

The Highland Council

Audit and Scrutiny Committee – 20<sup>th</sup> June 2013

Agenda Item	3
Report No	AS/9/13

Internal Audit Reviews and Progress Report – 18 March 2012 to 07 June 2013

Report by the Head of Internal Audit & Risk Management

**Summary**

This report provides details of work in progress and other information relevant to the operation of the Internal Audit Section.

**1. Final Reports**

- 1.1 There have been two final reports issued in this period. Whilst only the Report Summaries and relevant Action Plans are attached for consideration by Members, it should be noted that full copies of reports are available if requested.

SERVICE	SUBJECT
Housing & Property	Compliance with the Carbon Reduction Commitment Energy Efficiency Scheme
Chief Executive's Office	ICT Contract – Payment Process (Members only report)

Each report contains an audit opinion based upon the work performed in respect of the subject under review. There are four audit opinions which can be provided:

- (i) **Full Assurance:** There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
- (ii) **Substantial Assurance:** While there is a generally a sound system, there are areas of weakness which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
- (iii) **Limited Assurance:** Weaknesses in the system of controls are such as to put the system objectives at risk, and/ or the level of non-compliance puts the system objectives at risk.
- (iv) **No Assurance:** Control is generally weak, leaving the system open to significant error or abuse, and/ or significant non-compliance with basic controls leaves the system open to error or abuse.

## 2. Work in Progress

2.1 Planned work that is currently in progress and which will be the subject of a future report to this Committee is shown in the attached table. This shows that, there are 6 draft reports currently in progress and 2 draft reports issued.

2.2 During the period covered by this report the Section has been involved in a variety of other work which is summarised below:

(i) Irregularity/ Fraud Investigations

The Section is involved in irregularity/ fraud investigations as follows:

- Overclaiming by a service provider. An internal investigation has been concluded and the matter is being investigated by the Police.
- Two investigations relating to income due to the Council but not banked. In respect of these investigations, recovery of the sums involved is being pursued.
- An investigation relating to the falsification of cash payments and expenses.

Some of the above investigations are ongoing. Where appropriate, once any disciplinary action has been considered and addressed, any control weaknesses identified from the audit investigation will be reported to the next available Audit & Scrutiny Committee meeting.

(ii) Grant Claims

Internal Audit is responsible for auditing several grant claims during the course of the year. The undernoted have been subject to review during the period covered by this report:

- Hitrans – START
- Northern Periphery Project – Roadex
- Northern Periphery Project – Giant Puffin.

(iii) Joint Board work and work for other organisations or Committees

Work has been undertaken to support the Statements on Internal Control for 2012/13 for the Joint Boards, the Pension Fund and Hitrans. In addition, assurance work has also been undertaken in respect of the following organisations:

- Eden Court
- Highland Opportunity.

(iv) Statement on Internal Control 2012/13

The main focus of the Section since the previous Committee has been to undertake work to support the Statement on Internal Control which is provided at agenda item 6. This work has included the following:

- A review of the controls within the Council's key financial systems: Debtors, Creditors, Payroll, General Ledger, Income and Budgetary

Control.

- A review of the Council's governance and risk management arrangements.
- A review of the Council's information management and security arrangements.
- A review of the controls in respect of Integrating Care in the Highlands.

(v) Advice and Assurance

Advice has been provided in respect of the following:

- Scottish Welfare Fund: work has been undertaken to obtain appropriate assurance around the governance over the Council's arrangements for administering the Scottish Welfare Fund which will take effect from April 2013. Also a review of the data security assurances has also been carried out.
- The Scottish Government has recently introduced a process to review all live LEADER project files. Internal Audit has provided advice on this process.

(vi) Computer Audit

Work has been undertaken on several topics including:

- Data security and integrity, including a visit to Fujitsu's data centre in Stevenage and work in respect of improved network resilience, ICT third party assurances and the renewal of the certification relating to the Public Services Network.
- The Bankers' Automated Clearing System (BACS) regarding the review of business requirements for old BACS files and storage of archived files as the software solution is being upgraded to a cloud-based system.

(vii) Other

The Section has also been involved in the following work:

- The performance of the Scrutiny Working Group's review of the Audit Scotland National Reports: "Using cost information to improve performance: are you getting it right?" and "Managing performance: are you getting it right?" Meetings have been held with the Head of Policy & Performance; the Director of Education, Culture and Sport; the Director of TEC Service, the Director of Health & Social Care and the Director of Planning & Development. The Group has subsequently met to discuss and agree its findings. A report will shortly be prepared on behalf of the Working Group.
- The Adult & Children's Services Committee of 23<sup>rd</sup> January 2013 requested that Internal Audit consider a request for financial assistance from Linnhe Leisure. This work has been completed and a report has been provided to the Director of Education, Culture & Sport.
- The investigation of a complaint which cuts across three Council Services, following a request from the Director of TEC Services.
- The review of a tendering exercise to establish if lessons can be learned from this, following a request from the Director of Finance.

