

The Highland Council

Audit and Scrutiny Committee – 30th September 2015

Agenda Item	4
Report No	AS/17/15

Internal Audit Reviews and Progress Report – 10/06/2015 to 22/09/2015

Report by the Head of Audit & Risk Management

Summary

This report provides details of the final reports issued since the previous meeting of this Committee; work in progress and other information relevant to the operation of the Internal Audit Section.

1. Final Reports

1.1 There have been 18 final reports issued in this period as referred to below:

SERVICE	SUBJECT	OPINION
Care & Learning	Ben Wyvis Primary School Project	Limited
Care & Learning	School Lets Arrangements	Limited
Care & Learning	Primary School Fund – System Weaknesses	Limited
Care & Learning	Records Management	Substantial
Care & Learning	SEEMiS	Reasonable
Care & Learning	Schools - Financial Procedures	Reasonable
Chief Executive's Office	Governance of Inverness Old Town Arts and Inverness City Arts (Members only report)	Limited
Community Services	Management of Housing Voids	Limited
Corporate Development	Verification of Performance Indicators 2013/14	Substantial
Corporate Development	Corporate Control of Overtime	Substantial
Corporate Development/ Finance	Online Payments	Reasonable
Development & Infrastructure	Asset Management	Limited
Finance	General Ledger	Substantial
Finance	Non-Domestic Rates – Billing & Collection	Substantial
Finance	Council Tax – Billing & Collection	Substantial
Finance	Treasury Management	Substantial
Finance	Housing Benefit Payments 2014/15	Substantial
Finance	Matters Arising from the Statement on Internal Control 2013/14	Substantial

Each report contains an audit opinion based upon the work performed in respect of the subject under review. 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. Other Work

2.1 In addition to the reports referred to in the table at section 1.1 above, 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 investigations:

- Income due to the Council but not banked.
- School Fund/ Devolved School Management anomalies.
- School Fund anomalies.

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) Work for other organisations, Boards or Committees

Work has been undertaken on behalf of the Valuation Joint Board, HiTrans and the Pensions Committee in accordance with the Audit Plan. In addition, IT audit work has been undertaken for Orkney Islands Council and Western Isles Council under shared service agreements.

(iii) Advice, Assurance and Other Work

Work has been undertaken in respect of the following:

- Action tracking of outstanding audit actions.
- Providing control advice with regard to Transformational Projects, particularly with regard to changes being made to ResourceLink.
- Attending the Information Management Governance Board as the Finance Service representative.

(iv) Scrutiny Working Group

After the meeting on 18th June, the Scrutiny Working Group met to discuss and agree the draft findings arising from the review of the Council's

performance in managing sickness absence. A final report has now been prepared and this is provided at agenda item 11 for consideration.

3. Corporate Fraud

- 3.1 Prior to 1st August 2015, an Investigations Team of five staff was in place within the Revenues & Business Support Section which was responsible for the investigation of Housing Benefit fraud; Council Tax Discounts and Reduction fraud; and acting as the Key Contact in respect of the biennial National Fraud Initiative (further information on this is provided as a separate agenda item).
- 3.2 Following the creation of the Single Fraud Investigation Service by the DWP, responsibility for the investigation of Housing Benefit Fraud transferred to them on 1st August 2015. The Council's response was to create a new Corporate Fraud Team. Two members of staff who were previously part of the Investigations Team transferred to the Internal Audit & Risk Management Section and the remaining Investigations Team staff transferred to the DWP.
- 3.3 The Corporate Fraud Team is managed by the Audit & Risk Manager and consists of the 2 investigations staff and one of the existing Auditors who will be involved in fraud investigations as well as undertaking audit reviews. The Team remain responsible for the investigation of Council Tax Discounts and Reduction fraud; acting as the DWP "Single Point of Contact" and acting as the Key Contact in respect of the National Fraud Initiative. The key benefit is that any remaining capacity will allow the Team to undertake more proactive work in dealing with fraud. In addition to this, the planned proactive work includes reviewing a number of the Council's policies and procedures to ensure that these are as robust as possible and act as a deterrent to fraud. Areas which are at risk of fraud have been identified and a programme of work will be undertaken to address any weaknesses identified. The Team is presently concentrating upon housing tenancy fraud and this work has involved visiting area Housing staff to inform them of the new arrangements and to discuss the potential fraud. Since this work commenced, 7 referrals have been made by Housing staff and the initial investigations would suggest that all of these may be fraudulent. It should be noted that some of these also have Council Tax Reduction implications.
- 3.4 A set of performance indicators for the work of the Corporate Fraud Team will be developed and this together with the outcome of investigations will be reported to Committee in due course

4. Staffing Resources and Vacancies

- 4.1 There are two notable resourcing issues which are as follows:
- (i) An Auditor is on long-term sickness absence following a road traffic accident on 16th July 2015 and there is no indication, as yet, regarding a likely return to work date.
 - (ii) An Auditor is leaving the Council in November for a promoted post in an NHS Trust in the north of England. It is the intention to request approval from the Director of Finance to fill this post.

A re-structure of the Internal Audit Section took place in 2013 and this reduced the number of qualified Auditor posts from 6 to 5 staff. Since then an Assistant Auditor has been appointed to an Auditor post following recruitment difficulties, resulting in 4 qualified Auditors being in place. The issues reported in (i) and (ii) above could leave the Section with just two staff at Auditor level for a period.

5. Progress Against the 2015/16 Plan

- 5.1 Audit work since the previous meeting has largely focussed on completing the audit reviews brought forward from 2014/15 and undertaking work on the Council's main financial systems.
- 5.2 The Public Sector Internal Audit Standards (which are mandatory) require that *"where the Head of Audit believes that the level of agreed resources will impact adversely on the provision of the annual audit opinion, the consequences must be brought to the attention of the Audit Committee."* Therefore, an assessment will be undertaken of the likely impact of the sickness absence and vacancy, referred to at 4.1 above, on the ability to deliver the audit plan for 2015/16 and on providing the annual audit opinion. This will be reported back to the next Committee in November.
- 5.3 The audit reviews that are in progress and which will be the subject of a future report to this Committee are shown in the table at Appendix 1.

6. Performance

- 6.1 As part of the development of the Quality Assurance & Improvement Programme which was approved by this Committee on 20th November 2014, a set of performance indicators was established in order to measure the performance of Internal Audit and also the performance of Services in responding to the work of Internal Audit. Annual performance information is reported through the annual report which is provided each June to this Committee. In addition, quarterly performance information is reported to each meeting of this Committee. In this respect, performance information in respect of quarter 1 (April to June 2015) is provided below, together with information in respect of the previous two quarters:

Category	Performance Indicator	Target	Actual Q3 2014/15	Actual Q4 2014/15	Actual Q1 2015/16
Quality					
Client Feedback	(i) % satisfaction from individual audit engagements expressed through Client Audit Questionnaires	90	91	91	92
	(ii) % of Client Audit Questionnaires returned	70	92	57	100
Business Processes					
Timeliness of Final Report	(iii) % of draft reports responded to by client within 20 days of issue	85	44	67	67
	(iv) % of final reports issued within 10 days of receipt of management response	90	100	83	83

Six audit reports were issued in the above period and commentary on the above is

provided as follows:

- (i) The level of satisfaction as to the quality of work performed continues to be high and in accordance with the target.
- (ii) The number of questionnaires returned is positive in comparison with the previous quarter. Efforts have been taken up to pursue any non-returns. In addition, it has been recognised that the questionnaire is dated and it has therefore been amended which should provide for a higher and more consistent level of return in future.
- (iii) The timeliness of response from Services is the same as the previous quarter but the performance is still considerably below the target time. A reminder has therefore been issued to all Directors with a view to improving performance.
- (iv) One final report was not issued within the 10 day target.

7. Implications

7.1 Resource implications are referred to within section 4 of this report.

7.2 There are no Legal; Equalities; Climate Change/Carbon Clever; Risk, Gaelic and Rural implications as a direct result of this report.

Recommendation

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

Designation: Head of Audit & Risk Management

Date: 22nd September 2015

Author: Nigel Rose, Head of Audit & Risk Management

Internal Audit – Planned Work in Progress

SERVICE	SUBJECT	PROGRESS
Care & Learning	Integrating care for the Highlands	Draft report issued
	Family Teams – Management of Staffing Establishment	Fieldwork in progress
	Self-Directed Support	Draft report in progress
	Managing school rolls	Fieldwork completed
	Information security in schools	Draft report in progress
	Inspection of equipment in schools (follow up)	Fieldwork in progress
Chief Executive's Office	Common Good Funds – rental income	Fieldwork in progress
	Data Protection	Fieldwork in progress
Community Services	Harbours – fuel income procedures	Draft report in progress
	Managing tenancy fraud risk	TOR issued
	Administration of fuel	Draft report in progress
	Private Use of Vehicles	Fieldwork in progress
	Grass cutting contract – monitoring and contract payment arrangements (follow up)	Fieldwork in progress
Corporate Development	Community Challenge Fund – governance arrangements	Draft report in progress
	Charging for Services	Draft report in progress
	Managing Third Party ICT suppliers/services	Fieldwork in progress
Development & Infrastructure	Rental income	Fieldwork in progress
	Corporate Property Asset Management System (CPAM)	Fieldwork in progress
	Carbon Reduction Commitment Energy Efficiency Scheme 2014/15	Fieldwork in progress
	Capital project – installation of biomass boilers	Fieldwork in progress
Finance	Income systems	Draft report in progress
	Housing benefit payments 2014/15	Draft report issued
	Procurement – review of taxi and private hire inspections contract	Draft report issued
	Purchase Cards	Fieldwork in progress
	Payroll	Draft report issued

**INTERNAL AUDIT
FINAL REPORT**

CARE & LEARNING SERVICE

CAPITAL CONTRACTS –
BEN WYVIS PRIMARY SCHOOL

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07/08/15
16/09/15

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1. INTRODUCTION

The objective of this audit is to review the contract processes and procedures involved in the completion of the new Ben Wyvis Primary School.

After completion of the project on 08/03/13 it was reported to the Adult & Children's Services Committee on 31/08/13 that in view of various concerns raised by Members regarding the project as a whole, a Lessons Learned report would be prepared. This was subsequently provided to the Committee meeting of 13/11/13 and is referred to within this report.

Specific concerns regarding the project, particularly the extensive snagging works and the cost escalation, were also referred by local Members to the Head of Audit & Risk Management. These were part of a series of wider concerns which were discussed at a meeting between local Members, community representatives and senior officers on 30/07/14. It was therefore agreed that an audit of the project would form part of the planned audit work for 2014/15.

Following recent Council structure changes, Services names have changed since the completion of the project. For the purposes of this report, previous Service names have been used throughout. Hence, Education, Culture & Sport and Housing & Property Service are currently known as the Care & Learning and Development & Infrastructure Service respectively.

For background purposes, a summary of key information is provided as follows:

(i) Costs

The table below provides a comparison between the awarded tender cost and the final sum paid:

Original Contract Value	Actual Contract Value	Variance	
£6,547,717	£7,410,325	Cost increase	<u>£862,608</u>
Contingency allowance			
£341,550		Client Instructed	371,028
		Design	153,100
		Mechanical & Engineering	322,743
		Structural Engineer	10,024
		Building Control	63,623
		Unknown/below ground	89,434
		Loss & Expense	<u>194,206</u>
		Less:	1,204,158
		Contingencies/dayworks	<u>(341,550)</u>
			<u>£862,608</u>

The above table noting project value and costs was provided by the Consultancy Manager, Housing & Property Service. However, it was noted that the above variations were apportioned differently in terms of cost classification by the sponsoring Service, Education Culture & Sport.

(ii) Timeframe

The contract was undertaken in three Sections as noted below. These Sections are referred to at various points throughout the audit report.

- Section 1 – bus layby;
- Section 2 – construct the new school;
- Section 3 – demolish the old school.

TABLE 2

Key Milestones	At Tender stage	Revised	Actual	Variance
Contract Period	75 weeks	75 weeks	84 weeks	9 weeks
Date of Possession	25/04/11	01/08/11	01/08/11	14 weeks
School Opening (date of practical completion – Section 2)	15/06/12	21/09/12	24/10/12	-
Contract Duration at School Opening	60 weeks	60 weeks	65 weeks	5 weeks
Date of Practical Completion	28/09/12	04/01/13	08/03/13	9 weeks*

* A total of 23 weeks elapsed from the original programmed date of completion to the actual completion date. The figure excludes the 14 week delay at the start.

The following comments are provided in respect of the above:

- (1) The original date of possession, 25/04/11 was deferred by 14 weeks to 01/08/11.
- (2) Although the revised date of possession was identified as 01/08/11, the contractor did not start on site until 06/09/11, 19 weeks from the original programmed date of possession.

(iii) Extension of Time: award and duration

TABLE 3

Contract	Original		Revised timetable following 14 wk delay		Actual	
	Start	Completion	Start	Completion	Start	Completion
Section 1	25/04/11	29/07/11	01/08/11	04/11/11	22/10/12	08/03/13
Section 2	25/04/11	15/06/12	01/08/11	21/09/12	01/08/11	24/10/12
Section 3	15/06/12	28/09/12	21/09/12	04/01/13	22/10/12	08/03/13

With regard to the 14 week delay from the original programmed date of possession, initially, there was an eight week delay in connection with a water mains diversion, although no evidence of this delay was provided for examination. This was followed by a six week delay following the liquidation of the appointed Structural Engineer.

Due to initial delays Section 1 works, were moved over to Section 3. Four extensions of time, totalling 9 weeks, were granted over the term of the contract

(Section 4.2.7). Due to these extensions, the date of practical completion was achieved on 08/03/13.

(iv) Resources

A number of key officers involved in the project, including the Principal Architect and four Project Managers have since left employment with the Council. Consequently, the audit review has been moderately compromised due to lack of relevant explanations.

It was also noted that two Clerks of Works were involved in the contract. One covered the main contractor works, the other Mechanical and Electrical Engineering installations. However, due to the apparent lack of resources, the project did not receive as much main Clerk of Works cover as required and this therefore led to increased input from the Contract Administrator.

(v) Lessons Learned

In addition to the Lessons Learned report concerning this project referred to at Section 1. above, this report also refers to an earlier Lessons Learned report which was presented to the meeting of the Adult & Children's Services Committee on 21/08/13 regarding the Lochardil Primary School – Modular Accommodation project.

2. REVIEW OBJECTIVES

The objectives of the review were to ensure that:

- (1) Tenders were evaluated in accordance with Contract Standing Orders.
- (2) Sound management was exercised over the contract, including that related to the performance of the contractor.
- (3) Sound financial management was exercised over the contract, including additional contract expenditure.

3. SCOPE, METHOD AND COVERAGE

The audit examined the implementation, performance and completion of the Ben Wyvis Primary School contract. The review also considered the documents held by Education, Culture & Sport, the Housing and Property Service and the previously issued Lessons Learned reports for both Ben Wyvis and Lochardil Primary Schools.

4. MAIN FINDINGS

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

4.1 Tenders were evaluated in accordance with Contract Standing Orders

4.1.1 Tender report information

Although there is no clear guidance within Contract Standing Orders regarding the format of Tender Evaluation Reports, the Tender Report prepared by the then Housing & Property Service lacked a considerable amount of key information in comparison with the standard Tender Report format used by the Head of Procurement for corporate supplies and service contracts. However, this has not been issued by the Head of Procurement as a standard tender template to guide all Services.

It is recognised that considerable contractor information is contained within the Pre-Qualification Questionnaire document as used by the Housing & Property Service. However, this document did not align the specifics of the contract with those of the chosen contractor.

On comparing the two documents, the Housing & Property Service tender report did not contain sufficient information to help inform and support the award decision and no provision was made to incorporate a formal tender sign off section. The notable differences have been highlighted below:

- Identification of the Sponsor owner/procurement lead: project owner/contact details;
- Project aims, objectives, requirements, budget, target, start/ finish dates;
- Contract commencement and completion dates;
- Process used and justification;
- Advertising route;
- Pre-Qualification Questionnaire evaluation criteria/weightings;
- Tender Evaluation criteria;
- Expression of Interest and Pre-Qualification Questionnaires received;
- Identities of Shortlisted suppliers;
- Evaluation process;
- Cost of Recommended Tender;
- Cashable/Non cashable savings or cost increase;
- Recommendations – contractor/Sub-contractor reasoning and value;
- Lessons Learned from tendering exercise;
- Tender Signatories (nb 4 signatories on corporate tender).

It is important that qualitative information is available to clearly evidence decision-making with regard to Contractor selection. At present, the document used lacks critical information in this respect.

4.1.2 Determination of the Price/Quality Ratio

- (1) For tender evaluation purposes, a ratio of 75% price and 25% quality was determined for this project which, it is understood, was one of the ratios highlighted within the Scottish Government's Procurement manual. Although the report used for evaluating corporate supplies and service tenders detail the reasons behind the evaluation ratio selected, the reports used for capital projects in the Housing & Property Service do not similarly provide this information.
- (2) It is understood that the Price/Quality apportionment was proposed by the Project Manager and thereafter was reviewed and discussed by the Design Team before the final decision was made. However, there is no clear evidence to suggest that there was appropriate input from the sponsoring Service.
- (3) Regarding the selection of appropriate ratios, it was noted that there was no advice within Contract Standing Orders regarding which ratio to use. It is critical that the correct weighting is chosen for the purposes of evaluating the project requirements as this can have a significant impact on the tender evaluation result.
- (4) On discussing the above matter with the Education, Culture & Sport's Estates Strategy Manager, it was noted that a 60%/40% ratio is now being used which suggests that the use of this ratio is more relevant, thus giving a greater emphasis to quality. It was unclear whether, on reflection, the aforementioned ratio should have been applied to this project. If so, a different contractor may have been selected.

4.1.3 Technical References

With regard to the tender evaluation criteria, the Contract Standing Orders which were applicable at the time of the tendering exercise (version 2010), state that "evaluation of pre-qualification questionnaires must be based on an assessment of the financial, legal and technical standing of the potential tenderer only".¹

The Pre-Qualification Questionnaire form, dated 28/10/10, showed that relevant information was required from prospective tenderers, including: competence, quality assurance, business probity and economic standing. It also included a section for the provision of references to support the standard of work previously undertaken, advising that contact would be made with referees and that unsatisfactory references may result in exclusion from the Select Tender List."²

The successful tenderer completed the Pre-Qualification Questionnaire as required and there was a full evaluation of Pre-Qualification Questionnaires by the Procurement Section, following which, the contractor was also financially assessed. However, no technical evaluation was performed which is contrary to the Pre-Qualification Questionnaire which require contractor references to be taken up. Given that the contractor was new to the area this review could have provided valuable insight into the contractor's performance.

^{1,2} ECSB0152 Pre- Qualification Questionnaire, September 2010.

4.1.4 Structural Engineer

Contrary to requirements noted in Contract Standing Orders which were in force at the time, the Structural Engineer works were not formally tendered. Instead, five Structural Engineers were drawn from database records held by the Council and were asked to submit priced bids.

The Structural Engineer works were awarded to the lowest priced bidder on 11/03/10 in the sum of £39,000. The engineering design works were scheduled to be paid in tranches of 15% and 60%, representing the preliminary sketch plans and drawing works, with the remaining 25% on completion of the construction stage. On 21/12/10, a payment of £29,250 (75% of the total sum) was paid and on 20/05/11 a further payment of £8,385 (21.5% of the total sum) was made, suggesting that little design work remained. However, at that stage, the main contractor for the works had still to be appointed following significant delays (Section 4.2.2) and therefore no progress had been made with the construction of the building.

After making payment of £37,635 (96.5% of the total sum due), the Council was notified of the Structural Engineer's voluntary liquidation one month later on 22/06/11, one day after the revised date of site possession. As a consequence, the Council had to appoint a replacement Structural Engineer to complete the works commissioned as Structural Engineering Regulations require Structural Engineers to validate the structural design that they have prepared. This validation is not transferable.

Following liquidation, a replacement Structural Engineer was appointed on 19/07/11, thus delaying the start of the works further. It is understood that the solution was subject to considerable debate but these works were also not tendered and consequently did not comply with Contract Standing Orders. Rather than consider the results of the earlier pricing exercise, the replacement Structural Engineer was provided by an associated branch of the main contractor's organisation at a quoted cost of £41,500. It is understood that this decision was based on an assertion put forward that, as the replacement Structural Engineer "was in the same group as the main contractor, a more efficient Structural and Civil service would be delivered."³ However, the replacement firm still had to re-perform all of the Structural Engineering calculations for the purposes of signing off the Structural Engineers Report. This work took approximately six weeks. Nonetheless, it is understood that for expediency, Services took the decision to proceed with the contractor's Structural Engineer as the best way forward to prevent any further delays to the project.

However, in view of the close relationship of the main contractor and the contractor's own Structural Engineers, there could have been a potential conflict of interest. It was also noted that concerns were subsequently raised with the replacement Structural Engineer regarding their adverse performance which included "late release of information critical to the construction programme".⁴ This is therefore at odds with the earlier suggestion of "a more efficient service".⁵

4.1.5 Purchase of Furniture

School furniture is normally acquired by either the sponsoring Service or directly through the main contractor. In this case, due to various delays in the construction programme, the decision was taken to procure furniture through the main contractor for the sum of £119,022. This was not included in the tendered

^{3,4,5} HC Letter regarding the replacement Structural Engineer, 13/07/12

cost and is included in the value of client instructed variations noted in the table at Section 1(i) above.

The value of furniture was in excess of the tendering threshold but was not subject to the tender process and as such was not publically advertised. The Care & Learning Service has recently responded that the arrangement for the purchase of furniture allowed for expediency, co-ordination with the project programme and installation being integrated with the construction programme. However, it could not be demonstrated that the Council obtained Best Value.

4.2 Sound contract and contractor performance management was exercised

4.2.1 Roles & Responsibilities

It was established that the Project Manager and Contract Administrator team operate a set of project processes, and general roles are defined. Furthermore, regular minuted project team meetings are held to ensure that respective actions are agreed and understood. An outline of the roles and responsibilities was provided by the Estates Strategy Manager, Education, Culture & Sport, together with an outline of the project reporting structure extracted from the Scottish Government's website.

In considering the above, it was noted that similar roles appear to be undertaken by the Project Sponsor and the Project Manager with regard to monitoring project progress and in managing the project budget.

At the time of the audit review the Housing & Property Service was asked if a Project Manual was in place to guide officers in understanding their duties. Although it was suggested that no Manual existed, it was recently established that a paper based Project Manual was formed in the year 2000. This Manual was superseded approximately five years ago by an electronic version which was based on Royal Institute of British Architects (RIBA) guidelines. This version, which was recently updated, would have been in place at the time of the Ben Wyvis Primary School project. Nonetheless, whilst easily accessible, the use of procedural guidelines is discretionary, and as such, it was not possible to determine whether these were uniformly applied.

Also, an observation was made that the Lessons Learned report on Lochardil Primary School recommended that project owners and sponsors should be given written terms of appointment setting out their responsibilities, authority and the resources at their disposal for each project. This is of particular importance to ensure project management efficiencies are met, the use of resources is not duplicated and there are no gaps in service provision, thus ensuring that works are executed in a timely manner.

There was no Project Execution Plan (PEP) in existence to effectively manage and control the execution of the project. The Project Execution Plan describes how, when and by whom the specific project targets should be achieved and provides details on the major activities and resources required to deliver the project within the planned timeframe. However, it is understood that a design phase deliverables programme was utilised for this project which broadly outlines the project timeframe in accordance with each relevant design phase. Nonetheless, the design programme does not provide details on the roles and responsibilities for the individuals involved in delivering the project and, there was no information concerning project management and control. Without the use of such a critical document, it is not possible to conclude that the project had been effectively managed and controlled.

The absence of a Project Execution Plan is amplified by points raised in this report, for example, the tender documents were issued later than planned which led to the later than expected engagement of the contractor (Section 4.2.2). Despite delays encountered at the start and during the project, excluding the completion of the Section 3 of the works, the school opened on 24/10/12 but with extensive snagging works required⁶. Ultimately, it took an additional 9 weeks to finish the construction project, although Housing & Property commented that this is not uncommon in a project of this size and complexity. (Section 4.2.6)

Throughout the term of the contract there were noted delays in the construction programme. Although it is understood that six subcontractors went into liquidation during the course of the project, it is unknown whether this caused any delays in delivering the project. Nonetheless the delays ultimately led to four Extension of Time claims, coupled with four Loss and Expense claims covering the same 9 week period (Section 4.2.7).

A similar observation was also made within the Lessons Learned report on Lochardil Primary School which noted that *"absence of a formal Project Evaluation Plan may well have led to a lack of clarity around the specific roles and responsibilities for each of the individuals involved on project."*⁷

The Lessons Learned report concerning the Ben Wyvis Primary School project also acknowledged that there had been a lack of clarity over certain roles and responsibilities and that this had given rise to communication problems. It was therefore recommended that revised project management procedures would be agreed by the Education, Children & Adult Services Committee. However, it would seem there was no clear action plan to accommodate the agreed actions.

4.2.2 Delay in Start Date

The table at Section 1 (ii) shows that the contract date of possession, 25/04/11 was deferred to 01/08/11. This related to an 8 week delay due to water mains issues in the tender process, the reasons for which were not reported to Members and, a 6 week delay following the voluntary liquidation of the Structural Engineer.

The Indicative Tender Timeline attached to the Pre-Qualification Questionnaire was examined which showed that the tender process commenced with an OJEU advert in September 2010. It is known that the Pre-Qualification Questionnaire was submitted in October 2010 which was in accordance with the above timeframe. However, according to the timeframe, the tender evaluation should have been performed during January 2011, with the contract awarded on 11/03/11. However, this did not occur and the cause for the delay is not evident. The Tender Evaluation report was not prepared until 05/04/11.

The contract award letter was sent on 02/06/11 and the date of possession was established at the pre-start meeting on 21/06/11. However, following the liquidation of the Structural Engineer, the date of possession was deferred six weeks to 01/08/11.

Despite the deferred date of possession, the contractor did not start on site until 06/09/11 and it is understood that this was due to the fact the contractor took around five weeks to submit the Health and Safety documents and mobilise the workforce. It has been suggested that this time period is not unreasonable on a project of this scale and complexity. However, given that on 01/08/11, the project was already 6 weeks behind the revised date of possession of 21/06/11, it would have been expected that the contractor would have arranged their affairs to commence construction on, or shortly after 01/08/11. The delayed start had a

⁶ Ben Wyvis Primary School, Lessons Learned report, 13/11/2013

⁷ Lochardil Primary School – Modular Accommodation, Davis Langdon, 2012.

significant impact on the contractor to complete the works by the intended completion date for Section 2 of the works (construction of new school) and, although this date was deferred to 24/10/12, the delayed start was one of the factors that resulted in the school being handed over with "extensive snagging issues" as identified in the Lessons Learned report. In this respect, Housing and Property had suggested that extremely poor site management by the contractor was also a resultant factor. This is addressed further in Section 4.2.6 below.

Excluding the 14 week delay encountered before the date of possession 01/08/11, the contract took an additional 9 weeks to complete, resulting in a contract term of 84 weeks. The additional 9 weeks is reported further at Section 4.2.7 below.

4.2.3 Variations

As shown in the table at Section 1 (i), contingencies of 5% of the contract value, £341,550, were provided for, consisting of a provisional sum of £237,000 for items which could not be defined or detailed at the time of issuing the tender document and, an amount of £104,550 for dayworks and contingencies to cover any unforeseen additional items that may have come to light during the works. However, the actual value of additional works instructed through contract variations totalled £1,204,158, an increase of 18% of the tendered contract value. This could indicate that the anticipated tendered cost was not as complete as it should have been to allow adequate cost forecasting. However, it transpired that a number of variations were required, but were not all supported by authorised Change Control Record Sheets and as such, it could not be demonstrated that these were considered and evaluated by the Project Sponsor in terms of necessity and or, cost. One of the reasons put forward by Housing & Property for the delays was that there was a 24 hour response time for costed variations and the current change control systems does not allow for this.

A table, analysing the source of the variations, was provided by the Consultancy Manager, Housing & Property Service and provides useful information for Housing & Property's internal consultant coordination purposes. Although this analysis would assist in managing and restricting the volume and value of variations for future contracts it isn't used for reporting purposes, neither internally or to Members as part of any post contract review process.

As noted above, variations were significant in respect of this contract and a similar conclusion was reached in the Lochardil Primary School report which stated that: *"a considerable number of variations were instructed which resulted in delay to the Contractor's progress. Changes of this type during the construction give rise to legitimate entitlement to extra time to complete the works."* In addition, concerns regarding the change control process were also highlighted within the Lessons Learned report relating to the Ben Wyvis Primary School project.

With regard to this contract, loss and expense of £194,206 was paid to the contractor arising from a combination of contract variations which caused construction delays and also through delays caused by other factors. This matter is considered further at Section 4.2.7 below.

4.2.4 Quality of Works

A key feature of the Ben Wyvis Lessons Learned report was with regard to the performance of the contractor and the resulting poor standard of workmanship which had given rise to Members being inundated with complaints from parents.

Earlier in this report reference was made to the importance of setting an appropriate price/quality ratio in the evaluation of tenders (Section 4.1.2). In addition, there is also earlier mention of the appropriateness of ensuring that

contractor references are provided (Section 4.1.3), particularly in respect of major projects such as this.

With regard to the day-to-day responsibility for monitoring and reporting on the quality of work as it progressed and ensuring that this was in accordance with the tender specification, contract programme, contract drawings and quality standards, two Clerks of Works were allocated these duties. One covered the main contractor's builder works, the other the Mechanical and Electrical Engineering works. However, the Lessons Learned report acknowledged that due to a lack of resources the Ben Wyvis project did not receive as much of a presence as was required.

The documents used by the Clerk of Works to record the results of their inspections are paper based documents which are sent to the following officers on a weekly basis:

- Project Manager;
- Project Supervising Officer;
- Quantity Surveyor;
- Planning Supervisor; and,
- Head of Energy and Engineering.

A review of the Clerk of Works reports noted the following matters:

- (i) The reports were light on detail and were often illegible. Therefore, it is difficult to understand how these would properly inform the recipients, particularly those attending the formal site meetings with the contractor.
- (ii) The records did not actually refer to the quality of work undertaken despite that task being of fundamental importance to the Clerk of Works role.
- (iii) Specific attention is given to the daily weather conditions which, it is understood, are provided by the contractor. However, it is understood that in the event of any claim by the contractor relating to adverse weather conditions, Met Office records are actually used for independent verification.
- (iv) The number of workers on site is recorded and, again, it is understood that the information is extracted from contractor records rather than being collected independently. However, the numbers of hours actually worked on site is not captured which would be of particular relevance in the event of any contractual claims.
- (v) The manual distribution of the reports is inefficient, particularly in view of the numbers of officers receiving these.

The forms are not issued to the Clerk of Works' line manager to oversee the work performed.

