

## The Highland Council

### Audit and Scrutiny Committee – 17<sup>th</sup> November 2015

Agenda Item	3
Report No	AS/25/15

#### Internal Audit Reviews and Progress Report – 23/09/2015 to 06/11/2015

#### 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. The report also refers to amendments which require to be made to the Audit Plan for 2015/16, predominantly in view of resourcing issues.

## 1. Final Reports

1.1 There have been 4 final reports issued in this period as referred to below:

SERVICE	SUBJECT	OPINION
Corporate Development/ Finance	Charging for Services	Reasonable
Development & Infrastructure	Pulteneytown Peoples Project	Substantial
Finance	Payroll Procedures	Reasonable
Finance	Income Systems	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:

- 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.

## **3. Corporate Fraud**

3.1 As reported to the last Committee, the Section now has the Corporate Fraud Team which came into being on 1<sup>st</sup> August 2015. This team consists of 2 staff who transferred from the previous Investigations Team and an Auditor who will be involved in fraud investigations as well as undertaking audit reviews. The Team remain responsible for some of the activities previously undertaken by the Investigations Team, namely the investigation of Council Tax Discounts and Reduction fraud; acting as the DWP “Single Point of Contact” and the Key Contact in respect of the National Fraud Initiative.

3.2 In addition to undertaking investigations, it is intended that the Team will undertake more proactive work in dealing with fraud with a view to preventing this from occurring in the first place. Furthermore, the Senior Investigator is undertaking the CIPFA Accredited Counter Fraud Specialist training which will assist with creating an anti-fraud culture within the Council and ensuring that the work undertaken accords with best practice. The last Committee report referred to work being undertaken with regard to housing tenancy fraud. Since then one property in Ross-shire has been recovered due to non-residency and another three properties are pending. In addition, a court date of 2<sup>nd</sup> December has been set for the eviction of a former tenant. Although these cases originated as housing tenancy frauds, many of them also involve benefit fraud as well, including Council Tax Reduction.

3.3 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 At the last meeting on 30<sup>th</sup> September, two notable resourcing issues were referred to:

- (i) An Auditor was reported as being on long-term sickness absence following a road traffic accident on 16<sup>th</sup> July 2015. The latest position is that he will not be fit to return to work until sometime in the New Year.
- (ii) An Auditor was reported as leaving the Council in November for a promoted post in an NHS Trust in the north of England and that it was the intention to request approval from the Director of Finance to fill this post. A leaving date

of 11<sup>th</sup> December has now been established. With regard to filling the vacancy, the Director of Finance has requested that the vacancy is held open whilst a view is formed as to the implications of not filling this. Item 4 on today's agenda therefore considers the implications this would have on the ability to provide an annual audit opinion and on the focus and scope of future audit work.

In addition to the previously reported issues, two members of the Audit Team are currently undergoing hospital treatment which will also reduce the staffing resource for part of the remainder of the year.

- 4.2 The Audit & Risk Management team is resourced by 10 FTE staff and therefore the impact of losing a staffing resource, as referred to above, is significant in terms of the ability to deliver the agreed audit plan. However, in view of previous resourcing issues in recent years, a decision was taken to provide a contingency for vacancies within this year's audit plan and this was made known to Members when the plan was approved. This measure has therefore helped to reduce the impact that could otherwise have occurred.
- 4.3 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."* This impact is therefore considered below at Section 5.

## **5. Progress Against the 2015/16 Plan and Provision of Annual Audit Opinion**

- 5.1 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.
- 5.2 Section 4 above referred to the shortfall in the planned staff resource which will impact on the ability to achieve the current year's audit plan. A further factor which will impact is the nature of some of the reviews which have been undertaken during this financial year, particularly the reviews of the Corporate Debt Recovery project, Ben Wyvis School and Inverness City Arts. All of these reviews exceeded the allotted time and therefore this is a factor which needs to be taken into consideration in the planning of any similar work.
- 5.3 The Public Sector Internal Audit Standards indicate that the primary role of Internal Audit is the provision of assurance services resulting in an annual opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control. However, this does not depend upon the annual audit plan being fully completed. With regard to the audit plan for the remainder of this year, priority will be given to the audit reviews where Audit Scotland is intending to place reliance and upon the core systems reviews which directly support the Statement on Internal Control. In addition, priority will also have to be given to investigating any suspected incidents of fraud.

