

The Highland Council

Audit and Scrutiny Committee – 26<sup>th</sup> September 2013

Agenda Item	4
Report No	AS/20/13

Internal Audit Reviews and Progress Report – 10/06/2013 to 13/09/2013

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 three 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	OPINION
Education, Culture & Sport	Schools – Financial Procedures	Limited
Housing & Property	Housing Rents	Substantial
Housing & Property	Housing Stores/ Repairs & Maintenance	Substantial

Each report contains an audit opinion based upon the work performed in respect of the subject under review. Since the last Audit Committee, it has been decided to move from four to five opinions, with the addition of a “reasonable assurance” opinion. The five audit opinions are set out as follows:

- (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 minor 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) **Reasonable Assurance:** Whilst the system is broadly reliable, areas of weakness have been identified 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.
- (iv) **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.

- (v) **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 in progress and which will be the subject of a future report to this Committee is shown in the attached table. This shows that 9 draft reports are in progress and 5 draft reports have been 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 has been involved in the following irregularity/ fraud investigations:

- Overclaiming by a service provider.
- Income due to the Council but not banked.
- The falsification of cash payments and expenses.
- Misappropriation/ misuse of fuel.
- Misappropriation of School Fund monies

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.

Computer Audit work has been provided for Western Isles Council in accordance with an agreement which has been in place for several years. Under this agreement, an annual audit is undertaken and Western Isles Council also makes use of the Section's computerised audit management system.

(iv) Advice, Assurance and Other Work

Work has been undertaken as follows:

- Internal Audit has undertaken work in respect of the financial position concerning Linnhe Leisure and has reported on this to the Director of Education, Culture & Sport. A Linnhe Leisure Sub-Committee has recently been formed and Internal Audit is continuing to be involved in taking this matter forward.
- The investigation of two concerns raised under the Council's Whistleblowing Policy.
- The investigation of a contractual dispute between the Council and a school transport provider.
- Following up/ action tracking audit recommendations.
- Representation on the Council's Regulation of Investigatory Powers Scotland Act (RIPSA) Management Group.
- Completing an annual benchmarking review of the Internal Audit Section. This is the subject of a separate agenda item.

(v) Computer Audit

Computer audit advice has been provided on a variety of topics including access to Council electronic documents, data protection and third party access in relation to procurement contracts, the security and control aspects of the specification for the new corporate financial system, internet monitoring, extranet access, control of system administration and network user groups.

(vi) Scrutiny Working Group

Earlier this year the Scrutiny Working Group completed a 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?" The report will shortly be prepared on behalf of the Working Group.

### **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. 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. These proposals provided for two Auditor posts to be held vacant pending the restructuring.

The revised structure has now been implemented and the following changes have taken place:

- The posts of Principal Auditor and Insurance & Risk Manager have been deleted and a single new post of Audit & Risk Manager has been created which has been filled.
- Responsibility for insurance matters has passed from the Head of Internal Audit & Risk Management to the Head of Accounting & Budgeting.

- One of the Auditor posts has been replaced in the structure by a Trainee Auditor post, to contribute towards the overall savings and to provide for succession planning, particularly to address previous recruitment difficulties at Auditor level. This post was advertised and a short leet has been completed with interviews scheduled to take place in October.
- The remaining Auditor post has now been filled.
- The Audit Assistant and Computer Audit Assistant posts have been redesignated as Assistant Auditor and Assistant Computer Auditor respectively to reflect the changed duties of these posts.

Overall, the restructuring has provided an alternative service model which will deliver the agreed financial savings and maintain the current level of service within the Internal Audit Section to reflect increased demands. That assurance was previously provided to Members at the meeting of the Audit & Scrutiny Committee on 21<sup>st</sup> November 2012.

3.2 It was reported at the previous meeting on 20<sup>th</sup> June 2013 that a request had been received through the City of Inverness Area Committee to look into how public art in Inverness had been financed and delivered through the Inverness Common Good Fund over the past three years. Following a meeting 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 & Risk Management it was agreed that this work would be incorporated within the Audit Plan for 2013/14.

3.3 At the next meeting, on 20<sup>th</sup> November 2013, a fuller report will be provided to consider progress against the overall Internal Audit Plan for 2013/14.

<p>Recommendation</p> <p>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 restructuring that has taken place.</p>
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Designation: Head of Internal Audit & Risk Management

Date: 13<sup>th</sup> September 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 issued
Chief Executive's Office	Corporate Governance	Draft report issued
Chief Executive's Office	Data Handling and Security	Fieldwork in progress
Corporate	Governance of Arms Length Organisations	Draft report issued
Corporate	Matters Arising from the Statement on Internal Control 2012/13	Draft report in progress
Corporate	Verification of Performance Indicators 2012/13	Fieldwork completed
Education, Culture & Sport	Internet Usage - Curriculum	Draft report issued
Education, Culture & Sport	Inspection of Equipment in Schools	Draft report in progress
Education, Culture & Sport	School Transport	Terms of reference issued
Finance	Access and Authorisation Controls	Fieldwork completed
Finance	Travel Desk Administration	Draft report in progress
Finance	Debtors	Draft report in progress
Finance	Capital monitoring and budgetary control	Terms of reference issued
Finance	Housing Benefit & Council Tax Benefit Payments 2012/13	Draft report in progress
Health & Social Care	Children's' Units	Draft report in progress
Health & Social Care	Integrating Care in the Highlands	Draft report in progress
Housing & Property	Contractors' Framework Agreement for works up to £50,000 (follow up)	Terms of reference issued
Housing & Property	Compliance with Carbon Reduction Commitment Energy Efficiency Scheme 2012/13	Terms of reference issued
TEC Services	Grass Cutting Contract	Draft report in progress

## AUDIT REPORT SUMMARY

### Report Title

Education, Culture & Sport Service: Schools – Financial Procedures

### Report No.

HC13/012.bf.bf

### Type of Audit

Systems

### Issue Date

Draft Report

26/02/13

Final Report

22/07/13

## 1. Introduction

- 1.1 The purpose of this report is to record the findings of a completed audit review in respect of the financial procedures at Primary and Secondary schools.
- 1.2 This audit was carried out as part of the annual plan for 2011/12 and reviewed the major administrative and financial systems operating in selected schools. The audit incorporated visits to the undernoted schools, thus including varying sizes of schools in different areas within the Council. The total Council Devolved School Management (DSM) budget for 2011/12 was £134,196m (for 10 months to Jan 2012).

1.3

School	DSM budget 2011/12 <sup>1</sup> January 2012	School Roll 2011/12
Golspie High School	£1.85m	300
Millburn Academy	£4.09m	1,129
Newtonmore Primary School	£0.29m	67
Dalwhinnie Primary School	£0.10m	3

## 2. Review Objectives

The objectives of the review were to ensure that:

- 2.1 The school budget is adequately controlled and monitored, and that the budgetary position is regularly reported to all relevant parties.
- 2.2 Goods and services are purchased from approved contract suppliers in accordance with approved ordering procedures. Creditor invoices are properly authorised, processed promptly and accurately.
- 2.3 All income received is receipted, processed, secured and banked accurately and promptly.
- 2.4 Imprest accounts (Petty cash) are administered in accordance with Financial Regulations and associated guidance.
- 2.5 Inventory records are maintained accurately and timeously, in accordance with Financial Regulations and associated guidance.
- 2.6 To ensure that adequate control is exercised over the School Fund account in line with the Council's School Fund Guidelines and Financial Regulations.