In respect of (ii) above, it was noted that a letter was sent from the Principal Architect, Housing & Property Service to the contractor on 11th April 2012 which, 8 months after the start of the project, seemed to be the first intimation that the quality and standards on site were unacceptable in certain respects. The contractor responded the following day that:

- The Clerk of Works and Contract Administrator are on site on a weekly basis and had at no time approached a member of their team regarding any quality issues. *(The Housing & Property Service has recently stated that the Site*

Agent and the Clerk of Works were to meet on site every Friday morning. However the contractor's Site Manager rarely attended these meetings. The Service also mentioned that snagging items were being ignored. Despite this, there was no evidence to suggest that the Clerk of Works reporting requirements were strengthened to take account of concerns regarding quality. Housing & Property have recently accepted that due to a lack of sufficient Clerk of Work coverage, the contractor was not adequately "policed" and the quality of construction suffered.)

- The Contractor had introduced a Site Issue Schedule to record any items of concern which could be raised by any member of the client team during their site visits. However, to date, no major issues had been raised.
- The Contractor had, on numerous occasions, suggested that a weekly meeting should be held on site to allow the Site Issues Schedule to be reviewed and to walk the site to review any client concerns, agree remedial actions and agree timescales to complete these actions. However, the Council had not taken up this offer.

In summary, there is little evidence that proper attention was paid to ensuring that work was undertaken to appropriate standards during the progression of the works. In this respect the Ben Wyvis Lessons Learned report contained a recommendation that shows that the Council will "work with contractors to achieve zero defects at handover." This point has been accepted by Housing & Property Service who stated that the Clerk of Works cover and reporting was light and the Contract Administrator should have addressed this earlier. It is therefore important that processes are in place to achieve this.

4.2.5 Site Meeting Minutes

Monthly site meetings took place throughout the duration of the project which were attended by between 15 and 17 individuals in total, including representatives from the Contractor; the Structural Engineer; the Electrical Engineer, the Construction, Design & Management Coordinator and the Council. On average, 8 officers represented the various Council disciplines, including the Consultancy Manager, Project Manager, Architect, Contract Administrator, Quantity Surveyor and Clerk of Works. In advance of each meeting there is evidence showing that the Contractor submitted a progress report for discussion.

The site meeting minutes maintained for the contract were reviewed which showed that these were relatively brief in nature and did not suggest that important information was always highlighted, even if this was raised within the Contractor's reports. This point was accepted by Housing & Property Service who stated that "many of the Clerk of Work issues are not picked up in the minutes as they are raised with the contractor on the routine site inspections." For example, the meeting minutes did not cover adverse project management issues insofar as highlighting progress and disruption of works, project delays, resourcing issues, contractor performance/quality of work, and impact of extensive project variations/costs. In respect of the site meeting which took place on the date of handover of the new school building (October 2012) the minutes reported that the snagging was 95% complete with the exception of the multi-use games hall. The minutes therefore failed to capture the true picture in view of the snagging issues subsequently reported.

The report on Lochardil Primary School similarly revealed that the site meeting minutes failed to give an accurate impression of progress with the comment that "from reading the minutes one does not get an impression of a job on site going badly."

4.2.6 Handover of school building

As noted in the Introduction at Section 1 (ii), the new school building opening date of 24/10/12 was met despite the fact that there were significant delays to the contract start date. This critical decision was taken by the sponsoring Service, Education Culture & Sport, however, it cannot be established if such a fundamental decision should have fallen within their remit as there were no defined roles and responsibilities as previously reported at Section 4.2.1.

Therefore, and as highlighted in the Lessons Learned report, the building was handed over "with extensive snagging issues." This led to operational difficulties as proper progress could not be made while the school was occupied. In order to address this issue with regard to future contracts, the Lessons Learned report recommended the following:

- Work with contractors to achieve zero defects at handover.
- Do not agree to handover of building until it is completed to acceptable standard. (*In this respect, Housing & Property advised not to handover the building but this was overruled.*)
- Allow more time for handover, commissioning and occupation stages.

Despite the fact that the start date was delayed, the potential risk associated with failing to open the school building by the planned October date or the risk of occupying a partially complete building were neither identified nor managed, certainly not through any formal risk management process. In view of that, mitigating actions were not considered. This matter is also addressed at the Section 4.2.9 below headed "Risk Management."

In addition, with regard to reporting to Members, the Education, Culture & Sport Committee of 15/09/11 was informed of a six week delay in starting the project. However, as referred to in Section 4.2.2 above, the delay was greater than six weeks because due to the contractor 5 week lead in period, the works did not commence until 06/09/11 and it was suggested that "discussions were ongoing with the main contractor as to how this lost time can be recovered."⁸ However, there was no subsequent update provided until the Committee of 26/09/12 when it was reported that "the school is on target to be handed over to the Council on 21/09/12 as planned and the new school will open at the start of the new term after the October school holidays." As it transpired, the school opened the day after the start of the October term but only partial possession was granted on 24/10/12 as Section 3 of the works had yet to be completed.

4.2.7 Extensions of Time/Loss & Expense

A contract period of 75 weeks was provided for within the contract to allow completion of the works as a whole, comprising Sections one to three. As noted in Section 1 (ii) and (iii), the date of possession was deferred until 01/08/11 which resulted in the 75 week contract being revised with a scheduled completion date of 04/01/13. The revised completion date was scheduled to occur immediately after the end of the 2 week Christmas shutdown period. Thus, in addition to the 4 weeks of delays encountered during Section 2, the impact of this further delay caused the contract to be 6 weeks behind schedule.

Four separate Extensions of Time claims covering 9 weeks of delays were granted to the contractor in respect of circumstances beyond their control which had caused delays to the contract. Furthermore, under the terms of the contract, the contractor can apply for a Loss and Expense reimbursement claim if it can be demonstrated that they have incurred costs as a result of such delays.

⁸ Appendix 1, ECS Committee Report, 39/11, 15/09/11

The various Extensions of Time granted were as follows:

- (1) The first 6 week Extension of Time claim, covering the period 04/01/13 to 15/02/13 related to the deferred start date and subsequent delays encountered during Section 2 of the works. The contractor was unable to take possession of the existing school (Section 3) until 4 weeks after the date originally planned, 22/10/12. As a result of this delay, coupled with the impending onset of the 2 week Christmas shutdown period, the contractor was prevented from completing the contract by the revised completion date, 04/01/13.
- (2) The subsequent Extensions of Time were granted as three, one week Extensions. One week related to delays restrictions imposed on layby works and the remaining two weeks related to delays due to adverse weather.

With regard to contractual claims, it is necessary to point out that an Extension of Time does not always give rise to a Loss and Expense claim. However, in this case, four Loss & Expense claims were all granted covering the same 9 week period. (TABLE 4)

Basis of Payment	Sum (£)
6 wks Extension of Time (04/01/13 – 15/02/13)	100,631
1 wk Extension of Time (15/02/13 – 22/02/13)	12,095
1 wk Extension of Time (22/02/13 – 01/03/13)	6,308
1 wk Extension of Time (01/03/13 – 08/03/13)	6,308
Site possession date deferred 6 wks to 01/08/11	18,556
Winter working	16,312
Disruption through works	50,308
	£210,518

Comments provided in respect of the above payments are as follows:

- On 27/08/12, a Loss and Expense claim covering a 6 week contract delay was submitted by the contractor following the award of a 6 week Extension of Time. The claim, which amounted to £100,631, was paid in March 2013. This consisted of approximately 30 payment headings, including salary costs, hotels and accommodation costs, staff expenses and travel, plant and equipment hire, office accommodation, hire etc.
- Standard contract conditions show that Extensions of Time for poor weather are justified in the event of “exceptionally adverse weather conditions”. With regard to this contract the corresponding Clerk of Works report for one of the extensions showed that the weather was “poor” and there was frost on one day. With regard to the other weekly report this reported “normal working” and no adverse weather conditions were noted. In view of the information provided by the Clerk of Works, the validity of the two payments, totalling £12,616 is questioned.
- The total of £210,518 differs to the analysis in the Introduction at 1(i) which shows Loss and Expense payments totalling £194,206 as the winter working figure of £16,312 was inadvertently omitted.
- The sum of £210,518 is not the full extent of the costs associated with the delays and disruption costs claimed by the Contractor. Although not falling within the definition of Loss and Expense payments, additional “non-value” payments were made, including those relating to “additional tar costs due to the multi-use games area taking place after Christmas 2013;” additional costs associated with an extended performance bond and also revised/extended hires. These costs totalled approximately £20,000.

Comments are also provided below in respect of the remaining three areas where Loss and Expense was paid as shown in the above table.

Deferred Site Possession

The date of possession originally agreed with the contractor was deferred by 6 weeks to 01/08/11. This was a result of the originally appointed Structural Engineer going into administration. This event was outwith the contractors' control and therefore, a payment relative to ascertained loss and expense of £18,556 made. However, despite this delay, it took the contractor another 5 weeks to mobilise the workforce before the works commenced on 06/09/11. This point was also covered in Section 4.2.2 above.

Winter working and Disruption of works

As a consequence of working through the winter period, a total of £66,620 was paid to the contractor with regard to "winter working and disruption through works." This was in addition to the £125,342 already paid towards the Loss & Expense claims.

It is important that when Extensions of Time are granted, lessons are learned as to why these occurred and whether the circumstances that led to these could have been avoided, particularly as these can frequently give rise to significant claims from the Contractor for Loss & Expense. Such lessons should form part of the overall post contract review process which is also referred to in the Section 4.2.8 below.

4.2.8 Reporting to Committee

A summary table of the information reported to Committee regarding the Ben Wyvis Primary School project is provided within Appendix 1 of this report. This demonstrates that reporting was poor and failed to give Members an accurate and up to date picture with regards to both progress and cost. In particular, no mention was made of the following:

- The fourteen week delay at the beginning of the contract;
- The appointment of the contractor's Structural Engineer following the liquidation of the original Structural Engineer;
- The project delays and slippage;
- The budget overrun;
- The approval of Extension of Time requests and the payment of a subsequent Loss and Expense claims.

The Audit Scotland national report of June 2013, "Major Capital Investment in Councils," and the subsequent follow up of February 2015 identified issues regarding reporting as a whole that are relevant to this project. In particular:

- No information is provided on performance against project milestones, time, scope targets, risk or intended or realised benefits."
- Despite Financial Regulations requiring a post-contract review to be reported to the relevant strategic committee, no such reviews are performed.
- There is no assessment undertaken to determine whether the intended benefits set out in the business case have been achieved."

As a result of the above reports, it is understood measures have now been put in place to address the above concerns for all projects greater than £5m.

4.2.9 Risk Management

An important aspect of any multi-million pound project involving various phases which are time critical is a sound process to identify and manage risks on an ongoing basis.

The Council's Financial Regulations (August 2010), which were in existence at the time that the contract originated, refer to the Council's Risk Management Strategy and require that projects have specific risk registers in order to manage risks on an ongoing basis. This requirement was previously clarified to all Council Managers by the Chief Executive in an e-mail of 30th April 2010 following the Internal Audit report on Caithness Heat & Power.

In addition to the above, Directors also provide annual assurance which is used to support the Council's Annual Governance Statement. This assurance covers a number of areas including assurance that "a formal system of project governance operates within the Service."

Despite the above, it was found that risks were not embedded in the Project Management procedures at the time of this contract, suggesting that risks were not properly managed. It was acknowledged that Housing & Property hold risk review meetings on a regular basis, but these are not documented in a clear and concise manner; therefore, it was not possible to conclude that project risk was effectively managed.

The report on Lochardil Primary School was critical of the absence of a regularly maintained risk register and, similarly, the Lessons Learned report regarding Ben Wyvis Primary School acknowledged that a formal risk management procedure needed to be fully implemented on all projects from the outset and actively managed throughout.

4.2.10 Follow up of earlier agreed actions

Reference has been made within this report to both the project review report relating to Lochardil Primary School and the Lessons Learned report relating to Ben Wyvis Primary School. The former report contained 23 observations/recommendations and gave assurance to Members that whilst reports to previous meetings of the Committee had identified a range of improvement measures in relation to the delivery of the capital programme, PRINCE 2 project management methodology was now in place and that one of the key principles of this approach is learning from experience by identifying and recording lessons and applying them to current and future projects. However, whilst the sponsoring Service uses PRINCE 2 methodology, it is understood that this is not fully in place within the Housing & Property Service. With regard to the Ben Wyvis report presented to the Adult & Children's Services Committee on 13/11/13, this provided 16 recommendations including those addressing quality, resources, roles and responsibilities and risk management. However, one area that was omitted from the report which had been flagged as requiring to be addressed at an earlier meeting of the Adult & Children's Services Committee of 25/09/13 was with regard to the need for improved cost reporting.

The report to the Adult & Children's Services Committee on 13/11/13 confirmed to Members that "various measures have been put in place to address the issues

with immediate effect." However, Members expressed "disappointment that this was not more in depth."

Given the time invested in these reports, the significance of the issues raised therein to the Council's schools' capital programme and the lack of detail presented to Members, it would be appropriate for the Audit & Scrutiny Committee and the Education, Children & Adult Services Committee to receive a report giving assurance that actions have been taken to address all recommendations.

4.3 Sound financial contract and additional expenditure management was exercised

4.3.1 Reporting to Committee (Service role)

The full extent of the cost reporting to the Service Committee over the term of the project is summarised at Appendix 2. In addition, Appendix 1 also shows the narrative reporting but, as Section 4.2.8 highlighted, this was restricted to very little information regarding the status of the project. Appendix 2 shows that the financial reporting covers four financial years, 2011/12 to 2014/15 and suggests that further expenditure is still outstanding. Although the monitoring reports submitted by Education, Culture & Sport provide financial monitoring on a year by year basis against the annual budget, they provide no information regarding the status of the project as a whole. In this respect the following observations are made:

- There is no information provided regarding the status of the project as a whole with regard to total cumulative expenditure to date, estimated expenditure and the total estimated cost of the project. In view of this it is not possible to determine whether any overspend is forecast.
- The reports do not provide explanation as to the variance in budgeted expenditure nor why the budget figure has been amended.

As referred to in Section 4.2.8 above, Audit Scotland's *Major Capital Investments in Councils: follow up report* of February 2015 similarly highlighted the limitations of the capital monitoring reports submitted to individual Service Committees in that these only provided financial information (annual budget, spend to date, projected spend and estimated out-turn) on a project by project basis.

4.3.2 Contract Expenditure (Contract Administrator and Quantity Surveyor role)

Although the table at Section 1(i) above shows that there was a considerable overspend on the project, the reasons for this are due to the number of contract variations issued during the course of the works. It is evident that throughout the project, a comprehensive cost control process was in place by the then Housing & Property Service's Senior Quantity Surveyor. This ensured that variations and additional costs identified during the project were captured and priced. However, there were some issues with regard to a lack of formal change control procedures (as referred to within the Lessons Learned report on this project) which to some extent hindered the Quantity Surveying role.

The detailed documents produced included:

- Contract cost analysis.
- Cash flow forecast information.
- Budget estimates.
- Financial Statements.

- Final Account analysis.
- Analysis of labour monitoring report.

Excluding the analysis of labour monitoring report, most of the above documents were prepared on an approximate monthly basis throughout the duration of the contract.

With regard to project cost analysis and reporting, this was undertaken by the regular production of detailed financial information such as:

- Additional cost forecasts.
- Information for each Architect Instruction.
- Financial Statements, providing an analysis of actual and forecasted costs, compared against the approved budget.

During the period September 2011 to December 2012 inclusive, 24 Financial Statements were prepared which provided for a thorough analysis of the current position and anticipated position regarding the project, thus allowing for accurate monitoring and forecasting. However, despite this information being prepared, it was not used in Service Committee reports, either in the financial reporting or accompanying narrative as this was restricted to annual monitoring only as referred to in Section 4.3.1 above.

The table below (**TABLE 5**) illustrates the two very different aspects of monitoring:

TABLE 5

QS Reporting Period	Contract expenditure: QS Forecast Statement overspend (£'000)	Committee Report to EC&S/ A&CS		
		ECS/A&CS Reporting Period	Committee Report	Capital monitoring: Forecast overspend/ (underspend) for year (£'000)
02/11/11	£0.181	10/11/11	12/01/12	(£1,300)
30/03/12	£0.352	31/03/12	23/08/12	(£2,025)
31/01/13	£1,375	31/01/13	20/03/13	£0.938
31/03/13	£1,434	31/03/13	21/08/13	(£0.075)

Note: figures shown are inclusive of all fees

In summary, although there was sound financial reporting of the contract by the Quantity Surveying Service in ensuring that expenditure charged to the project was proper, valid and accurate (*the one exception being some elements of the Loss & Expense claim, referred to at Section 4.2.7 above*), it seems that this work was not put to good effect, such as sharing information with other Services and updating Members with the timely and accurate information that was available.

5. Conclusion

Extensive and thorough financial reports were prepared by the Housing & Property Service's Senior Quantity Surveyor. In addition, sound financial management was exercised over the issue and evaluation of Architects Instructions, final account costings and other project related documents. However, this significant information was not communicated onwards to inform Members as to the likely and actual project costs and how these compared with the original budget.

This report has identified various weaknesses in the management of this contract and in the wider management of contracts as a whole. Many of these weaknesses have previously been brought to the attention of Members within the Lessons

Learned report presented to the Adult & Children's Services Committee on 13/11/13. Previously, a Lessons Learned report had been presented to the same Committee on 21/08/13 regarding Lochardil Primary School. More recently, Audit Scotland has identified weaknesses in their follow up report of February 2015 on *Major Capital Investment in Councils*, which referred to their earlier report of March 2013. It is therefore important that the Services now demonstrate that the various actions arising from these reports are embedded within current processes as part of the response to this report.

In addition to the various governance improvements identified within this report, it has been observed that some of the processes in place are very paper-intensive and that multiple copies of documents are maintained. On that basis it has been recommended that a fundamental review is undertaken to ensure that processes are efficient and add value.

There are a total of 17 recommendations in this report, 10 assessed as high priority and 7 as medium priority. However, it is recognised that since issuing the draft report that one medium and two high priority actions have since been completed.

6. Audit Opinion

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.

7. ACTION PLAN

The Action Plan contains **17** recommendations as follows:

Description	Priority	Number
Major issues that managers need to address as a matter of urgency.	High	10
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	7
Minor issues that are not critical but managers should address.	Low	0
Total recommendations		17

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT ACTION	AGREED	IMPLEMENTATION	
						RESPONSIBLE OFFICER	TARGET DATE
4.1.1	Medium	Although not circulated as a standard document by the Head of Procurement, Housing & Property's Tender report did not contain critical contract administration and evaluation information in comparison to the tender document used by the Procurement Section. In particular, the decision making process concerning contractor evaluation and selection was not documented. Also, the Tender report did not include a formal tender sign off section.	The Tender report template should be issued to reflect the reporting structure and reporting requirements outlined in the standard Procurement Tender report. This is available within the Procurement Manual.	The Tender report and Project report process is being reviewed and the reporting format will be updated with input from the Head of Procurement. The revised reporting process will be adopted for all future capital projects		Acting Programme Manager (D&I)	31/10/15
4.1.2	Medium	(1) Decisions behind the Price/Quality ratio selection were not documented. In addition, the ratio was chosen without any input from the Project Sponsor.	(1) The ratio selection decision should be documented and should involve the Project Sponsor.	(1)The Project Price/Quality ratio selection will be documented and agreed with the relevant Project Sponsor going forward.		Acting Programme Manager (D&I)	31/10/15
		(2) There is no advice within Contract Standing Orders to advise on the use and selection of ratios.	(2) Contract Standing Orders should be amended to reflect Scottish Government guidance regarding the use and selection of appropriate ratios for major capital projects.	(2)Detailed amendments will, be incorporated in the Council's Procurement Manual which is already referred to within the Orders.		Head of Procurement	31/03/16

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT ACTION	AGREED	IMPLEMENTATION	
						RESPONSIBLE OFFICER	TARGET DATE
4.1.3	High	Technical references were not pursued for the purposes of evaluating the contractor as required by Contract Standing Orders.	Contract Standing Orders, should be observed with regards to the requirement to ensure the technical capability of contractors.	Project Technical references are now being taken up in line with the Councils Contact Standing Orders		Acting Programme Manager (D&I)	Complete
4.1.4	High	(1) The appointment of two Structural Engineers was not subject to formal tendering procedures.	(1) Contract Standing Orders should be observed.	Contract Standing Orders are being followed in regards to the appointment of Project Consultants		Acting Programme Manager (D&I)	Complete
		(2) The replacement Structural Engineer service was provided by an associate of the main contractor.	(2) Within the tender evaluation form, an additional line should be inserted to draw attention to potential "conflicts of interest". If applicable, procedures should be in place to manage and control any possible conflicts. Any such potential risks should be entered onto the project risk register.	Project Procedures will be put in place to ensure that any potential conflict of interest surrounding consultant appointments is identified early in the project and mitigated accordingly		Acting Programme Manager (D&I)	31/10/15
4.1.5	High	Goods in excess of the Contract Standing Orders threshold were acquired from the main contractor without being formally advertised. It could not be demonstrated that Best Value had been achieved.	Contract Standing Orders should be followed for any goods or services in excess of the tender threshold.	Project Sponsors are ensuring that Contract Standing Orders are being followed to ensure that best value is achieved when instructing the purchase of goods		Head of Resources (C&L Service)	Complete

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.2.1	High	(1) There was a lack of communication concerning project roles and responsibilities: <ul style="list-style-type: none"> No Project Manual or terms of appointment was held to guide and inform individuals in their respective project roles and functions. Similar project tasks were assigned to more than one individual. 	(1) A Service Project Manual should be created to outline relevant project roles, responsibilities and functions. In addition terms of appointment should be issued to all key project personnel. This information should be linked to/replicated in the Project Execution Plan.	The existing Project Manual will be updated to ensure that project roles and responsibilities are clearly defined and allocated at the start of each project	Acting Programme Manager (D&I)	30/11/15
		(2) A Project Execution Plan was not operated. As such, all project related information, including identification of project owner, roles & responsibilities of all project personnel, resources, contractors, suppliers, contract timetable, and any other project related targets were not documented and controlled within one information source. Therefore it could not be demonstrated that the project was effectively managed and controlled, project efficiencies were met and there was no gap in service provision.	(2) An electronic Project Execution Plan template should be created for each major capital project. The plan should be used to control and document key project progression dates, including any unexpected project delays. The Plan should describes how, when and by whom the specific project targets should be achieved and provide details on the major activities and resources required to deliver the project within the planned project target timeframe/ milestones.	A project execution plan will be put in place for future major capital projects	Acting Programme Manager (D&I)	30/11/15
4.2.2	Medium	Although the project commenced 19 weeks after the planned possession date the reasons for the delay were not clearly set out and reported to Members.	As noted in the 13/11/13 Lessons Learned report, procedures should be put in place to "ensure that buildings are not handed over until completed to an acceptable standard".	Projects are not being accepted by the Council until the specified project objectives have been met	Acting Head of Property (D&I) and Head of Resources (C&L)	Complete

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.2.3	Medium	(1) Contingencies were substantially underestimated and ultimately variations led to an 18% increase above the tendered contract price, rather than the 5% which was allowed for. Therefore, the level of variations was not managed or controlled within the agreed budget limit. (2) Not all project variations were supported by an authorised Change of Control Record Sheet (CCRS).	(1) Procedures should be put in place to ensure that: <ul style="list-style-type: none"> contract variations are minimised and are controlled in a proper manner; and, all requested project variations are subject to scrutiny by the sponsoring Service to ensure any such alterations have been scrutinised for necessity and appropriateness. (2) All variations should be authorised and supported by a CCRS form, signed by the sponsoring Service. (3) Instructions surrounding the instruction and authorisation of CCRS forms should be formally documented in the Project Manual noted in 4.2.1 above.	Project procedures will be followed to ensure that project variations are robustly managed and controlled All project variations are now being supported by an authorised Change of Control Record Sheet (CCRS). The use of Project CCRS forms will be documented in the Project Manual and Project Plan	Acting Programme Manager (D&I) and Estate Strategy Manager (C&L) Estate Strategy Manager (C&L) and Acting Programme Manager (D&I) Acting Programme Manager (D&I)	30/09/15 Complete 30/11/15

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.2.4	High	(1) There is little evidence that proper attention was paid to ensuring that the work was undertaken to appropriate standards during the progression of the works.	(1) A review of the format, nature and purpose of the Clerk of Works role should be undertaken to ensure that the monitoring function is performed in a purposeful and effective manner.	A review of the Capital Clerk of Works role will be carried out to ensure that future projects have suitable, competent Clerks of Works and Building Services Inspectors allocated along with sufficient time to monitor and record the standard of work as it proceeds	Director of D&I Service	30/11/15
		(2) With regard to the Clerk of Works' reports: <ul style="list-style-type: none"> The level of information recorded was poor, with no detail regarding the quality of the works. Information was largely taken from contractor records. <p>The manual distribution of the reports and the numbers of officers these are issued too is inefficient.</p>	A review should be carried out of the Clerk of Work's reports to provide an electronic version which contains full and appropriate information for distribution to relevant parties only.	Project Clerks of Works will be issued with electronic tablets that will allow them to submit detailed weekly project reports to all project team members	Acting Head of Property (D&I)	31/03/16
4.2.5	Medium	Details contained in the Site Meeting minutes were brief in nature, did not reflect any "adverse" news and failed to capture the true picture of project progression, despite this being presented in the frequent contractor reports on progress.	Site meeting minutes must capture the true position of each project. This requirement should be included within the Project Manual referred to at 4.2.1 above.	Project Contract Administrators will capture & record the actual position of each project	Acting Consultancy Manager (D&I)	30/11/15
			Any potential site quality issues should be raised and documented within the Site Meeting minutes	Meeting minutes will capture and record quality matters and this information will be shared with project stakeholders	Acting Consultancy Manager (D&I)	30/11/15

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.2.6	High	<p>The handover of the school building on the planned opening date, despite extensive snagging issues remaining, highlighted the following concerns:</p> <ul style="list-style-type: none"> • Despite significant delays to the project start date, the potential impact of this was not considered in terms of a late completion date or outstanding snagging issues. • No proper risk management process was in place to acknowledge or the risk associated with the delayed start. • Options concerning a later handover date were not documented or, seemingly, considered. • Reporting to Members failed to acknowledge the true delays to the project start date or highlight that there would be any difficulties in achieving the planned handover date or that the building would not be in a fully completed state. • The decision to open the school on the intended start date was not subject to appropriate consultation and agreement. 	<p>As recommended at 4.2.1 above, the roles and responsibilities of staff need to be clearly documented to clarify the responsibility for key decisions such as the one made in respect of this project.</p> <p>As recommended in 4.2.8 below, reporting needs to be improved to ensure that Members receive an accurate picture with regard to the status of projects and any risks with regard to any late delivery or significant budget pressures.</p> <p>As recommended in 4.2.9 below, appropriate risk management arrangements should be in place for all projects.</p>	<p>Key decisions on matters relating to significant delays/major defects are now being taken at C&L Programme Board level and Project Teams are being instructed accordingly</p> <p>Revised project monitoring and reporting arrangements are being implemented within the Council, as recommended in the Audit Scotland report, to improve reporting to Members.</p> <p>All Major Projects will have live risk registers and suitable management arrangement in place until the project is formally closed off.</p>	<p>Head of Resources (C&L) and Acting Head of Property (D&I)</p> <p>Head of Resources (C&L)</p> <p>Acting Programme Manager (D&I)</p>	<p>Complete</p> <p>31/03/16</p> <p>30/11/15</p>

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.2.7	Medium	(1) The validity of the full extent of the Loss & Expense claim is questioned on the basis that a two week Extension of Time for adverse weather, which gave rise to a Loss & Expense payment, could not be supported by the corresponding Clerk of Works' reports which largely suggested that there was "normal working" during this period.	(1) As recommended at 4.2.8 below, post contract reviews should be undertaken of major projects which should include consideration of the circumstances leading to Loss & Expense claims.	Post Contract reviews will take place on all major projects to identify the cause and effect of loss and expense claims and also identify lessons learned to prevent similar issues occurring on future projects.	Acting Consultancy Manager (D&I)	30/11/15
		(2) No "Lessons Learned" or post project review has been undertaken to consider how the Loss & Expense claims and other "non-value" added payments arose and whether steps could have been taken to avoid these.	Post project reviews should evaluate and identify whether any preventative measures could have been taken to avoid unnecessary additional payments. Lessons Learned from these reviews should be taken forward and embedded in future contract planning assessments.	Improved application of contract conditions/scrutiny of financial claims presented by contractors will assist in the reduction of additional payments having to be considered/made on future projects.	Acting Consultancy Manager (D&I)	30/09/15
4.2.8	High	(1) Project reporting was poor during the course of the project and failed to give Members an accurate and up to date picture with regards to risks, progress and cost.	(1) Reports should be revised to ensure that full and accurate information is provided on an ongoing basis.	Project Sponsors will ensure that accurate project information is presented to Strategic Committees, incorporating recommendations from the Audit Scotland report also.	Head of Resources (C&L)	30/11/15
		(2) As reported in Audit Scotland's follow up report on "Major Capital Investment in Councils" (February 2015), post-contract reviews are not performed despite this being a requirement within Financial Regulations.	(2) It is understood that measures have now been put in place to ensure that post-contract reviews are undertaken for projects in excess of £5m.	A Corporate approach to post contact reviews has now been implemented.	Acting Programme Manager (D&I)	Complete

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.2.9	High	(1) Contrary to Financial Regulations which were in force at the time (June 2010), no risk register was maintained for the above contract.	(1) For all major capital projects, risk reporting procedures should be strengthened to ensure project risks are fully documented in the risk register.	Project risks will be recorded in a project risk register and reviewed at each project progress meeting. Project risks will be regularly communicated to project stakeholders.	Acting Consultancy Manager (D&I)	30/11/15
		(2) Project risks were not embedded in the Project Management procedures which suggested that risks were not properly managed.	(2) Risk management procedures should be embedded within the wider Project Management procedures to emphasise the need to continually review, manage and report on project risks.	Project Management procedures will be updated to ensure that project teams understand the importance of managing and reporting project risk accordingly.	Acting Programme Manager (D&I)	30/11/15
4.2.10	High	Significant project weaknesses were identified and reported within a Lesson Learned report to Committee on 13/11/13 and in an earlier report on Lochardil Primary School. However, to date, the recommendations from this report have yet to be revisited to confirm that appropriate actions have been taken and that these are working effectively.	The sponsoring Service should conduct a review to provide assurance that the recommendations outlined in the previous Lessons Learned reports have been implemented. The review should be reported to the Audit & Scrutiny Committee prior to being reported to the Education, Children and Adult Services Committee.	A review of previous Major Projects Lessons Learned will be carried out and progress with previously agreed recommendations reported to the relevant Council Committees	Head of Resources (C&L)	31/03/16

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.3.1	High	Capital monitoring reports projects are presented on an isolated budget year basis. No accumulated project cost information is provided. In view of this it is not possible to establish the status of the project as a whole. Note: Audit Scotland's follow up report on "Major Capital Investment in Councils" (February 2015), similarly highlighted the limitations of the existing reports.	The format of monitoring reports should be amended to show the cumulative expenditure to date against the budgeted cost together with the estimated expenditure. Any amendments to budgeted costs should be explained.	Future Committee monitoring reports will be amended, in line with recommendations of Audit Scotland, to identify cumulative project expenditure to date against the budgeted cost together with estimated future expenditure. This will be implemented across the Council, with Care and Learning using the revised approach for Committee. Explanations on project budget amendments will also be include in each report.	Head of Resources (C&L)	30/11/15
4.3.2	Medium	Although a considerable amount of cost analysis and forecasting was undertaken by the Quantity Surveying Service, the information was not used in Service Committee reports, either in the financial reporting or accompanying narrative.	The Quantity Surveying resource should be used effectively with information used to better inform cost forecasting and monitoring.	The Service, as part of the implementation of revised monitoring and Committee reporting arrangements (see other actions), will review arrangements in relation to the use of data available from the Quantity Surveying Service.	Estates Strategy Manager (C&L)	31/03/16

SUMMARY OF REPORTS TO COMMITTEE

Report no.	Date	Details	Comments
ECS 03/10 ECS 05/10	11/03/10 20/05/10	Report from the Director of Education, Culture & Sport Report setting out the need for a replacement Maryburgh/Conon Primary School. The Design Team are "working towards detailed design of the building. Detailed planning applications are due to be submitted on 7 May 2010".	No reference was made regarding the appointment of the external Structural Engineer.
ECS 31/10	05/08/10	Report from the Director of Education, Culture & Sport: "the original approved programme has been revised to take account of the carry forwards from financial year 2009/10. In addition it has been necessary to review the original approved programme for 2010/11 to take account of the phasing of the major projects that have either commenced or will commence in the current financial year. Examples include the new Milton of Leys PS, the replacement Primary schools at Aviemore and Maryburgh/Conon.	
ECS-44-10	16/09/10	Report from the Director of Education, Culture & Sport: "Design to progress, planning application to be lodged in September, school building to be handed over in June 2012 with demolition and site works thereafter."	
ECS/53/10	11/11/10	No further information provided.	
ECS 10/03/11	10/03/11	Report from the Director of Education, Culture & Sport. No further information other than "Tenders due to be returned on 11 March.	According to the Indicative tender timeline attached to the Pre-Qualification Questionnaire, the tender return date was scheduled for 28/01/11. Tender responses were received on 16 March 2011.
ECS 9/05/11	19/05/11	Report from the Director of Education, Culture & Sport. It was reported that "progress with the major approved projects is outlined in Appendix 2. It should be noted that the following major school building projects are now underway and are due for completion in either this financial year or during the first half of the financial year 2012/13.	It was not mentioned that the planned date of possession was missed. Also, it was not mentioned that a contractor had not been appointed in time to meet the planned date of possession.