- The investigation of a whistleblowing complaint.
- Following up/ action tracking audit recommendations.

### **3. Staffing Resources, Vacancies and Progress Against Plan**

3.1 Members have been informed at previous meetings of a restructuring exercise to deliver savings as agreed at the Special Meeting of the Council on 7<sup>th</sup> February 2013. Members will also be aware that two Auditor posts have been held vacant pending the restructuring. The proposals relating to the Internal Audit, Insurance & Risk Management Section were presented to the Finance, Housing & Resources Committee at the meeting on 5<sup>th</sup> June 2013 and were agreed.

The revised structure will provide for a Trainee Auditor post and will also allow an Auditor post to be filled thus ensuring that there is no significant impact on the number of planned audit days.

3.2 The City of Inverness Area Committee at its meeting on 15<sup>th</sup> April 2013 requested that a meeting should be arranged between the Chair of the Audit & Scrutiny Committee, the City Leader, the Chair of the Inverness City Arts Working Group, the Corporate Manager and the Head of Internal Audit and Risk Management to discuss the scope of a possible audit to look into how public art in Inverness had been financed and delivered through the Inverness Common Good Fund over the past three years. This meeting subsequently took place on 10<sup>th</sup> May 2013 and it has been requested that a review takes place.

#### **Recommendation**

Members are invited to consider the Final Reports referred to in Section 1.1 above, note the current work of the Internal Audit Section and the ongoing resourcing issues within the Section.

Designation: Head of Internal Audit & Risk Management

Date: 10<sup>th</sup> June 2013

Author: Nigel Rose, Head of Internal Audit & Risk Management

Background Papers

## Internal Audit – Planned Work in Progress

SERVICE	SUBJECT	PROGRESS
Chief Executive's Office	Information Security	Draft report in progress
Chief Executive's Office	Payments to Third Sector Organisations	Draft report issued
Chief Executive's Office	Health & Safety Arrangements	Draft report in progress
Chief Executive's Office	Corporate Governance	Draft report in progress
Corporate	Governance of Arms Length Organisations	Draft report in progress
Corporate	Matters Arising from the Statement on Internal Control 2012/13	Fieldwork completed
Education, Culture & Sport	Schools – Financial Procedures	Draft report issued
Education, Culture & Sport	Internet Usage - Curriculum	Draft report in progress
Education, Culture & Sport	Inspection of Equipment in Schools	Fieldwork completed
Finance	Use of Contract Suppliers (Follow Up)	Draft report in progress
Finance	Access and Authorisation Controls	Fieldwork in progress
Finance	Pensions (AXISE system)	Fieldwork in progress
Finance	Pension Fund Contributions	Fieldwork in progress
Finance	Travel Desk Administration	Fieldwork completed
Finance	Debtors	Fieldwork completed
Health & Social Care	Children's' Units	Fieldwork in progress
Health & Social Care	Integrating Care in the Highlands	Fieldwork completed
Housing & Property	Housing Rents	Fieldwork completed
Housing & Property	Repairs & Maintenance	Fieldwork completed
Housing & Property	Stores	Fieldwork completed
TEC Services	Grass Cutting Contract	Fieldwork in progress

## AUDIT REPORT SUMMARY

### Report Title

**Housing & Property Service– Compliance with the Carbon Reduction Commitment Energy Efficiency Scheme 2010/11 & 2011/12**

Report No.	Type of Audit	Issue Date	
HA30/003.bf & HA32/003	Systems	<b>Draft Report</b>	16/04/13
		<b>Final Report</b>	11/06/13

### 1. Introduction

1.1 An audit was undertaken to ensure compliance with Carbon Reduction Commitment Energy Efficiency Scheme (Amendment) Order 2011 (CRCEES Order 2011). The Carbon Reduction Commitment Energy Efficiency Scheme (CRCEES) is a mandatory UK wide policy aimed at reducing the level of CO<sub>2</sub> (carbon dioxide) emissions utilised by large commercial and public sector organisations, and it applies to the Highland Council. The Scheme commenced in April 2010 following the implementation of the CRCEES Order 2010, subsequently amended by CRCEES Order 2011. Its purpose is to reduce the amount of pollutants in the atmosphere.

Carbon use must be reported annually for the period 1 April to 31 March. The current reporting period refers to the Introductory Phase which spans 2010/11 to 2013/14 inclusive. The Footprint year is the first compliance year of each phase and for the Introductory Phase, this was April 2010 to March 2011 inclusive, which was also the first annual reporting year.

The Council is responsible for approximately 1,500 energy supply points and a total of 47,450 tCO<sub>2</sub> (CO<sub>2</sub> tonnes) and 42,486 was reported for 2010/11 and 2011/12 respectively. The audit was undertaken as part of the annual audit plan.