## 3. Main Findings

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

- 3.1 This objective was substantially achieved. The budgetary control systems in operation at all of the schools were found to be satisfactory. However, there is some scope for improvement as follows:
- Due to long-term sickness of the Head Teacher at Newtonmore and Dalwhinnie Primaries, no meeting had taken place between the schools and the School Support Officer. It was also noted that there was no evidence that the monthly budget reports

<sup>1</sup> DSM figures taken from Monthly monitoring provided to Schools

had been reviewed.

- There was no record of the budget carry forward figure held for the Nurseries at the Primaries visited. For Newtonmore Gaelic Nursery, the Nursery carry forward was 5.28% and this slightly exceeded the 5% limit for surpluses to be carried forward under the terms of the Council's Devolved School Management (DSM) Manual.

3.2 This objective was partially achieved as orders for goods and services were found to be properly authorised and accurately processed. However the following improvements are required:

- There is scope for improvement in the authorisation of delivery notes.
- PECOS, the Council's official ordering system, was not the primary ordering method used in one of the schools visited and this is contrary to the requirements of Financial Regulations. In cases where the Council's official ordering procedures are not used there is an increased risk of unauthorised purchasing, and a greater likelihood that invoices will be paid twice.
- At 3 out of the 4 schools visited, it was found that orders were coded to inappropriate subjectives, which could lead to incorrect financial analysis.
- The audit also identified occasions where orders did not take account of discounts or carriage, or had variations in price from the eventual invoice which meant these had to be "force settled".
- At 3 out of the 4 schools visited the time taken to process invoices exceeded the Council's 30 day target and this ranged from 50 – 144 days.
- From the orders raised through PECOS the level of purchases from contract suppliers ranged from 53%– 86% of purchases examined.

Other issues identified included; incorrect invoice adjustment and credit notes and the failure to follow official Council purchase card procedures.

3.3 This objective was not achieved. The majority of income received relates to School Funds (see (vi) below) but School lets income generated at Millburn Academy since June 2010 had been coded to the School Fund, rather than the Highland Council. It could not be established if all income due had been received and banked.

3.4 This objective was partially achieved as imprest accounts (petty cash) had been correctly administered at 2 of the schools. However, 1 school was unaware that they had an imprest until this was identified by Internal Audit. Also, there was no central record of Golspie High School's Home Economics Imprest which did not use the Council's official imprest pad.

3.5 This objective was not achieved as 3 of the schools visited did not have inventories, contrary to the Council's Financial Regulations. For the School that did maintain an inventory, no unique asset numbers were recorded and new purchases had not been added.

3.6 This objective was not achieved due to the following issues identified with the administration of School Funds, particularly non-compliance with Financial Regulations:

- Financial Regulations require that School Fund accounts are forwarded to the Service Finance Manager for review. It was highlighted by the Service Finance Manager that this does not occur and instead this is undertaken by the Education Area Office.
- Whilst all 4 Schools Fund accounts contain signed declarations and were dated by respective Auditors, the narrative of the declaration varied and did not accord with the declaration stated in Financial Regulations. Also they did not include the required Parent Council declaration.
- The necessary supporting documentation was not held for all income and expenditure transactions and the detailed information recorded by the individual Schools varied greatly. There is also no consistent method for the recording of transactions.
- Not all School Fund accounts were clearly in the name of "The Highland Council" and the Clerical Assistants at Newtonmore and Dalwhinnie Primaries who administer the Funds were also cheque signatories.

#### 4. Conclusion

- 4.1 Overall it is apparent from this audit that there is a need to ensure compliance with the administrative and financial system, in particular, the requirements of the Council's Financial Regulations and associated Guidance Notes. This should be enforced by the Service and all staff reminded of the Financial Regulations e-learning training available. It would be beneficial for the Service to consider these findings as part of the planned School Support Project review.
- 4.2 During the course of this audit, Dalwhinnie Primary School was "Mothballed" in August 2012 and therefore no further action has been taken by the Head teacher in relation to financial controls.
- 4.3 There are a total of 18 recommendations in this report classified as: 1 high, 10 medium and 7 low grade recommendations.

#### 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 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.



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### Report Title

### Report No.

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The Action Plan contains **18** recommendations as follows:

#### Description

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

#### Priority

#### Number

High

1

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

Medium

10

Minor issues that are not critical but managers should address.

Low

7

#### Total recommendations

**18**

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.1.1	Low	An issue was identified with the DSM Review meetings.		The monthly budget monitoring procedures for schools will be amended to include specific guidance on procedures to be adopted when Head Teacher is absent on a long term basis.	Head of Resources (ECS) and Finance Manager (ECS & HASC)	31/08/13
		Due to long-term sickness of Head Teacher at Newtonmore and Dalwhinnie Primaries, no meeting had taken place between school and school support from Easter 2011 up until January 2012.	There should be regular meetings between Head Teachers and School Support Officers as required by DSM guidelines in order to assist with monitoring of the DSM budget. Where the regular Head Teacher is on long-term sick leave, these meetings should be held with the Acting Head Teacher.	Liaise with School Support Officer and set dates in diary for visits.	Head Teacher of Newtonmore Primary School (PS), School Support Officer	31/05/13

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REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.1.2	Medium	<p>An issue was identified with the Monthly reporting.</p> <p>There was no evidence to demonstrate that budget monitoring reports were reviewed by Head Teachers.</p>	<p>Monthly reports should be reviewed by Head Teachers and evidence of this review should be recorded on the report.</p>	<p>Any actions relating to non-compliance with existing school budget management guidance and procedures will be included within a letter to all Head Teachers to be issued at the start of academic year 2013-14</p> <p>Head Teacher sign reports</p>	<p>Head of Resources (ECS)</p> <p>Head Teacher, Newtonmore PS</p>	<p>31/08/13</p> <p>30/06/12</p>
3.1.3	Low	<p>An issue was identified with the recorded authorisation for the DSM Carry forward figure:</p> <p>(1) There was no evidence to show at the Primaries that the carry forward figure had been approved.</p> <p>(2) Newtonmore's Gaelic Nursery had a surplus of 5.28% which is in excess of the 5% allowed.</p>	<p>(1) Schools should maintain an approved record of their School and Nursery carry forward figures.</p> <p>(2) It should be ensured that as per DSM guidelines, each school is only permitted to carry forward a surplus of up to 5% and a deficit of up to 3% of the devolved budget.</p>	<p>Any actions relating to non-compliance with existing school budget management guidance and procedures will be included within a letter to all Head Teachers to be issued at the start of academic year 2013-14</p> <p>(1) Keep approved record of school &amp; nursery carry forward.</p> <p>(2) Review with School Support Officer</p>	<p>Head of Resources (ECS)</p> <p>Head Teacher &amp; Clerical Assistant, Newtonmore PS</p> <p>Head Teacher &amp; Clerical Assistant, Newtonmore PS</p>	<p>31/08/13</p> <p>30/04/13</p> <p>30/04/13</p>