Report no.	Date	Details	Comments
ECS 09/08/11	09/08/11	Report from the Director of Education, Culture & Sport. The report mentioned that the name of amalgamated Maryburgh/Conon PS would be changed to Ben Wyvis Primary School which will be available from August 2012. Also it was noted the contract had been awarded.	<p>It was not mentioned that the date of possession had been delayed by 14 weeks to 01/08/11.</p> <p>The 75 week contract was awarded on 02/06/11. Of this, 8 weeks were due to delays in the tender process and six weeks were due to the liquidation of the original Structural Engineer.</p> <p>No mention was made that the date of possession was revised twice. Also, the Structural Engineer's liquidation and subsequent replacement was not mentioned.</p>
ECS/39/11	15/09/11	Report from the Director of Education, Culture & Sport: "as a result of the liquidation of the external civil/structural engineering company work in there is a 6 week delay in starting the project which will result in the programme slippage of £0.800M in the current financial year. Work on site started on 5/09/11. Discussions are ongoing with the main contractor as to how this lost time can be recovered."	<p>No mention was made of 14 week delay.</p> <p>On 19/07/11 a replacement Structural Engineer was appointed but no mention was made of this in the report.</p>
ECS/50/11	10/11/11	No project information was provided.	<p>Again, no mention was made of 14 week delay.</p> <p>As at 2/11/11, the Financial Statement prepared by Housing & Property's Senior Quantity Surveyor, (excluding professional fees), noted a net project overspend amounting to £35,794.</p>
ECS/09/12	08/03/12	Report from the Director of Education, Culture & Sport: "as a result of the liquidation of the external civil/structural engineering company work in there is a 6 week delay in starting. In addition the contractor's planned expenditure profile for the current financial year was overly optimistic. On this basis it is estimated that there will be programme slippage of £1.350m in the current financial year."	<p>As at 31/03/12, the Financial Statement, prepared by Housing & Property's Senior Quantity Surveyor (excluding professional fees), noted a net project overspend amounting to £335,736.</p>

Report no.	Date	Details	Comments
ACS 23/08/12	23/08/12	<p>Report from the Director of Education, Culture & Sport that "there are several legally committed projects where the construction spanned two financial years and the actual expenditure in 2011/12 fell short of the earlier projections." Amongst six others the list included Ben Wyvis PS. And, "the collective underspend of approximately £5m is mainly due to the timing of payments to the contactors."</p> <p>It was also noted that the new school would become operational between August and October 2012.</p>	
ACS 26/09/12	26/09/12	Report from the Director of Education, Culture & Sport: "the new Ben Wyvis Primary School is on target to be handed over to the Council on 21/09/12 as planned and the new school will open at the start of the new term after the October school holidays.	As at 31/08/12, the Financial Statement, prepared by Housing & Property's Senior Quantity Surveyor (excluding professional fees) noted a net project overspend amounting to £1,038,269.
ACS 07/11/12	07/11/12	<p>Report from the Director of Education, Culture & Sport: "The new school opened as planned on 24 October 2012. The remaining works (demolition of Conon Bridge school building and completion of external works and multi-use games area) are programmed to be completed by February 2013."</p> <p>Also, "Post project reports have been commissioned on the Lochardil and Ben Wyvis Primary School projects and the outcome will be reported to this Committee in January 2013."</p>	
ACS 23/01/13	23/01/13	Report from the Director of Education, Culture & Sport. No information other than on the Status of Major Capital Projects on Appendix 2, notes for BWPS that "On site, school operational, external works underway".	No mention was made of the escalating project costs.
ACS/23/13	20/03/13	<p>Report from the Director of Education, Culture & Sport stating that a review of facilities to be provided in schools and identification of lessons to be learned from the recently completed Milton of Leys, Aviemore and Ben Wyvis Primary Schools (e.g. increased provision is now made for pupils with ASN, also Inter-Agency Support rooms will be provided in each of these schools).</p> <p>It also stated that: "The Status of Major Capital Projects on Appendix 2, notes that Ben Wyvis Primary School that "School operational, pitches now complete".</p>	<p>No mention was made of the escalating project costs.</p> <p>As at 4/03/13, the Financial Statement, prepared by Housing & Property's Senior Quantity Surveyor (excluding professional fees), estimated a net project overspend amounting to £1,446,387.</p>

Report no.	Date	Details	Comments
ACS/65/13	21/08/13	<p>Report from the Director of Education, Culture & Sport stating that: "A review will be carried out after the completion of all major projects from now on and will also be carried out at the end of the key stages during some of the larger projects. A summary of main issues arising from the Ben Wyvis Primary School project will be reported to the September meeting of this Committee.</p>	<p>In March 2013, in their report on "Major Capital Investment in Councils," Audit Scotland recommended that Councils should carry out post-implementation reviews of projects.</p> <p>As at 4/04/13, the Financial Statement as prepared by Housing & Property's Senior Quantity Surveyor (excluding professional fees), estimated a net project overspend amounting to £1,212,363.</p>
ACS/86/13	25/09/13	<p>Report from the Director of Education, Culture & Sport again stating that "Reviews will be carried out after the completion of that all major projects from now on and will also be carried at the end of key stages during some of the larger projects. A summary of some of the main issues arising from the Ben Wyvis Primary School project are as follows:</p> <ul style="list-style-type: none"> o Briefing process; o Communication with Stakeholders; o Cost reporting and change control; o Formal reporting procedures; o Performance of the Contractor; o Programme Management; o Quality Management; o Risk Management. <p>These issues are currently being examined in conjunction with colleagues in Housing and Property and will be discussed at a further Ward business meeting prior to being reported to this Committee."</p>	<p>As at 9/09/23, the Financial Statement as prepared by Housing & Property's Senior Quantity Surveyor (excluding professional fees), estimated a net project overspend amounting to £1,160,279.</p>

Report no.	Date	Details	Comments
ACS/97/13	13/11/13	<p>Report from the Director of Education, Culture & Sport. The report states at point 1.6 that "Section 7 advises on the progress with measures to improve communication with Members at ward level on ECS estates issues and to review performance on major capital projects, including some lessons to be learned from the Ben Wyvis Primary School project." Also,</p> <p>"Project Reviews – A summary of the significant lessons to be learned from the Ben Wyvis Primary School project is to be included in Appendix 7. This demonstrates the need to improve communication and provide more clarity on roles and responsibilities. Various measures have been put in place to address these issues with immediate effect. With regard to a query raised at the previous meeting of the Committee, the review of projects is in line with normal project management procedures and is best carried out by those directly involved in the project. The Council's Internal Audit staff would only become involved where it was considered that there was a specific need to do so."</p>	

APPENDIX 2

BEN WYVIS – EXTRACTS FROM CAPITAL MONITORING REPORTS

Committee	Year/ Date	Budget	Actual to date	Estimate	Variance	Notes
	2011/12					
EC&S	15/09/11	4,250	35	3,450	(800)	
	10/11/11	4,250	146	3,450	(800)	
	12/01/12	4,250	558	2,950	(1,300)	
	08/03/12	4,250	1,230	2,900	(1,350)	
A&CS	21/06/12					No monitoring report
	23/08/12	4,250	2,225	2,225	(2,025)	Near final 11/12 No explanation as to why budget was underspent by £2m
	2012/13					
	23/08/12	5,762	947	5,762	-	
	26/09/12	5,762	1,491	5,762	-	
	07/11/12	5,762	2,902	5,762	-	
	23/01/13	5,762	4,263	5,762	-	
	20/03/13	5,762	4,704	6,700	938	No explanation regarding sudden forecast of large overspend.
	22/05/13	5,468	5,393	5,393	(75)	Near final 12/13 Budget amended. No explanation regarding swing from large forecast overspend to underspend.
	21/08/13	5,468	5,393	5,393	(75)	Final 2012/13
	2013/14					
	21/08/13	850	30	850	-	
	25/09/13	850	37	850	-	
	13/11/13	892	113	892	-	Budget amended
	15/01/14	892	407	892	-	
	19/02/14	892	417	642	(250)	
EC&AS	23/08/14	892	441	-	(452)	Final 13/14
	2014/15					
	28/08/14	75	5	75	-	
	12/11/14	75	6	75	-	
	14/01/15	75	18	75	-	
	11/02/15	75	18	75	-	
	20/05/15					No monitoring report

Note: figures shown are inclusive of all fees

**INTERNAL AUDIT
FINAL REPORT**

CARE AND LEARNING SERVICE

SCHOOL LETS ARRANGEMENTS

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1. INTRODUCTION

This audit was undertaken as part of the 2014/15 annual plan and records the findings of the School let arrangements within a sample of schools (Lochaber High School, Nairn Academy, Brora Primary School and Cradlehall Primary School).

In March 2009, the then Education, Culture and Sport Committee harmonised the scale of charges for public use of the Council's community facilities which included schools. On 22/05/13 the then Adult & Children's Services Committee agreed proposals to change the operating model for school lets. The first stage was to set up a pilot project from August 2013 to provide improved management and financial information to inform future policy. The second stage was to implement a consistent operating model from August 2014.

The revised operating model included:

- The then Education, Culture and Sport Service assuming responsibility for the management and administration of all school lets in partnership with schools and Shared Business Support (SBS).
- A centralised management and administration system (SharePoint) to be set up and tested as part of the pilot.
- The introduction of Facilities Management teams.
- The requirement for all school lets income to be accounted for within one of the Service's specialist support team budget headings.

2. REVIEW OBJECTIVES

The objectives of the review were to ensure that:

- (i) The school lets arrangements are adequately controlled and monitored and consistent procedures are in place across all schools (See 4.1).
- (ii) Application forms are submitted in respect of all new school let requests and these are authorised by the Head Teacher. These are then forwarded to Shared Business Support to enable the necessary permit and information to be sent to the individual/ organisation that has requested the school let (See 4.2).
- (iii) All school lets information is completely and accurately recorded. Where possible income is collected by Direct Debit or is received in advance of service provision (See 4.3).
- (iv) School let invoices are only issued in exceptional circumstances and are issued accurately and on a timely basis (See 4.4).
- (v) All income received is receipted, held securely, processed, and banked accurately and timeously (See 4.5).

3. SCOPE, METHOD AND COVERAGE

The audit involved visiting the 4 schools to make sure the areas described in the objectives of the review are operating satisfactory and that these accord with the requirements of the Council's Financial Regulations. The schools were selected following consultation with the Care and Learning Service's External Funding Manager.

With effect from January 2015, the Council is piloting with Highlife Highland (HLH) and Lochaber High School an arrangement where HLH take on the responsibility for bookings for many parts of the school and leisure facilities out with school hours. The following findings pre-date these arrangements.

4. MAIN FINDINGS

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

- 4.1. This objective was not achieved as, at 2 schools, the let arrangements were either fully (Brora Primary) or partially (Nairn Academy), the responsibility of a local management committee. These do not accord with the new arrangements and the following concerns are highlighted:

For Brora Primary:

- No written agreement is in place with the management committee and as a result the roles and responsibilities are unclear.
- No Head Teacher approval is obtained for use of the school's facilities. In addition, the school is incurring costs from the lets usage but the income is received by the management committee.
- The bookings are administered by the management committee and, as a result, there are no let records on SharePoint.
- The rates are not in accordance with the Council's charging rates.

As it was established that the lets are fully administered by the local management committee, no further work was undertaken with regard to Brora Primary School.

For Nairn Academy:

- Within the community complex/ management committee there is a lack of clarity over arrangements and responsibilities.
- No guidance on charging rates had been provided to the management committee. As a result, the fees charged are different to the Council's charging rates.
- Again, the school is incurring costs from the lets usage but the income is received by the respective management committee.

The school let process was reviewed at 3 schools to ensure compliance with the prescribed procedures. All schools followed these but there were inconsistencies as to when application forms were required and budgetary issues with costs associated with janitorial overtime was highlighted by 2 schools.

- 4.2. This objective was partially achieved as a standard application form should be completed by the applicant and approved by the Head Teacher. From review of a sample of application forms, 9/28 (32%) were not completed on the correct version of the form and so omitted the applicant's confirmation that they have read and comply with Child and Adult protection guidance for Community Groups in the Highlands. In addition, 1 applicant failed to provide this confirmation despite using the correct form and the application was processed without querying the missing confirmation.

The reverse of the let application form should be completed by the Head Teacher recording any facilities management requirements and show their approval or refusal of the request. At Lochaber High, 7/142 (5%) of let application records were missing for 2013/14. 2 schools (Lochaber High and Cradlehall Primary), did not have the reverse of the form fully completed (9 forms) and 3 forms did not have the Head Teacher's approval recorded. At Nairn Academy, all 10 forms reviewed were only partially completed. However, the copies held by SBS provided more detail and all forms had been approved by the Head Teacher.

The schools should maintain accurate records of all let activity in order to support the invoices raised, however at Lochaber High the diary used to record bookings and confirm attendance was incomplete. Also, due to a GLOW system upgrade, let activity records were missing. There was no let activity recording system in place

at Cradlehall Primary, however since the school visit, a recording system has been put in place.

There were also differences between the information held by the Schools and that recorded on SharePoint whereby 2 lets were not recorded on SharePoint. 1 of these related to a cancelled meeting, however, it could not be established if the necessary cancellation notice period had been provided to avoid being charged and the other related to a free let. Also, a number of minor issues were found where the details held at the schools, namely application dates and end dates, did not match to SharePoint.

- 4.3. This objective was partially achieved as the majority of the data fields on SharePoint were completed. The Care and Learning Service has introduced, and is planning further refinements to the SharePoint system to promote more consistent and standardised recording of lets information.

Review of the 10 lets with invoices (16 invoices in total) raised showed that 4 were for one-off events where payment in advance should have been considered. The other 6 were for multi week/term sessions where payment by direct debit should have been considered.

- 4.4. This objective was partially achieved as there are alternative methods of payment that should have been considered (as detailed above). Instead the current practice is to issue an invoice after the let has taken place. SBS teams are responsible for ensuring that the appropriate amounts are charged but the following errors were found:

- In 5 cases, lets were provided free of charge where charges would be expected.
- For 1 invoice, school records show that a small number of lets had not been invoiced at the school (£81.60 excluding VAT). A record of why these dates were not invoiced has not been retained.
- For 4 invoices, 3 had errors in the rate applied and an additional meeting had been charged for but this was not recorded in SharePoint. The rate errors in led to an undercharge of £806.90 excluding VAT.
- 3 invoices did not have VAT applied correctly. This has since been addressed when additional VAT guidance was issued to all SBS teams in January 2015.
- For 7 invoices, the details on the invoice differed from the application form. Differences included changes to organisational names, addresses and/ or invoice description. Ensuring accurate completion of the application form will assist in reducing the delay in receiving income due to the Council. A new application form was issued in December 2014 which includes a note confirming that the address provided will receive all invoices.

The SBS teams were using different rates for surcharges, let rates and different durations & accommodation/ facilities lists. However, a new template of charges was issued to all SBS teams in December 2014.

In addition, the Council's Financial Regulations and the guidance note "Issue of Debtors Accounts" have not been complied with:

- There were delays in the issuing of invoices. The guidance note states "*all invoices should be issued within 14 days from the date of the provision of service, at the month end for regular invoicing or when all associated charges are available*" (Paragraph 3.3, dated April 2014). The majority of invoices were raised by SBS at the end of the respective term. 4 invoices relating to December lets were issued in the following February. In 1 case there was a 6 month delay between the let start date and the invoice being raised. The guidance note was updated in November 2014 to include the termly invoicing of lets as an approved timescale for the issue of debtor accounts. However, if

debtor accounts are not issued promptly, there will be a delay in receiving income due to the Council.

- 1/16 invoices did not contain sufficient detail. This has since been addressed with additional invoice guidance issued to all SBS teams.
- Only 8/16 (50%) invoices were paid within the 14 day timeframe. If payment in advance or by direct debit were obtained then this would address this point.

4.5. It was established that the schools visited do not directly receive any school let income so no further work was undertaken in this area.

5. CONCLUSION

The aim of the pilot project was to provide improved management and financial information to inform future policy. The school let function is still in transition and there is a need to ensure consistency across the Council. This will require input from schools and Shared Business Support, and making improved use of the available technology. In addition, work needs to be undertaken in establishing any local arrangements with management committees and ensuring that formal agreements are in place which clearly set out the Council's expectations and the roles and responsibilities of both parties. These points will need to be addressed if the second stage aim of implementing a consistent operating model is to be achieved.

As a result, there are 3 medium and 1 low grade recommendations in this report. The recommendations have been accepted by management, with resultant agreed actions due to be implemented by the end of March 2016.

6. AUDIT OPINION

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.

7. ACTION PLAN

The Action Plan contains **4** recommendations as follows:

Description	Priority	Number
Major issues that managers need to address as a matter of urgency.	High	0
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	3
Minor issues that are not critical but managers should address.	Low	1
Total recommendations		4

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.1	Medium	<p>In 2 schools, Brora Primary and Nairn Academy, local management committees are involved in administering school lets. However, these are different to the new arrangements. In particular:</p> <ul style="list-style-type: none"> • There is a lack of clarity surrounding the arrangements and the respective roles and responsibilities. • There is no Head Teacher approval for use of the school's facilities. • There are no usage records on SharePoint. • The schools are incurring costs associated with the lets but the income is received by the management committee. • The rates charged are not in accordance with the Council's standard charges. 	<p>The Care & Learning Service should undertake a review into all management committees who have responsibility to administer school lets in order to ensure that accountability and responsibilities are properly agreed and fully documented. Wherever possible, these agreements should accord with the Council's standard approach to school lets.</p>	<p>A review of any local arrangements/agreement will be undertaken to ensure consistency of practice and charging.</p>	Head of Resources, Care and Learning	31/03/16

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.1 (con't)		All schools followed prescribed let procedures but there were inconsistencies as to when application forms were required.	The Care and Learning Service should update the School lets Process guidance web-page to include confirmation of the circumstances in which a let application form is required.	The guidance web-page will be updated.	Head of Resources, Care and Learning	30/09/15
4.2	Low	<p>A number of school let application forms were not properly completed. From the review of forms at the schools:</p> <ul style="list-style-type: none"> 9/28 (32%) of applications were not completed on the correct version of the form. 1 applicant failed to provide confirmation that they have read and comply with Child and Adult Protection guidance. Various application forms did not have the reverse fully completed and did not have the Head Teacher's approval recorded. Information on let servicing at Cradlehall Primary School was not supplied on application, as the Head Teacher was unsure who from the facilities management team would service the let. The method of recording let activity differed at each school. 	<p>The Care and Learning Service should remind schools to comply with the let process guidance and ensure that application forms are fully and appropriately completed.</p> <p>The Care and Learning Service should update the School lets Process guidance web-page to include:</p> <ul style="list-style-type: none"> The requirement for schools to retain a completed and authorised copy of all let application forms for Audit purposes. The expected arrangements surrounding confirmation of let servicing with Facilities Management teams. The adoption of a common method for recording the let availability. <p>The amended guidance should then be circulated to all schools.</p>	<p>A reminder will be issued to all schools.</p> <p>Guidance will be updated and schools notified</p> <p>In connection with this action, work has already commenced, supported by the Council's Corporate Improvement Programme Team, to review existing processes including consideration of using online forms.</p>	<p>Head of Resources, Care and Learning</p> <p>Head of Resources, Care and Learning</p>	<p>30/09/15</p> <p>30/09/15</p>

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.2 (con't)		<p>Comparison of the application details to that recorded on SharePoint showed:</p> <ul style="list-style-type: none"> • 2 lets not recorded on SharePoint. 1 was a cancelled meeting however, it could not be established if the required notice was provided and 1 related to a free let. • Minor issues where details held at the schools, namely application dates and end dates, did not match to SharePoint. 	The Care and Learning Service should remind schools to comply with the requirement that all appropriate application forms and cancellation notices should be submitted to Shared Business Support in a timely manner.	A reminder will be issued to all schools	Head of Resources, Care and Learning	30/09/15
4.3	Medium	Payment for chargeable lets is currently sought after the let has taken place through the raising of invoices.	In accordance with the Council's Financial Regulations the Care and Learning Service should consider requesting upfront payments for one-off lets and payment by Direct debit for regular lets.	This matter will be reviewed and considered in the context of ongoing review of the school lets process, taking account of practicalities from the perspective of the Council, as well as service users.	Head of Resources, Care and Learning	31/03/16

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.4	Medium	<p>Where invoices had been issued there were a number of differences between what was invoiced and the let records held at the schools:</p> <ul style="list-style-type: none"> • For 5 cases, applications for lets were "Free of Charge", when a charge would be expected. • For 4 invoices, 3 had errors in the rate applied and 1 had a charge for an extra meeting not recorded on SharePoint. • At 1 School, the diary did not show all lets which had taken place. Also there was 1 let recorded with 2 dates which had not been invoiced. A record of why these dates were not invoiced has not been retained. <p>Financial Regulations have not been complied with as:</p> <ul style="list-style-type: none"> • There were delays in the issue of debtor invoice. • 1 of the 16 invoices examined did not contain sufficient detail. • There were delays in the payment of invoices. This could have been avoided if payment in advance or by direct debit was sought. 	<p>The Care and Learning Service should work with Shared Business Support to comply with the issued guidance and Council's Financial Regulations to ensure that the sums invoiced are in accordance with the current let charges and rates on the supporting paperwork. In addition, it should be ensured that SharePoint is regularly updated to show all let activity.</p> <p>The Care and Learning Service should request that schools:</p> <ul style="list-style-type: none"> • Operate and maintain an accurate record of whether a let was taken up by the client. • Notify Shared Business Support of any lets which have not been invoiced. <p>The Care and Learning Service should work with Shared Business Support to comply with the issued guidance and Council's Financial Regulations to ensure that invoices are issued on a timely manner and contain sufficient detail.</p>	<p>Agree to review arrangements in liaison with Shared Business Support, to improve administration arrangements.</p> <p>As also stated above, In connection with this action, work has already commenced, supported by the Council's Corporate Improvement Programme Team, to review existing processes including consideration of using online forms.</p>	Head of Resources, Care and Learning	31/03/16

AUDIT REPORT SUMMARY

Report Title

Care & Learning Service: Primary School Fund Investigation – System Weaknesses Report

Report No.	Type of Audit	Issue Date	
HC13/020.bf	Investigation	Draft Report	06/08/14
		Final Report	12/09/14

1. Introduction

- 1.1 Internal Audit were asked to carry out an investigation into the School Fund operated at a Primary School in August 2013, when it was discovered that the balance held within the Fund was significantly less than expected. This was identified when there were insufficient funds within the School Fund account to pay a large invoice relating to a school trip. A Final Irregularity report arising from the investigation was issued on 21/01/14 and detailed the fraudulent activity carried out by the school's Clerical Assistant.
- 1.2 It is estimated that the fraud commenced in August 2012 and resulted in a loss of £15,564.62 to the School Fund. The fraud involved cash payments made by pupils for the school trip, along with other payments to the School Fund, being misappropriated by the Clerical Assistant rather than being banked in the School Fund account. There were also instances where School Fund cheques were used fraudulently.
- 1.3 Due to the poor quality of record keeping the fraud may have taken place over a longer period and resulted in higher losses than those stated. The Clerical Assistant was dismissed at a disciplinary hearing on 16/07/14. The fraud was also reported to the Police on 22/11/13 and the Clerical Assistant pleaded guilty to embezzling £9,000 at a court hearing on 09/09/15. While the irregularity report referred to above detailed the findings in relation to the missing School Fund money, this report focusses on procedural weaknesses which allowed the fraud to take place and remain undetected over a number of months. The report could not be presented to Committee prior to the resolution of the criminal case against the Clerical Assistant.

2. Review Objectives

- The objectives of the review were to investigate the loss of income to the Fund and, in particular:
- 2.1 To review School Fund records to identify the reason for the unexpectedly low balance and establish if the discrepancy could have been identified sooner;
 - 2.2 To review the audited School Fund accounts to establish if they had been submitted timeously.

3. Main Findings

- The main findings of the review, referenced to the above review objectives, are as follows:
- 3.1 The Guidance Note on School Funds within the Council's Financial Regulations requires Head Teachers to ensure that there is effective scrutiny of the Fund, and to ensure they receive regular reconciliations of the Fund balances. However, the investigation found that the Clerical Assistant operated the School Fund with minimal supervision. There was no evidence of reconciliations being carried out, and therefore the Head Teacher was not aware of the discrepancy between the expected Fund balance and the amount actually held.
The Guidance Note also required that the school's allocated Finance Officer reviews bank statements annually. Again, there was no evidence of this check being carried out.
Had the checks outlined in the Guidance Note on School Funds been carried out the fraud

would have been identified at an earlier stage. It is also possible that a robust checking process may have acted as a deterrent to the fraud being committed.

- 3.2 The Council's Financial Regulations require schools to submit audited School Fund accounts to the Service Finance Team before the October school holidays. The last audited accounts held for the Primary School are for 2010/11. It is unclear if the school received any reminders to submit their 2011/12 School Fund accounts (which should have been submitted by October 2012), but the Head Teacher was unaware that the accounts had not been provided which suggests that if reminders were issued they were not escalated to the Head Teacher. Historically, School Fund accounts have been submitted to the relevant Area Education Office. However, in September 2013 schools were reminded that audited School Fund accounts must be submitted to the Service Finance Team. The Service Finance Team have developed a spreadsheet to record the receipt of accounts and identify any late submissions, and therefore the procedures are now more robust than they were at the time when the fraud was committed.

4. Conclusion

- 4.1 While the concerns identified during the investigation relate to the conduct of the Clerical Assistant, it is considered that had the procedures detailed in the Guidance Note on School Funds within the Council's Financial Regulations been followed the fraud could have been prevented or would have been identified much sooner. However, it is recognised that robust procedures have now been introduced to monitor the completion of audited School Fund accounts. There is 1 recommendation within this report, which is classified as high priority. While the investigation was limited to the school where the fraud took place, it is important that the recommendation is considered at all schools where a School Fund is operated. The recommendation has been accepted by management and has already been implemented.

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.

Care & Learning Service: Primary School Fund Investigation – System Weaknesses Report	HC13/020.bf
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The Action Plan contains 1 recommendation 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 1

Medium 0

Low 0

 1

Total recommendations

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.1	High	The Head Teacher did not receive regular School Fund reconciliations, and scrutiny of the Fund was limited to signing cheques for expenditure from the fund.	<p>(1) Head Teachers must ensure that effective scrutiny is in place in relation to School Funds, and must ensure that they receive and review regular bank reconciliations in respect of the School Fund.</p> <p>(2) Head Teachers must ensure that the School Fund is operated in compliance with the Council's Financial Regulations, and in particular the Guidance Note on School Funds.</p>	(1 and 2) An instruction has been issued to all Head Teachers regarding the need to ensure compliance with the Council's Financial Regulations in relation to School Funds.	Head of Resources, Care and Learning	Completed

AUDIT REPORT SUMMARY

Report Title

Care and Learning Service – Records Management at Care and Learning Store, Nairn

Report No.	Type of Audit	Issue Date	
HBA03/001	Computer	Draft Report	14/05/15
		Final Report	20/08/15

1. Introduction

- 1.1 This audit reviewed management of records at the Council's records store located at Nairn Town & County Hospital, Nairn.
- 1.2 The records included in this review are health and social care paper records managed by the Council. All Highland children have a health record which can be referred to and updated by Health professionals including Health Visitors and School Nursing Officers. Some Highland children may also have a Child's Plan.
- 1.3 The scope of the audit excluded paper records managed by the School Nurse for Culloden Academy and feeder Primary Schools as they are stored at another site, Rowan House, Inverness.
- 1.4 The Council manages children's health and social care records under arrangements first set out in the Partnership Agreement of 2012; these were later incorporated into a new Highland Partnership Integration Scheme agreed in March 2015 to comply with new legislation, the Public Bodies (Joint Working) (Scotland) Act 2014. Within the new Integration Scheme, schedules and definitions cover responsibilities for transferred records and retained databases.
- 1.5 Records are subject to compliance to the Public Records Scotland Act, 2011 which promotes efficient and accountable record keeping by Scottish public authorities. As health and social care records contain data defined in the Data Protection Act as sensitive personal data, they require to be managed under strict conditions to comply with the principles of this Act.
- 1.6 This audit was undertaken as part of the 2014/15 Audit Plan.

2. Review Objectives

- The objectives of this review were to ensure that
- o Records are managed to ensure confidentiality, integrity and availability in accordance with Council guidance and agreements with Council partners
 - o Records management processes comply with legislation, including the Data Protection Act and the Public Records (Scotland) Act.
- 2.1 Areas covered in this review included:
- o Records are stored to ensure their integrity and availability as required
 - o Records are labelled to identify security classification requirements
 - o Quality assurance checks are carried out
 - o Access to records is controlled in line guidance and requirements of the Council and Council's partner NHS Highland
 - o Records of a personal nature are securely managed according to the requirements and principles of the Data Protection Act 1998
 - o Other relevant records management legislation is taken into account, including the Public Records (Scotland) Act 2011.