At this stage the likely impact on the audit plan will be as follows:

- (i) The following audits will need to be deleted from the current year's audit plan:

Service/ Audit Name	Priority (per Audit Plan)	Notes
Homelessness (Community Services)	Medium	
Transport management system (Community Services)	Medium	Previously deferred from 2014/15
Private use of vehicles (Community Services)	Medium	
Financial Procedures in schools (Care & Learning)	High	
Continuous auditing (Finance/ all Services)	Core/critical/ commitment	Previously deferred from 2014/15

As far as possible, efforts have been made to delete audits of medium priority only (nb there are no low priority reviews in this year's plan). It is opportune to delete the review of Homelessness as a review of this activity is ongoing by the Temporary Accommodation Re-provisioning Project, as agreed at the Community Services Committee on 20<sup>th</sup> August 2015. The medium priority audits will be considered for inclusion in next year's plan. However, it is possible that the plan will need to consist of higher priority reviews only in view of the resource available.

In view of various financial irregularities in schools in recent years, the annual audit plan includes an annual allowance for reviewing financial procedures. However, work in respect of 2014/15 has only recently been concluded and was reported to this Committee at the last meeting in June, with an opinion of "reasonable assurance." On that basis it is appropriate to delete further work from this year's plan.

Unfortunately, it will not be possible to take forward work on continuous auditing this year and, again, this has been deferred from 2014/15. Continuous auditing would involve the development and use of IT software to assist in checking information in the core financial systems with a view to:

- Identifying error and fraud.
- Gaining continuous assurance that existing controls are working.
- Reduce the effort required for system audit work.

- (ii) In the normal course of events there is work in progress at the end of each financial year as it is not possible to close all work down. In particular, work on the core financial systems requires that transactions are examined from the full year, thus necessitating this overlapping the year end. This year it is anticipated that there may be a higher volume of work in progress which will therefore impact on the available staff resources for the 2016/17 audit plan.
- (iii) As referred to at Section 3.2 above, the Corporate Fraud Team which is now situated in Internal Audit has the responsibility for both the detection and prevention of fraud. In 2014 the Chartered Institute of Public Finance and Accountancy published a code of practice on Managing the Risk of Fraud and Corruption. In order to take this forward work is required on reviewing a number of the Council's policies and procedures (e.g. the Anti-Fraud & Anti-

Corruption Policy, Whistleblowing policy and Code of Conduct) to ensure that these are as robust as possible and act as a deterrent to fraud.

Despite the above limitations, it is envisaged that the Head of Audit & Risk Management will be able to provide an annual audit opinion to inform the Council's Annual Governance Statement.

## 6. Performance

6.1 As part of the development of the Quality Assurance & Improvement Programme which was approved by this Committee on 20<sup>th</sup> 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 2 (July to September 2015) is provided below, together with information in respect of the previous two quarters. During quarter 2, 18 reports were issued.

Category	Performance Indicator	Target	Actual Q4 2014/15	Actual Q1 2015/16	Actual Q2 2015/16
Quality					
Client Feedback	(i) % satisfaction from individual audit engagements expressed through Client Audit Questionnaires	90	91	92	80
	(ii) % of Client Audit Questionnaires returned	70	57	100	85
Business Processes					
Timeliness of Final Report	(iii) % of draft reports responded to by client within 20 days of issue	85	67	67	78
	(iv) % of final reports issued within 10 days of receipt of management response	90	83	83	89

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 work performed shows a decline in comparison with previous performance. However, Members were advised at the previous meeting that the questionnaire was dated and had been overhauled in order to provide for a higher response rate. On that basis, the responses shown in respect of quarter 2 cannot similarly be compared against the previous quarters.
- (ii) The number of questionnaires returned is positive in comparison with previous quarters. Efforts continue to be taken to pursue any non-returns.
- (iii) The timeliness of response from Services has increased in comparison with previous quarters but is below the target time. Procedures are now in place to ensure that if Services fail to respond within 20 days, the matter is immediately escalated to the responsible Director.
- (iv) Two reports were not issued within the 10 day target as the Auditor responsible for these reviews was on Paternity Leave.