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REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.2.1	Low	<p>A number of issues were identified with the segregation of duties:</p> <p>(1) Although delivery notes are checked by the departments, there was no signature on the delivery notes recording this.</p> <p>(2) There were issues with the retention of documentation at Dalwhinnie and Newtonmore primaries.</p>	<p>(1) In accordance with the requirement of the Guidance note "Receipt of Goods and Services and Payment of Creditor Invoices", all goods received should be checked against the delivery note, which should then be signed by the person checking.</p> <p>(2) As best practice, records should be held in an organised and up to date manner which enables them to be easily retrieved if required.</p>	<p>The procurement procedure guidance for small Primary Schools will be reviewed to ensure that these specific action points are addressed therein. If this guidance requires to be updated to reflect these action points then it will be done. Thereafter the Head Teachers of small Primary Schools will be reminded of the requirements contained within the guidance, including any updates to this guidance.</p> <p>(1) Principal teachers will check deliveries and sign delivery notes.</p> <p>(1) Sign &amp; date all delivery notes.</p> <p>(2) A signed copy of delivery note returned to Office</p>	Head of Resources (ECS) and Finance Manager (ECS & HASC)	31/08/13
					Rector, Golspie High School (HS) and Faculty Leaders	Immediate
					Head Teacher & Clerical Assistant, Newtonmore PS Rector, Golspie High School and Faculty Leaders	30/08/12  Immediate

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					RESPONSIBLE OFFICER	TARGET DATE
3.2.1 con't		(3) There was one transaction where the Administrative processed and authorised an order.	(3) All "Small Schools" should be reminded that all PECOS requisitions sent to the AEO require the approval of the Head Teacher.	(2) Reorganise filing of records.  (3) Ensure HT signs approval	Head Teacher & Clerical Assistant, Newtonmore PS Head Teacher & Clerical Assistant, Newtonmore PS	31/01/13  30/08/12

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					RESPONSIBLE OFFICER	TARGET DATE
3.2.2	Medium	<p>A number of issues were identified with the ordering and payment of invoices:</p> <p>(1) PECOS, the Council's official ordering system, was not the primary ordering method used at Golspie High School.</p>	<p>(1) All Schools should be reminded that the Council's official ordering systems; PECOS and/or Council Purchase cards should be used for all goods/services ordered.</p>	<p>The procurement procedure guidance for small Primary Schools will be reviewed to ensure that these specific action points are addressed therein. If this guidance requires to be updated to reflect these action points then it will be done. Thereafter the Head Teachers of small Primary Schools will be reminded of the requirements contained within the guidance, including any updates to this guidance.</p> <p>Every effort will be made to use PECOS for ordering. The exception will only be where supplies are unavailable through PECOS</p>	<p>Head of Resources (ECS) and Finance Manager (ECS &amp; HASC)</p> <p>Rector, Golspie HS</p>	<p>31/08/13</p> <p>Immediate</p>

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					RESPONSIBLE OFFICER	TARGET DATE
3.2.2 con't		(2) Newtonmore and Dalwhinnie were using a different template than the one supplied by the Area Education Office (AEO). Invoices for non-book items were charged to the wrong subjective. Requisitions were sent to the AEO retrospectively.	(2) "Small Schools" should be reminded of the need to: <ul style="list-style-type: none"> <li>Use the most up-to-date requisition template which should be completed in advance of any orders required. This should be completed full and accurately, including the appropriate "financial tracking" (ledger code) details.</li> <li>Any appropriate discounts and carriage should also be included on the requisition where possible.</li> </ul>	(2) Contact Inverness re most up to date requisition template.	Clerical Assistant, Newtonmore PS	31/03/13

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					RESPONSIBLE OFFICER	TARGET DATE
3.2.2 con't		(3) There were a number of payments where the invoice did not match the order amounts.	(3) All other schools should be reminded that all orders should be raised accurately, including discounts and carriage where possible.	(3) Efforts will be made to ensure that delivery and pricing are as accurate as possible – there continue to be times where pricing is subject to discount offered at invoice level. Admin Assistant to ensure that orders received from departments include delivery or nil carriage line and that pricings are current as per pdf files.	Principle Teachers at Dept level, Administrative Assistant to monitor and return to Principle Teacher as necessary, Rector, Millburn Academy to receive monthly feedback.	Immediate
		(4) There were problems with matching invoices to orders at the Primaries due to paperwork not being held, differing prices or the records showing different items delivered.	(4) Schools should be reminded that prior to processing the invoice, the invoice should be checked against the respective order to ensure that agrees to the goods requested and received, and price to be paid.	(3) Where possible ensure discounts & carriage are included.	Head Teacher & Clerical Assistant, Newtonmore PS	31/03/13

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REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.2.3	Medium	There were a number of significant delays in the payment of invoices which ranged from 34 – 144 days from the date of receipt until payment.	In accordance with the requirements of the Council's Financial Regulations, all invoices should be paid within 30 days of receipt.	Any actions relating to non-compliance with existing school budget management guidance and procedures will be included within a letter to all Head Teachers to be issued at the start of academic year 2013-14  All invoices will be paid within 30 days.	Head of Resources (ECS)  Rector, Golspie HS	31/08/13  Immediate



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3.2.4	Medium	<p>A number of issues were identified with the use of Contract suppliers.</p> <p>There were a number of occasions where the contract supplier had not been used and compliance ranged from 53 – 86%.</p>	<p>Purchasing Officers should be reminded that they must use the relevant Councils' contract supplier where applicable.</p>	<p>Any actions relating to non-compliance with the Council's Financial Regulations and Contract Standing Orders will be included within a letter to all Head Teachers to be issued at the start of academic year 2013-14</p> <p>Wherever possible, the relevant Council's contract supplier will be used.</p> <p>Advice on best value where concerns are identified with the Contract Supplier will be obtained from the Head of Resources.</p> <p>Where applicable will use.</p>	<p>Head of Resources (ECS)</p> <p>Rector, Golspie HS</p> <p>Rector, Millburn Academy</p> <p>Head Teacher &amp; Clerical Assistant, Newtonmore PS</p>	<p>31/08/13</p> <p>Immediate</p> <p>28/06/13</p> <p>30/06/12</p>

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					RESPONSIBLE OFFICER	TARGET DATE
3.2.5	Low	<p>A number of issues were identified with invoice adjustment and credit notes.</p> <p>There were 2 instances noted where invoices had not been processed correctly.</p>	<p>In accordance with the requirements of Financial Regulations, supplier invoices should not be altered. If an invoice is incorrect then it should be returned to the supplier for amendment or a credit note requested. This is important to ensure that all paid invoices comply with VAT regulations.</p>	<p>Any actions relating to non-compliance with the Council's Financial Regulations and Contract Standing Orders will be included within a letter to all Head Teachers to be issued at the start of academic year 2013-14. In addition specific training on compliance with Financial Regulations and Contract Standing Orders will be provided.</p> <p>Only one invoice will be accurately entered into the system with issues addressed prior to inputting.</p> <p>Administrative Assistant will return invoices requiring changes.</p>	<p>Head of Resources (ECS) and Finance Manager (ECS &amp; HASC)</p> <p>Rector, Golspie HS</p> <p>Administrative Assistant/ Rector, Millburn Academy</p>	<p>31/10/13</p> <p>Immediate</p> <p>Immediate</p>