3. Main Findings

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

3.1 The first objective was found to be achieved as follows:

- A Corporate Records Inventory or Information Asset Register identifies health and social care records for Children's Services with named responsible Information Asset Owners and Information Asset Managers, description detail of records, impact risk and retention times
- The Council has policy documents defining records management processes including the Records Management Policy, the Records Retention Policy and Disposal Authority, Information Management Policy, Data Protection Policy and Information Security Policy
- The NHS Records Management: NHS Code of Practice (Scotland) is a useful reference for expected standards of practice in the management of health records and the Nursing and Midwifery Council and Professional Nursing and Allied Health Professional Bodies have published guidance and principles of good record keeping for Care and Learning professionals
- Physical and environmental controls on storage of records at the Nairn Town & County Hospital site were satisfactory; the building is purpose built as an office with fire controls measures in place and no visible sign of pipes for potential water leaks. The store area is ventilated and temperature controlled
- Paper records are stored in opaque folders marked as confidential, with discreet marking incorporating classification levels dependent on client needs and relevant dates
- Records were verified with regular checks for quality and completeness, incorporated into NHS clinical governance processes as follows -
 - For Allied Health Professional (AHP) records – speech and language, occupational therapy, orthoptics, orthotics, physiotherapy, podiatry and prosthetics, a quality assurance check is required to be carried out every six months if records are at satisfactory or highest green level and more often if at lower levels amber and red
 - For Nursing Professional records, an annual records audit of five records per caseload is reviewed as a minimum using the NHS audit tool
 - The Health Team Manager at Nairn audited records in store in two six monthly checks. Ten health record files were reviewed, equivalent to a 5.6% check of all health records in the store for one year
 - For record quality and completeness of Social Work case records, an audit is carried out every two months on a sample of 16 records across the whole of the South area, of which 2-3 cases audited are Nairn records. A checklist of items are reviewed, including quality assurance standards, wellbeing and quality indicators and completeness checks that all relevant documents are included within the record file for the Child's Plan
 - There is a procedure for managing subject access requests to view personal records held by the Council to comply with the Data Protection Act - rights of access to personal information. A request form or mandate to view personal records is available on the HC website and the data subject is asked to provide appropriate identification with their request. Enquiries are checked before the team locate the original record and make copies for the enquirer. The original records do not leave the storage site as part of the request process.

Four areas are noted for improved controls:

- Health professionals have two sets of online core training to complete – the NHS 'Learnpro' module and the Council's Information Management module. Not all officers handling Council information had been confirmed as having completed the mandatory

Council training, so a date had been allocated to provide officers time to complete this in the next month

- When records are taken off site officers do not have lockable bags for holding records. Officers can visit more than one client in a day's work and may be required to stay overnight in remote locations on home visits, therefore they may carry several record files off site at once. The guidance in the ICT Security Policy for Mobile and Flexible Working is mainly concerned with electronic, not paper records and has not been reviewed since 2012. NHS IS Security Policy is currently under re-draft
- The Council Information Asset Register does not define records ownership of the Health Care Records stored at Nairn site in relation to the Highland Partnership Integration Scheme approved by the Council in March 2015 or the earlier Partnership Agreement
- There is no common approach for archiving health records once they are no longer considered active and are reaching semi-dormant and archive stage. This is not an issue at the Nairn store which is very secure. However, it is a known corporate risk which is being escalated for resolution by Principal Officers for Nursing and Allied Health Professionals.

3.2 The second objective was substantially achieved in the areas reviewed for compliance to legislation:

- The Council's Data Protection Policy defines roles and responsibilities for records management systems and assists officers in understanding the specific requirements of the Act. The Council's Information Security Policy provides guidance specific to principle 7 of the Act and the Records Management Policy specifically for principle 5 of the Act
- Progress is being reported by the Records Manager to the Council's Information Management Governance Board or IMGB of the draft records management plan for the Highland Council and Highland Licensing Board as required by the Public Records Scotland Act 2011. The Keeper of the Records of Scotland has provided notice in advance of the Council being invited to submit a Records Management Plan. The National Records of Scotland timetable confirms that Highland Council and the Highland Licensing Board will be formally invited in April 2015 to submit record plans in August 2015.

One area is noted for improved controls:

- The Council's Draft Records Management Plan does not refer to the Highland Partnership Integration Scheme approved by the Council in March 2015 for health and social care records. This Plan refers to options for Disposal but this is not referred to as the Disposal Log, as defined in the HC's Records Retention & Disposal Policy under ownership & disposal log.

4. Conclusion

- 4.1 The paper records in the Care and Learning Nairn store were found to be managed in a secure environment with access limited to only authorised officers. Managers on site were progressing with plans to improve controls on records when they are taken out of store as required for work; this is noted as a recent information risk area for healthcare records reported nationally by the Information Commissioner's Office. Likewise, progress to ensure mandatory training was completed by all officers was underway.
- 4.2 The Council was progressing steadily towards submission of a Council Records Management Plan for the Keeper for Records of Scotland to comply with the Public Records Scotland Act.
- 4.3 Five recommendations are made, all at medium grade to further improve controls on this activity and these are all due to be completed by 30/04/2016.

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 while there is 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.

Care and Learning Service – Records Management at Care and Learning Store, Nairn

HBA03/001

The Action Plan contains 5 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 5

Low 0

Total recommendations

5

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.2	Medium	<p><u>User training and policy guidance</u> Officers have two sets of training to complete – Council and NHS online modules. Officers handling Council health records onsite had not all been confirmed as having completed the Council's mandatory Information Management online learning module so a date had been allocated to provide time to complete this.</p> <p>The Council's Records Retention and Disposal Policy has no reference to health records retention and disposal and the Integration Scheme</p>	<p>A) Managers should ensure that their officers complete mandatory Council training on records management</p> <p>B) As a matter of good practice training should be reviewed and refreshed on a regular basis as recommended by the Information Commissioner's Office (ICO)</p> <p>C) Specific reference to health records processes and the Integration Scheme should be included in the Council's Records Retention and Disposal Policy; for example transfer of health records back to the NHS for archiving</p>	<p>A) Require all relevant staff to complete online training.</p> <p>B)The Information Management MOL Training Course will be reviewed to ensure it is current following the annual review of the IM Strategy and IM Policy Framework.</p> <p>C) The Records Retention and Disposal Policy will be updated as part of the annual review of the Information Management Policy Framework to include reference to records held on behalf of other organisations.</p>	A) District Manager	31/12/15
					B) Senior Information & Security Officer [SISO]	30/04/16
					C) Senior Information & Security Officer	30/04/16

AUDIT REPORT ACTION PLAN

Report Title

Report No.

Care and Learning Service – Records Management at Care and Learning Store, Nairn

HBA03/001

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.3	Medium	<p><u>Securing records when taken out of the records store</u></p> <p>The site officers did not have lockable bags for holding records when they took records off site as part of their work. When visiting several clients in remote areas, records may be taken out of store overnight.</p> <p>When records are taken out of the store by officers, they are currently advised to lock them in the boot of car, out of sight if they cannot carry them.</p> <p>One Manager reported storing records within their home overnight if necessary as the car park area was not secure</p>	<p>A) Care and Learning site officers should have access to lockable bags for holding records in transit as required</p> <p>B) The ICT Security Policy for Mobile and Flexible Working to be reviewed and updated and should include practical solutions for healthcare providers for managing paper records securely out of office, sometimes overnight in tourist accommodation with limited secure storage away from home base</p> <p>C) A brief checklist and a one page reminder sheet of practical guidelines for officers taking paper records home or out of office should be considered, as recommended in the ICO's top tips for community healthcare providers</p>	<p>A) Bags to be made available.</p> <p>B) The ICT Security Policy for Mobile and Flexible Working will be reviewed and added to the Information Management Policy Framework. This will include a refocusing of the Policy to cover the use of both ICT and paper information.</p> <p>C) Checklist to be produced and agreed with Senior Information and Security Officer.</p>	<p>A) District Manager</p> <p>B) Senior Information & Security Officer</p> <p>C) Principal Officer Social Work/ Principal Officer Nursing/ Principal Officer AHPs</p>	<p>30/09/15</p> <p>30/04/16</p> <p>31/12/15</p>

AUDIT REPORT ACTION PLAN

Report Title

Report No.

Care and Learning Service – Records Management at Care and Learning Store, Nairn

HBA03/001

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.4	Medium	<p><u>Information Asset Register</u> The Council's Information Asset Register does not refer to ownership of the health and social care records by reference to the Highland Partnership Integration Scheme approved by the Council in March 2015. The agreement refers to records under the definition of Transferring Records and includes reference to Retained Databases</p>	<p>Information Asset Register to include reference to agreement on records in the Highland Partnership Integration Scheme between the Council and NHS Highland</p>	<p>The Corporate Information Asset Register will be updated to include an extra column that identifies information assets that consist of records that are held on behalf of other organisations.[Care and Learning Service to assist in a commitment to review the information assets held and to identify where the information assets are held on behalf of other organisations – in particular those that are NHS records].</p>	<p>Senior Information & Security Officer, with assistance from Head of Children's Services</p>	<p>30/09/15</p>

AUDIT REPORT ACTION PLAN

Report Title

Report No.

Care and Learning Service – Records Management at Care and Learning Store, Nairn

HBA03/001

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.5	Medium	<p><u>Health Records storage and Archiving</u> There is no common approach for archiving health records across the Council's Care and Learning sites once they are no longer considered active and are reaching semi-dormant and archive stage. This is not currently an issue at the Nairn store which is secure. However, it is a known risk for health records which is currently being escalated for resolution by Principal Officers for Nursing and Allied Health Professionals.</p>	<p>The work underway to find a common approach for archiving health records should be completed, with assistance from the Senior Information & Security Officer and the Records Manager.</p>	<p>Written guidance on storage of archived health records to be agreed.</p>	<p>Principal Officer Nursing/ Principal Officer AHPs with advice from the SISO</p>	31/12/15
3.6	Medium	<p><u>Council Records Management Plan</u> The Records Management Plan being drafted for Highland Council has no reference to the Highland Partnership Integration Scheme (HC, NHS Highland). Element 6 Destruction Arrangements has details of destruction arrangements, but there is no reference to a 'Disposal Log' as defined in the Council's Records Retention and Disposal Policy</p>	<p>A) The HC Records Management Plan to incorporate reference to the Highland Partnership Integration Scheme (HC and NHS Highland) and records and the practice of Child health records being sent to NHS Highland for archiving B) Reference to the Disposal Log within Element 6 Destruction Arrangements of the Records Management Plan would provide a useful link between the two documents</p>	<p>A) This will be incorporated into the Records Management Plan prior to internal approval and final submission to Keeper of Records.</p>	<p>A) Senior Information & Security Officer</p>	30/09/15
				<p>B) This will be incorporated into the Records Management Plan prior to internal approval and final submission to Keeper of Records.</p>	<p>B) Senior Information & Security Officer</p>	30/09/15

OFFICIAL



**INTERNAL AUDIT
FINAL REPORT**

CARE & LEARNING SERVICE

SEEMiS INTEGRATED SCHOOL MANAGEMENT SYSTEM

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1. INTRODUCTION

The purpose of this report is to record the findings of a recently completed audit review in respect of the Education Management Information System (MIS) known as SEEMiS.

On 25 September 2013, it was reported to the Adult and Children Services Committee that the Phoenix e1 Education MIS previously used in Highland schools was being withdrawn by the supplier. Given this decision the Council had to rapidly replace the system with the only other feasible option, SEEMiS, a web based integrated school management system which is hosted in Hamilton. SEEMiS stands for Strathclyde Educational Establishments Management Information System. Originally formed by twelve of the ex-Strathclyde Councils, SEEMiS delivers an MIS to all sectors of the Scottish education system. In July 2010, the organisation became a Limited Liability Partnership (LLP) wholly owned and managed by the then twenty eight member councils. Given the withdrawal of Phoenix e1, in 2014 the remaining four Scottish councils became members of the SEEMiS LLP and it is now used by all thirty two councils in Scotland. SEEMiS is governed by a Board of Management containing both Council Officers and Elected Members that acts on the behalf of the member councils. SEEMiS Click and Go is the generic name the supplier gives to its system. It contains a large number of different modules to carry out different Education functions including the following used by the Council:

- Pupil Behaviour Tracking, Monitoring and Reporting
- Pupil Pastoral Notes
- SQA and Prelim Exam Planning
- Additional Support Needs
- Education Maintenance Allowance Management
- Clothing grants and free school meals
- Staff Absence and Appointment
- Supply Staff Booking
- SEEMiS Vision – a statistical overview tool use to provide management information

There is also a web enabled version of Click and Go that allows a limited subset of pupil information to be accessed over the internet by teachers working from home or elsewhere away from school.

SEEMiS went live in Highland Council on August 2014 at the start of the 2014/15 school year following a short implementation period. Development of the live system is still work in progress. The security of the system is very important given it contains both personal and sensitive personal details of pupils, as defined by the Data Protection Act, that could cause substantial distress if it was lost or stolen. Personal data loss of this nature has previously resulted in substantial fines from the Information Commissioner's Office in other councils.

2. REVIEW OBJECTIVES

The objectives of the review were to ensure that:

- (i) Access to the system is adequately controlled
- (ii) System, pupil and staffing data input is complete, accurate and up to date

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- (iii) Interface processing to and from other systems is properly checked and reconciled
- (iv) Sufficient management and data quality reports are produced, securely distributed and then disposed of when no longer required
- (v) The system's electronic audit trails are properly set up and maintained
- (vi) License and support arrangements comply with expected best practice
- (vii) The system operates both efficiently and effectively.

3. SCOPE, METHOD AND COVERAGE

The following information relating to the system was examined:

- Modules within the SEEMiS System and its associated interface programs
- The Care and Learning policy and procedures relating to schools, staff and pupils
- All paper records associated with SEEMiS processing and system administration
- The SEEMiS implementation project documentation
- The Council's policies relating to data protection and information security

The following standards and best practice were also referred to:

- The Institute of Internal Auditors Information Systems Auditing Manual
- The information security standards ISO 27001 and ISO 27002.

Meetings were held with the following staff to discuss the operation of the system:

- The SEEMiS System Administrator
- The C&L Service Information and Support Manager

4. MAIN FINDINGS

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

4.1 Access Control

Objective (i) was partially achieved.

- 4.1.1 A draft Access Control Policy does exist, but it is not yet formally approved for use and it is not used yet by either central or secondary school system administration staff.
- 4.1.2 The users accessing the system have been allocated different access levels in accordance with the SEEMiS supplier guidance, but these are not reviewed annually. A report of user access levels is not available within the SEEMiS System.
- 4.1.3 A formal User Registration System has been set up. Access is currently controlled in that a user has to complete a formal user registration form before he/she is set up with access to the system and be authorised by senior member of staff. The registration form is held in the Scottish Schools National Intranet, GLOW, and specifies what SEEMiS modules are being requested. Thereafter access rights are applied. A form is being developed by Care & Learning staff to automatically send an email to the authoriser. At present the email is automatically being sent to the system administrator who in turn sends an email to the authoriser. Access is

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controlled by system administration staff at HQ for primaries, but secondary schools control their own access and do not use the access control form or keep access control records which increases the risk of a user being allocated inappropriate or unauthorised access. All school employees are entered into SEEMiS and given a work record when they commence employment in a school. This, in turn, generates a user name. Although each member of staff will have a username, not all staff are given access to SEEMiS modules.

4.1.4 Three different sources either recommend or use different versions of access levels, namely:

1) The Systems Support Officer stated there are three main access levels set up for primary schools, namely:

- Security
- Office
- Teachers

2) The draft Access Control Policy states the following user access groups should be set up.

- System Administrators
- Senior User Group
- Confidential Access User Group
- SEEMiS Support Staff
- Local Authority User Group
- Data Input User Group
- Read-Only Access User Group
- External and Internal Auditors.

3) An example secondary school reviewed had the following access levels set up:

- Security
- Senior Management Team
- Principal Teacher
- Guidance Teacher
- Office
- Teacher.

4.1.4 Password complexity in terms of minimum password length, mix of characters, etc. is in place.

4.1.5 Users are not currently timed out of the system after a specified period if they have logged into it but do not use it. For temporary staff user access is revoked automatically when the user's associated work record expires. However this timeout does not apply to permanent staff members who do not use the system.

4.1.6 Users are not disabled after a specified period if they are given access to the system, but do not log into it. The SEEMiS supplier has advised this facility can be configured if requested.

4.2 Data Input

Objective (ii) was only partially achieved. The types of data input into SEEMiS include the following:

- Pupil enrolments
- Teacher contracts
- Pupil attendance

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- Pupil performance
- Education maintenance allowances
- Clothing grants and free school meals
- Scottish Qualifications Authority exam results

Some of the SEEMiS data is checked as part of the various censuses carried out by ScotXed (Scottish Exchange of data) which is part of Education Analytical Services Division within the Learning and Justice Directorate of the Scottish Government. The censuses cover checks on the following data:

- The school establishments within the council
- Staff data in each school
- Pupil data in each school
- Pupil attendance, absence and exclusion data

In addition to the above ScotXed data quality checks the system data as well as the staff and pupil data are all input into SEEMiS and separately checked to be complete, either by the system administrators for system data, or via data quality reports which are currently being developed to check staff and pupil data. For example, reports are run to identify gaps in Additional Support Needs data and action is taken to get this data updated.

However the following three concerns have been identified:

- 4.2.1 School attendance is supposed to be updated every period, but primary schools are putting it on paper and updating it at the end of term.
- 4.2.2 A sample check of pupil absence data found that the "T" absence indicator (meaning "To Be Confirmed") is not always being updated when the reason for the absence was established. For example the "T" absence indicator was still recorded against some pupil's absences relating to 2014. There is an attendance reconciliation facility within the system but the existence of the "T" absence indicator signifies this is not always being utilised. It can be used to update anomalies such as part day absences. This calls into question the accuracy of absence returns to ScotXed and raises the question as to whether EMA payments, which are dependent on accurate absence recording, are completely correct.
- 4.2.3 The sample tested also indicated that a small minority of EMA payments were not in accordance with the EMA guidance provided by the Scottish Government states that:

"EMA is a weekly allowance requiring 100% attendance at all timetabled sessions. Part payments for part attendance will not be made"

There are a number of reasons for authorised absence, e.g. work experience, and there are indicators available to input and identify these. However they are not always used.

One example of absence affecting an EMA payment is parental holiday. In the sample there was one case of a pupil who took a parental holiday receiving an EMA payment whereas another pupil who also took parental holiday did not. The reason given for not receiving an EMA payment in the note was because the pupil took a parental holiday.

4.3 Interface Processing

Objective (iii) was mainly achieved. Data is extracted from and loaded into SEEMiS for a number of reasons. These include the following:

- As mentioned above, school, teacher and pupil data is extracted from SEEMiS and sent to ScotXed as part of the various censuses carried out by ScotXed
- Exam registrations, entries and results are extracted and electronically transmitted to the Scottish Qualifications Authority (SQA) and returns from the SQA are loaded into SEEMiS
- Education Maintenance Allowance BACS payment files are extracted from SEEMiS and transferred to the banks via the Council's BACS software

The interfaces are operating as expected, but two concerns were identified during the review:

- 4.3.1 A pupil and teacher numbers file is extracted from SEEMiS and loaded onto the ScotXed extranet. Corrections are then identified and made to the file, but not to SEEMiS itself. An exercise to make the 500 or so corrections over the summer period when the schools are closed is taking place.
- 4.3.2 As above, because the TBC absence indicator is not always being updated this could affect the accuracy of absence returns to ScotXed and EMA BACS payments to pupils

4.4 Reporting

Objective (iv) was mainly achieved. Data quality reports are being developed to ensure SEEMiS data is complete, accurate and up to date. However these reports are not yet complete and items such as the "T" absence indicator are not yet being captured.

4.5 Audit Trail

Objective (v) was completely achieved given the following modules containing financial information have electronic audit trails set up to audit the update of transactions:

- Clothing grants and free school meals
- Education Maintenance Allowance Payments and the Pupil Attendance source data.

There is also an electronic audit trail of when staff last logged into the system.

4.6 License and Support

Objective (vi) was only partially achieved. A Memorandum of Understanding exists between Highland Council and South Lanarkshire Council and the SEEMiS Group LLP. However the SEEMiS supplier has advised this is out of date and have stated the member councils currently have the new, approved by the AGM, 'Members Agreement' and they await the return of this signed version from Highland Council. This Agreement covers the use of SEEMiS software. A new Services Agreement is currently with SEEMiS's Lawyers and will be passed to the SEEMiS Board in September 2015 for approval and subsequent issue.

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4.7 Performance

Objective (vii) was mainly achieved. The various SEEMiS modules are being widely used throughout the Council. However, two issues relating to efficiency were identified.

4.7.1 There is double entry of teachers' contract details into both the Northgate HR/Payroll System and SEEMiS. Although the same data should be held in both systems no reconciliation takes place to provide assurance that this is the case. Double entry of the same information is an inefficient use of staff time.

4.7.2 The following parts of SEEMiS are either not being used or are planned for use:

- The pupil tracker facility is not being used by primary schools because SEEMiS does not currently provide adequate functionality to support the government's "Curriculum for Excellence" agenda.
- Teacher absences are not recorded on SEEMiS but on spreadsheets instead. SEEMiS has a facility to record staff absence but it is not planned for use until October 2015.
- Supply staff booking is planned for use at a future date which would identify dates when supply staff are required and the supply staff who are available on these dates.
- The Nursery Application Management System (NAMS) for nursery enrolments is planned for use at a future date which would allow HQ staff to have an overview of the process and assist with prioritising applications.

The cost of SEEMiS license and support to Highland Council is approximately £150,000 annually and it is important to ensure as much use as possible is being made of the system.

5. CONCLUSION

The rapid implementation of SEEMiS means much of its development is still work in progress. Given this it was good to find that many of the expected controls are already in place. User access is both administered and controlled. Access levels reflect staff duties. There are checks carried out that both data input and interface processing are complete and correct. Data quality reports are being developed and financial transactions are audited.

Nevertheless some of these control areas still need further improvement to approach best practice.

There are five recommendations in this report all classified as medium priority. All of the recommendations are due to implemented by the end of January 2016.

6. AUDIT OPINION

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 **Reasonable Assurance** can be given in that 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.

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7. ACTION PLAN

The Action Plan contains **5** recommendations as follows:

Description	Priority	Number
Major issues that managers need to address as a matter of urgency.	High	0
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	5
Minor issues that are not critical but managers should address.	Low	0
Total recommendations		5

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.1	Medium	Access Control				
4.1.1		A draft Access Control Policy does exist, but it is not yet formally approved, nor is it used by either the central, or the secondary school, system administration staff.	The draft access control policy should be finalised, approved and the adhered to by all system administration staff.	The SEEMiS Project Implementation is on-going with a plan to be completed by December 2015. The access control policy will be submitted for approval to a SEEMiS Project Board meeting in October.	Service Information and Support Manager	31/10/15
4.1.2		The users accessing the system have been allocated different access levels in accordance with the SEEMiS supplier guidance, but these are not reviewed annually.	User access levels should be reviewed at least annually.	Annual Audit of a sample of schools to be carried out and reviewed by Service Information and Support every January	Service Information and Support Manager	31/01/16
4.1.3		The supplier does not provide a report of user access levels so they are difficult to review efficiently.	The supplier should be asked to provide a report of user access levels.	Supplier to be asked to provide a report	Service Information and Support Manager	30/09/15

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REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.1.4		A form is being developed by Care & Learning staff to automatically send an email to the authoriser. At present the email is automatically being sent to the system administrator who in turn sends an email to the authoriser.	Work on the automated email to the authoriser confirming a user they have authorised has been set up should be completed.	Project development of process will aim to complete by October.	Service Information and Support Manager	31/10/15
4.1.5		Secondary schools control their own access and do not use the access control forms or keep records of who has access.	Secondary schools should adopt a formal user registration system and keep records of users they set up.	Schools can't add users and formal processes are in place through the Business Support addition of teachers, and the non-teaching approval form. An audit process will be implemented which will monitor adherence to policy.	Service Information and Support Manager	31/01/16
4.1.6		Users are not currently timed out of the system after a specified period if they have logged into it but do not use it.	SEEMiS should be asked to supply a time out facility to log out users who have logged into the system, but not used it for a specified period of time, e.g. an hour.	4.1.6 and 4.1.7 This will be raised with SEEMiS, but given their extensive development program this is unlikely to attain the necessary support from the other Local	Service Information and Support Manager	30/09/15

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REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.1.7		Users are not disabled after a specified period if they are given access to the system but do not log into it. For temporary staff SEEMiS have advised that user access is revoked automatically when the user's associated work record expires. However this timeout does not apply to permanent staff members who do not log into the system. SEEMiS have advised this facility can be configured if requested.	SEEMiS should be asked to provide the facility to automatically disable users who never logged into the system after a specified period of time, e.g. 6 months.	Authorities. All users will be reminded of their training in the use of the system lock functionality. All computers are set to have a lock-screen timeout.		
4.2	Medium	Data Input				
4.2.1		School attendance is supposed to be updated every period, but primary schools are putting it on paper and updating it at the end of term	The update of primary school attendance should be addressed.	4.2.1 and 4.2.2 Training has been provided to achieve recording attendance on a daily basis. Monthly reports will be produced to monitor adherence and reported to Care and Learning Management by end of November. Resulting process to be approved by Head of Education before implementation.	Service Information and Support Manager	30/11/15
4.2.2		A sample check of pupil absence data found that the "T" absence indicator (meaning "To Be Confirmed") is not always being updated when the reason for the absence was established	The guidance to schools to update the 'T' indicator should be reiterated.			
4.2.3		The sample tested also indicated that EMA payments do not always	The guidance to schools to update the notes field to explain EMA	The responsibility for managing EMA policy is		

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REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
		seem to be in accordance with guidance which states 100 percent attendance has to be achieved.	payments should be re-iterated.	<p>in the process of transferring from Care and Learning to Finance.</p> <p>A policy document will be provided to the Head of Education for circulation to Secondary School Head Teachers. This policy will reinforce the Scottish Government's Guidance that states "education providers will be required to record attendance of EMA recipients".</p> <p>The policy will be produced by the Benefits and Welfare Manager and implemented by Head of Education and Secondary School Head Teachers.</p>	Welfare Manager	
4.4 4.4.1	Medium	Reports Data quality reports are being developed to ensure all data is complete and correct. However these reports do not include absence data.	An exercise should be carried out to assess all the data quality reports that are required to ensure the SEEMiS data is complete and correct.	<p>The SEEMiS Implementation Project will not complete until end December 2015.</p> <p>Training in Staff Absence recording is being delivered in September and October.</p> <p>There is a Business Intelligence SEEMiS</p>	Service Information and Support Manager	31/12/15

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REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
				project which will deliver new reporting functionality. The Highland Council is a lead Authority on the BI Project.		
4.6 4.6.1	Medium	Licensing and Support SEEMiS stated the member councils currently have the new, approved by the AGM, 'Members Agreement' and they await the return of this signed version from Highland Council. This Agreement covers the use of SEEMiS software.	The Members Agreement should be signed and returned.	All documentation now up-to-date.	Head of Resources, Care and Learning	30/09/15
4.7 4.7.1	Medium	Performance There is double entry of teacher's contract details into both the Northgate HR/Payroll System and SEEMiS. Although the same data should be held in both systems no reconciliation takes place to provide assurance that this is the case. Double entry of the same information is an inefficient use of staff time.	An interface between the two systems should be considered as should reconciliation reports to ensure both systems agree. In addition the use of the information in both systems should be reviewed to ensure effort is not being duplicated.	The SEEMiS Implementation project will not be complete until end December 2015. It is not feasible to use an interface to upload contract information because Resourcelink contains more detailed contract information than SEEMiS. Basically SEEMiS only requires the contracted hours, the payroll number and the NI number. The payroll number is created by Payroll and given SEEMiS	Service Information and Support Manager	31/12/15

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REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.7.2		Some parts of SEEMiS are either not being used or are planned for use in the future.	The use of SEEMiS should be reviewed to ensure value for money is being obtained.	<p>has no bulk upload facility there is no plan to automate a feed from Payroll to SEEMiS.</p> <p>However, the process of recording absence data in SEEMiS and reporting in a format that can be uploaded into Resourcelink is a deliverable of the project</p> <p>It was always the intention that following the end of the project that there would be a process of ensuring that we exploit the system to the full. Currently we are developing the plans to implement the Supply Teacher Module, and the Nursery Administration module (NAMS)</p> <p>At the end of the project, an ongoing SEEMiS Governance process will be established to replace the Project Management process.</p>	Service Information and Support Manager /Head of Resources, Care and Learning	31/12/15

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**INTERNAL AUDIT
FINAL REPORT**

CARE & LEARNING SERVICE

REVIEW OF FINANCIAL PROCEDURES OPERATED IN SCHOOLS

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DISTRIBUTION

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1. INTRODUCTION

This report shows the findings of a completed audit review of the financial procedures at selected secondary schools. The audit was carried out as part of the annual plan for 2014/15. The undernoted schools were selected for review and visited as part of the audit.

School	Budget 2014/15	School Roll 2014/15 (September 2014)
Gairloch High School	£ 1,218,491	142
Inverness Royal Academy	£ 4,128,032	931
Nairn Academy	£ 3,241,722	747
Thurso Academy	£ 3,188,651	776

2. REVIEW OBJECTIVES

The objectives of the review were to ensure that:

- (i) The school budget is adequately controlled and monitored, and that the budgetary position is regularly reported to all relevant parties (See 4.1).
- (ii) Goods and services are purchased from approved contract suppliers in accordance with approved ordering procedures. Creditor invoices are properly authorised and processed promptly and accurately (See 4.2).
- (iii) All income received is receipted, processed, secured and banked accurately and promptly (See 4.3).
- (iv) Imprest accounts are administered in accordance with Financial Regulations and associated guidance (See 4.4).
- (v) Inventory records are maintained accurately and timeously, in accordance with Financial Regulations and associated guidance (See 4.5).
- (vi) Adequate control is exercised over School Funds and this is in accordance with the Council's School Fund Guidelines and Financial Regulations (See 4.6).

3. SCOPE, METHOD AND COVERAGE

The audit involved visits to the 4 secondary schools listed above to ensure that the areas outlined in the objectives are operating satisfactorily. Schools were selected following discussion with the Head of Resources, Care and Learning Service.

4. MAIN FINDINGS

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

- 4.1 This objective was partially achieved. Schools are provided with adequate resources to monitor budgets and there is regular communication between the budget holders and the Principal Accounting Technicians. However face to face meetings do not take place as often as stated in the Devolved School Management (DSM) manual. In particular, there have been no meetings between the Head Teacher of Gairloch High School and the Principal Accounting Technician since May 2014. However, there is regular electronic and telephone communication to address any budgetary queries.

