor, F Mackay, F Band, K Dewar, C Flynn and M Kay (Chief Executive's); C Mackie, C Archibald and K Wilson (Education and Children's Services); J Walker and J Beverley (Housing and Community Care), and B Renton (the Environment Service).

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

Apologies for Absence: Mr J Howie.

Councillor W Lumsden, 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 9 March 2011 was submitted and approved as a correct record.

### 3. INTERNAL AUDIT FOLLOW-UP

There was submitted a report by the Chief Internal Auditor (11/237) presenting a current summary of Internal Audit's 'follow up' work and 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 January to March 2011.

J Clark, Chief Internal Auditor, further reported that Table 1, Appendix A, reflected the significant number of final reports issued, with Table 2 highlighting a significant decrease in outstanding actions.

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

#### (1) 08/008 Committee Services – Action Point 6

In response to a question from Councillor B Vaughan, J Clark confirmed that it had been agreed that this action would not be progressed. It was noted that all outstanding actions would be reviewed to ascertain if the actions were still relevant.

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In response to Councillor Vaughan's concern at the delay in completion of other actions relating to Democratic Services, G Taylor confirmed that these were being progressed and offered to update Councillor Vaughan following the meeting on progress on producing guidance on Councillors Expenses.

**(2) 09/009 – Employees Expenses**

In response to a question from Councillor W Lumsden, J Clark confirmed that the Corporate Management Group had approved the revised policy and guidance at their meeting on 10 May 2011.

**(3) 09/053 – National Fraud Initiative Matches – Action Point 1**

In response to a question from Councillor W Lumsden as to the reference to legal advice being taken on Intellectual Property, J Clark explained that, in this instance, advice was being sought on the legal position relating to whether knowledge had been acquired by employees as part of their Council employment or from personal development.

**Resolved:**

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

C FLYNN LEFT THE MEETING AT THIS POINT

**4. INTERNAL AUDIT UPDATE**

There was submitted a report by Chief Internal Auditor (11/238) presenting a summary of Internal Audit's work 2010/11 against the annual plan.

J Clark reported that good progress had been made in moving to completion of the 2010/2011 Internal Audit Plan and thanked services for their co-operation in achieving this.

**Resolved:**

The progress made on Internal Audit's work against the plans for 2010/11 be noted.

The Sub-Committee considered the following final reports:-

**(i) Corporate**

**(a) 10/04 – Risk Management**

There was submitted a report by the Chief Internal Auditor (11/225) setting out the results of the Internal Audit Review of arrangements in place to ensure that the Council's Risk

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Management Strategy is implemented and embedded by services.

F Mackay, Partnership and Improvement Manager, was present to answer members questions on the report in relation to (1) the priority given to risk management and the relationship between risk management and Services' Business Management and Improvement Plans; (2) the emphasis on the development of risk profiles; (3) the evolving nature of risk management activity;(4) confirming that the risk management information referred to in Action Point 3 available on the Council's Intranet would be updated following the Risk Management meeting being held on 31 May 2011.

J Walker, Depute Director (Housing and Community Care), referred to risk management workshops held recently on the identification and management of risk.

J Clark confirmed that there had been significant improvements in embedding risk management since the previous audit.

**Resolved:**

The findings, recommendations and action plan as detailed in Report 11/225 be noted.

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

**(a) 10/05 – Integrated Human Resources and Payroll (iHRP)**

There was submitted a report by the Chief Internal Auditor (11/226) setting out the results of the Internal Audit Review of procedures within the Chief Executive's Service following the introduction of the Integrated Human Resources and Payroll System, Resourcelink, to ensure (1) that there are documented procedures on the administration of the payroll for the guidance of staff which are adequate, appropriate, accessible, maintained up to date and which comply with statutory and Council requirements; (2) that pay and related costs are incurred only in respect of staff employed currently in authorised posts; and (3) that details of new employees and leavers are appropriately and adequately authorised.

S MacKenzie, Acting Head of Finance, was present to answer members' questions and confirmed that (1) Action Point 2 was nearing completion; and (2) the minor points referred to in Action Point 3 had been corrected.