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REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.2.6	Low	A number of issues were identified with purchase card transactions.		Any actions relating to non-compliance with the Council's Financial Regulations and Contract Standing Orders will be included within a letter to all Head Teachers to be issued at the start of academic year 2013-14. In addition specific training on compliance with Financial Regulations and Contract Standing Orders will be provided.	Head of Resources (ECS) and Finance Manager (ECS & HASC)	31/10/13
		(1) For both cards at Golspie High School, official purchase card transaction logs were not completed.	(1) Schools using Purchase Cards should be reminded to use the appropriate up to date transaction logs for recording purchases and credits in accordance with the Purchase Card User Reference Guide.	(1) The use of transaction logs will be introduced  (1) New log sheets already being used	Rector, Golspie HS  Administrative Assistant/ Rector, Millburn Academy	Immediate  In place

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REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.2.6 con't		(2) Instances were noted where the Purchase Card Guide had not been complied with: <ul style="list-style-type: none"> <li>• An old version of the purchase card transaction log was used for the HE card at Millburn Academy.</li> <li>• VAT was re-claimed on a purchase which did not have a VAT invoice and there were 5 transactions where the paperwork held, was inadequate. The card had also been used to purchase items from non-contract suppliers where contract suppliers were available (Golspie High School).</li> </ul>	(2) Staff should also ensure that: <ul style="list-style-type: none"> <li>• Appropriate paperwork detailing all purchase card transactions are maintained;</li> <li>• VAT regulations and guidance are followed when claiming VAT from receipts and invoices;</li> <li>• Contract suppliers are used where applicable.</li> </ul>			

## AUDIT REPORT ACTION PLAN

Report Title

Report No.

Education, Culture & Sport Service: Schools – Financial Procedures

HC13/012.bf.bf

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.3.1	High	A number of issues with School Lets Income.		Any actions relating to non-compliance with existing school budget management guidance and procedures will be included within a letter to all Head Teachers to be issued at the start of academic year 2013-14.	Head of Resources (ECS)	31/08/13
		<p>(1) School lets income has been received by the School Fund rather than the Highland Council.</p> <p>(2) The School Fund Lodgements could not be reconciled to individual transactions and it could not be established if all income due had been received and banked.</p>	<p>(1) School Let Income should be banked in the correct account and correctly posted to the appropriate financial ledger. Income and accounting adjustments should be made for errors in the last 2 years.</p> <p>(2) Millburn Academy and the Education, Culture and Sport Service should review the arrangements for the use of Millburn's facilities, making sure it adheres to Council procedures. Consideration should be given to issuing the updated procedures for administering school lets to all respective Schools.</p>	<p>(1) &amp; (2) The specific issues relating to the management of school let income at Millburn Academy will be addressed at a meeting with the Head Teacher</p>	Head of Resources (ECS) / PPP Project Officer	30/06/13

**AUDIT REPORT ACTION PLAN**

**Report Title**

**Report No.**

<b>Education, Culture &amp; Sport Service: Schools – Financial Procedures</b>	<b>HC13/012.bf.bf</b>
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REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.3.1 con't		(3) There is no procedure for the recording of the float amount, the income sums received and reconciling this to receipts issued.	(3) Millburn Academy and the Education, Culture and Sport Service should review the income arrangements to ensure that these contain all necessary controls.	(3) Float procedure now in place. Whilst income sums always have been recorded accurately and reconciled, it is accepted that there needs to be further evidence re individual transactions.	Administrative Assistant /Senior Leisure Assistant	In place

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HC13/012.bf.bf

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.4.1	Medium	A number of issues with imprests were identified.		Any actions relating to non-compliance with existing school budget management guidance and procedures will be included within a letter to all Head Teachers to be issued at the start of academic year 2013-14	Head of Resources (ECS)	31/08/13
		(1) Central records show that Dalwhinnie has an imprest but staff was unaware of this and it was not being used. During the audit, cash and receipts were located which appeared to be the residual imprest, although a small difference was found.	(1) Dalwhinnie Primary School should liaise with the Creditors Section to bring the Imprest back into line with Central Records.	(1) Dalwhinnie Primary School now mothballed and Creditors Section to be contacted.	Clerical Assistant, Newtonmore PS	31/03/13
		(2) Instances were noted where the Guidance note were not being complied with <ul style="list-style-type: none"> <li>• Official imprest pads were not used at Golspie High School.</li> <li>• At Dalwhinnie, cash was being held within in a non-lockable cupboard.</li> </ul>	(2) Schools should be reminded that in accordance with the Guidance note on Petty Cash: <ul style="list-style-type: none"> <li>• Claims should be recorded on the official imprest claim pads; and</li> <li>• Kept in a locked cash box or safe, kept within a safe place such as a lockable filing cabinet, desk or cupboard.</li> </ul>	(2) Official imprest pads will be requested and used. (2) Admin Assistant has reviewed relevant guidance and is following/ complying as required.	Rector, Golspie HS Rector, Millburn Academy	Immediate 20/06/13
(3) At Millburn Academy, errors were made in the extraction of VAT within the Imprest.	(3) VAT should be accounted for correctly on imprest claims and in accordance with the VAT guidance on the Intranet.	(2) Imprest claim pad being used and cash kept in lockable filing cabinet.	Clerical Assistant, Newtonmore PS	31/03/13		

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REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.5.1	Medium	<p>A number of issues with the maintenance of Inventories.</p> <p>Only 1 school maintained an Inventory. Whilst Millburn Academy did maintain an Inventory, it was found not to be 100% accurate and complete. There was a lack of a unique identifying Inventory code is use.</p>	<p>All Schools must comply with the requirements of the Council's Financial Regulations with regard to the maintenance of inventories. This includes ensuring that records are maintained in the required format and the all new purchases are timeously added.</p>	<p>Any actions relating to non-compliance with the Council's Financial Regulations and Contract Standing Orders will be included within a letter to all Head Teachers to be issued at the start of academic year 2013-14. In addition specific training on compliance with Financial Regulations and Contract Standing Orders will be provided.</p> <p>An inventory will be created.</p> <p>Inventory will be brought up to date on phased basis as time allows. PTs to ensure items added as purchased for new items. Administrative Assistant/ Rector, Millburn Academy to monitor and plan retrieval of unlisted items to inventory</p> <p>Ongoing compilation of school inventory.</p>	<p>Head of Resources (ECS) and Finance Manager (ECS &amp; HASC)</p> <p>Rector, Golspie HS</p> <p>Administrative Assistant/ Rector, Millburn Academy</p> <p>Head Teacher &amp; Clerical Assistant, Newtonmore PS</p>	<p>31/10/13</p> <p>Immediate</p> <p>Immediate for new items – as time allows for others</p> <p>31/08/13</p>



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REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.6.1	Medium	As indicated by the Service Finance Manager, the requirement within the Financial Regulations for the Finance Team to review School Fund Accounts is currently not happening, instead these are sent to the Area Education Office.	ECS management should look to put in place the arrangements set out within the Financial Regulations where the Finance Service should be forwarded a copy of the School Fund Accounts. If alternative arrangements are put in place, then the Financial Regulations should be updated to reflect these.	Any actions relating to non-compliance with the Council's Financial Regulations and Contract Standing Orders will be included within a letter to all Head Teachers to be issued at the start of academic year 2013-14. In addition specific training on compliance with Financial Regulations and Contract Standing Orders will be provided.	Head of Resources (ECS) and Finance Manager (ECS & HASC)	31/10/13