All of the schools examined were carrying budget deficits. The DSM Manual states that schools are permitted to carry forward a deficit of up to 3% of their devolved

budget. Traditionally schools whose budgets exceed this 3% deficit threshold are given a financial top up (additional transfer of funds) to ensure the budget deficit stays within the limit. For 2013/14 3 of the schools (Gairloch High School, Nairn Academy and Thurso High School) exceeded the deficit limit. Whilst Inverness Royal Academy had a budget surplus for the last 3 years, a deficit (under 3%) is forecast for 2014/15. With regard to the individual Schools, the position is as follows:

- Gairloch High School has required financial top ups for the last 3 years to ensure the budget deficit does not exceed the 3% threshold.
- Nairn Academy has required top ups for the last 3 years but the size of this has been reducing year on year. The school has had a budget deficit for at least 8 years, a position the current Head Teacher inherited and has attempted to improve the situation.
- Thurso High School required a top up in 2013/14 to keep their deficit within the 3% limit. For the 2 years prior to this the school moved from surplus to deficit. The school's budget including staffing, has been reduced due to falling roll numbers and some staff posts are being funded from the devolved budget.
- Inverness Royal Academy is expected to move from a budget surplus to a deficit in 2014/15 due to the decision to retain current staffing levels.

At Gairloch High School, Nairn Academy and Thurso High School the primary reason cited for the deficit positions was the inability to make savings on staff costs in line with falling school roll numbers.

The Education, Children and Adult Services Committee received a budget monitoring report in August 2014 showing the total DSM overspend for secondary schools and the number of schools which required a top up in 2013/14. However, the report did not indicate whether the top ups concerned had also occurred in previous years and, if so, what action was being taken to address the ongoing problems.

- 4.2 This objective was partially achieved. All schools have adequate segregation of duties with regard to the raising and approving of orders. However, PECOS was not always used where expected at Thurso High School where janitorial supplies were ordered without the prior knowledge of the Administrative Assistant and at Inverness Royal Academy textbooks were ordered from non-contract suppliers.

All schools use purchase cards and this was working efficiently with adequate segregation of duties. However, apart from Gairloch High School and Thurso High School, the purchase card transaction log was not completed. While the Head Teachers/ Rector are aware of what is being purchased there is insufficient proof of authorisation of purchases at schools not using the transaction log. 3 schools (Gairloch, Nairn and Thurso) used the purchase card to order items which could have been ordered through PECOS from contract suppliers, most notably small IT items.

- 4.3 All of the schools receive income relating to the school fund which is discussed at (4.6) below. Nairn Academy receives other income but this has been examined as part of a separate audit on school lets. Therefore, no further work was undertaken.

- 4.4 This objective was substantially achieved with all schools operating imprests. A discrepancy was identified between the imprest held at Gairloch High school and the amount recorded by the Creditors Section which was addressed at the time of the audit. 2 schools (Gairloch High School and Inverness Royal Academy) do not use the official imprest claim pad. However, all schools have a well organised system for administering imprests and apart from some minor instances, receipts were held to support purchases and the purchases were appropriate.

4.5 This objective was not achieved as only Gairloch High School maintained an inventory as required by Financial Regulations; the inventory contained sufficient detail and is regularly reviewed. An inspection of a sample of 6 high value items on the inventory identified that all were held where expected.

4.6 This objective was not achieved. Whilst the School Fund administration is well organised, there were a number of practices occurring contrary to the guidance in Financial Regulations, specifically:

- Nairn Academy has not had its accounts audited for the last 2 years (2012/13 and 2013/14) and failed to submit copies of these to the Service Finance Manager (Care and Learning). The Council's Financial Regulations require a copy of the audited accounts to be forwarded to the Service Finance Manager annually before the beginning of the October school holidays. The explanation provided at the school for this omission was the person responsible for auditing the accounts retired and a suitable replacement had not been found.
- Copies of the accounts were obtained from the Service Finance Team for the other 3 schools. It was noted that these had not been signed by the Head Teacher of Gairloch High School and Rector of Inverness Royal Academy. In addition, none of the submitted accounts included the required declarations from the Parent Council.
- Inverness Royal Academy and Nairn Academy had School Fund accounts which, although the account name commenced "HC", did not specifically include the name of The Highland Council. As a result, it may not be possible for the Council to obtain records relating to the account in the event of a fraud.
- Claims for expenditure were not always supported with sufficient documentation as at all schools there were claims which only had cheque request forms. School staff were able to provide adequate explanations for expenditure. However, without supporting documentation there is a risk that inappropriate transactions could take place. In particular this has been an issue in the past with other schools where there has been fraudulent use of the School Fund.
- The School Fund at Thurso High School has been used for the collection and payment of sums for staff leaving the school. In addition, cash payments were made to individuals for "bouncer duties" undertaken at a school dance. These transactions are not considered to be an appropriate use of the School Fund.
- At Gairloch High School and Inverness Royal Academy the staff who administer the funds are also cheque signatories. There is therefore an insufficient segregation of duties with regard to school fund transactions.

The following practices were also found which, while not in direct contravention of the guidance note, are areas which should be reviewed:

At Gairloch High School a member of staff maintains manual School Fund records for income and expenditure, and another staff member also maintains an electronic record of all income. The Head Teacher stated that this was intended to be a temporary measure while the electronic record is set up, and at present both sets of records are being kept and reconciled with the Head Teacher reviewing this. It is intended this measure will continue until the end of the session.

There was insufficient evidence that Head Teachers/Rectors regularly reviewed the school fund reconciliations, or bank statements for the last school year. At present the guidance note states that it is good practice to sign these as evidence of review.

The Head Teacher at Thurso High School is not a cheque signatory to the School Fund; this role is currently undertaken by the Deputy Head Teachers. However, the Head Teacher has overall responsibility for the School Fund and the guidance note recommends that the Head Teacher is an authorised signatory.

5. CONCLUSION

The schools visited as part of the audit had knowledgeable and experienced administrative staff. This has ensured that the majority of financial procedures operate effectively. However, there are areas which can be improved and some arrangements at schools operate contrary to the requirements of the Council's Financial Regulations.

The majority of areas of non-compliance with Financial Regulations relate to School Funds. It is imperative that schools have adequate systems in place to ensure that these are managed correctly as the audit found a lack of segregation of duties, insufficient records for expenditure claims and lack of effective review of School Fund activity. This is an area which had been subject to a number of frauds over the years and it is essential that robust controls are in place to prevent the misuse of funds.

This report contains 5 recommendations, 2 of which are high priority and 3 medium priority. The recommendations have been accepted by management, with agreed action due to be implemented by 31/03/17. It should be noted however, that the majority of actions are due to be implemented by the end of 2015.

6. AUDIT OPINION

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 **Reasonable Assurance** can be given in that 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.

7. ACTION PLAN

The Action Plan contains 5 recommendations as follows:

Description	Priority	Number
Major issues that managers need to address as a matter of urgency.	High	2
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	3
Minor issues that are not critical but managers should address.	Low	0
Total recommendations		5

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.1	Medium	At the time of the audit, regular face to face meetings had not taken place between the Principal Accounting Technician and the Head Teacher of Gairloch High School since May 2014.	Regular meetings should be undertaken to discuss the financial position of the school as set out in the DSM manual.	Regular meetings do take place, making appropriate use of ICT where appropriate, rather than necessarily local meetings in all cases, to make best use of Finance officer's time. The DSM manual wording will be reviewed to reflect modern working arrangements and the increased use of ICT rather than local meetings.	Care and Learning Finance Manager, Finance Service	30/06/16 (to fit in with planned review of DSM manual)

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
		<p>All 4 schools experienced budget deficits in 2014/15. In addition, 3 of the Schools, Gairloch High School, Nairn Academy and Thurso High School have required budget top ups in 2013/14 to bring their deficit within the stipulated 3% threshold.</p> <p>All schools were experiencing difficulty in reducing their deficits and the present system of top ups is not addressing the issue.</p> <p>Although the Education, Childrens' and Adult Services Committee are informed of the total number of schools receiving top ups, there is no indication as to whether there are ongoing budgetary problems.</p>	<p>The Service Finance Team and the Care and Learning Service should work with the schools to assist in reducing budgetary deficits. Other approaches should be considered as the present top-up process does not address the crux of the problem.</p> <p>The report to the Education, Children and Adult Services Committee should clarify if there are ongoing budgetary problems and the measures being taken to address these.</p>	<p>The Council is already taking action in relation to schools in financial deficit. In December 2014 saving proposals were agreed to remove the 'top up' for deficit schools and also remove over-entitlement teaching posts. Work is ongoing with individual schools to support them in that, with some achievements to date, with the intention this objective is achieved in 2016/17.</p> <p>Consideration will be given to ongoing reporting in relation to individual schools budgetary position, and progress with delivery of savings described above.</p>	<p>Head of Education and Resources, Care and Learning</p> <p>Head of Resources, Care and Learning</p>	<p>31/03/17</p> <p>31/12/15</p>

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.2	Medium	<p>Official orders were not always issued at Thurso High School where these would have been expected.</p> <p>In addition, orders were not always placed with the relevant contract suppliers or the purchase card was used to buy items where there was a contract supplier available on Pecos.</p> <p>The purchase card transaction log was only used at Thurso High School and Gairloch High School.</p>	<p>Schools should be reminded of the requirement to use the Council's official ordering process where applicable and that orders should be placed with the relevant contract supplier.</p> <p>Schools should also be reminded of the need to complete the purchase card log for all transactions.</p>	A reminder will be issued to all schools in relation to ordering of goods and services, compliance with contract standing orders and purchase card transaction logs.	Head of Resources, Care and Learning.	31/10/15
4.4	Medium	Contrary to the relevant guidance note, Gairloch High School and Inverness Royal Academy do not use the official imprest claim pad.	All schools should be reminded of the need to ensure that the official imprest claim pad is used to record imprest claims.	A reminder will be issued to all Highland schools in relation to imprest procedures.	Head of Resources, Care and Learning.	31/10/15
4.5	High	3 of the schools visited, Inverness Royal Academy, Nairn Academy and Thurso High School, did not maintain inventories.	Inverness Royal Academy, Nairn Academy and Thurso High School should create and maintain inventories in accordance with the requirements of the Council's Financial Regulations.	Best practice in those schools completing inventories, will be shared with other Highland Schools, and a reminder issued in relation to the need to maintain inventories.	Head of Resources, Care and Learning.	31/10/15

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.6	High	<p>A number of issues were identified in the Schools visited with regard to the administration of the School Fund contrary to the requirements of Financial Regulations. The issues were as follows:</p> <ul style="list-style-type: none"> Nairn Academy have not had their accounts audited or submitted to the Service Finance Team for the last 2 years. 	<p>Action should be undertaken to ensure that the administration of all School Funds accords with the requirements of Financial Regulations and the associated guidance note. In particular:</p> <ul style="list-style-type: none"> Nairn Academy should prepare School Fund accounts for the relevant years. These should be audited by an appropriate person and submitted to the Service Finance Team. It should also be ensured that future years accounts are prepared and submitted on time. 	<p>School fund accounts for Nairn Academy are now all audited and submitted to HQ. (August 2015)</p> <p>Contact will be made with individual schools where particular actions need progressed as a priority, agreeing a timescale for conclusion of actions with the Head Teacher.</p> <p>Reminder will also be issued across schools in relation to the importance of following existing school fund procedures and financial regulations.</p> <p>In relation to school fund procedures generally, an officer working group has recently been established to review procedures in relation to school funds. The issues highlighted by this audit will be considered by that group, to ensure where appropriate procedures and guidance are updated.</p>	<p>Head Teacher, Nairn Academy</p> <p>Head of Resources, Care and Learning.</p> <p>Head of Resources, Care and Learning.</p> <p>Head of Resources, Care and Learning.</p>	<p>Complete</p> <p>31/10/15</p> <p>31/10/15</p> <p>31/03/16</p>

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
		<ul style="list-style-type: none"> Only Thurso High School had submitted accounts with a declaration signed by the Head Teacher. None of the submitted accounts had the necessary signed declarations by their Parent Council. 	<ul style="list-style-type: none"> Schools should ensure that submitted accounts contain a signed declaration by the Head Teacher/Rector and the Parent Council. 	<p>To build into Parent Council meetings at Nairn Academy.</p>	Head Teacher, Nairn Academy;	30/04/16
		<ul style="list-style-type: none"> Whilst each school has expenditure records there is scope for improvement as supporting documentation for expenditure was not always held. At Gairloch High School the forms were not signed by the Head Teacher. At Thurso High School a number of forms were not signed by the claimant. 	<ul style="list-style-type: none"> All claims for expenditure from school funds should be supported by adequate documentation (e.g. receipts). Claims for expenditure must be signed by the claimant and the officer authorising the payment. 	<p>Findings for Gairloch High School and Inverness Royal Academy are covered by the actions against the Head of Resources, Care & Learning at section 4.6 above.</p>	Head of Resources, Care & Learning	31/03/16
		<ul style="list-style-type: none"> 2 of the schools; Inverness Royal Academy and Nairn Academy did not include the full name of The Highland Council in their School Fund bank account name. In both schools the abbreviation "HC" was used 	<ul style="list-style-type: none"> All schools should be instructed to review the name of their school fund bank accounts and if necessary, ensure that they are changed to include the full name of The Highland Council. 	<p>Covered by the actions against the Head of Resources, Care & Learning at section 4.6 above.</p>	Head of Resources, Care & Learning	31/03/16
		<ul style="list-style-type: none"> 2 of the schools; Gairloch High School and Inverness Royal Academy-have the officers who administer the School Fund also as cheque signatories. 	<ul style="list-style-type: none"> A review of the School Fund signatories in each of the schools should be undertaken to ensure that the officers involved in administering the Fund are not also a cheque signatory. 	<p>Covered by the actions against the Head of Resources, Care & Learning at section 4.6 above.</p>	Head of Resources, Care & Learning	31/03/16

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
		<ul style="list-style-type: none"> There is a temporary but ongoing duplication of work at Gairloch High School with two members of staff recording income payments, one manually together with the expenditure and another maintaining a spreadsheet of all income only. The Head Teacher at Thurso High School is not currently a cheque signatory to the School Fund. 	<ul style="list-style-type: none"> The present practice should be revised to ensure that one set of School Fund records are maintained. It is recommended that the records are maintained in the format of spreadsheets. The Head Teacher at Thurso High School should become a cheque signatory. 	<p>Covered by the actions against the Head of Resources, Care & Learning at section 4.6 above.</p> <p>Covered by the actions against the Head of Resources, Care & Learning at section 4.6 above.</p>	<p>Head of Resources, Care & Learning</p> <p>Head of Resources, Care & Learning</p>	<p>31/03/16</p> <p>31/03/16</p>

**INTERNAL AUDIT
FINAL REPORT**

COMMUNITY SERVICES

MANAGEMENT OF HOUSING VOIDS

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1. INTRODUCTION

The purpose of this report is to record the findings of a recently completed review of the management of housing voids. The audit was undertaken as part of the annual plan for 2014/15 and considered void council properties, leased properties and temporary homeless accommodation.

During 2014/15 1,548 of the Council's 13,799 lettable houses became vacant (11.25%). The average time taken to relet void properties was 42 days, against a target of 35 days. The 2014/15 budget for rent loss from voids was £741,000 (£659,000 house rent voids plus £82,000 other rent voids).

2. REVIEW OBJECTIVES

The objectives of the review were to ensure that:

- (i) There are appropriate policies and procedures in place for the management of empty Council properties (voids) and these are adhered to by all staff (See 4.1).
- (ii) Appropriate action is taken to minimise the time that Council properties are empty and classified as void. Relevant performance and financial information is produced and monitored in order to assist with this process (See 4.2).
- (iii) Repairs to void properties are restricted to those essential to meet the Council's relet standard. All rechargeable repairs are fully and promptly charged to the outgoing tenant and appropriate action is taken to recover the sums due (See 4.3).

3. SCOPE, METHOD & COVERAGE

The audit reviewed the budget and performance monitoring procedures to assess whether the budget for the amount of rent lost to voids in 2014/15 would be achieved. This included reviewing a sample of void properties which did not meet the relet target to establish if there are any common issues, and analysis of refused tenancy offers.

The audit also reviewed a sample of void property repairs to ensure that repairs which were the responsibility of the tenant were recharged.

4. MAIN FINDINGS

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

- 4.1 This objective was partially achieved, as the audit verified that the Council's Void Management Policy and Void Property Management Procedures are available to all relevant staff.
 - 4.1.1 A sample of 30 void properties was reviewed to ensure that targets outlined in the policy and procedures for completing each stage of the void process were being achieved. This identified a number of instances where the targets were not being met which means that properties can be void for longer periods than necessary due to:
 - 2 instances where the issue of a termination letter exceeded the target of 1 day from receipt of notice from the tenant;
 - 4 instances where the pre-termination inspection exceeded the 14 day target from notice being given by the tenant;

- 2 instances where the void inspection exceeded the target of 3 days from the receipt of keys from the tenant.
- 1 instance where a works order was not raised within the target of 2 days from the void inspection.
- 4 instances where the time period for the works order to be completed exceeded the maximum target of 20 days. Satisfactory explanations for the delays have now been provided by the Performance & Building Maintenance Manager and the relevant Area Community Services Manager.
- 2 instances where there were delays in making tenancy offers.

(NB: Where explanations have been received they are recorded in the Action Plan).

The issues above affected 10 of the 30 properties reviewed. 8 of the properties had one of the above targets which was not achieved, 1 did not achieve 3 of the targets and 1 did not achieve 4 of the targets.

It was also noted that the void path within the Housing Information System was not being fully completed. The void path consists of 11 key process dates that a void goes through from the date notice is given on the old tenancy to the date the new tenancy starts and includes processes such as the date the property became void, the date of the void inspection and the expected date when the house will be fit for occupancy.

Some of the dates are automatically filled in from other parts of the Housing Information System such as the Estates and Allocations Modules. However, there are some dates, including those relating to inspections and work orders, which have to be entered onto the void path manually.

Each void event has a target date, generated by the system in response to the previous action taken, and an event date, the actual date the event happened. The monitoring process outlined in the Council's Void Management Guidance involves the use of a "Void Monitoring Spreadsheet" which is generated daily by Housing & Property Business Support using information logged on the void path in the Housing Information System.

When the void path is not fully completed, performance information on achieving voids targets cannot be produced centrally and therefore there is no Council wide overview or comparison of figures. Spreadsheets are used within Area teams to monitor void performance. However, this could result in administrative errors and inefficiency due to duplication of tasks if the data is input separately in the Housing Information System and on spreadsheets. It also leads to a situation where only those staff with access to the Area spreadsheet are aware of the current position for void properties in that Area.

- 4.2 This objective was partially achieved, as effective written procedures are in place for budget monitoring and performance monitoring in respect of voids. Sample testing of tenancy offers found that the Allocations Policy was being followed. However, there are delays in dealing with properties recorded as being Performance Indicator Exempt (PIE) under the categories "surplus to long term requirements" or "major structural work - refurbishment" and issues with budget monitoring as detailed below.

4.2.1 PIE properties

There are 4 properties within one street in Caithness which have been surplus to long term requirements since July 2008. The minutes of the Housing & Social Work Committee meeting of 06/08/08 show that Committee "agreed that 32, 34, 36 and 38 Kennedy Terrace would be considered for disposal as part of the regeneration of Pulteneytown in Wick and that detailed proposals be brought to a future meeting of the Committee". However, it appears that there has been no

subsequent report detailing how or when the properties would be disposed of. A further property with this status became fit for let on 27/03/14, but no tenancy offers were made before the property was returned to the owner on 12/05/15 (NB: The Council had leased the property from the owner). 5 other properties in the Ross & Cromarty area were identified which had been recorded as PIE for "major structural work – refurbishment" for a significant period. Delays ranging from 5 – 9 months were also noted in updating the property status on the Housing Information System when a further 5 properties became fit to be relet. Properties assigned PIE status are not included in the performance reporting figures as the technical guidance on the indicators provided by the Scottish Housing Regulator states that properties which are undergoing major repairs, structural work, or are due to be demolished or disposed of should be excluded from the performance figures. There is a resultant risk that this could lead to performance indicators showing relet performance within the Council's target, while the financial cost of voids exceeds the budget. A total of £154,185 of rental income was lost during the period the 15 properties detailed above were recorded with PIE status. In addition, maintenance costs of £5,700 were incurred over the same period as a result of the properties being unoccupied. It should be noted that there was also a loss of income to the Council from Council Tax that could not be collected due to the properties being void.

The 2012 Focused Inspection Report by the Scottish Housing Regulator found that the Council was incorrectly applying performance indicator exemptions to a significant number of empty properties. As a result, the Regulator stated that the Council was under reporting the average length of time it takes to re-let its empty properties. While guidance was issued to staff following the Regulator's report, this has not always been followed, and the issue therefore remains a concern.

Budget Monitoring

The audit identified that the budget monitoring figures for Quarter 3 of the 2014/15 financial year reported to the Community Services Committee on 05/02/15 (NB: this is the latest monitoring report) showed actual expenditure on house rent voids of £522K against a budget of 659K (79% of the annual budget spent to December), and projected an overspend of £32K. The anticipated year-end spend for other rent voids shown in the monitoring statement was £129K against a budget of £82K. The report also showed an actual spend to date of £198K but there was no reference within the covering report that outlined how the actual spend to December would be reduced by £69K to provide the anticipated year end figure. The other rent voids figure was queried with the Service Finance Manager, who stated that there should be a correlation between other rental income and other rent voids. Rental income was exceeding the budget, therefore the overspend in voids was expected to be lower than the amount shown in the ledger so the predicted overspend reported to Committee was reduced. He added that as part of the monitoring of the Housing Revenue Account for 2015/16 the income and expenditure lines listed below are to be scrutinised. Any potential variances will be reviewed to ensure accurate projections of outturn are reported to Committee:

Income

House rents, Other rents and Other income

Expenditure

Repairs and maintenance, House rent voids and Other rent voids

It is considered that this should result in more accurate budget monitoring information being presented to Committee.

4.3 This objective was partially achieved, as the Council's Housing Repairs Policy details which repairs are the Council's responsibility and which are the tenant's responsibility.

4.3.1 30 void properties where repairs were carried out were reviewed to ensure that applicable repairs were recharged, through the issue of a debtor invoice, to the outgoing tenant in line with the Repairs Policy. Where repairs were carried out as a result of "fair wear and tear" the repairs history for the property was reviewed to verify that this was reasonable. One instance was identified where a rechargeable repair was not identified by the Maintenance Officer and therefore no recharge was raised. Significant delays ranging from 6 to 15 months were identified in raising invoices to recover the cost of rechargeable repairs. These were largely due to the Housing Debt Officer being required to undertake a number of enquiries on the Housing Information System and, if necessary, with Maintenance Officers on each rechargeable repair to identify sufficient details of both the tenant and the work carried out for inclusion on the debtor invoice. It is understood that the Service have now introduced an improvement plan to reduce the delays in recharging. The Council's Financial Regulations require that invoices are "issued within 14 days from the date of the provision of service, at the month end for regular invoicing or when all associated charges are available". This requirement is not currently being met. Delays in issuing invoices reduce the likelihood of payment being received for rechargeable repairs.

During the initial audit meeting, reference was made to a review of the void letting standard being carried out with input from tenants. Following on from this a new "Empty Home Standard" was launched in May 2015. It is intended that this will ensure that all staff across all Areas are working to the same standard, and that tenants are aware of their responsibilities. However, as the standard was being reviewed during the period the audit was undertaken the application of the previous standard was not covered in the audit.

5. CONCLUSION

The audit found that policies and procedures were in place in respect of the management of housing voids. However, examples were identified where the policies were not being followed, or targets within the policy were not being achieved. The main issues identified relate to properties classified as Performance Indicator Exempt for a significant period of time, resulting in loss of income from rent and council tax and additional maintenance costs over a number of years. Regular delays in excess of 6 months for issuing invoices for rechargeable repairs were also found. These delays breach the Council's Financial Regulations and lessen the likelihood of receiving payment for the invoices once they are raised. There are 3 recommendations within the report, 2 of which are high priority and 1 medium priority. The recommendations have been accepted by management, and agreed action is due to be implemented by 30/11/15.

6. AUDIT OPINION

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.

7. ACTION PLAN

The Action Plan contains **3** recommendations as follows:

Description	Priority	Number
Major issues that managers need to address as a matter of urgency.	High	2
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	1
Minor issues that are not critical but managers should address.	Low	0
Total recommendations		3

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.1.1	Medium	<p>Targets for the completion of various stages of the voids process were not achieved:</p> <p>1) 2 instances were identified where the issue of a termination letter exceeded the target of 1 day from receipt of notice from the tenant. These were in properties NA1900360 (4 days – delay thought to be as a result of staff being on leave) and IN0350260220 (3 days – delay in passing the letter of termination to the appropriate officer).</p> <p>2) 4 instances were identified where the pre-termination inspection exceeded the 14 day target from notice being given by the tenant. The properties in question were LO0010270045 (16 days – The keys for this property were returned early by the client, so a full void inspection was carried out rather than also carrying out a pre-termination inspection), RC076180002 (20 days – delay partly due to logistical problems</p>	<p>1-6) The targets outlined in the void procedures should be followed to ensure that the duration of voids is minimised. In cases where the target is not achieved the reason should be documented;</p> <p>7) The void path in the Housing Information System should be updated to enable performance monitoring of void properties to be carried out effectively.</p>	<p>Incorporate more detailed exception reporting into current management processes to identify cases where targets are not being met.</p>	Area Community Services Managers	30/11/15
				<p>Amend void path to record reason for delay where this is unavoidable.</p>	Performance and Building Maintenance Manager	30/11/15
				<p>End the use of separate area spreadsheets and ensure consistent use of the void path, per current procedures.</p>	Area Community Services Managers	30/11/15

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
		<p>as the property is on the West coast. There were also difficulties engaging with the tenant's family after the tenant moved into a care home), RC065730003 (18 days – delays due to staff shortages and competing Maintenance Officer workload) and CA7050410 (20 days – delayed as the tenant requested additional time to tidy up the property during the notice period. Request was agreed as it was better use of time to carry out the inspection once any works by the tenant were completed).</p> <p>3) 2 instances were identified where the void inspection exceeded the target of 3 days from the receipt of keys from the tenant. The properties affected were RC076180002 (7 days – see explanation at 2 above), and CA7050410 (4 days – delay due to high workload that week).</p> <p>4) 1 instance was identified where works orders were not raised within the target of 2 days from the void inspection. This related to property RC076180002 (8 days – see explanation at 2 above).</p> <p>5) 4 instances were identified where the time period for the works order to be completed exceeded the maximum target of 20 days. These related to properties IN0260440400 (63 working days),</p>				

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
		<p>IN0263000123 (25 working days), RC076180002 (31 working days), IN0206411860 (50 working days). Satisfactory explanations for the delays have now been provided by the Performance & Building Maintenance Manager and the Area Community Services Manager.</p> <p>6) 2 instances were identified where there were delays in making tenancy offers. These were in respect of properties NA1360070 (New build property recorded on HIS as void from 22/09/14. However, this property only became available for let on 21/11/14. First offer made to a homeless applicant on 06/11/14, and was refused on 10/11/14. Second offer could not be made until the applicant's appeal process had been resolved) and CA7050410 (Fit for let 30/07/14, tenancy offered 24/09/14 refused on 02/10/14. Second offer made 27/01/15. Delays were due to there being no prospective tenants on the list for this low demand property).</p> <p>7) The void path in the Housing Information System was not always completed.</p>				
4.2.1	High	Properties were identified where Performance Indicator Exempt status was applied over a number of years and delays were identified in updating the property status when	Properties with PIE status should be reviewed regularly to ensure that the status remains applicable, and there is progress towards returning the property	Incorporate more detailed exception reporting into current management processes to identify properties	Area Community Services Managers	30/11/15

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
		<p>the property became fit for occupancy:</p> <p>1) 4 properties within the same street in Wick have shown void status PIE1 (Surplus to long term requirement) since July 2008 (Property refs CA7020320, CA7020340, CA7020360 and CA7020380). Testing also identified 2 properties (RC021720060 and RC021720062) which had recorded void status PIE4 (Major structural work - refurbishment) since May/August 2012, and similarly RC021440013 which has recorded status PIE4 since 15/03/13. These 3 properties are not fit for habitation and cannot be occupied and the Area Community Services Manager has been exploring options for refurbishment / redevelopment.</p> <p>2) Property RC032300026 has recorded void status PIE4 since 08/02/13 with a note stating that it is awaiting conversion. The property is now recorded on the Housing Information System as 2 properties (RC032300026A and RC032300026B). Tenancy offers for both properties were issued on 07/01/15, but no response to either was recorded at 06/05/15. Property A still records status as PIE4, however property B is shown as void. The Area Community Services Manager</p>	to the lettable standard, or towards the disposal of the property. This would help minimise the loss of rental and council tax income and reduce the maintenance costs incurred.	held at Performance Indicator exempt Status.		

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
		<p>explained that the property was converted to 2 separate dwellings. There were different handover dates for the resulting units due to issues with the electrical supply for one of the properties.</p> <p>Similarly, property RC021490042 had PIE4 status applied from 13/01/14. This property has since been split into 2 units on HIS (RC021490042A & RC021490042B). RC021490042A was let on 05/03/15, but RC021490042B showed the status as PIE1 (Surplus to long term requirement) until 15/04/15 and has had no tenancy offers issued to date. The Area Community Services Manager explained that the property was converted to 2 separate dwellings and there was a delay in letting one of the resulting units due to risk assessment requirements.</p> <p>3) 5 Properties were identified where the status was not updated timeously. CA7800090 and CA7030360 are recorded as being fit for occupancy (FFO) on 09/05/14 but were shown with status PIE4 until 27/01/15. CA7060500 is FFO on 21/05/14 but the status was not updated from PIE4 to void until 09/12/14. CA7160230 is shown as FFO on 09/05/14 but was PIE4 until</p>				

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
		<p>20/10/14. Normally a property being relet acts as a trigger to end PIE status, however these properties were all low demand and were not quickly relet. As a result, the requirement to end PIE status was overlooked. RC065220085 was used as a decant property until 15/04/14, however the status was shown as DEC (Held for decant) until 06/02/15. As a result, these properties would not be included in voids performance indicators despite being fit for occupancy.</p> <p>4) Property RC702320004 has had status PIE1 since 19/02/14, but has been fit for occupancy since 27/03/14 with no tenancy offers being made. This property was returned to the owner on 12/05/15, but rental income could have been collected for over a year if it had been relet. The Area Community Services Manager explained that there was a lack of co-operation and ongoing dispute with the owner, which led to the property not being occupied whilst resolution over handback was finally resolved.</p>				
4.3.1	High	<p>There have been significant delays in the issue of invoices for rechargeable repairs.</p> <p>1) Invoice (103124648) was raised for £458.10 in respect of rechargeable repairs on property IN0150630180, however the</p>	As required in the Council's Financial Regulations, invoices should be issued within 14 days from the date of the provision of service, at the month end for regular invoicing or when all associated charges are available.	Review arrangements for rechargeable repairs to issue invoice as soon as work is completed rather than waiting for final costs.	Head of Housing/ Performance and Building Maintenance Manager	Completed

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
		<p>invoice was not raised until 19/03/15 despite the works order being closed (and therefore the rechargeable costs finalised) on 27/11/14. Similarly, invoice (1000008662) for rechargeable repairs on property BA504086.2 was only raised on 30/04/15 despite the repairs being carried out in July 2014. A further 6 properties are included in the current invoicing batch to be raised on Integra, however the dates when the debtors vacated the properties range from 12/04/14 - 17/09/14. The total value of rechargeable repairs for these properties is £3,071.24.</p> <p>2) The process for invoicing for rechargeable repairs requires a significant level of work from the Housing Debt Officer to identify the details of work carried out for inclusion on the debtors invoice. As a result, the invoicing process is not carried out as regularly as intended (intended that the process would be carried out monthly).</p>				

**INTERNAL AUDIT
FINAL REPORT**

CORPORATE DEVELOPMENT SERVICE

VERIFICATION OF PERFORMANCE INDICATORS 2013-14

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1. INTRODUCTION

This audit was undertaken as part of the annual plan for 2014/15. The purpose of this report is to record the findings of a recently completed Internal Audit review regarding the accuracy of the Statutory Performance Indicators (SPIs), the Local Performance Indicators (LPIs) and the SOLACE indicators relating to the financial year 2013/14.