**Resolved:**

The findings, recommendations and action plan as detailed in Report 11/226 be noted.

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

**(a) 10/07 – Hardware Asset Management**

There was submitted a report by the Chief Internal Auditor (11/227) setting out the results of the Internal Audit Review of controls in place to ensure that (1) adequate governance arrangements are in place for the lifecycle of IT hardware asset management; (2) a consistent approach to the management of hardware assets is adopted across the Council; (3) the inventory of hardware assets is subject to periodic review and verification; and (4) the disposal of hardware assets is consistent with the Council's asset management and security policies.

K Wilson, IST Business Manager, was present to answer members questions on (1) the concept of the virtual desktop environment referred to at Action Point 2, which negated the need to replace personal computers; (2) the current approach to the programme of replacement; (3) arrangements for return of ID cardholders from employees on termination or transfer to prevent any unauthorised access to hardware and the imperative to ensure that only authorised staff can gain access to the server room; (4) the position with regard to write off and proper recording of disposal of obsolete school hardware identified as unaccounted for in a previous audit; and (5) the reconciliation of the value of IT assets used in the accounts and the physical assets as verified by Information Technology annually as referred to in Action Point 5, relating to the year on year depreciation of assets over five years. On this latter point, S MacKenzie advised that hardware assets were a very small component of fixed assets on the balance sheets.

**Resolved:**

The findings, recommendations and action plan as detailed in Report 11/227 be noted.

K WILSON LEFT THE MEETING AT THIS POINT

**(b) 10/13 – Cultural Services (Consultancy)**

There was submitted a report by the Chief Internal Auditor (11/228) setting out the results of the Internal Audit Review carried out on a consultancy basis to ensure that controls are built in for ensuring that Single Outcome Agreement objectives are met with partners, specifically in relation to the development of the service specification for the Service Level Agreement in respect of Live Active Leisure to align with the Strategic Framework for Sport and Active Recreation.

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In response to members questions, J Clark explained that (1) the purpose of audit consultancy work was to provide advice to services during a process of change; and (2) it had not been possible to enter in to a three year agreement with Live Active Leisure, due to financial uncertainty, particularly in year three, and the proposal was therefore that the Council enter in to a rolling one year contract with the Company.

**Resolved:**

The opinion of the Chief Internal Auditor that the arrangements built into the contract with Live Active Leisure provide the appropriate scope to ensure that the Council's objectives are likely to be met during the term of the contract as detailed in Report 11/228 be noted.

**(c) 09/17 – Fostered and Adopted Children**

There was submitted a report by the Chief Internal Auditor (11/239) setting out the results of the Internal Audit Review of procedures and controls in place in fostering and adoption services to ensure that (1) issues identified in Internal Audit Report 05/017 have been addressed and/or have not recurred; (2) the requirements of the Adoption and Children(Scotland) Act 2007 and the Looked After Children (Scotland) Regulations 2009 are met; and (3) policy and performance information provided to committee is adequate to support soundly based decision-making and accountability.

C Mackie, Service Manager, Education and Children's Services, was present to answer members questions and advised that the local guidelines referred to in Action Point 2 would be updated by July 2011, however, time had been allowed to carry out consultation thereafter. Councillor Lumsden sought clarification that the timescales proposed would comply with legislative implementation dates and C Mackie confirmed this.

**Resolved:**

The findings, recommendations and action plan as detailed in Report 11/239 be noted.

C MACKIE LEFT THE MEETING AT THIS POINT

**(iv) The Environment Service**

COUNCILLOR GAUNT DECLATED A NON FINANCIAL INTEREST IN THE FOLLOWING ITEM AS A MEMBER OF THE FINANCIAL ASSISTANCE PANEL

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**(a) 10/11 – Financial Assistance Panel**

There was submitted a report by the Chief Internal Auditor (11/229) setting out the results of the Internal Audit Review of controls in place to ensure that (1) there is a clear remit for the Financial Assistance Panel; (2) applications for grants and loans are considered and appropriately in accordance with agreed criteria, and with appropriate recommendations; (3) where conditions are made upon the award of grant or loan funding that these are verified.