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REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.6.2	Low	<p>A number of issues with the final accounts of School funds.</p> <p>(1) The School Fund arrangements do not accord with the requirements of Financial Regulations:</p> <ul style="list-style-type: none"> <li>There were delays in the submission of School Fund accounts Newtonmore and Dalwhinnie Primary Schools, due to the Head Teacher being on Long-term Sick Leave.</li> </ul>	<p>(1) All Schools should be reminded of the need to comply with Financial Regulations as follows:</p> <ul style="list-style-type: none"> <li>To provide a signed copy of the School Accounts to the Service Finance Manager before the beginning of the October School Holidays;</li> <li>The accounts should include the required School Fund declaration;</li> </ul>	<p>Any actions relating to non-compliance with the Council's Financial Regulations and Contract Standing Orders will be included within a letter to all Head Teachers to be issued at the start of academic year 2013-14. In addition specific training on compliance with Financial Regulations and Contract Standing Orders will be provided.</p> <p>(1) Provide this signed copy and present to Parent Council.</p> <p>(1) Declaration wording to be checked and amended as necessary.</p> <p>Parent council will have on agenda at 1st meeting following audit process. Administrative Assistant to Rector, Millburn Academy to Parent Council Chair</p>	<p>Head of Resources (ECS) and Finance Manager (ECS &amp; HASC)</p> <p>Rector, Golspie HS</p> <p>Administrative Assistant, Millburn Academy</p> <p>Administrative Assistant &amp; Rector, Millburn Academy</p>	<p>31/10/13</p> <p>Immediate</p> <p>Immediate</p> <p>Immediate</p>

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REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.6.2 con't		<ul style="list-style-type: none"> <li>Whilst all four school fund accounts' contain signed and dated Auditors declarations, these varied in comparison and does not match the Council's required declaration.</li> <li>Also, the accounts did not contain a declaration from the respective Parent Council, demonstrating that they had been presented to them.</li> </ul> <p>(2) Financial Regulations state "The Accounts must, as a minimum, follow the prescribed format as per annex 1". However, there is no such annex.</p>	<ul style="list-style-type: none"> <li>Audited accounts should be presented at the first available meeting of the School Parent Council. The accounts must be signed by the Chairperson of the Parent Council with the appropriate declaration.</li> </ul> <p>(2) The Financial Regulations should be updated to include an approved School Fund Accounts template and all Schools informed that this should be used.</p>	<p>(3) School to check on who should audit school fund.</p> <p>Ensure School Fund declaration is included and present audited accounts to Parent Council at next meeting after Oct holidays.</p>	<p>Clerical Assistant Newtonmore PS</p> <p>Head Teacher &amp; Clerical Assistant, Newtonmore PS</p>	<p>31/05/13</p> <p>31/10/13</p>

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REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.6.3	Medium	<p>A number of issues with the School Fund expenditure were identified.</p> <p>(1) There were issues with School Fund expenditure where limited or no paperwork was held to support expenditure (Golspie, Newtonmore and Dalwhinnie schools).</p>	<p>(1) As required by the Financial Regulations, Schools should be reminded that for all School Fund expenditure, there should be a clear record of the name of the supplier, description of the expenditure and amount. There should also be supporting invoices or receipts detailing the expenditure.</p>	<p>Any actions relating to non-compliance with the Council's Financial Regulations and Contract Standing Orders will be included within a letter to all Head Teachers to be issued at the start of academic year 2013-14. In addition specific training on compliance with Financial Regulations and Contract Standing Orders will be provided.</p> <p>(1) All school fund transactions will be recorded with the name of the supplier, a description of the expenditure and the amount, supported by receipts where available.</p> <p>(1) School currently using own template.</p>	<p>Head of Resources (ECS) and Finance Manager (ECS &amp; HASC)</p> <p>Rector, Golspie HS</p> <p>Head Teacher &amp; Clerical Assistant, Newtonmore PS</p>	<p>31/10/13</p> <p>Immediate</p> <p>30/06/12</p>

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REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.6.3 con't		<p>(2) There were no issues with Millburn Academy's expenditure records and this was due to the fact that there were the only school consistently using a Cheque request form.</p> <p>(3) Payments were made to staff without the supporting expenditure receipts (Golspie, Newtonmore and Dalwhinnie Schools)</p>	<p>(2) The Service should consider issuing a Council cheque request template for School Funds, which would record the information required by the Financial Regulations including the date, amount, signatories and reason for requesting a cheque.</p> <p>(3) All payments to staff must be supported by a receipt from the original supplier.</p>	<p>(3) Now in place.</p>	<p>Head Teacher &amp; Clerical Assistant, Newtonmore PS</p>	<p>30/06/12</p>

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REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.6.4	Medium	A number of issues with the School Fund income were identified.  (1) Receipts are not issued for all income received into the School Fund accounts. Also the retention of income records varied between schools visited.	(1) The School Fund income procedures should operate in accordance with the requirements of Financial Regulations. Whenever possible, a receipt should be provided detailing the date, name and address of the payer, purpose of income provided, signature of the person issuing the receipt and the amount clear recorded. If receipts are not issued, it should be ensured that a record is maintained detailing the amount, purposes of income and name of recipient.	Any actions relating to non-compliance with the Council's Financial Regulations and Contract Standing Orders will be included within a letter to all Head Teachers to be issued at the start of academic year 2013-14. In addition specific training on compliance with Financial Regulations and Contract Standing Orders will be provided.  (1) We will set aside time in the day when an admin assistant can leave the office to write receipts/count money uninterrupted.  (1) Millburn will ensure receipt for total amounts received. Amount/purpose and name always recorded.	Head of Resources (ECS) and Finance Manager (ECS & HASC)  Rector, Golspie HS  Administrative Assistant, Millburn Academy	31/10/13  Immediate  Immediate

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REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.6.4 cont.		<p>(2) At Golspie High School, a difference of £95 held from previous lodgements not yet banked. Due to time pressures and other office duties, there were inconsistencies in the information recorded on receipts.</p> <p>(2) At all Schools visited, only one officer was responsible for all income aspects.</p>	<p>(2) When income is prepared for banking, this should be checked to the supporting receipts and reconciled. Any variances should be investigated, explanations obtained and recorded, prior to banking being undertaken.</p> <p>(3) Consideration should be given over whether to update School Fund guidance to ensure that income to be banked is reviewed and verified by another officer, not involved in the income collection process.</p>	<p>(1) Receipts issued.</p> <p>(2) If there are any variances, this will be recorded.</p>	<p>Head Teacher &amp; Clerical Assistant, Newtonmore PS</p> <p>Head Teacher &amp; Clerical Assistant, Newtonmore PS</p>	<p>30/06/12</p> <p>30/04/13</p>

## AUDIT REPORT ACTION PLAN

Report Title

Report No.