2. REVIEW OBJECTIVES

The objectives of the review were to ensure that:

- (i) The systems for the collection, recording and publication of performance data are in accordance with the Council's Internal Guide to Statutory Performance Indicators, which also incorporates Local Performance Indicators (LPI) and the Scottish Housing Regulators indicators.
- (ii) The systems for the collection, recording and publication of SOLACE performance data are in accordance with the SOLACE Benchmarking Guidance.

3. SCOPE, METHOD AND COVERAGE

This audit was undertaken in two stages as detailed below:

- Stage 1 - The audit examined a sample of Performance Indicators to ensure that these had been calculated in accordance with the requirements of the Council's Internal Guide. This Guide sets out the Council's approach to meeting the Accounts Commissions Direction and the requirements of the Local Government Act 1992. Following discussion with the Corporate Performance Manager, 7 indicators were selected:
 - 1a - Percentage of tenants satisfied with the overall service provided by their landlord;
 - 1c – Cost per payslip produced;
 - 1e - Number of invoices paid within 30 calendar days of receipt as a percentage of all invoices paid;
 - 2c - Percentage of court reports submitted to court by due date (12pm the day before);
 - 2e - Number of businesses supported by Council Economic Development and Business Gateway activities;
 - 2h - Rent collected as percentage of total rent due in the reporting year;
 - 2i - Average time between domestic noise complaint and attendance on site.
- Stage 2 - The audit also examined the arrangements for the collection, reporting and publication of the Council's SOLACE data which is undertaken in November each year. This work was delayed as the SOLACE data was not released until January 2015. 4 indicators were selected based on those with the greatest positive or negative movement in the Scottish Councils quartile rankings:
 - Culture and Leisure (C&L 5d) : Percentage of adults satisfied with leisure facilities;
 - Adult Social Care (SW 5) : The net cost of Residential Care Services per Older Adult (+65) per week;
 - Children's Services (CHN 10) : Percentage of adults satisfied with local schools;
 - Housing Services (HSN 2/SHR 34) : Percentage of rent due lost through properties being empty during the last year.

4. MAIN FINDINGS

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

4.1 This objective was partially achieved as 4 indicators were considered complete and accurate, however 2 indicators required re-calculation (indicators 1c and 2c), and 1 indicator was deemed unreliable (indicator 1e). The re-calculated indicators were subsequently reviewed and found to be reliable.

4.1.1 Indicator 1e was classified as unreliable as it has not been calculated in accordance with the prescribed definition. The criterion for this indicator is set by the Local Government Benchmarking Framework (LGBF) which includes all 32 Scottish Councils and has developed a common approach to benchmarking. This states "*Invoices to be counted are those which fall within the scope of VAT (including zero rated and exempt items). Therefore, payments to small businesses not large enough to fall within the scope of VAT will not be reflected in this indicator*". However, invoices from small businesses are included within the Council's calculation as the accounting system is not set up to exclude payments to small businesses. Instead, the time taken to pay all invoices received by the Council is measured and is considered to be more meaningful. In addition, the data that should be excluded is likely to include local businesses, which the Council wishes to ensure are paid on time and therefore it is important to measure this.

The 2014/15 indicator has also been produced in the same way but following significant efforts by the Operations Manager (HQ), an analysis of the February and March 2015 data has been undertaken. This analysis breaks down the performance for all paid invoices and those which exclude VAT, demonstrating that these are virtually the same as a minor difference of 0.05% was shown.

4.1.2 There were also issues where Services failed to comply with the requirements of the Council's Internal Guidance:

- The Guidance includes a timetable, which is updated annually, to ensure that indicators are published by 30th September. However, there were delays in the provision of the indicator figures from the Care and Learning Service, the Finance Service and the Chief Executive's Office. Failure to adhere to deadlines increases the risk of delay and subsequent late publication of performance indicator data.
- A variance form should be completed detailing any variation of more than +/- 5% between the current and previous year's indicator, which should be submitted to the Council's Co-ordinator. However, there were 7 indicators from the Chief Executive's Office (1) and the Development & Infrastructure (4), Care and Learning (1), and Corporate Development (1) Services, where the variance forms were not submitted as required.

4.2 This objective was fully achieved as all 4 indicators were considered reliable and prepared in accordance with the LGBF guidance.

5. Conclusion

The main issues identified relate to the need for Service officers to pursue a change in the indicator's definition with the Local Government Benchmarking Framework and comply with the Council's Internal Guidance. There are 2 recommendations made as a result of this audit consisting of 1 medium and 1 low grade priority. The recommendations have been accepted by management, with the resultant agreed actions having been implemented.

6. Audit Opinion

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 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.

7. ACTION PLAN

The Action Plan contains **2** recommendations as follows:

Description	Priority	Number
Major issues that managers need to address as a matter of urgency.	High	0
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	1
Minor issues that are not critical but managers should address.	Low	1
Total recommendations		2

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.1.1	Medium	1 of the indicators examined was deemed to be unreliable (SPI 1e - The number of invoices paid within 30 calendar days of receipt as a percentage of all invoices paid) as invoices from small businesses are included within the calculation, contrary to the guidance. However, this does not mean that the underlying data is inaccurate; instead the information provided is more comprehensive as it measures the Council's performance in paying all invoices received.	Whilst this indicator must be classified as unreliable, the Council's approach to measuring this data is considered to be more meaningful. Therefore, it is recommended that the Council continues to pursue a change in the indicator's definition to include all invoices paid.	Discuss the metadata with the Improvement Service and seek alignment in approach nationally.	Corporate Performance Manager	Completed
4.1.2	Low	The Council's Internal Guidance was not adhered to as there were delays in the provision of indicator figures, and 7 indicators were submitted without the required variance form.	The Corporate Performance Manager should remind Services about the requirements to adhere to the Council's Internal Guidance, including the timetable for the submission of the indicators and variance forms.	Annual Guidance and timetable supplemented with stand-alone timetable on SPI web resource under roles and responsibilities. Reminders issued to all Services not complying.	Corporate Performance Manager	Completed

**INTERNAL AUDIT
FINAL REPORT**

CORPORATE DEVELOPMENT SERVICE/ FINANCE SERVICE

REVIEW OF CORPORATE CONTROL OF OVERTIME

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1. INTRODUCTION

This audit was undertaken as part of the 2014/15 Audit Plan and determined and assessed the systems for the control of overtime within all Council Services. The audit also checked compliance with the Council's overtime policy which details the procedures for the authorising and claiming of overtime. Overtime payments for the 12 month period August 2014 to July 2015 was £3.7m.

2. REVIEW OBJECTIVES

The objectives of the review were to ensure that:

- (i) All overtime worked is subject to appropriate prior approval and follows the consideration of other alternative working practices.
- (ii) Overtime costs are monitored, including the regular consideration of reports by the Executive Leadership Team.
- (iii) Overtime payments comply with the various rules for overtime working, including those relating to the grades which attract such payments.

3. SCOPE, METHOD AND COVERAGE

The audit reviewed the management of overtime throughout the Council and controls were discussed with Service Management teams, Service Accountants and the Payroll section. The following risks were examined during the audit: Services breach the Highland Council's overtime policy; the Council is paying for unnecessary overtime; and overtime payments are inaccurate.

4. MAIN FINDINGS

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

- 4.1 This objective was fully achieved. The main control in place is the assessment of alternatives and then the prior approval of overtime by the relevant manager.

There are some Sections where additional work requiring overtime must be carried out by in-house staff due to specialisms and limited training time (e.g. lighting engineers or certain sections of Finance).

The Overtime Policy states that overtime is only approved "after all other alternative working practices have been considered." Some examples of alternative working practices considered by managers to reduce the amount of overtime paid include:

- Sections, such as Catering & Cleaning and Education (e.g. janitorial services), have a working pattern where unsociable hours are paid at plain time.
- Some Sections use Time Off In Lieu (TOIL) or flexi-time systems instead of paid overtime, which reduces the direct cost to the Council.
- The Emergency Planning Section is an example of a section encouraging the use of telephone calls and video conference facilities to prevent travelling time.

Also, overtime can be used to provide efficiencies, such as reducing the need for additional capital expenditure on purchases of refuse vehicles, particularly in rural areas, by using these for longer periods.

- 4.2 This objective was partially achieved with overtime costs, throughout the Council, monitored using the monthly budget monitoring reports. The new Integra system provides managers with high level reports that detail the overall overtime budget and provides expenditure at individual officer level.

The Council has the following overtime budget savings for the financial year 2015/16:

- Community Services has overtime savings of £0.353m along with £0.120m for winter maintenance which includes overtime.
- The Finance Service has a reduction of £0.150m.
- Care & Learning has set a saving of £0.017m, which includes staff overtime and other costs.
- The Transformational Savings Programme Board (TSPB) has agreed further savings of £388,000, approximately half is overtime, and will be spread across all Council Services.

- 4.2.1 The TSPB has put in place a monitoring process, which includes applying a red, amber, yellow, green progress status for saving targets. Community Services will adopt this process to monitor their own saving targets.
- 4.2.2 The Overtime Policy states that *"the Director of Finance/Assistant Chief Executive (now Depute Chief Executive & Director of Corporate Development) will prepare reports for the Senior Management Team (now Executive Leadership Team) detailing the extent of the costs involved in overtime working."* Reports have been presented at the ELT, and in particular the ELT scrutinised overtime expenditure last year as part of its budget considerations. There is also now a monthly report to the TSPB on achievement of savings from this budget. However, it would be expected that overtime reporting to the ELT would have been more regular.
- 4.2.3 In addition, a recent hearing of the Council's Appeals Sub-Committee resulted in a substantial amount of overtime (circa 400 hours) being included in a manager's pension calculation. This overtime related to the manager being on standby over the last 12 months of their employment. The manager's pension was therefore increased due to the final salary method of calculation using the Local Government Pension Scheme rules at that time. In this example, it is questioned why it was considered necessary for a manager to be on standby and to undertake the amount of overtime worked, or if this could have been undertaken by lower graded officers at far less cost to the Council. This highlights a concern that there is little control to ensure that officers of the appropriate grade are undertaking standby and overtime duties.
- 4.3 This objective was substantially achieved. All overtime payments made in the twelve month period from September 2013 to August 2014 (24,510) were checked for compliance with the policy for overtime payable to different Highland Council job grades. This was carried out by reviewing the employee's post grade and then checking that grade HC12 and above were not paid overtime, and those between grades HC08 and HC11 were only paid overtime at straight time. There was only one mistake found where time and a half was paid in error, and this resulted in a minor overpayment of £32. Therefore overtime payments are being processed in accordance with the Council's Overtime Policy.

A Harbourmaster was listed as having been paid overtime at double time because he was performing a different role, which was driving a snow plough and paid at a lower grade. However, he would only be due overtime paid at plain rate for his normal role as a Harbourmaster. Therefore this is at odds with the example referred to at 4.2.3 above where a manager worked overtime and was paid at their normal pay grade.

All overtime claims must be authorised by a relevant manager before submission to the Payroll section. However, the SAL 6 overtime claim form does not require the authorising officer to print their name next to their signature authorising the form, making identification of the authorising officer potentially difficult. While

the Council, as part of its new paperless regime, is looking to move towards electronic submission of data to Payroll this will not be in place before the new year.

- 4.3.1 Business Support now compiles data files (Comma Separated Files (CSVs)) which contains all information the payroll system, Resourcelink, requires to pay staff. This is an efficient and effective process as these files interface with Resourcelink automatically, without any further involvement from Payroll staff. It is the responsibility for individual Service managers to provide Business Support and Payroll with the correct payroll information and this is particularly important where CSV files are used. However, during this review, four Council sections stated that they rely on Payroll and Business Support to ensure the correct overtime rates have been submitted contrary to the Overtime Policy section 2.2.3.

5. CONCLUSION

Overall there is good compliance with the rules on overtime and there are innovative solutions being employed which will make the Council more efficient and effective and so reduce the need for overtime. However, further challenging reductions to overtime budgets will invariably require changes to the previous models of service delivery. Also, isolated examples, found during the audit, have highlighted that where overtime is necessary that it should be carried out by officers at an appropriate grade.

The Council should ensure that Services detail how further overtime savings will be delivered, the correct officers are carrying out overtime, and appropriate monitoring systems are in place.

There are 4 recommendations in this report, 3 are classified medium and 1 as a low grade priority. All are due to be fully completed by 30/11/15.

6. AUDIT OPINION

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 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.

7. ACTION PLAN

The Action Plan contains **4** recommendations as follows:

Description	Priority	Number
Major issues that managers need to address as a matter of urgency.	High	0
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	3
Minor issues that are not critical but managers should address.	Low	1
Total recommendations		4

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.2.1	Medium	<p>The Council has the following overtime budget savings for the financial year 2015/16:</p> <ul style="list-style-type: none"> Community Services - £0.353m (along with £0.120m for winter maintenance which includes overtime). The Finance Service - £0.150m. Care & Learning - £0.017m (which includes overtime and other costs). <p>Further overtime spending reductions have been agreed by the Transformational Savings Programme Board (TSPB), which is seeking to reduce overtime and Travel & Subsistence budgets by £388,000. The TSPB have put in place monitoring arrangements including guidance on highlighting savings targets as Red, Amber, Yellow and Green.</p>	Services with significant overtime budgets to control should consider using the Transformational Savings Board's monitoring arrangements.	Service Directors to consider if these arrangements are necessary to supplement the monthly reports.	Directors of Community Services, Care & Learning, Finance and Development & Infrastructure	30/11/15

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.2.2	Medium	The Council's Overtime Policy states that "the Director of Finance/Assistant Chief Executive will prepare reports for the Senior Management Team (now Executive Leadership Team) detailing the extent of the costs involved in overtime working." However, no such regular reports are produced.	(1) The Head of People & Performance and the Executive Leadership Team should review the current policy reporting requirement in the Overtime Policy to ensure it is the most effective way of monitoring overtime and make any necessary changes to the reporting process, which should then be carried out. (2) References in the Overtime Policy to the Assistant Chief Executive (now Depute Chief Executive) and the Senior Management Team (now the Executive Leadership Team) need to be updated.	(1) A review of what information is currently being provided is required. Joint report to ELT to determine if changes in reporting are required. (2) Policy will be updated.	Director of Finance/ Head of People & Performance, Corporate Development	31/10/15
					Head of People & Performance, Corporate Development	31/10/15
4.2.3	Medium	A manager at grade HC 11 worked standby and was paid a substantial amount of overtime in their final year of employment. While this payment agreed with the overtime policy, it highlights a need to ensure that officers of the correct grade work standby and overtime in order to ensure that the associated costs are kept to the minimum. A Harbourmaster is paid by the Council to operate a snow plough during the winter and he is paid for this work at the correct rate, which is a lower pay grade than his main role.	The approval of overtime should include a check to ensure that the work is being undertaken by an officer at the appropriate grade.	Policy will be updated.	Head of People & Performance, Corporate Development	31/10/15

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.3.1	Low	<p>The Council's Overtime forms (SAL 6) does not require the authorising officer to print their name, and therefore some authorisers will not be identifiable from their signature.</p> <p>Four Council sections are relying on Payroll to ensure the correct overtime rates are paid contrary to the Overtime Policy, which states in section 2.2.3 that "all overtime must be approved prior to it being worked." Also, section 2.3.2 details the amount of overtime which can be paid for each post grade.</p>	<p>(1) SAL 6 forms should have a section added requiring authorising officers to print their name next to their signature. An alternative online Sharepoint system should be considered for the recording and authorising of overtime. Sharepoint would then automatically record the officer authorising the form using their online user name.</p> <p>(2) The Overtime Policy should include a section reminding authorising officers that it is their responsibility to check that overtime claims are correct before they are authorised.</p>	<p>(1) Sal 6 forms to be amended and guidance issued to include the printed name of the authorising officer.</p> <p>The Council as part of its new paperless regime is looking to move towards electronic submission of data to Payroll. Sal 6 forms are already being phased out.</p> <p>(2) Policy to be amended to include this section.</p>	Payroll & Pensions Manager, Finance Service	30/11/15
					Head of People & Performance, Corporate Development	31/10/15

**INTERNAL AUDIT
FINAL REPORT**

FINANCE & CORPORATE DEVELOPMENT SERVICES

ONLINE PAYMENTS REVIEW

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1. INTRODUCTION

This audit reviewed management of online payments made to the Council. The online forms on the Council's website for capturing customer payments are currently planned for upgrade with a new software solution to provide a more user-friendly process for customers' using mobile devices. This work is being managed within the new Payments Project under the Corporate Improvement Programme [CIP] Digital First which includes a number of initiatives to develop and encourage increased use of online services. The programme has projected targets for increased transactions online by April 2017 to improve service delivery and to provide financial savings in line with the vision defined in Scotland's Digital Strategy, Scottish Digital Future - Delivery of Public Services. Progress of the replacement forms for online payments is included in this review.

Customers logging onto the Council website to make payments online are directed towards a secure bureau service site managed under a third party arrangement. This is designed to secure and protect customers' payment card data details in line with the Payment Card Industry Security Standards Council [PCI-DSS] requirements.

Payments submitted via this secure bureau service are reported in the Council's income management system and daily reconciliations are completed by the Revenues Team to ensure all income is accounted for and agrees with the income figures reported in bank statements. The Team also clears the income suspense account.

Excluded from the scope of this review are online payments made not directly through the Council's own website but via another collection process then forwarded through a gateway portal. These include

- Planning fees collected through the national e-planning site
- Payments through Highlife Highland
- Payments collected by Council Service Centre agents and processed through the Customer Relationship Management system's link to the Axis Paye.net portal

Also excluded are online forms for customer services other than payments, such as reporting items and making general enquiries.

The review was carried out as part of the 2014-2015 audit work plan.

2. REVIEW OBJECTIVES

The objectives of the review were to ensure that:

- (i) The agreed terms with third party providers of online payments for the Council provide for security and service support are in line with Council business requirements
- (ii) Adequate controls are in place to manage risks for web based financial transactions
- (iii) Council customers are provided with security assurance for making online payments and a helpline for managing queries
- (iv) Payment data is reported and reconciled timeously within Council income streams and accounts.

3. SCOPE, METHOD & COVERAGE

The audit examined usage of online payments by the Council's customers, processing by the Finance Revenues Team and service level agreements with third party suppliers, including security accreditations and documentation provided for the Digital First Programme. This programme replaced the Customer Contact Transformation [CCT] with a focus on Digital Inclusion and the Digital First agenda.

The review referred to standards and best practice including PCI-DSS standards, Standards of Digital by Default Service and project management methodology.

Interviews with officers included the CIP Digital First Project Manager, Finance Service Revenues Manager and ICT Services Project Officers.

4. MAIN FINDINGS

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

4.1 Security and Third Parties

The first objective was achieved in all of the areas reviewed. Capita, the third party provider of the secure Payments Managed Service and online forms for making payments has accredited certification for managing credit and debit card transactions securely in line with PCI-DSS and provides the application for the current online payment forms. There is also an agreed Service Description with ICT Services provider, Fujitsu Services, setting out service deliverables, service support and agreed volumes in place, utilising the third party's 24 hour internet payments managed service for Income Receipting and Payments.

The planned new online forms supplier, Firmstep, has provided ISO27001 certification valid to 20/03/2017 for the Information Security Management System that supports software as a service provision and protects customer information. This supplier plans to use a third party to host its infrastructure and has provided security policy and controls documentation for this in advance.

In the event of website failure, or planned maintenance outages, a Council holding page owned by supplier, Jadu, can be loaded for business continuity. This provides alternative telephone numbers for contacting the Council by phone including the Council's Service Centre.

4.2 Controls for Web Transactions

The second objective was partially achieved in the areas reviewed. The Digital First Project Manager attended ICT Development Board meetings where vulnerability and penetration testing items have been discussed. Therefore, there is an awareness of good practice requirements to carry out penetration testing on applications that have web facing interfaces and manage sensitive personal data.

However, the following issues are raised in respect of the project work to replace the online payment forms for improved web based financial transactions as this has experienced delays and increased costs.

- 4.2.1 The CIP Programme Manager reported a shortfall in savings status against targets for Digital First at Resources Committee in Feb 2015 with progress at 'Amber' status. Project delays were reported as being partly due to delays in technology

delivery issues which impacted on the Council's targets to achieve savings, estimated at £55,000 of the total target of £155,000. The remaining £100,000 related to Customer Services Review which was deferred by agreement at full Council.

This followed the previous Customer Contact Transformation [CCT] Project, which reported 'Amber' status through delays with the functionality of the online forms solution and installation of integration software in 2014. An alternative solution was then sourced.

The Lessons Learned report for the first online forms project recommended consideration of the different methodologies used for engaging with supplier for ICT work for the best outcome – for example fixed price, request for service, or a time and materials quote.

ICT Services reported that the Request for Service [RFS] process with the current ICT contractor for new services has no defined Service Level Agreement to manage time taken following the acceptance of a quote. There is no financial penalty attached to completion of an RFS. There is also no direct access by Council project management officers to contractors' resources to manage any gaps towards project completion.

- 4.2.2 The workshop held for the first project to develop standalone online forms in January 2014, which later transformed in the Digital First Programme in 2015, was not attended by Finance Service representatives at the start, even although online payments were included in this project specification for improving forms to be more mobile friendly. The Digital First Project Manager reported that Finance Service officers have been consulted on the latest CIP project developments.

There is potential risk of non-compliance to payment card standards and the Council's Financial Regulations if new online forms for making payments are progressed without continuous Finance Service input.

- 4.2.3 Online forms for making payments are found under the Council webpage - Popular Tasks 'Pay for a service'. The link to the Scottish 'myaccount' service on the Council website under the Customer Services page – 'Your online account' which went live in April 2015 did not have the facility for customers to pay for services online during the review period.

The new software solution for re-writing current online forms had still to be tested during this review, therefore, evidence of procedures for producing them were not available.

The additional requirement for in-house customisation of the new forms by Fujitsu Services to give customers access to view their balances prior to paying Council Tax and rent creates new risks. These include continued responsibility for managing the customised product and maintenance costs, continued reliance on the code provider, plus potential issues with patch management and security. Risks of customisation include reduced reliability of patch management controls; increased Council responsibility as updates or patch for that software published by the manufacturer will not take into account modifications that have been made; dependence on provider of bespoke work for updates; these may increase costs.

- 4.2.4 No evidence was found of ICT Services having completed a risk assessment needed to ascertain risks and requirements for penetration testing of the Council's new online payment forms. ICT Governance had approved corporate procedures and responsibilities for vulnerability and penetration testing for applications in February 2015, but no risk assessment work specifically for the Council's online payment forms was found.

4.3 Customer Services for online payments

The third objective was achieved in all of the areas reviewed. Customers are advised of terms and conditions at the start, with expected payment deduction times for customer accounts and surcharge fees if they use a credit card to pay bills. Customers can pay part or all of an invoice online and refunds can be provided where an overpayment has been made. There are contact details for queries in the event of customers requiring assistance - a contact postal address, a phone number and email address. The Council Service Centre provides a helpline for managing queries by phone. Security of card payment data submitted online includes encryption protection during transfer by the provider of secure online payments services on behalf of the Council. This provider is certified by Visa and MasterCard as a Payment Card Industry Data Security Standard (PCI DSS) payment processor.

The Council's Customer Services Assessment Report for Customer Service Excellence in July 2014 found the increased number of services that can be paid on line for Council Services and the fuller range of payment options for other services was welcomed by the public.

4.4 Reporting and reconciliation of online payments

The fourth objective was mostly achieved in the areas reviewed. Daily reconciliation procedures for internet payments were carried out by Revenues Team; the two stage reconciliation process matched batch totals across systems and also against daily banking figures. A check on the Axis income error suspense account at year end March 2015 found that the account was cleared with a nil balance.

- 4.4.1 However, the procedures notes for managing income payments and clearing Axis income error suspense account were not updated for the new Financial Management Information System [FMIS] by the Revenues Team. It is understood that the Team's priority was to work towards go-live of this new system in April 2015 and that internal management processes were evolving before these notes could be completed. The risk of potential loss of knowledge resulting from this is offset through a number of officers being aware of the processes currently being undertaken, in Revenues Team, Finance Systems Administration Team and ICT provider Fujitsu Services.

5. CONCLUSION

The review found volumes of income processed averaged at over £0.6m income per month during 2014-15. Customers utilised the online payment facility on the Council's website most during 2014 – 2105 for one off payments for Council Tax and rents. These income figures illustrate the proportion of customers who take advantage of the flexibility of ways to pay the Council, choosing to make single payments, compared to signing up to regular instalment options for these recurring invoices. This underlines the importance of building flexibility into the payments strategy. Improving provision of digital options for services also supports moves towards the wider national digital agenda.

Procedures were found to be in place for areas tested in two of the four review objectives. Five recommendations are made, all at medium priority grade based on the findings above. Two of these actions have already been completed. The target date for implementation of the final action is 31/03/16.

6. AUDIT OPINION

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 **Reasonable Assurance** can be given in that 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.

7. ACTION PLAN

The Action Plan contains 5 recommendations as follows:

Description	Priority	Number
Major issues that managers need to address as a matter of urgency.	High	0
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	5
Minor issues that are not critical but managers should address.	Low	0
Total recommendations		5

REPORT / REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT ACTION	AGREED	IMPLEMENTATION	
						RESPONSIBLE OFFICER	TARGET DATE
4.2.1	Medium	<p><u>Digital First progress and costs:</u> Corporate Improvement Programme's [CIP] Project Manager reported increased costs against the budget and progress at 'Amber' status in respect of the project work to replace the online payment forms for improved web based financial transactions.</p> <p>Project delays were reported as partly through delays in technology delivery issues which impacted on the Council's targets to achieve savings.</p>	<p>A) To ensure understanding and management of risk from any further delays which impact on the council's targets to achieve savings, the Digital First Project Manager should continue to update the ICT Governance Board and Committee if any further changes occur as soon as they become apparent, in line with good project management</p> <p>B) The 'Lessons learned' and recommendations from the first project Customer Contact Transformation should be applied to the new Digital First Projects. For example, when engaging with contractors, consideration should be made as to whether a fixed price project, RFS or time and materials quote is the best method to use to achieve the required result</p> <p>C) For future contracted out ICT project work, if an RFS has to be raised for contractors, where</p>	<p>A) Update provided to ICT Development Board</p> <p>B) Lessons learned applied and will be reviewed at end of project</p> <p>C) For future ICT contracts, consideration will be given to a suitable</p>		Digital First Project Manager	30/09/15
						Digital First Project Manager	30/09/15
						ICT Re-provision Manager	31/03/16

REPORT / REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
			<p>possible it would be helpful to incorporate Service Level Agreement [SLA] detail such as timetable and expected quality standard of work expected, design and technical input requirements, service credits or financial penalties for not meeting completion time / quality standards set. This should be considered for post ICT re-provision</p> <p>D)Post ICT re-provision, for future contracted out ICT project work with smaller budgets where the size of the RFS cannot absorb contracted out project management costs, consideration should be made to request that Council ICT Project Managers be given access to the suppliers' resources as required to complete the project</p>	<p>SLA to cover RFS performance</p> <p>D) ICT project guidance will be amended to suggest that Council project managers consider the buying in contractor technical resources on a day rate where possible and appropriate. This may be of particular use for small technical work packages within Council-run ICT projects</p>	ICT Operations Manager	31/03/16
4.2.2	Medium	<p><u>Finance involvement and Online Forms Project</u></p> <p>Finance Service officers were not included in the January 2014 workshop held for the CCT Project for Online Forms which later became part of Digital First Programme. In 2015 the CIP Project Manager reported that there was regular contact between CIP and the Revenues Manager regarding online forms</p>	Finance Service expertise should always be included in development of new processes for payments including online forms	Implemented. Revenues Manager has regular updates from CIP Team and attends necessary review meetings	Digital First Project Manager and Revenues Manager	30/09/15 Complete

REPORT / REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.2.3	Medium	<p><u>In-house development of online forms</u></p> <p>A) Current online forms for making payments are on the webpage 'Popular Tasks' Pay for a service. New online form software was being used to develop new online forms by CIP, with Fujitsu Services contracted to carry out additional customisation to provide detail of account balances for rents alongside the standard forms. This is not currently available online but can be provided at Service Points where customers have face to face contact with Council officers with access to systems such as Council Tax and Housing. The add-in is intended to provide information to customers on what they are due to pay and will also assist Council Service centre agents when they respond to phone enquiries and payments</p> <p>B) No procedure notes have been written for reference on how the forms have been set up as this work is not complete</p>	<p>A) To manage risks of customisation, such as reduced reliability of patch management control, increased Council responsibility for modifications, dependence on provider of bespoke work for updates and potential increased costs, continuous monitoring and reporting should be made to the Project Board as in 4.2.1 above.</p> <p>The Standards of Digital by Default Service¹ should be referred to for Digital First project development, including the criteria for understanding user needs when designing and producing new digital processes</p> <p>B) As the online forms are refined and completed, procedure notes for reference on these should be maintained to reduce reliance on key individuals</p> <p>C) Confirmation of security of Firmstep payment integration project would assist in providing assurance</p>	<p>A) Risks and issues are discussed at every meeting of the Digital First Project Board</p> <p>Incorporated into forms design standards</p> <p>B) Documentation for forms is produced automatically by the software. All project team members and Digital Services staff are proficient in interpreting this documentation</p> <p>C) Firmstep have been emailed to request confirmation</p>	Digital First Project Manager	30/09/15
					Digital First Project Manager	30/09/15
					Digital First Project Manager	30/09/15

¹ Digital by Default Service Standards are found at www.gov.uk/service-manual/digital-by-default version date June 2015

REPORT / REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.2.4	Medium	<p><u>Website security, vulnerability and penetration testing:</u> No evidence was found of ICT Services having completed a risk assessment to ascertain the risks and requirements for penetration testing of the new online forms</p> <p>ICT Governance has approved in principle procedures and responsibilities for Vulnerability and Penetration Testing for Applications and some assurance has been provided for the Firmstep product</p>	<p>The CIP Project Manager and ICT Services should continue to be aware of the potential requirement for vulnerability and penetration testing as best practice and act on this as required as new forms are developed</p> <p>Government cyber security guidance and top tips² should be considered. These include –</p> <ul style="list-style-type: none"> - assessing risks to the organisation's information assets from a cyber-attack should be a regular agenda item for the Board - continuous vulnerability assessment and remediation, to acquire, assess and take action on new information in order to identify vulnerabilities, remediate and minimise any opportunity for potential attack 	ICT Services will follow the policy agreed at the ICT Development Board in February 2015 to carry out a risk assessment of the system. This risk assessment will determine whether any further vulnerability or penetration testing is required	ICT Operations Manager	31/10/15
4.4.1	Medium	<p><u>Axis error suspense account procedures:</u> The internal procedures notes for managing income payments and clearing the Axis income system error suspense code have not been updated for the new FMIS system by the Revenues Team.</p>	The procedures notes for managing income in Axis error suspense should be updated to incorporate the new FMIS system processes as these are defined	Procedures now in place	Revenues Manager	31/08/15 Complete

² Cyber Security guidance updated 2015 at www.gov.uk/government/uploads/system/uploads/attachment_data/file/395716/10_steps_ten_critical_areas.pdf

REPORT / REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT ACTION	IMPLEMENTATION		
					AGREED	RESPONSIBLE OFFICER	TARGET DATE
		It is understood that the Team's priority was working towards go-live of the new FMIS and that processes are still evolving in July 2015. Therefore, the final agreed process and responsibilities have still to be defined and recorded					

CONFIDENTIAL

INTERNAL AUDIT

FINAL REPORT

DEVELOPMENT & INFRASTRUCTURE SERVICE

ASSET MANAGEMENT

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DISTRIBUTION

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1. INTRODUCTION

This audit was undertaken as part of the 2014/15 Audit Plan and assessed the systems for the planning, control and monitoring of assets.