B Renton, Head of Performance and Resources, The Environment Service, was present to answer members questions and advised that (1) all actions would be complete within two weeks; (2) the Head of Planning and Regeneration had reviewed the additional tasks and confirmed that it was not necessary to amend the remit of the Financial Assistance Panel in respect of Action Points 1 and 3; and (3) the reason for the importance of Action Point 2, documentation of procedures, being categorised as low, was due to the team having had no turnover of staff.

**Resolved:**

The findings, recommendations and action plan as detailed in Report 11/229 be noted.

**(b) 10/12 – Developer Contributions**

There was submitted a report by the Chief Internal Auditor (11/230) setting out the results of the Internal Audit Review of controls in place to ensure the correct application of the 2009 policy for developer contributions within Planning and Regeneration, in particular over processes concerning planning applications and their assessment, and the identification, billing, collection, recording and disbursement of developer contributions.

B Renton was present to answer members' questions and confirmed that the guidance note referred to in Action Point 2 had been produced and circulated to managers for comment prior to submission to the Environment Service Senior Management Team for approval. Members welcomed information being provided to applicants advising that the size of house can determine that a contribution is required.

J Clark advised that the miscoding errors referred to in Action Point 4 were not errors of substance and had been corrected at the time of the audit.

In response to questions on the effect of delay of receipt of contributions and on the purposes to which contributions can be

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put, J Walker explained that sums are shown as balance sheet items and are not necessarily used in the year gathered. Whilst it was clear that A9 Auchterarder contributions were used for that specific purpose, clarification on the use of the range of other contributions was welcomed.

**Resolved:**

The findings, recommendations and action plan as detailed in Report 11/230 be noted.

**(c) 10/15 – Commercial Waste (Consultancy)**

There was submitted a report by the Chief Internal Auditor (11/231) setting out the results of an interim review carried out of the scope, timescales and direction of the Best Value Review of the Commercial Waste and Recycling Service.

J Clark advised that Internal Audit would continue to be involved throughout the review and a further report would be prepared in September 2011.

**Resolved:**

The opinion of the Chief Internal Auditor that the scope and direction of the review is sufficient to allow conclusions to be drawn for the future delivery of the Service to ensure that Best Value can be achieved and that the key deliverables are on track for the timeframes stated in the Scoping Report be noted.

**(d) 09/10 – Corporate Health, Safety and Well-being: Statutory Incident Reporting**

There was submitted a report by the Chief Internal Auditor (11/240) setting out the results of the Internal Audit Review of controls in place to verify that (1) the Council has a corporate policy which, if translated into appropriate procedures which are effectively applied, will ensure accurate and complete RIDDOR reporting; (2) appropriate procedures are in place at corporate level which, if effectively applied, will ensure accurate and complete RIDDOR reporting by line services; and (3) the procedures applied at corporate level are effective in delivering evidence of accurate and complete RIDDOR reporting by line services.

B Renton was present to answer members questions on the report in relation to reporting arrangements, and steps to be taken to make managers aware of their responsibilities, and advised that (1) the audit was carried out during a period of change following a review of Health and Safety structures across Council Services and the introduction of a new policy; (2) the number of incidents may increase as under-reporting is

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addressed; and (3) greater emphasis was being placed on health and safety training, including on-line training, for all staff and elected members.

**Resolved:**

The findings, recommendations and action plan as detailed in Report 11/240 be noted.

**(v) Housing and Community Care**

**(a) 10/10 – Council House New Building Programme**

There was submitted a report by the Chief Internal Auditor (11/232) setting out the results of the Internal Audit Review of the efficiency and effectiveness of the controls over the utilisation of the funding for building council houses, and that adequate and effective management arrangements are in place towards achieving programme/project objectives, and that the programme is being undertaken in accordance with appropriate regulatory and legislative requirements and to satisfy the criteria for Scottish Government funding.

In relation to Action Point 2, J Walker advised that revision of the Service Level Agreement between Housing and Community Care and Property Services was required as this was the first tranche of new house building the Council had undertaken for several decades and the Service Level Agreement required to reflect this.