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REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.6.5	Low	<p>(1) All 4 schools used spreadsheets methods for recording School Fund transactions. However, there is no consistent method adopted.</p> <p>(2) At Dalwhinnie, the School Fund spreadsheet was not kept up to date.</p>	<p>(1) Consideration should be given to updating the School Fund guidance notes to include templates for the recording of School Fund income and expenditure, bank reconciliations and a "Contra spreadsheet to enable financial comparison of specific projects. Such templates should be sufficiently detailed to provide an overview of the activities for which the fund is used (i.e. school trips, school photographs etc.).</p> <p>(2) The School Fund records should be updated in a timely manner to ensure that the up to date balance of available funds.</p>	<p>The School Fund guidance notes will be updated to reflect the correct operating procedures and guidance to ensure compliance with Financial Regulations. This updated guidance will be augmented by specific training in School Fund procedures.</p>	<p>Head of Resources (ECS) and Finance Manager (ECS &amp; HASC)</p>	<p>31/10/13</p>



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REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.6.6	Medium	<p>A number of issues with the School Fund bank accounts were identified.</p> <p>(1) Golspie High School and Newtonmore Primary's School Fund accounts were not in the name of "The Highland Council". Millburn Academy and Dalwhinnie Primary School Fund's bank account whilst started "H C", this is not clearly in the name of the Council.</p>	<p>The School Fund arrangements should be undertaken in accordance with the requirements of the Council's Financial Regulations, namely:</p> <p>(1) School Fund bank accounts should include the name of Highland Council;</p>	<p>The School Fund guidance notes will be updated to reflect the correct operating procedures and guidance to ensure compliance with Financial Regulations. This updated guidance will be augmented by specific training in School Fund procedures.</p> <p>(1) The school fund bank account will be amended to include the name of Highland Council and the reconciliation documentation will be reviewed and signed by the rector.</p> <p>(1) Bank contacted re name change – using existing stationary and will amend when new signatories added</p> <p>(1) Bank details to be corrected and made up to date.</p>	<p>Head of Resources (ECS) and Finance Manager (ECS &amp; HASC)</p> <p>Rector, Golspie HS</p> <p>Administrative Assistant/ Rector, Millburn Academy</p> <p>Clerical Assistant, Newtonmore PS</p>	<p>31/10/13</p> <p>Immediate</p> <p>31/08/13</p> <p>30/04/13</p>

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REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.6.6 cont.		<p>(2) There was no evidence to show that the Head Teacher/Rector had reviewed the bank reconciliations (Millburn Academy and Newtonmore Primary School).</p> <p>(3) The Clerical Assistants in Newtonmore and Dalwhinnie Primary Schools administer the School Fund transactions and are also cheque signatories.</p>	<p>(2) The Rector/Head Teacher should review and sign the reconciliation documentation;</p> <p>(3) Where a member of staff is involved with the administration of the School Fund, they cannot be a cheque signatory. In the case of Newtonmore and Dalwhinnie Primaries, the Clerical Assistants should be removed from the authorised cheque signatories.</p>	<p>(2) HT to sign banking reconciliation as required</p> <p>(2) Ensure review &amp; sign reconciliation report.</p> <p>(3) Banking details re signatories to be changed.</p>	<p>Rector, Millburn Academy</p> <p>Head Teacher of Newtonmore PS</p> <p>Head Teacher &amp; Clerical Assistant, Newtonmore PS</p>	<p>Immediate</p> <p>31/05/13</p> <p>31/05/13</p>

# AUDIT REPORT SUMMARY

## Report Title

Housing & Property Service: Housing Rents

Report No.	Type of Audit	Issue Date	
HD02/008.bf	Systems	Draft Report	14/08/13
		Final Report	16/09/13

### 1. Introduction

- 1.1 This audit was carried out as part of the 2012/13 audit plan. The audit reviewed the controls in operation for housing rents, as outlined in the objectives below, reviewing transactions within the 2012/13 financial year. Audit Scotland intend to place reliance on the work carried out.
- 1.2 The budget for housing rents in 2012/13 was £44,031,000.

### 2. Review Objectives

The objectives of the review were to ensure that:

- 2.1 Relevant properties are identified and included on the rent roll.
- 2.2 Rent charges are properly raised for all relevant properties in accordance with rent levels and other charges set by the Council.
- 2.3 Payments received are promptly processed and correctly posted to tenants' accounts.
- 2.4 Write offs, rebates, refunds and voids are properly controlled.
- 2.5 Arrears follow-up procedures are properly controlled.
- 2.6 Rent charges are correctly recorded in the rent accounting system and financial ledger.

### 3. Main Findings

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

- 3.1 This objective was substantially achieved as, despite the absence of a robust independent record to reconcile to the rent roll, sufficient checking procedures are in place to identify any unauthorised or erroneous additions or removals from the rent roll. There are thorough procedural notes in place for the addition and removal of properties from the rent roll, and robust backup arrangements and a contingency plan are in place in the event of staff being unable to access the Housing Information System (HIS).  
The audit identified a lack of documentation to support 2 property closures, and a further instance where the wrong property closure date was recorded on the HIS thereby overstating the void period for the property in question by 13 days. As the Council's Performance Indicators include performance in respect of void properties, failure to record closure dates accurately could affect the reliability of the information reported.
- 3.2 This objective was partially achieved as the Council's present rent structure was approved by the Housing & Social Work Committee, and rent charges are reviewed annually by the Finance, Housing & Resources Committee. There is sufficient procedural guidance in respect of applying rent increases to the HIS.  
Part of the process for applying the rent increase involves the Housing & Property Systems Support & Development Team checking a sample of rent accounts to verify that the rent increase has been correctly applied by the HIS. However, no documentation was retained to demonstrate that sample checks were performed. Therefore, it could not be established what sample size had been used, which rent accounts had been checked or whether any errors identified were rectified. Nonetheless, 10 rent accounts were checked as part of the audit, and the rent increase was correctly applied in each case.

- 3.3 This objective was fully achieved as the rent payments reviewed were credited to the correct rent account and income collection summaries verified against the Council's bank account. There was appropriate evidence to show that suspense accounts are regularly reviewed and cleared and reconciliations regularly carried out to verify that rent income collected was accurately posted to the financial ledger and individual rent accounts. As such, the checking procedures in place allow any errors in relation to rent income to be identified and investigated.
- 3.4 This objective was partially achieved. There is evidence of review of long-term voids and appropriate action taken to make the void properties more attractive to prospective tenants. Periods of lost rents from voids are agreed to tenancy records, and reconciliations carried out regularly between housing benefit system totals and the HIS.
- However, checking of a sample of 30 HIS users identified 4 who no longer required access to the system. Where the Housing & Property Systems Team are not notified by the relevant Service of users leaving the post which required HIS access, there is a risk that if the user remains with the Council, they could continue to access the system, and potentially alter information held.
- As part of the review of procedures for the write-off of former tenant arrears, an inconsistency was noted between the Council's Financial Regulations and the Scheme of Delegation. While Financial Regulations only list the Income & Recovery Manager as being permitted to write-off debts up to £1,000, the Scheme of Delegation refers to "relevant Exchequer Operational Managers" being authorised to write-off debts up to the same value. As a consequence, one of the Exchequer Managers has approved the write-off of debts up to £1,000.
- 3.5 This objective was substantially achieved as an arrears policy, including an escalation path for arrears, is in place. Regular reports are produced to enable the monitoring of arrears, and procedures are in place to review the arrears reports and follow up any issues identified from the reports. Tenants receive quarterly rent statements detailing their payments for the year to date and any outstanding amounts owed.
- There were 8 rent accounts which had the arrears recovery action suspended in 2012/13. 4 of these were linked to one tenant and the reason for suspension of recovery action was not recorded in the HIS. It was confirmed that the arrears in question had been paid, and the lack of information on HIS was an oversight by the member of staff involved. The other 4 accounts where recovery action was suspended had appropriate reasons recorded.
- 3.6 This objective was fully achieved, as the findings outlined at (iii) above provide assurance of the accuracy of the recording of rent charges in the rent accounting system and the financial ledger.