The audit also assessed the problems with the current system for realisation of the Corporate Property Asset Management savings and benefits to identify a future framework which could be used to capture relevant savings and benefits.

The Transformational Savings Programme (TSP) replaced the Corporate Improvement Programme (CIP), which closed on 31/03/15. Asset Management under the Transformational Savings Programme will:

- Continue to deliver the office rationalisation agenda;
- Identify new opportunities for development.

However, these objectives have not yet been discussed with the Corporate Property Asset Management team (CPAM).

This audit review took place prior to the CIP closure. The Asset Management CIP project (CIP-AM) was created in 2011 and the programme of work was delivered by CPAM. The team was formed through the integration of existing staff resources from the asset and estate management teams along with one new technical administrative support post. CPAM is led by the Corporate Property Asset Manager and has a broad property portfolio management remit including Asset and Estates Management. It has a strategic view of asset use with the aim of aligning the Council's land and building assets with its corporate goals and investment strategy.

The principal objective of the CIP-AM project is "To reduce the number and floor area of the Council's property assets and the costs of holding them".

In pursuit of this overarching aim, the CIP-AM project's financial objectives are to:

1. Reduce the number of property assets held;
2. Generate capital receipts from the disposal of property assets that can be reinvested;
3. Reduce the overall revenue costs of owning and occupying property by holding fewer assets that are in better condition, and thereby spending less on property overheads such as property management, maintenance, cleaning and energy costs.

In addition, the CIP-AM project's wider aims have been to:

- Develop Corporate Asset Management Plans to direct the way that the Council manages and plans for investment in its assets;
- Create a Corporate Property Asset Register, which was achieved in January 2015 with the implementation of the Tribal K2 system;
- Rationalise property assets, including: disposing of surplus assets, acquiring assets, investment in assets together with maintenance to ensure that use of assets is maximised and costs minimised, while meeting delivery needs;
- Make best use of scarce capital resources by taking a corporate view of priorities to ensure that capital allocations support the objectives of the Council, the priorities of its Service teams and the capital requirements of its assets;
- Ensure that the Council's physical assets are working, like the other resources at the Council's disposal, to achieve the Council's Corporate Plan objectives.

For the 5 year period from 2010-11 to 2014-15 the CPAM Team have achieved the following against the CIP-AM project annual financial savings targets for Capital Receipts, Revenue Savings, and Costs Avoided (see section 4), the CPAM Team have achieved: -

1. Capital Receipts:

Number of Disposals	121
Gross value	£6.3m (target £5m)
Net value	£4.1m (including ring-fencing; below market transfers and discounts agreed by Members)
Asset Transfers/ Below Market Transfers	£1.2m (29 properties)

2. Revenue Savings £0.54m

3. Maintenance Costs Avoided £12.4m (target £5m)

From 2015-16, under the TSP, there is an initial savings target of £0.540m.

2. REVIEW OBJECTIVES

The objectives of the review were to ensure that:

- (i) Property and financial information systems provide adequate information to identify property costs and savings.
- (ii) Property projects comply with good project governance and Financial Regulations.
- (iii) Information from other relevant CIP (now TSP) projects and Council strategies feeds into Area property reviews and property projects.
- (iv) Directors and their Services engage with the Corporate Property Asset Management team to define current and future property needs.
- (v) The Council promotes joint working on asset management with its external partners.

3. SCOPE, METHOD AND COVERAGE

The audit reviewed the systems for the planning, control and monitoring of assets. The difficulties with the previous system of identifying savings and benefits associated with CIP-AM were also examined in order to identify a future framework which could be used to capture relevant savings and benefits. Controls and resources were discussed with the Corporate Property Asset Manager (Development & Infrastructure) and the Head of Corporate Finance and the Finance Manager (Corporate Budgeting, Treasury and Taxation).

4. MAIN FINDINGS

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

- 4.1 This objective was not achieved. The Council's financial system (Oracle and now Integra) does not provide a cost centre for every Council property, which then causes difficulties in obtaining the associated running costs and in calculating savings.

The savings target for Asset Management, as part of the TSP, is £0.540m. The breakdown of this figure, and the rationale which determined the amount, have

not yet been provided. However, due to the lack of information available from the financial ledger, it is not possible to demonstrate that this figure is achievable.

For the period 2010-11 to 2014-15, there were three key annual financial savings targets for CIP-AM which were owned by CPAM:

Capital Receipts:

The Capital Receipts target (£1m) was a historic figure set in 2009. It had no logical basis to determine if it was either challenging or achievable.

Revenue Savings

In 2008, the Council did not hold accurate financial data relating to its operational property portfolio and its property revenue budgets/costs. The CIP-AM property rationalisation revenue savings target, initially set at £340,000 p.a., was not evidenced based, as the property running costs could not be established. The original source for this budget could not be confirmed by the Corporate Property Asset Manager and the target could not be evidenced as the property running costs could not be established.

The Revenue Savings target over the period 2010-11 to 2014-15 has fluctuated as a result of the challenges faced by the organisation in attributing property revenue budget savings.

In many instances, property revenue budgets sitting within Service budgets had been ring-fenced/claimed/re-allocated by the occupying Services leaving only residual property revenue budgets at the point of disposal. The following revenue savings were outwith the control of the CPAM team:

- (i) Church Street office project,
- (ii) Income from property renewables;
- (iii) Refunds generated from Non Domestic Rates appeals.

The CPAM Team has achieved, for the period 2010-11 to 2014-15 annual recurring revenue savings from property rationalisation initiatives of £0.54m (against a gross cumulative target of £1.295m).

From 2015-16 onwards, an initial savings target for Asset Management has been set as part of the TSP at £0.540m. The breakdown of this figure, and the rationale which determined the amount, have not yet been provided by the CIP Programme Manager.

The CPAM Team are currently forecast to achieve recurring revenue savings of £568k over the period 2015-16 to 2018-19.

The CPAM team are continuing to prioritise and focus work activities on property rationalisation initiatives, that involve Services and partners, that are anticipated to increase the revenue savings achieved from the Council's operational property portfolio.

Maintenance Costs Avoided

The Costs Avoided target (£1m) related to future maintenance liabilities of properties that had been sold. However, this was an estimate of future costs and there was no guarantee that the Council would be in a position to meet these costs. Also, because this related to future maintenance, the savings reported did not contribute to the Council's overall financial savings targets.

For the period 2010-11 to 2014-15 the CPAM Team achieved a £12.4m reduction in maintenance liabilities (against a target £5m) from property rationalisation initiatives completed.

- 4.1.1 The Finance Service introduced a new financial system (Integra) in April 2015, which has the potential to include an analysis code for each cost centre with the address of the building. If introduced, and information coded in the system correctly, this will allow the Council to determine the true cost of owning buildings, to identify high cost/financially poor performing buildings that can be targeted for review/option appraisal by the CPAM, potentially leading to more robust investment and dis-investment decision making by officers and Members, and allowing officers to set more accurate budget savings targets.
- 4.2 This objective was partly achieved. The process for implementing property projects (new builds and alterations) initially involves CPAM, which develops the proposal with the relevant Council Service. Following approval from the Resources Committee, a project management team is appointed to undertake the new build or alteration.
- 4.2.1 The process used for each stage of property projects is documented, and this complies with good project governance and the Council's Financial Regulations. However, a delay in the Fort William office project (approved in November 2013, but not taken forward until after June 2014) demonstrated the absence of a connection between the planning process and undertaking the project. To resolve this, a new position of Project Manager (Workplace Transformation) officer has been created and filled (March 2015) within the Development and Infrastructure – Property service and will act as a bridge between the agreed property change proposal and the project implementation. However, procedures for this new officer post have yet to be fully developed and documented, which may reduce the effectiveness of this post in the interim.
- 4.2.2 There are 2 property project boards to monitor current projects in Wick, Kingussie, and Fort William. The completed Dingwall project had a separate board and there are also plans for a further board to serve the Inverness project. There is scope to improve efficiency by consolidating all project boards and bringing them under the control of a single governance board for office transformation projects, or the Asset Management Project Board. The latter would require a review of the remit and member composition of the Asset Management Project Board.
- A CPAM report bringing forward this proposal and recommendation has been prepared and submitted for consideration to the Director in June 2014.
- 4.3 This objective was partly achieved. Prior to its closure on 31/03/15 the Council's Corporate Improvement Programme (CIP) supported a transformation programme made up of 8 projects, which included Asset Management.
- Other CIP projects and strategies (e.g. Mobile & Flexible working, Information Management and Customer Engagement, and the Carbon Reduction strategy) had valuable information that was input into the Area property reviews and also to individual property projects. This assisted in determining floor space and facility requirements. Also, other Council priorities, such as Carbon Reduction, will benefit by ensuring the Council uses fewer buildings that are more energy efficient. Future TSP initiatives may include similar information, useful for the Asset Management initiative.
- 4.3.1 The Corporate Property Asset Manager has stated that Asset Management office and area reviews do request available information, such as staff work patterns in the office under review to determine occupancy. While this process is being carried out, the procedures for CPAM are not detailed enough to ensure staff are prompted to collect this data and need to be reviewed in light of the new TSP.
- 4.4 This objective was not achieved. In 2010, the Asset Management Project Board invited CIPFA Property to conduct a review of the Council's approach to asset

management. One action from this work recommended that Service Asset Management Plans were created. The key objective of these plans is to develop and deliver an "Asset Vision", "Strategy" and a Service and Asset "Action Plan" for property for each of the geographical areas under consideration.

This traditional approach to asset management planning was considered by the Asset Management Project Board (AMPB) and an alternative more pragmatic Highland Council "Strategic Area Property Review" approach was agreed by the AMPB on 28/08/12. So far the Inverness Area Asset Management Plan has been agreed by Resources Committee in November 2014, and the Lochaber Area Asset Management Plan was agreed by Resources Committee in May 2015.

- 4.4.1 The AM-Target Operating Model (agreed by Resources Committee in August 2010), which summarises the "Cross-Organisational" changes and improvements required following a CIPFA Property review of the Council's Asset Management Approaches, has not been fully implemented, due in part to organisational changes (during 2013-14; 2014-15); competing priorities and resources issues. It was agreed that the model would be implemented by December 2011.

The Target Operating Model (TOM) contained 31 recommended actions: -

- Eight of the TOM recommended actions were assigned to the CPAM Team, and seven have been completed. The remaining action has been delayed due to the implementation of a new property asset management information system and resource issues.
- The remaining 23 TOM recommended actions relate to organisational changes in how the Council deals with and treats its (non-housing) property assets. However, the Council has undergone a major organisational change in the period 2013-14 to 2015-16 during which the implementation of the TOM has lost some impetus. The outstanding AM-TOM actions need to be reviewed by Senior DI-Service Management to ensure that the TOM remains current and relevant to the Council's current priorities. Once the model has been reviewed, an action plan will be developed to fully implement any outstanding actions.

The outstanding objectives of the target operating model are to ensure that:

- All of the property assets owned or occupied by the Council are considered to be corporate assets. Strategies, policies and key decisions are agreed by the Resources Committee.
- Members are fully engaged in the development of asset policy and the monitoring of performance against targets. Ward business meetings receive regular reports on asset performance and costs such that local Members are able to influence asset rationalisation in their ward.
- Service Directors engage with the Corporate Property Officer to define their current and future property needs. Each Service has nominated a Senior Manager to engage with the Asset Management Team in an "Informed Client" role.
- Joint working between organisations is sufficiently mature to support the sharing of human and financial resources where facilities are jointly occupied.
- There is clear alignment between the asset management strategy and the carbon reduction strategy.
- There is clear integration of the asset management strategy with the other corporate improvement projects particularly mobile and flexible working, information management and customer engagement.

- 4.5 This objective was fully achieved as the Council promotes joint working on asset management through the Highland Public Sector Property Group. This group

includes the Council, Police Scotland, Fire Scotland, the NHS and Highlands and Islands Enterprise. Council approved projects are shared with the group for potential collaboration. Also, the Council reviews possibilities presented by other organisations.

The CPAM Team are leading negotiations with three public sector partners/agencies with a view to their co-location within the Council's new office development in Fort William (due to be operational in Autumn 2017).

The CPAM Team are also leading the engagement with Highland Public Sector Partners, through the Highland Public Sector Property Group, into seeking beneficial co-location opportunities with the Council as part of the Council's CPAM Strategic Area Property Review approach.

5. CONCLUSION

Only one of the objectives has been achieved, and this highlights the Council's lack of progress with the Target Operating Model agreed in 2010. Although the Council has known for 5 years what it had to do to identify a framework, which could be used to capture relevant savings and benefits, it has failed to make significant progress with this.

The Council must better understand its current property costs and also its property needs and then revisit the savings targets in order to set attainable and challenging targets. This will allow the Council to transform its property assets into a lower cost and more efficient portfolio, ensuring the Council is receiving best value from its property. This is particularly important given the Council's need to reduce costs and achieve its savings programme.

There are 4 recommendations in this report, all are classified medium grade. All are due to be fully completed by 31/12/16, with the majority to be completed by 31/03/16.

6. AUDIT OPINION

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.

7. ACTION PLAN

The Action Plan contains 5 recommendations as follows:

Description	Priority	Number
Major issues that managers need to address as a matter of urgency.	High	0
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	5
Minor issues that are not critical but managers should address.	Low	0
Total recommendations		5

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.1.1	Medium	The financial ledger does not list a cost centre for every property. This then causes difficulties in obtaining property costs, in identifying high cost/financially poor performing properties that can be targeted for review/option appraisal by the CPAM potentially leading to more robust investment and dis-investment decision making by officers and Members, and calculating savings objectives. However, it is possible to have an analysis code for each cost centre with the address of the building in the new financial system (Integra).	(1) A joint review should look at the possibility of implementing a cost centre for each Council owned occupied building. This should be a joint-project between the Finance Service and the Development & Infrastructure Service. It should assess the practicalities of maintaining the coding structure and the financial data. (2) A review of the building revenue information received by the Council should take place to ensure it can be easily coded using the proposed new cost centre structure, including any limitations with the cost information restricting the effectiveness of the cost centre structure. It is not to change the billing arrangements already in place.	Development & Infrastructure will work with the Finance Service on this review, looking at the most appropriate buildings first.	Acting Head of Property, Development & Infrastructure. Corporate Property Asset Manager, Development & Infrastructure Service Finance Managers, Finance Service	31/12/16

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.2.1	Medium	A standard methodology is used by CPAM for planning property projects, prior to committee approval. However, a delay in the implementation of the Fort William office move has highlighted a missing link between the business case and funding approval and implementation of projects. A Project Manager (Workplace Transformation) officer post has been created to close this link, however procedures for their role within the process of property projects have yet to be fully developed and documented.	<p>(1) A standard methodology for the Project Manager (Workplace Transformation) Officer post should be put in place.</p> <p>(2) The methodology should include links from the CPAM methodology and then lead into the project management team's methodology.</p> <p>(3) The methodology should also include the Council policy requirements for those involved in the project (e.g. Financial Regulations section 25), which would include qualifications and training.</p>	<p>(1) & (2) – There is a Job and person Specification that defines the role. A standard methodology is currently in development and that will be reviewed and updated as this new Property Manager (Workplace Transformation) role develops.</p> <p>(3) The methodology will include the Council's policy requirements in relation to Financial Regulations, training and development. Ongoing training and development will be reviewed as part of the Council's ERD process.</p>	<p>Programme Manager, Development & Infrastructure</p> <p>Programme Manager, Development & Infrastructure</p>	<p>30/11/15</p> <p>Ongoing</p>

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.2.2	Medium	<p>Separate boards have been set up for office rationalisation projects. There is scope to improve efficiency and share good practice if these are brought together into one board.</p> <p>A CPAM report bringing forward this proposal and recommendation has been prepared and submitted for consideration (19/06/2014).</p>	<p>Consideration should be given to combining and consolidating individual Office Project Boards and bringing them under the control of a single governance board for office transformation projects, or the Asset Management Project Board (with a new remit and composition).</p>	<p>A review is to be undertaken of the roles, remits, composition and arrangements for a number of existing/proposed property governance boards (including Asset Management Project Board, Capital Programme Board, Office Transformation Projects and Property Compliance) that will be aligned with the Council's Asset Management – Target Operating Model.</p>	Director of Development & Infrastructure	31/03/16

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.3.1	Medium	CIP-AM was one of the Corporate Improvement Programme (CIP) projects, prior to its closure on 31/03/15. Other CIP projects and strategies (e.g. Mobile & Flexible working, Information Management and Customer Engagement, and the Carbon Reduction strategy) produced valuable information that could be input into the Area Property Asset Reviews and also to individual property projects. This would assist in determining floor space and facility requirements. Also other Council priorities, such as Carbon Reduction, would benefit by ensuring the Council uses fewer buildings that are more energy efficient.	Once the initiatives to be developed under the TSP are known, the standard methodology should be amended to clearly state the procedure staff must follow when seeking information for property projects from other initiatives.	This has been reviewed and a standard methodology will be put in place.	Corporate Property Asset Manager, Development & Infrastructure	30/11/15

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.4.1	Medium	<p>The AM-Target Operating Model (agreed by Resources Committee, August 2010), which summarises the "Cross-Organisational" changes and improvements required following a CIPFA Property review of the Council's Asset Management Approaches, has not been fully implemented, due in part to organisational changes (during 2013-14; 2014-15); competing priorities and resources issues.</p> <p>One recommendation from this review was to develop Service Asset Management Plans, however in 2012 the Asset Management project board agreed to an alternative more pragmatic Strategic Area Property Review. The Inverness Area Asset Management Plan was agreed by Resources Committee (Nov 2014), and the Lochaber Area Asset Management Plan was agreed by Resources Committee (May 2015).</p>	The AM-Target Operating Model should be reviewed by Senior Service Management to ensure that it remains current and relevant to the Council, and, once reviewed, recommendations fully implemented.	<p>The AM-Target Operating Model will be reviewed by Senior Development & Infrastructure Service Management to ensure that it remains current and relevant to the Council's current priorities. Once the model has been reviewed, an action plan will be developed to fully implement any outstanding actions.</p>	Director of Development & Infrastructure / Acting Head of Property	31/12/15

**INTERNAL AUDIT
FINAL REPORT**

FINANCE SERVICE

GENERAL LEDGER

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1. INTRODUCTION

The purpose of this report is to record the findings of a recently completed audit review of the Highland Council's General Ledger system. All financial transactions are recorded on the General Ledger and the annual statement of accounts is derived from the data held within it.

2. REVIEW OBJECTIVES

The objectives of the review were to ensure that:

- (i) There is an adequate control framework over access to and operation of the General Ledger.
- (ii) Controls are in place to ensure the structure of the chart of accounts cannot be modified without the correct authorisation.
- (iii) Data is input to the General Ledger from subsidiary ledgers in a consistent and timely manner and is complete, accurate and valid.
- (iv) Amendments made to the data held within the General Ledger (i.e. journals) are complete, accurate and valid.
- (v) Outputs from the system are complete, accurate and valid and are produced in a consistent and appropriate format in a timely manner.

3. SCOPE, METHOD & COVERAGE

The audit reviewed the systems and controls in place to ensure the completeness and accuracy of the General Ledger and tested their effectiveness in areas of system access, changes to the chart of accounts, system interfaces and reconciliations, journal entries and outputs from the system. Transactions in respect of the financial year 2014/15 were sampled.

The audit was undertaken as part of the 2014/15 audit plan and external audit will look to place reliance on the work carried out.

4. MAIN FINDINGS

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

- 4.1 This objective was partially achieved. Out of a sample of 30 active Oracle General Ledger users, access and authorisation rights were found to be appropriate in terms of the duties performed and post held. The number of users with administration/ super-user access rights was reasonable and is restricted to the Principal Accountant (Accounts & Central Services) and users from the Finance Systems Administration Team (FSAT) and Fujitsu. As per Section 6 of the ICT User and Network Access Control Policy, access rights are reviewed annually by Service Finance Managers.
 - 4.1.1 Where read-only access was required i.e. Internal and External Audit, 7 out of 12 users had additional access rights which would allow them to make changes to data held within the General Ledger. However, there was no evidence found to demonstrate that these users had made any changes to the General Ledger.
 - 4.1.2 Out of a sample of 30 Council leavers, General Ledger access had been terminated in all but 2 cases. A 'Finance System Deletion Form' should be completed by line managers and submitted to FSAT for every Council leaver. On receipt of the form, FSAT carry out the necessary checks and terminate access to systems as necessary. As a secondary check, FSAT review a monthly report of Council leavers and terminate access to systems as necessary. In the 2 cases where access had not been terminated, both officers had left the Council in March 2015 but the relevant form had not been submitted to FSAT by the line manager.

Access would have been terminated following the monthly check by FSAT but this was not done for the period March 2015 due to the change of Council financial system from Oracle to Integra.

4.2 This objective was partially achieved. FSAT are responsible for carrying out changes to the chart of accounts and should only do so on receipt of a standard request form which has been authorised by a Service Finance Manager or 'Deputy'.

4.2.1 A sample of 16 amendments to the chart of accounts was examined. A request form, authorised by either a Service Finance Manager or Principal Accountant, had been submitted to FSAT in 14 cases. In the remaining 2 cases the form had been submitted by an Accountant or a Principal Accounting Technician, who were considered to be appropriate authorisers by FSAT, and therefore the changes were accepted. The forms also incorrectly stated that they had been authorised by the Service Finance Manager. As the form was submitted and effectively authorised by the same officer, there was no secondary check done to ensure that this change was valid or appropriate.

4.3 This objective was substantially achieved. A sample of 16 monthly payroll uploads to the General Ledger were tested and in all cases they had been carried out in line with the prescribed timetable. For each upload, supporting documentary evidence was retained by FSAT and details were recorded on a control sheet accurately.

A number of reconciliations are carried out by the Central Services Finance Team to ensure that the data input into the General Ledger from subsidiary ledgers is accurate and a control spreadsheet is maintained to evidence this.

4.3.1 4 reconciliations were selected for review and all had been performed in accordance with the prescribed timetable, were supported by appropriate documentary evidence and had been electronically signed off by an appropriate officer. However, the control spreadsheet had not been updated in 1 instance to reflect that the reconciliation had been checked and signed off. A daily Accounts Payable reconciliation was re-performed and the results confirmed that it had been performed correctly and all key figures could be verified to the supporting information.

Suspense accounts are reviewed and cleared either monthly, quarterly or annually, either as part of the reconciliation process mentioned above or by the Principal Accountant (Accounting & Central Services) as part of the year-end closedown process. All suspense accounts were clear at end of financial year 2014/15.

4.4 This objective was substantially achieved. A sample of 30 processed journals was reviewed and all had been raised by an appropriate officer, (either a member of the Service Finance Team or an Administrative Assistant with a requirement to raise journals as part of their duties). All had been raised for a valid reason and supporting evidence had been retained where applicable.

Out of a sample of 30 active Oracle users with access rights to create journal entries within the General Ledger, 21 no longer had a requirement to do so in the course of carrying out their duties. However, as part of the move to Integra at the start of financial year 2015/16, access to create journals has been restricted to Finance Service Teams and a small number of trusted individuals with a known requirement to raise journals. Therefore the number of users with access to create journal entries has been greatly reduced and is now far more restricted. As

part of the annual review of access rights carried out by Service Finance Managers (as per Section 6 of the ICT User and Network Access Control Policy), access rights to create journal entries will be revalidated and removed if necessary.

4.5 This objective was substantially achieved. Exception reports are produced on a monthly basis by the Central Services Finance Team and distributed to an appropriate officer within the relevant Service for review. A control spreadsheet is maintained to evidence this.

4.5.1 However, not all of the monthly exception reports produced were listed on the control spreadsheet and therefore assurance could not be given that all relevant reports had been run.

It was confirmed that all opening General Ledger balances for the financial year 2014/15 had been agreed to the closing balances for 2013/14 and were therefore stated correctly in the ledger at 1 April 2014.

5. CONCLUSION

Overall there are effective systems and controls in place to ensure the completeness and accuracy of data held within the General Ledger but there are some areas where controls could be further improved. There is a robust process in place for making changes to the chart of accounts but there is a lack of clarity regarding who should authorise such changes. Once this has been confirmed with all relevant parties, changes should only be accepted when authorised appropriately. Whilst reconciliations are completed regularly and exception reports are run monthly, accurate and up to date control spreadsheets should be maintained to evidence this.

There are a total of 5 recommendations in this report; 3 are classified medium and 2 as low priority grades. 2 of the low grade and 2 of the medium grade recommendations have been completed with the remaining medium grade recommendation due to be implemented by 31/07/15.

6. AUDIT OPINION

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 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.

7. ACTION PLAN

The Action Plan contains 5 recommendations as follows:

Description	Priority	Number
Major issues that managers need to address as a matter of urgency.	High	0
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	3
Minor issues that are not critical but managers should address.	Low	2
Total recommendations		5

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.1.1	Low	Where generic (read-only) access was required to the General Ledger, 7 out of 12 users had additional access rights which would allow them to make changes to data held i.e. create journal entries.	Access rights for those with a requirement for read-only access (Internal and External Audit) should be checked on Integra and amended accordingly.	Integra checked and all audit users are enquiry only with the exception of appropriate budget holders in Internal Audit.	Finance Systems & Change Manager	Complete
4.1.2	Low	Out of a sample of 30 Council leavers, General Ledger access had been terminated in all but 2 cases. This was because 'Finance Systems User Deletion Forms' had not been submitted by line managers to FSAT. A secondary monthly check carried out by FSAT of all leavers would normally have picked this up but the check was not carried out for the month of March 2015 due to the move from Oracle to Integra.	All line managers should be reminded of the need to submit a 'Finance User Deletion Form' to FSAT in a timely manner for all leavers.	E-mail issued to council managers from FSAT to remind them of the requirement to complete form for all leavers.	Finance Systems & Change Manager	Complete
4.2.1	Medium	In 2 out of the 16 changes to the chart of accounts sampled, the request form had not been authorised by the Service Finance Manager or the Principal Accountant.	Chart of accounts changes should only be accepted following receipt of a request form authorised by a Service Finance Manager or Principal Accountant. This should be stated clearly on the request form and all Service Finance Teams should be informed.	Form to be amended and instruction to be issued to all finance managers to remind them of the procedure.	Service Finance Manager (Accounts & Central Services)	31/07/15

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.3.1	Medium	The reconciliation control sheet for 2014/15 was found to be incomplete and was not up-to-date.	The officers responsible for undertaking reconciliations should be reminded to keep the reconciliations control sheet up to date.	Finance Team (Accounts & Central Services) to be reminded to keep the reconciliations control sheet up to date.	Service Finance Manager (Accounts & Central Services)	Complete
4.5.1	Medium	The exception report control sheet for 2014/15 was found to be incomplete as it did not list all of the exception reports which are run.	All exception reports run should be recorded on the control spreadsheet. It should be stored on a shared drive and updated by all officers responsible for running exception reports.	Finance Team (Accounts & Central Services) to be reminded to record all reconciliations on control sheet and control sheet to be saved on shared drive.	Service Finance Manager (Accounts & Central Services)	Complete

CONFIDENTIAL

**INTERNAL AUDIT
FINAL REPORT**

FINANCE SERVICE

NON DOMESTIC RATES – BILLING AND COLLECTION

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1. INTRODUCTION

The purpose of this report is to record the findings of a recently completed audit review of billing and collection of Non Domestic Rates (NDR). The audit was undertaken as part of the annual plan for 2014/15.

Non Domestic Rates are controlled by the UK Government. Rates due are calculated by the rateable value of a property and applying the annually set 'multiplier' also known as the 'rate poundage'.

The Highland Council's role is to bill and collect the rates due, and to administer rates relief. For the financial year 2014/15, as at 25/05/15, the Council has collected £113.3m of the £116.6m due which equates to a collection rate of 97.18%, slightly down on the preceding year's 97.61%.

2. REVIEW OBJECTIVES

The objectives of the review were to ensure that:

- (i) All relevant data from the valuation roll is promptly and correctly transferred to the assessment roll.
- (ii) Bills are correctly calculated (including discounts and reliefs etc.) for all relevant properties.
- (iii) Only valid amendments are made to the billing system.
- (iv) Payments received are promptly processed and correctly posted to ratepayers' accounts.
- (v) Write offs, cancellations, and refunds are properly controlled.
- (vi) Arrears follow up procedures are properly controlled.
- (vii) There are robust arrangements in place for the prevention and detection of fraud in relation to Non Domestic properties.

3. SCOPE, METHOD AND COVERAGE

The audit examined the key controls in place over the valuation and billing arrangements for Non Domestic properties. This included the raising and amendment of liability; ensuring that payments were promptly processed and accounted for; that write-offs and refunds were controlled and debt recovery procedures were adhered to.

The audit examined transactions during the financial year 2014/15 and Audit Scotland will place reliance upon the Internal Audit work undertaken.

4. MAIN FINDINGS

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

- 4.1 This objective was achieved as all relevant data from the valuation roll is promptly and correctly transferred from the assessment roll to the Council's Council Tax system. Weekly updates are received from the Assessor listing new or deleted properties, changes to rateable value (RV), or change of property owner. These are actioned, reviewed, signed off, and retained. In addition, on an annual basis prior to annual billing, the Assessor's property valuation roll and the Council's NDR databases are reconciled, with mismatched items investigated and rectified.
- 4.2 This objective was substantially achieved in that:

NDR system parameters within the Revs & Bens system are updated annually by the Finance System Administration Team (FSAT) and checked and signed off by the NDR section.

A sample of 30 different types of reliefs was reviewed and these:

- were supported by a signed application form (where applicable);
- had been correctly calculated;
- were reviewed in accordance with the prescribed frequency.

In addition, the prescribed checks and procedures had been adhered to and there was evidence that these had been checked by management.

- 4.2.1 However, Rural Rate Relief had been awarded on a property with a RV more than £17,000, the upper limit on qualification for this type of relief. A further review of all 924 properties with Rural Rate Relief identified a further 2 properties that no longer qualified as their RV had been amended taking it above the limit. This had resulted in £83,783 of relief being wrongly awarded over a 5 year period.

All new exemptions, discounts and void properties are identified on a monthly basis and details passed to the Visiting Officers, who should arrange visits in the most effective way possible in considering the Council's geography. Void properties are inspected to ensure they are vacant and any that are not are reported and appropriate action is taken by the NDR Section.