### 2. Review Objectives

The objectives of the review were to ensure that:

- 2.1 There are adequate processes and procedures in place to produce a complete and accurate record of the Council's CO<sub>2</sub> emissions as reported within the Council's 2010/11 Footprint report.
- 2.2 There are adequate processes and procedures in place to record, measure and report CO<sub>2</sub> emission output within the Council's responsibility.
- 2.3 There are appropriate arrangements in place to produce accurate and timely Carbon Reduction Commitment monitoring and evaluation reports.
- 2.4 There are adequate processes and procedures in place to forecast, measure and record anticipated CO<sub>2</sub> emission output and there are processes and procedures in place to acquire carbon cost allowances in an appropriate and timely manner.

### 3. Main Findings

The main findings of the review, referenced to the above review objectives, are as follows:

- 3.1 This objective was not achieved as noted in 3.2 below, the underlying data records were incorrectly stated which led to CO<sub>2</sub> emissions being overstated within the Footprint Report.
  - 3.2 This objective not achieved as for 2010/11, it could not be demonstrated that there were adequate processes and procedures in place to accurately measure and report CO<sub>2</sub> emission output.
- Initial testing identified significant errors in the sample of gas supplies between the emission data provided by the supplier to that recorded on the CRCEES software operated by the Housing and Property Service, Team Sigma (Team). Further investigation revealed that all gas supply emission quantities for this year were materially overstated by 1,652 tCO<sub>2</sub>, (approximately 33%). In line with the CRCEES Order 2011, material errors may be

subject to civil penalties and if imposed, penalties amounting to £66,080 could have arisen. However, a recent Scottish Environment Protection Agency (SEPA) audit has stated that no fine will be imposed for 2010/11.

Of the remaining 55 items sampled for 2010/11 and 2011/12, although not as significant as the gas supply error noted above, material errors were found in 17 items. The value of the potential errors amounted to £9,000 and £6,560 respectively.

- 3.3 This objective was partially achieved as the CRCEES registration requirements were dealt with in an appropriate manner and, all compliance reports for both the 2010/11 Footprint and Annual Report, and the 2011/12 Annual Report were produced and submitted within the mandatory time periods.

However, one of the CRC Scheme's requirements is to maintain an Evidence Pack which is essentially a collection of records to demonstrate CRCEES compliance. Although most compulsory documents were retained on file, it was found that certain documents were absent or incomplete.

- 3.4 This objective was achieved as there are adequate processes and procedures in place to acquire CO<sub>2</sub> emissions in appropriate and timely manner.

#### 4. Conclusion

- 4.1 Effective procedures are in place surrounding CRCEES registration and timely submission of annual compliance reports. In addition, there are appropriate mechanisms in place to acquire the requisite amount of CO<sub>2</sub> allowances within the designated time period.

However, not all objectives of this audit were fully achieved due to the lack of safeguards and procedures in place to prevent and detect emission data inaccuracies embedded within the 2010/11 data records. As a result, this report contains 1 high and 1 low priority recommendations. The recommendations have been accepted by management, with the agreed action due to be completed by 31 July 2013.

#### 5. Audit Opinion

- 5.1 The opinion is based upon, and limited to, the work performed in respect of the subject under review. Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist. It is the opinion that **Limited Assurance** can be given in that weaknesses in the system of controls are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk.

## AUDIT REPORT ACTION PLAN

### Report Title

### Report No.

Housing & Property Service - Compliance with the Carbon Reduction Commitment Energy Efficiency Scheme 2010/12 & 2011/12	HE30/003.bf & HA32/003
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The Action Plan contains **2** recommendations as follows:

### Description

Major issues that managers need to address as a matter of urgency.

Important issues that managers should address and will benefit the Council if implemented.

Minor issues that are not critical but managers should address.

Priority	Number
High	1
Medium	0
Low	1
<b>Total recommendations</b>	<b>2</b>

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.2	High	CO <sub>2</sub> emissions relating to gas supplies were materially overstated in the 2010/11 Footprint Report. A number of other material errors were found in the 2010/11 and 2011/12 data reported where these did not agree to the suppliers' annual emission statements.	The policy and guidance notes surrounding for the operation of Team Sigma are should be revised to include the necessity to perform checks between data held on the system to those recorded by the supplier prior to the end of each CRC compliance period.	A procedural document is to be produced that will show how the data is to be verified and compared with supplier statements.	Principal Engineer, Property and Sustainability	31/07/13
3.3	Low	Although most compulsory Evidence Pack documents were retained on file, the following were missing/incomplete: <ul style="list-style-type: none"> <li>- Status of Evidence Pack and Internal audit record;</li> <li>- Residual Measurement List records which agreed to the reported information;</li> <li>- Evidence supporting all estimated supplies.</li> </ul>	The Evidence Pack should be revised to ensure that all compulsory documents are retained in accordance with CRCEES guidance, and held in the same place.	Prepare an evidence pack summary sheet based on CRCEES template and SEPA requirements for each year.	Principal Engineer, Property and Sustainability	31/07/13