#### 4. Conclusion

- 4.1 Policies and procedures in relation to housing rents are well documented and can be accessed by all staff. The main concerns identified from the audit relate to the lack of documentation to evidence testing of rent increases, and the failure to notify the Housing & Property Systems Support & Development Team when users no longer require access to the HIS. The other issues identified in the audit are more minor in nature. There are 7 recommendations within the report, 2 which have been classified as medium priority with the remaining 5 classified as low priority. The recommendations have been accepted by management, and agreed action is due to be implemented by 31/03/14.

#### 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 **Substantial Assurance** can be given in that while there is a generally a sound system, there are minor 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.

## AUDIT REPORT ACTION PLAN

### Report Title

### Report No.

**Housing & Property Service: Housing Rents**

**HD02/008.bf**

The Action Plan contains **7** 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 Organisation if implemented.

Minor issues that are not critical but managers should address.

Priority	Number
High	0
Medium	2
Low	5
<b>Total recommendations</b>	<b>7</b>

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.1.3	Low	No supporting documentation could be provided for 2 property closures (1 right to buy and 1 temporary furnished accommodation). Evidence of the sale of the first property was later obtained and it was suggested that the second property had reached the end of the leasing contract but there was no evidence to support this.  The wrong closure date was entered on the HIS for 1 property which resulted in the void period being overstated by 13 days.	(1) Documentation should be retained to support all property closures within HIS. Where homeless accommodation properties are closed following retendering, a summary of the properties closed should be retained, with reference to it within the notes field in HIS.  (2) Staff should be reminded of the importance of correctly recording the property closure date.	Reinforce procedures with area housing staff in relation to property closure.  As above.	Head of Housing	31/10/13
3.2.2	Medium	No documentation was retained for sample checks performed to verify that an appropriate sample had been selected and that rent increases had been correctly applied. Therefore it could not be confirmed which properties had been checked, or that any errors identified had been satisfactorily addressed.	As part of the annual sample of rent increases, documentation detailing which properties were checked, including the results of the checks performed should be retained. The overall sample percentage checked should also be recorded. This would provide evidence of the checks undertaken, and assurance that the Council approved rent increases have been accurately applied.	To establish a record of quality assurance in relation to rent increase at year end.	Business Systems Manager	28/02/14

## AUDIT REPORT ACTION PLAN

Report Title

Report No.

Housing & Property Service: Housing Rents

HD02/008.bf

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.2.3	Low	Documentation was not received for 1 of the tenancy changes within the timescale set for this audit. Documentation for a further tenancy change could not be located within the timescale following archiving as part of an office move. It is accepted that in both instances the documentation could be located if necessary.  No documentation was held for 1 tenancy change which arose from a mutual exchange.	Sufficient documentation should be retained to ensure that the accuracy of tenancy changes recorded in HIS, including mutual exchanges, can be verified.	Reinforce policy and procedures with area based housing staff in relation to tenancy changes.	Head of Housing	31/10/13
3.4.2	Medium	It was confirmed that 3 of the 30 HIS users examined no longer required system access, and these user accounts have now been locked. Further review of 13 of the 30 users where it was unclear if they should have access to HIS confirmed that 12 of the users still required access to HIS. The remaining user had their account locked.	(1) Services whose staff have access to the Housing Information System should be reminded of the need to inform the Housing & Property Systems Support & Development (SSAD) Team when a user no longer requires access to the system.  (2) Consideration should also be given to issuing an annual user list to each Service for the purposes of confirming the appropriateness of user access.	Develop guidance for Services indicating requirements to notify SSAD team when change occurs to user requirements. A process is in place for leavers.  An annual list will be distributed to Service Support Managers (or equivalent) for clarification on user access requirements.	Business Systems Manager  Business Systems Manager	30/09/13  31/03/14

## AUDIT REPORT ACTION PLAN

Report Title

Report No.

Housing & Property Service: Housing Rents

HD02/008.bf

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.4.3	Low	There is an inconsistency between the Council's Financial Regulations which lists the Income & Recovery Manager as being permitted to write-off debts up to £1,000. However, the Scheme of Delegation refers to "relevant Exchequer Operational Managers" as having the authority to write-off debt up to £1,000, which would suggest that the Exchequer Manager (Policy and Development) has the necessary authority for the debt which has been approved for write-off.	<p>The references within the Council's Financial Regulations and Scheme of Delegation to which officers can approve debts below £1,000 for write-off should be reviewed to ensure that authority is clearly and consistently stated in both documents.</p> <p>The Scheme of Delegation will also be amended in order to specify the "relevant" officers as the Income &amp; Recovery Manager, Exchequer Operations Manager and Exchequer Policy and Development Manager.</p>	At the next review, Financial Regulations will be amended to ensure consistency with the Scheme of Delegation.	Head of Exchequer/ Head of Internal Audit & Risk Management	31/12/13
3.4.4	Low	Two of the 30 refund payments examined (totalling £69.79 and £320.97) did not have evidence of checks performed to ensure the tenant did not owe money to the Council before the refund was paid. Both refunds related to properties in Caithness.	All refunds should include evidence that the tenant's entitlement to the refund has been verified before the payment has been processed.	Reinforce procedure with area based housing staff in relation to refunds.	Head of Housing	31/10/13
3.5.2	Low	Four of the 8 accounts where recovery action had been suspended did not detail the reason for the recovery action for the suspension. All of these related to the same tenant and in each case the suspend action was processed by the same officer.	Staff should be reminded that a reason should always be recorded in the Housing Information System when recovery action is suspended.	Reinforce procedure with area based housing staff in relation to recording information on HIS.	Head of Housing	31/10/13

## AUDIT REPORT SUMMARY

### Report Title

Housing & Property Service: Housing Stores/ Repairs & Maintenance

Report No.	Type of Audit	Issue Date	
HD20/001.bf	Systems	Draft Report	16/08/13
		Final Report	16/09/13

### 1. Introduction

- 1.1 This report records the findings of two audits: Housing Stores, and Housing Repairs and Maintenance which were undertaken in conjunction with each other. Samples of items issued from the Alness and Inverness stores were selected to examine the stores processes, and were also used to examine the relevant repair in order to provide a full overview of the system. This included visits to a sample of properties to verify that items issued by the two stores had been used for repairs on the recorded properties.
- 1.2 In the 2012/13 financial year, the Building Maintenance function had budgeted income from repairs of £11,580,076 with a budget for materials of £1,408,486. A total of 42,173 repairs were carried out during the financial year 2012/13.

### 2. Review Objectives

The objectives of the review were to ensure that:

- 2.1 There are appropriate controls over the issue of stock items from Housing & Property Stores. In particular:
- Issues are authorised and can be traced to a relevant job number;
  - Items issued are appropriate;
  - There is a programme of inspections to ensure that the items were used on the jobs concerned.
- 2.2 There are appropriate controls over repairs and maintenance carried out by the Housing & Property Service. In particular:
- Variations between the work described when a fault is reported and the actual work carried out are subject to appropriate authorisation and monitoring;
  - There is a programme of inspections to ensure that repairs were completed to the required standard, and that stores issues are accurately recorded for the repair, and were used to complete the repair.