- 4.3 This objective has been partially achieved in that:

- 4.3.1 The Revs & Bens system cannot produce a control access report listing all active users and their access rights and FSAT provided a copy of their control report which is in an excel format. However, this only lists the "senior" access rights and audit testing found 2 entries which did not match the actual access rights of the user. It was established that this report is predominately used for managing the number of licences and forming the basis of the annual access check for managers. This does not comply with the ICT User and Network Access Control Policy which states that *"System Owners should maintain an up-to-date register of all users and their level of access (including third parties and guest/visitors)"*.

- 4.3.2 Not all current user groups within the Revs and Bens system are defined within the "System Access Control Policy for Northgate Revenues & Benefits and Civica ECDM system" document. The omitted groups include "Scan & Index", "Assessor", "Subsidy", and "Policy & Development".

- 4.3.3 A small number of users within Policy & Development had access profiles for Civica ECDM which allowed them to amend other user's access rights. This resulted in a number of discrepancies between user's actual profile and that recorded on the FSAT record, as they were not notified of these amendments. Restructuring in 2015/16 have meant that this responsibility has been removed from Policy & Development with all aspects of system management now residing with FSAT.

- 4.4 This objective was fully achieved as there are daily reconciliations between the cash collected and bank statements, and monthly reconciliations between cash receipts and the financial ledger. The reconciliations were performed correctly and undertaken in accordance with the prescribed frequency.

There is a dedicated suspense account for all unallocated NDR receipts and all transactions are reviewed within a week and cleared.

- 4.5 This objective was fully achieved as there is a sound system whereby unrecoverable debts are authorised for write-off on a monthly basis by the Head of Revenues and Business Support in accordance with the Council's Scheme of Delegation.

Refunds were correctly calculated and authorised by an appropriate officer, cancellations had been properly actioned, and all of these were processed in accordance with the prescribed procedures.

4.6 This objective was partially achieved as:

4.6.1 The prescribed timetable for the pursuit of arrears was not completely adhered to as there have been delays in moving outstanding debts to the summary warrant stage. This was as a result of the re-organisation of the Sheriff Courts which led to delays occurring between November 2014 and March 2015. The recovery process has been tightened up for 2015/16 and this has been reflected in an updated Recovery Procedure.

However, reports on arrears, aged debt analysis and totals from ratepayers' accounts were produced in accordance with the prescribed frequency.

4.7 This objective was substantially achieved as there are sound arrangements in place for the prevention and detection of fraud.

4.7.1 However, there is scope to improve the process for the award of some reliefs. The initial application form for Mandatory and Discretionary relief does contain a standard declaration and warning, which requires the applicant to declare that the information given on the form is complete and accurate, and that if this is not the case or they fail to report a change which may affect their relief, they may be prosecuted. Where Mandatory or Discretionary relief was awarded these are reviewed every 3 years for which there is a separate review form which must be completed by the applicant. However, this does not include the declaration and warning which is in the application form.

5. CONCLUSION

Overall, the NDR system is operating satisfactorily with appropriate controls in place for the billing and collection of sums due. However, there is a need to ensure that on-going reliefs awarded are still valid following changes made to Rateable Values. In addition, there are some system issues that need to be addressed with regard to maintaining an up-to-date register of all users and their level of access, ensuring that the access levels for the different groups of staff are included within their control policy and that changes to access profiles are only amended by authorised officers.

A total of 4 recommendations have been made; all are classified as medium priority. 1 of the recommendations has been completed, another recommendation with 3 actions is part-completed, and for another recommendation the management agreed action is ongoing. All recommendations are due to be implemented by 30/11/15.

6. AUDIT OPINION

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

7. ACTION PLAN

The Action Plan contains **4** recommendations as follows:

Description	Priority	Number
Major issues that managers need to address as a matter of urgency.	High	0
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	4
Minor issues that are not critical but managers should address.	Low	0
Total recommendations		4

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.2.1	Medium	3 properties were identified as receiving Rural Rate Relief even though their rateable values were in excess of the upper qualification limit of £17,000. This had resulted in £83,783 of relief being wrongly awarded.	Where Non Domestic accounts are subject to a change in rateable value or other amendment, officers should check to see if there were any other reliefs awarded and whether there is still ongoing entitlement to these or if these should be revised.	Staff have been reminded to check relief entitlements and amend accordingly when RV's are subject to alteration.	Rating Officer	Completed
4.3.1 – 4.3.3	Medium	(i) The ICT User & Network Access Control Policy requires that System Owners should maintain an up-to-date register of all users and their level of access. The Revs & Bens system is unable to produce an access control report. A manual spreadsheet is maintained by FSAT but this does not fully record access rights, as its main purpose is to enable a check on the number of licenced system users.	An up-to-date register of all users and their level of access should be compiled. In addition, the system supplier should be asked if the next system upgrade can provide access control reporting functionality. This could be pursued by way of user groups or other forums available.	User list to be updated. Investigation shows that Business Objects now provides this option.	Finance Systems & Change Manager Finance Systems & Change Manager	31/07/15 Completed

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.3.1 – 4.3.3 (cont.)		<p>(ii) Not all current user groups within the Revs and Bens system are defined within the System Access Control Policy for Northgate Revenues & Benefits and Civica ECDM system document.</p> <p>(iii) Differences were detected between the actual user access rights and and that recorded on the FSAT spreadsheet for 9 Civica ECDM users, meaning the ICT User & Network Access Control Policy was not being adhered to.</p>	<p>The Access Control Policy should be reviewed and updated to reflect current working practices and the different user groups who use the system.</p> <p>The control access list should be updated and regularly reconciled to the system control access report.</p>	<p>Application security under review including review of the Access Control Policy.</p> <p>User list to be updated .</p>	<p>Finance Systems & Change Manager</p> <p>Finance Systems & Change Manager</p>	<p>30/11/15</p> <p>31/07/15</p>
4.6.1	Medium	There were delays in the issue of some summary warrants. However, this was primarily due to re-structuring of the Sheriff's Court, over which the Council had no control. However, this can have a detrimental effect as the longer a debt is uncollected the less likely is that it will be paid, affecting the overall collection rate.	The pursuit of arrears should be monitored to ensure that the revised timetable for 2015/16 is adhered to.	Agreed.	Revenues Manager	Ongoing
4.7.1	Medium	Where mandatory or discretionary relief has been granted, this decision needs to be reviewed every 3 years. However, unlike the initial application, the review form completed by the applicant does not contain the standard declaration or warning which states "It is an offence to give false information" and that if the applicant gives "information that is wrong or not complete or fail to report a change, which may affect my relief, I may be prosecuted".	The mandatory and discretionary review forms should be reviewed and amended to include the necessary declaration and warning.	Agreed.	Rating Officer	30/11/15

**INTERNAL AUDIT
FINAL REPORT**

FINANCE SERVICE

COUNCIL TAX – BILLING AND COLLECTION

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1. INTRODUCTION

The purpose of this report is to record the findings of a recently completed audit review of billing and collection of Council Tax. The audit was undertaken as part of the annual plan for 2014/15.

For the financial year 2014/15, as at 25/05/15, the Council has collected £98.5m of the £103.2m due in Council Tax on 114,266 properties, which equates to 95.50% collection rate, the same rate as the preceding year.

2. REVIEW OBJECTIVES

The objectives of the review were to ensure that:

- (i) There is an adequate control framework in place governing the operation of the council tax billing and collection system.
- (ii) All taxable properties are identified and accurately recorded.
- (iii) All persons liable for council tax have been identified and all discounts, benefits, exemptions and allowances have been correctly recorded to comply with statutory requirements.
- (iv) Council tax bills are raised accurately and in a timely manner.
- (v) Income is recorded correctly within individual's accounts.
- (vi) Arrears are identified promptly and pursued.
- (vii) All write offs are valid and authorised.

3. SCOPE, METHOD AND COVERAGE

The audit examined the key controls in place over billing and collection arrangements for council tax properties. This included the raising and amendment of liability; that payments are promptly processed and accounted for; that write-offs and refunds are controlled and authorised; and that prescribed debt recovery procedures were adhered to.

The audit examined transactions during the financial year 2014/15 and Audit Scotland intend to place reliance upon the Internal Audit work undertaken.

4. MAIN FINDINGS

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

- 4.1 This objective was fully achieved as all there are as there are satisfactory policies and procedures in place for Council Tax, which can be accessed by officers from a shared drive.
- 4.2 This objective was fully achieved in that:

Weekly amendments notified by the Assessor to the Valuation Roll are actioned on the Revs & Bens system weekly. The Assessor's Valuation Roll and the Council's billing system are reconciled annually prior to annual billing.

The process and clearing of a number of exception reports found that these are assigned to various Area Finance offices that deal with them regular and prompt basis.

Properties declared void or those considered high risk are inspected by the Visiting Officers to confirm their status.

4.3 This objective was fully achieved in that:

All 28 reliefs reviewed were found to be supported either by a signed application form or in the case of discounts on second homes suitable qualifying evidence.

All amendments made to Council Tax accounts as a result of single occupational discounts being applied, were supported by a signed discount form.

4.4 This objective was fully achieved in that annual and amended bills are raised in a timely manner and also there are sound controls over each billing run which ensure bills extracted matches the number printed and that this matches the number issued and pulled.

4.5 This objective was partially achieved in that:

4.5.1 The Refund policy is contradictory as to whether refunds under £500 require to be authorised and by whom. For refunds over £500, the current policy requires that these have to be both endorsed and authorised which is reflected within the Revs & Bens system and is considered excessive and inefficient. Officers have welcomed the opportunity to streamline the refunds approval process.

4.5.2 2 of 25 refunds reviewed had been incorrectly authorised by a Senior Exchequer Assistant; as both refunds were for more than £500 this requires the approval of Assistant Team Leader or above.

There are daily reconciliations between the cash collected and bank statements, and monthly reconciliations between cash receipts and the financial ledger. The reconciliations were performed correctly and undertaken in accordance with the prescribed frequency.

4.6 This objective was fully achieved as the prescribed timetable for the pursuit of arrears was found to be adhered to. The process was further streamlined with special arrangements to pay arrears with individual tax payers ceasing as of 01/04/15. Failure to pay at final notice stage now leads directly to warrant stage.

4.7 This objective was fully achieved as there is a sound system whereby unrecoverable debts are authorised for write-off on a monthly basis by the Head of Revenues and Business Support in accordance with the Council's Scheme of Delegation.

5. CONCLUSION

Overall, the Council Tax system is operating satisfactorily with appropriate controls in place for the billing and collection of sums due. The only issue identified relates to the process for the approval of refunds as the current refunds policy is contradictory regarding the approval of refunds under £500 and the process is considered unduly excessive for refunds over £500.

One recommendation has been made and is classified as medium priority. This recommendation has been partially completed with the final part due to be completed by 31/10/15.

6. AUDIT OPINION

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

7. ACTION PLAN

The Action Plan contains **1** recommendation as follows:

Description	Priority	Number
Major issues that managers need to address as a matter of urgency.	High	0
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	1
Minor issues that are not critical but managers should address.	Low	0
Total recommendations		1

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.5.1	Medium	The Refund policy is contradictory as to whether refunds under £500 require to be authorised and by whom. Refunds over £500 are required to be both endorsed and authorised. This is considered excessive and inefficient.	The Refunds policy should be reviewed and the approval process clarified and streamlined.	Policy to be amended and endorsed stage removed.	Revenues Manager	31/10/15
4.5.2		2 of 25 refunds reviewed had been authorised by a Senior Exchequer Assistant which an inappropriate grade of officer, as the refund was over £500 and should have been authorised by at least an Assistant Team Leader	Officers should be reminded that refunds are to be authorised by an appropriate officer as set in the Refunds policy.	Email reminder issued to staff.	Service Delivery Manager	Completed 24/07/15

**INTERNAL AUDIT
FINAL REPORT**

FINANCE SERVICE

TREASURY MANAGEMENT

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1. INTRODUCTION

This audit was undertaken as part of the 2014/15 annual plan and records the findings of a recently completed audit in respect of Treasury Management.

2. REVIEW OBJECTIVES

The objectives of the review were to ensure that:

- (i) Borrowing and lending transactions are in accordance with the Council's statutory powers and approved policy and strategy.
- (ii) Annual borrowing requirements and daily balances are properly estimated.
- (iii) Borrowing and lending transactions are properly controlled.
- (iv) Loan repayments and interest are paid on the due dates and in respect of valid loans.
- (v) Deposits and interest are recalled/repaid on the due dates.
- (vi) Borrowing and lending transactions are correctly recorded in bank accounts, the financial ledger, and other subsidiary records (e.g. registers).

3. SCOPE, METHOD AND COVERAGE

The audit examined the key controls operated for Treasury Management and reference was made to CIPFA's Treasury Management Code of Practice (2011 edition). The audit examined transactions in relation to the financial year 2014/15 and External Audit intend to place reliance on the work carried out.

4. MAIN FINDINGS

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

- 4.1. This objective was substantially achieved as appropriate procedural instructions (the Treasury Management Practices) are available to all relevant staff, and these were recently reviewed in December 2014 by the Treasury Accountant. However, there was an issue with evidencing that segregation of duties could be demonstrated for all transactions undertaken (see section 4.3.1 below). The Council's Financial Regulations covers the relevant procedures and states that it has adopted the CIPFA Code of Practice. The borrowing strategy (Treasury Management Strategy Statement and Investment Statement for 2014/15) was scrutinised by the then Finance, Housing and Resources Committee and approved by Council.

- 4.1.1 However, the Treasury Management Policy Statement (TMPS) has not been updated to reflect the 2011 edition of the CIPFA Code of Practice. The current TMPS, reported to the Resources Committee on 28/11/07, contains the majority of expected elements of the Code of Practice but, does not include the following in that:

- Section 6, Paragraph 2 of the Code of Practice quotes "..., and any financial instruments entered into to manage these risks". The Council's TMPS states that "... the analysis and reporting of treasury management activities will focus on their risk implications for the Council", whilst not including any financial instruments entered into to manage these risks.
- Under Section 6 it states "The policy statement should also include the organisation's high level policies for borrowing and investments". The Council's TMPS only details the lending criteria.

These points were instead incorporated within the annual Treasury Management Strategy Statement and Investment Statement 2014/15 which, as required by the

Code of Practice, documents future Treasury limits, borrowing requirements, borrowing strategy and annual investment strategy.

- 4.2. This objective was fully achieved as projections of daily balances are prepared by an appropriate officer and reviewed by a more senior officer. Annual projections were not reviewed as part of this audit.
- 4.3. This objective was substantially achieved as there is segregation of duties between dealing, and recording and verification of deals, access to the Logotech system is restricted to the appropriate staff whose access levels are commensurate with their duties. In addition, there is evidence of the cross-checking of transactions to the written confirmation of the deal received from the other party.
- 4.3.1 However, records held did not clearly evidence the segregation of duties between the daily broking and the confirming of transactions to the Logotech system for 8/30 transactions reviewed.
- 4.4. This objective was substantially achieved as the Logotech system records loan repayments and interest due dates. All staff within the Treasury Management Team can make changes to counterparty standing data which includes bank accounts details and applicable interest rates. However, checks of counterparty standing data to transaction details is undertaken at the outset of the deal and also before approval is given by Senior Management to transfer funds.

The Treasury team are reviewing use of the Logotech system to use more functionality or possible alternatives to the Logotech system in order to improve the efficiency and transparency of processes. There may also be the possibility of using electronic checking rather than the present practice of initialling paper copies as evidence of checks.

- 4.5. This objective was fully achieved as the Logotech system records details of all deposits and interest to be recalled/ repaid on a daily basis. This information is reviewed and cross checked daily by an appropriate officer. From the 30 broking sheets (used to record the daily broking activity) sampled there was evidence that an appropriate officer confirmed that any repayments due were received in full and on the correct date.
- 4.6. This objective was fully achieved as the Logotech system is reconciled to the financial ledger on a monthly basis. The reconciliations are signed and dated by the preparer and reviewed by a senior officer. Public Works Loan Board and Broker invoices are reconciled by appropriate staff and supported by the appropriate paperwork. There are appropriate arrangements in place for the back up of the Logotech system and contingency arrangements mean that the system data is held externally by the Treasury Advisers and can be accessed through their online systems.

5. CONCLUSION

This audit found that sound governance is in place with regards to Treasury Management, and that the procedures followed by Treasury Management staff provide assurance that transactions are necessary and accurate. There are 2 recommendations made as a result of this audit consisting of 1 medium and 1 low grade priority.

The recommendations have been accepted by management, with the low grade action having been completed. The remaining action is due to be completed by the end of February 2016.

6. AUDIT OPINION

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 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.

7. ACTION PLAN

The Action Plan contains **2** recommendations as follows:

Description	Priority	Number
Major issues that managers need to address as a matter of urgency.	High	0
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	1
Minor issues that are not critical but managers should address.	Low	1
Total recommendations		2

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.1.1	Medium	The Treasury Management Policy Statement requires to be updated in line with the most recent CIPFA Code of Practice.	The Treasury Accountant should update the Treasury Management Policy Statement to include details of any financial instruments entered into to manage risks and high level policies for borrowing and investments. The Policy Statement should then be submitted for scrutiny by the Resources Committee and then approved by Council.	The Treasury Accountant will update the Treasury Management Policy Statement to include these and put to Resources Committee alongside the Treasury Management Strategy Statement and Investment Statement in February 2016.	Treasury Accountant	29/02/16
4.3.1	Low	For 8/30 transactions, records held did not clearly evidence the segregation of duties between broking and confirming transactions to the Logotech system.	The Treasury Management Team should amend their procedures so that the individual performing the independent check of broking to the Logotech system, records their initials as evidence of the check.	Agreed. The Treasury Management team will initial as evidence of Logotech check.	Treasury Accountant	Complete

**INTERNAL AUDIT
FINAL REPORT**

FINANCE SERVICE

HOUSING BENEFIT PAYMENTS 2014/15

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1. INTRODUCTION

The review of the award and payment of Housing Benefits (HB) is undertaken on an annual basis on behalf of Audit Scotland. The review uses their worksheet called HB COUNT (count once, use numerous times) to test the awards calculation and classification. This process was designed by the Accounts Commission and has a specific module developed for use by auditors in Scotland.

Audit Scotland intends to place reliance upon the Internal Audit work undertaken and this will form part of their grant certification work on the HB Subsidy claim for 2014/15. At their request, the audit work also included a review of the uprating of the Revs & Bens system parameters for 2015/16.

For the financial year 2014/15 Housing Benefit payments totalled £49.8 million.

2. REVIEW OBJECTIVES

The objectives of the review were to ensure that:

- (i) Benefits are awarded to valid applicants only; claims are accurately assessed and benefit is calculated and classified in accordance with the relevant Regulations and DWP rates.
- (ii) The system parameters in relation to Housing Benefits for 2015/16 have been correctly uprated in accordance with DWP Circulars HB A18/2014 and A2/2015.
- (iii) The agreed actions arising from the previous audit report on Housing Benefit Payments 2013/14 (HDB03/001) issued on 27/08/14 were satisfactorily actioned by management.

3. SCOPE, METHOD & COVERAGE

The audit tested a sample of 20 claims to entitlement and reviewed all transactions related to each claim which affected subsidy in the financial year 2014/15, i.e. initial claim (or continuing), amendments and terminations. The sample included 10 Rent Allowance and 10 Rent Rebate claims. The audit also reviewed the 2015/16 annual uprating of system parameters to verify this was in accordance with the DWP's uprating circulars.

4. MAIN FINDINGS

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

- 4.1. This objective was substantially achieved as 18 out of 20 claims examined had been accurately assessed and calculated in accordance with the Regulations and DWP rates. All claims reviewed were supported by a signed benefits claim form held on the Civica Electronic Content Document Management (ECDM) system.

However, there were 2 claims where errors had been made:

- 4.1.1 In case number 133564 the claimant was in employment for part of the year. Whilst the calculation of earned employment income was in accordance with HB Regulations, one of the five payslips was misread by the officer processing the claim, resulting in a minor overpayment of benefit of £0.15 for the period 26/05/14 to 29/06/14.
- 4.1.2 In case number 16194 the rent used in the HB entitlement calculation for the period 01/04/14 to 15/02/15 included a garage which is an ineligible cost. This resulted in an overpayment of housing benefit of £236.62. As this overpayment arose as a result of a Local Authority error, it is not recoverable from the

claimant. This claimant moved to a new address on 16/02/15 and the correct benefit was paid from this date onwards.

- 4.2 This objective was substantially achieved as all parameters within the Benefits system, other than the exception below, had been increased by the amounts or percentages set out in the DWP Uprating Circulars. The Policy and Development Team's evidence trail was comprehensive and clear in demonstrating that the annual uprating had been fully and correctly applied.
- 4.2.1 The only issue related to a set of capital disregard parameters applicable to claimants who had received an ex-gratia payment as a consequence of imprisonment by the Japanese during the Second World War. These were set-up in 2001 when the initial legislation came into force, but have not been uprated to reflect changes in the lower capital limits made since then. However, these parameters apply to a very small number of individuals across the United Kingdom and there was no impact on the Council as there were no such claimants.
- 4.3 This objective was fully achieved as all the agreed actions arising from the previous audit report on Housing Benefit Payments 2013/14 (HDB03/001), issued on 27/08/14, were satisfactorily actioned by management.

5. CONCLUSION

Overall the system for the processing of Housing Benefits is operating as expected and is considered reliable. Case testing revealed that whilst all details are verified and evidence retained, input errors led to 2 overpayments of benefits although one was for a minor amount. There is also a need to ensure that all parameters are identified before the uprating process takes place to ensure that the information is complete.

There are a total of 2 recommendations in this report, 1 medium priority grade and 1 at low priority grade. Both of these have been accepted by management and 1 action has already been completed with the other to be addressed by 31/01/16.

6. AUDIT OPINION

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 there is a sound system of control designed to achieve the system objectives and the controls are being consistently applied. The levels of assurance and their definitions can be found at Appendix 1.

7. ACTION PLAN

The Action Plan contains 2 recommendations as follows:

Description	Priority	Number
Major issues that managers need to address as a matter of urgency.	High	0
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	1
Minor issues that are not critical but managers should address.	Low	1
Total recommendations		2

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.1.1 – 4.1.2	Medium	Errors were detected in 2 out of the 20 cases reviewed. In 1 case misreading of a payslip led to a very minor over-payment of benefit. In the other, gross rent rather than net eligible rent was used in the benefit calculation resulting in an overpayment of £236.62.	Processing clerks should be reminded to double check figures input as one the errors identified resulted from an input error. Where there is doubt as to the correct treatment for any element of the benefit entitlement calculation, reference should be made to the relevant guidance and regulations.	Details of the two cases have been shared with the Revenues teams and both are down to human error. No further action is required.	Service Delivery Manager	Completed
4.2.1	Low	Whilst the overall process of uprating the system parameters was satisfactory, there was an omission for the capital disregard applied to former prisoners of war. In this case the lower capital disregard limits for 6 parameters have not been uprated for a number of years. There is no impact upon any subsidy claims since the lower limits changed, as the Council has not had any qualifying claimants.	Appropriate checks should be put in place to ensure that the annual uprating process identifies all active parameters and that this information is complete before the relevant uprating is applied.	We note that no cases were affected by this. The uprating process responsibility has since passed to the Finance Systems & Change Team as part of a restructure. There will be a review of the uprating process and it has also recently been announced that there will be no uprating for most working age benefits for the next four years from April 2016.	Finance Systems & Change Manager	31/01/16

CONFIDENTIAL

**INTERNAL AUDIT
FINAL REPORT**

HIGHLAND COUNCIL

MATTERS ARISING FROM THE STATEMENT
OF INTERNAL CONTROL 2014/15

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1. INTRODUCTION

In order to inform the Head of Audit & Risk Management's annual Statement of Internal Control, work was undertaken to examine the systems of internal control operated within Highland Council. This consisted of:

- (i) A high level review of the system of internal control by way of an evidence-based checklist comprising six key areas:
 - Control environment.
 - Identification and evaluation of risk and control objectives.
 - Information and reporting.
 - Control processes.
 - Monitoring and corrective action.
 - Assessment of whether the key controls have been applied during the year.
- (ii) A review of the key controls operated within those financial systems which were not subject to a detailed audit review during the year (Creditors, Debtors & Budgetary Control). The areas examined included:
 - Financial procedures and guidance issued to staff;
 - Segregation of duties;
 - User access levels and appropriateness;
 - System backups and security of data.

A sample of transactions was also selected for detailed testing to verify that the controls were operating as expected. This sample covered the Council, Pension Fund and organisations which use some or all of the Council's financial systems (Assessor's Department, High Life Highland, NHS Highland and HITRANS).

Separate audits of the General Ledger, Income and Payroll systems were undertaken for 2014/15 and these have been reported separately.

- (iii) A follow-up review to ensure that the agreed actions arising from the previous audit report have been satisfactorily implemented by Management.

2. SCOPE, METHOD AND COVERAGE

Details of the procedures in operation were ascertained by enquiry of officers within the Highland Council and review of documents published on their website.

The audit testing covered the financial year 01/04/14 – 31/03/15.

3. MAIN FINDINGS

The main finding of the review was that the systems of internal control were reliable. However there were some matters identified where action could be taken by management to improve the internal controls as follows:

3.1 Internal Control Checklist

No material issues were identified beyond those identified within the 2014/15 Annual Report and Statement on Internal Control.

3.2 Review of key controls

The key controls were found to be operating satisfactorily and the only issues were noted below.

3.2.1 Creditors

A sample of twenty four creditor invoices was selected for examination, the following issues were found where Financial Regulations had not been complied with:

- two invoices were not supported by an official order: one related to the supply of furniture, the other, healthcare supplies;
- two purchases were not supported by the required number of quotes as outlined in Contract Standing Orders;
- two orders did not contain a sufficient level of detail to clearly identify the record of goods required, and in addition, these orders could not be matched to the corresponding invoices;
- in two cases, the approved stationery and IT suppliers were not used.

Lastly, as required by Financial Regulations, segregation of duties was demonstrated in all cases except for one where the order was issued and the delivery note was received by the same individual.

3.2.2 Debtors

A sample of twenty nine debtor invoices was selected for examination and the following issues were found where Financial Regulations had not been complied with.

- ten invoices were not issued within the specified timescale;
- thirteen invoices did not contain sufficient detail concerning the date of supply:
- two invoices contained only a general description of supplies and lastly,
- one invoice was raised unnecessarily for a recycling bin as bins may be ordered in advance by telephoning the Council's Service Centre.

Ten cancelled invoices were selected for examination of which five replacement invoices were issued. However, the replacement invoices were not correctly cross-referenced to provide cancellation (credit memo) details on the original and/or replacement invoice. In this regard:

- three were not cross-referenced to both the original and the replacement invoice;
- two original invoices did not contain details of replacement invoice.

This point was also raised in the previous Matters Arising from the Statement of Internal Controls report for 2013/14 which was issued on 11/11/14. In response, the Income & Recovery Manager agreed to remind officers within all Services of the need to comply with Financial Regulations. Despite this reminder being issued on the same day as the audit report, officers have failed to comply with this.

Lastly, two credit memos were raised by the same officer who raised the original invoice and as such, segregation of duties could not be demonstrated.

3.2.3 Budgetary Control

A sample of six quarterly Committee reports was examined. The budgetary control process is operating satisfactorily. However, for one, there were issues with the completeness and accuracy of the information reported to the Council's Community Services Committee on 06/11/14, as no explanation was provided regarding an £200k overspend and, in addition, the level of detail provided in the report was less than the amount of detail provided in previous Committee reports.

3.3 Follow-up of management agreed actions

The Highland Council's Matters Arising from the Statement of Internal Controls, 2013/14 report was issued on 11/11/14. This report contained 1 medium and 2 low grade recommendations which were accepted by management, all of which have been fully implemented.

4. CONCLUSION

This review has concluded that the Highland Council's systems of internal control were generally reliable. However, as detailed in the main findings above, there are areas where compliance with established policies and procedures could be strengthened. There are a total of 3 recommendations in this report, 2 assessed as medium priority and 1 as low grade priority. All recommendations have been accepted by management, with the last agreed actions to be completed by 30/09/15.

5. AUDIT OPINION

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 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.

6. ACTION PLAN

The Action Plan contains **3** recommendations as follows:

Description	Priority	Number
Major issues that managers need to address as a matter of urgency.	High	0
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	2
Minor issues that are not critical but managers should address.	Low	1
Total recommendations		3

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.2.1	Medium	<p>From a sample of twenty four creditor invoices examined, a number of issues were identified where the requirements of Financial Regulations had not been met:</p> <ul style="list-style-type: none"> two invoices were not supported by an official order; two orders were not supported by the required number of quotes; two orders did not contain sufficient detail and could not be matched to corresponding invoices; in two cases approved suppliers were not used. segregation of duties could not be demonstrated for one transaction where the purchase order was issued and the delivery note was received by the same individual. 	<p>All officers involved in purchasing goods and services are reminded of the need to comply with Financial Regulations and associated guidance notes to ensure that:</p> <ul style="list-style-type: none"> invoices are supported by an official order; the required number of quotes are obtained; orders contain sufficient details, including prices; contract suppliers are used; segregation of duties are observed for all financial transactions. 	An email will be issued to reiterate the need to comply with Financial Regulations & associated guidance notes.	Director of Finance	30/09/15

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.2.2	Medium	<p>From a sample of twenty nine debtor invoices, a number of issues were identified where the requirements of Financial Regulations had not been met:</p> <ul style="list-style-type: none"> ten invoices were not issued within the specified timescale; thirteen invoices did not sufficiently detail the date of supply, and two invoices contained only a general description of the items supplied; one invoice was raised whereas the goods could have been ordered and paid for at the time through telephoning the Council's Service Centre; two invoices and the subsequent credit memos were raised by the same officer. five replacement invoices were not cross-referenced correctly; three were not cross-referenced to both the original and replacement invoice, and two original invoices were not cross-referenced to the replacement invoice; 	<p>The need to comply with Financial Regulations and associated guidance notes should be reiterated to all staff involved with the raising and cancellation of debtor invoices. In particular the need to ensure that:</p> <ul style="list-style-type: none"> invoices are raised within the time periods defined within Financial Regulations; the date of supply and a detailed description of the goods provided are sufficiently detailed on the invoice; goods supplied are paid for in advance; segregation of duties are observed for all financial transactions. replacement invoices are cross-referenced to provide the cancellation (credit memo) details; 	<p>An email will be issued to reiterate the need to comply with Financial Regulations & associated guidance notes.</p> <p>Email issued to all staff to make them aware of the issues.</p>	<p>Revenues Manager</p> <p>Revenues Manager</p>	<p>Completed 14/09/15</p> <p>Completed 14/09/15</p>

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.2.3	Low	From a sample of six quarterly Council Committee reports, one did not contain sufficient explanatory detail, in particular, details were not provided concerning a significant reported overspend.	Financial Regulations should be amended to include a suitable paragraph concerning the need to provide sufficient explanatory detail, particularly with regard to reporting significant adverse or favourable variances in revenue monitoring reports.	The informal arrangement to provide explanations on significant variances will be included in the next review of Financial Regulations	Head of Corporate Finance	30/09/15