J Beverley, Housing Repairs Services Manager, confirmed that a final draft had now been prepared for approval.

**Resolved:**

The findings, recommendations and action plan as detailed in Report 11/232 be noted.

J BEVERLEY LEFT THE MEETING AT THIS POINT

**(b) 10/14 – Mental Health Services (Consultancy)**

There was submitted a report by the Chief Internal Auditor (11/233) setting out the results of the Internal Auditor's findings on a review of Forensic Mental Health files for Murray Royal Hospital clients following the Forensic Mental Health team's transfer from Mental Health Services to the Criminal Justice Service.

J Walker was present to answer members questions on the report and expanded on the action which had been taken by the new team leader with health colleagues to ensure that clients

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received the best holistic care, and advised that a further audit would be carried out after the joint review was completed.

**Resolved:**

The findings, recommendations and action plan as detailed in Report 11/233 be noted.

**5. INTERNAL AUDIT YEAR END REPORT**

There was submitted a report by the Chief Internal Auditor (11/241) presenting the year end report and audit opinion of the Chief Internal Auditor for 2010/11, as set out at Section 8 of Report 11/241.

J Clark further reported that the report contained a summary of work undertaken by Internal Audit. and highlighted that reasonable reliance can be placed on the Council's systems of internal control for 2010/11, subject to Internal Audit's previously reported findings set out in Paragraphs 3.10 to 3.14 of Report 11/241, which are the subject of agreed action plans to improve controls.

The Convener welcomed the substantial improvement in performance in completing outstanding audits from the 2009/10 Audit Plan during a period of significant change, whilst also progressing the 2010/11 Audit Plan.

**Resolved:**

- (i) The contents of Report 11/241, which was submitted to ensure compliance with CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 (the Code of Practice), be noted.
- (ii) The efforts made by Internal Audit and the co-operation of services in completing the necessary audit work be commended.

**6. EXTERNAL AUDIT REPORTS**

**(i) Audit Progress Report 2010/2011**

There was submitted a report by the External Auditor (11/242) recording the stage of progress of each output proposed in the operational plan for 2010/2011.

M Richardson, External Auditors, was present to speak to the report, updated members on the current position and explained the position on Audit Scotland's National Studies impact assessments.

**Resolved:**

The contents of Report 11/242 be noted.

**(ii) Opening IFRS Balance Sheet and 2009/10 Shadow Accounts Templates Review**

There was submitted a report by the External Auditor (11/243) on their review of the Council's opening IFRS balance sheet and 2009/10 shadow accounts templates.

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M Richardson advised that all public bodies required to move to the recently introduced International Financial Reporting Standards, which entailed changes in reporting and a considerable challenge to all involved.

**Resolved:**

The contents of Report 11/243 be noted.

**(iii) Financial Statements Audit Plan for 2010/11**

M Richardson reported that the External Auditors report on the Financial Statements Audit Plan for 2010/11 would be submitted to the next meeting of the Sub-Committee.

**Resolved**

The position be noted.

B RENTON, C ARCHIBALD AND F BAND LEFT THE MEETING AT THIS POINT

**IT WAS AGREED THAT THE PUBLIC AND PRESS BE EXCLUDED DURING CONSIDERATION OF THE FOLLOWING ITEM IN ORDER TO AVOID THE DISCLOSURE OF INFORMATION WHICH WAS EXEMPT IN TERMS OF SCHEDULE 7A TO THE LOCAL GOVERNMENT (SCOTLAND) ACT, 1973.**

**P1. INTERNAL AUDIT FOLLOW UP WORK**

**(a) 09/062 Licensing (Appendix F)**

There was submitted Appendix F of Report 11/237 by the Chief Internal Auditor presenting further information on Internal Audit's current follow-up work in relation to the findings of an Internal Audit review of the controls in place to ensure the adequacy of the control environment within the Licensing Team of the Legal Division in relation to cash handling activities.

**Resolved:**

- (i) Consideration of Appendix F to Report 11/105 be deferred to the next meeting
- (ii) A representative of Legal Services be requested to attend.

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