### 3. Main Findings

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

- 3.1 This objective was substantially achieved as the Total Repair system, which is used to record details for each fault reported to the Council, provided sufficient detail on the issue of stores items. This includes details of the address where the fault occurred, the tradesperson or sub-contractor carrying out the repair, and any stores items issued to enable the repair to be completed. However, details of the reason for the return of stores items were not recorded, and the tradesperson concerned was not always recorded. Where these details are not recorded, it is not possible to identify any trends or recurring issues relating to the reasons for return, or the operative returning items. The findings in respect of inspections are summarised at (ii) below.
- 3.2 This objective was only partially achieved. The authorisation of variations was often provided verbally to enable the tradesperson on site to complete the job during the initial visit. While it is accepted that this provides improved customer service, it also increases the need for robust scrutiny of variations as part of the monitoring process. It should be



noted that monthly scrutiny of variations is currently carried out. In addition, the Service has instigated a review of the monitoring process with a view to improving its robustness and ensuring consistency across all Areas. Inconsistency within the scrutiny process could result in unauthorised repairs not being identified. Where repairs are not authorised, there is a risk that the repair was not carried out in the most efficient and effective way, as the tradesperson carrying out the repair may not be aware of possible planned work for the property where the repair was required.

The current monitoring procedures were reviewed as part of the audit, and this identified 6 of the 15 variances examined arose as a result of the fault being wrongly coded when initially recorded. This leads to the wrong anticipated costs for labour and materials being allocated to the job, and as a result causes a variance when compared to the actual cost incurred. The Housing & Property Service has provided scripts, which detail set questions that the Council's Service Centre ask council house tenants who report faults and these are regularly reviewed. However, a project team has recently been formed to improve the scripts and identify other ways of reducing variations. Currently the level of variations differs across Areas ranging from 0.72% in Caithness to 26.89% in Inverness. As such, there may be elements of good practice which could reduce variations across the Council as a whole. Significant levels of variations reduce the effectiveness of the budget monitoring process, and increase the risk of budgets being overspent. There is also an increase in staff time spent investigating variations.

The level of inspections carried out during the period examined was 2.35% of all repairs. There is no guidance to ensure that the selection of jobs to be inspected is consistent across different Areas. The review of supervisory and scheduling structures within Building Maintenance approved by the Finance, Housing & Resources Committee on 10/04/13 is intended to include an inspection role for supervisory staff which will increase the current levels of inspections being carried out with an anticipated target of 10%.

A sample of high value plumbing store items and some high value electrical items issued from the Alness and Inverness stores were selected. The Total Repairs System was interrogated to identify the job details including property address and tradesperson. A sample of properties was then selected to be visited by the Auditor and a Housing Supervisor to verify that the stores items recorded against the job for each property had actually been used in that property. In total, physical inspections were achieved at 51 properties and all but 2 showed that the items drawn from stores had all been fitted. In the 2 instances where this was not the case, a satisfactory explanation has been provided following checks by Housing & Property Supervisors. As a result, no concerns were highlighted from the inspections.

#### 4. Conclusion

- 4.1 There is an effective system in place to ensure that stores issues can be traced to both the tradesperson issued with items, and the job on which the items were used. However, as outlined in section 1.3 above, areas for improvement in respect of variations and inspections have been identified. This has been recognised by the Service which identified some of the areas for improvement through their own performance monitoring, and initiated work to improve processes. This is therefore reflected in the audit opinion at 1.5 below. The audit contains 4 recommendations, 3 of which are categorised as medium priority, while the remaining recommendation is low priority. The recommendations have been accepted by management, with the resultant agreed actions due to be implemented by the end of March 2014.

#### 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 **Substantial Assurance** can be given in that while there is a generally sound system, there are minor 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.

## AUDIT REPORT ACTION PLAN

### Report Title

### Report No.

**Housing & Property Service: Housing Stores/ Repairs & Maintenance**

**HD20/001.bf**

The Action Plan contains **4** 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 Organisation if implemented.

Minor issues that are not critical but managers should address.

Priority	Number
High	0
Medium	3
Low	1
	<b>4</b>

#### Total recommendations

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.1.2	Low	The reason for items returned was not recorded on any of the stores returns examined, while the operative returning the stores items was not recorded for 18 of the 67 jobs (these 18 jobs were stores returns to either the Inverness or Wick stores).	The reason for an item being returned and the operative returning the item should be recorded for all stores transactions to provide a full overview of the transaction.	The handset can be used to record who returned the item. A call will be logged with TOTAL Mobile to investigate if a change to the system can be made so that a reason code can be added. If this is not possible alternative solutions will be sought.	Maintenance and Service Support Manager	31/10/13
3.2.1	Medium	Authorisation of variations to the planned work is not evidenced as it is obtained verbally. It is accepted that there are practical reasons for this arrangement, particularly in instances where it enables the tradesperson to complete the repair during the initial visit. The process for monitoring variations is currently being reviewed by the Building Maintenance Manager (North) with a view to improving the robustness of the process and ensuring consistency across all Areas.	(1) Formal guidance should be introduced over authorisation of variances which defines where variances are considered minor, and outlines the level of authorisation required for the anticipated value of a variance.  (2) Where possible, evidence of authorisation should be recorded. When authorisation is provided by telephone, the tradesperson should record the name of the approving officer and the date on which approval was given.	Guidance will be developed to define when a variance requires authorisation, who should approve the request to vary the work order and how this will be recorded.	Maintenance and Service Support Manager	31/12/13

## AUDIT REPORT ACTION PLAN

Report Title

Report No.

Housing & Property Service: Housing Stores/ Repairs & Maintenance

HD20/001.bf

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.2.2	Medium	<p>The reasons for variations recorded on the Inverness Building Maintenance monitoring report were recorded accurately. However the report identified that 6 of the 15 variances investigated arose as a result of the wrong code being used when the initial fault was reported. The remaining 9 variances resulted from additional work being required. Greater accuracy when recording the work required when initially reported would reduce the level of variations.</p> <p>Monitoring is also undertaken by an Accountant who summarises the financial effect of variances for each Area against a number of cost types (e.g. day to day repairs, voids etc.). The reported variances ranged from 0.72% (actual cost of £2,061,117.08 against expected cost of £2,046,329.30) for Caithness to 26.89% (actual cost of £2,897,729.47 against expected cost of £2,283,664.46) for Inverness.</p>	<p>The procedures followed in different Areas should be reviewed to establish if there are areas of good practice within areas showing low levels of variations which could be adopted across all areas to reduce the level of variations.</p>	<p>Guidance to be reviewed and reissued to staff involved in raising works orders (Service Centre and Housing &amp; Property). This will incorporate the elements of good practice highlighted in the audit.</p>	<p>Maintenance and Service Support Manager</p>	<p>31/12/13</p>

## AUDIT REPORT ACTION PLAN

Report Title

Report No.

Housing & Property Service: Housing Stores/ Repairs & Maintenance

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REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.2.3	Medium	<p>Only 2.35% of repairs resulted in inspections during the period examined.</p> <p>In addition, there is no guidance in place that would help to ensure that a consistent approach is taken when selecting jobs for inspection.</p>	<p>Guidance should be introduced which clearly states the level of inspections to be carried out, the means of selecting which jobs should be inspected, and the process to be followed when conducting the inspection.</p>	<p>10% of jobs will be inspected in terms of Health &amp; Safety and quality of works. The sample will be based on an assessment of the risk of the activity and guidance will be developed to ensure a consistent approach is taken in selecting jobs to be inspected. Templates will be developed to ensure consistency when undertaking inspections, and recording set up to monitor and evaluate results.</p>	Maintenance and Service Support Manager	31/03/14