## 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:

- (i) The current work of the Internal Audit Section.
- (ii) The resource limitations in respect of the Audit Plan for 2015/16.

Members are also asked to approve the amendments to the Audit Plan for 2015/16.

Designation: Head of Audit & Risk Management

Date: 5<sup>th</sup> November 2015

Author: Nigel Rose, Head of Audit & Risk Management

## Internal Audit – Planned Work in Progress

SERVICE	SUBJECT	PROGRESS
Care & Learning	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 issued
	Inspection of equipment in schools (follow up)	Fieldwork in progress
	School off-site excursions (follow up)	Draft report issued
Chief Executive's Office	Common Good Funds – rental income	Fieldwork in progress
	Data Protection	Draft report in progress
Community Services	Harbours – fuel income procedures	Draft report in progress
	Managing tenancy fraud risk	Fieldwork in progress
	Administration of fuel	Draft report in progress
	Grass cutting contract – monitoring and contract payment arrangements (follow up)	Fieldwork in progress
Corporate Development	Community Challenge Fund – governance arrangements	Draft report issued
	Managing Third Party ICT suppliers/services	Fieldwork in progress
	Performance Indicators 2014/15	Fieldwork in progress
	SharePoint	Terms of reference issued
Development & Infrastructure	Rental income	Fieldwork in progress
	Carbon Reduction Commitment Energy Efficiency Scheme 2014/15	Fieldwork in progress
	Capital project – installation of biomass boilers	Fieldwork in progress
	Corporate Property Asset Management System	Fieldwork completed
	LEADER Programme 2014/15	Draft report in progress
	EFF Programme 2014/15	Draft report in progress
Finance	Purchase cards	Fieldwork completed
	Procurement – review of taxi and private hire inspections contract	Draft report issued



**INTERNAL AUDIT  
FINAL REPORT**

CORPORATE DEVELOPMENT/ FINANCE SERVICE

REVIEW OF THE COUNCIL'S ARRANGEMENTS FOR THE  
CHARGING FOR SERVICES

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**DISTRIBUTION**

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## **1. INTRODUCTION**

A change in recent years to the economic environment, and the resulting financial pressures, has led to Councils having to examine potential sources of income, including charging more for services. Charges are seen as an increasingly important source of income as they can be used to sustain and improve services at a time when resources are limited.

In order to support Services in considering charges, a Corporate Charging Policy was introduced by the Council in October 2011. The aim of the Policy was to ensure that the Council had a transparent and standardised approach to charging and provide guidance on the process for the review of existing charges and the introduction of new charges. The Policy is included as a guidance note in the Council's Financial Regulations.

In October 2013, Audit Scotland prepared a national report on behalf of the Accounts Commission, "Charging for services: are you getting it right?" The report looked at the arrangements within Scottish Councils for charging for services.

## **2. REVIEW OBJECTIVES**

The objectives of the review were to ensure that:

- (i) Highland Council's arrangements for the charging for services are in accordance with the Corporate Charging Policy.
- (ii) Highland Council's arrangements for the charging for services are in line with best practice recommendations set out in the Audit Scotland report "Charging for services: are you getting it right?"<sup>1</sup>

## **3. SCOPE, METHOD & COVERAGE**

The audit reviewed the Council's arrangements for the charging for services, in particular, whether or not they are in accordance with the Corporate Charging Policy and how far they take account of recommendations set out in Audit Scotland's October 2013 report "Charging for services: are you getting it right?"

Contact was made with Services to establish the arrangements in place to review and set charges as part of the annual budget setting process. A sample of 6 discretionary charges was selected from across Services: school meals, school lets, wraparound childcare, harbour dues, commercial waste collection and Trading Standards fees & charges. Each charge was examined to establish whether or not it had been reviewed as part of the annual budget setting process, the level of increase applied for financial year 2015/16 and whether or not the increase had been appropriately authorised.

A sample of income related budget saving measures, agreed as part of the revenue budget for 2015/16 to 2018/19, was examined to assess progress made to date for financial year 2015/16. Those selected related to increases in burial and cremation charges and rental income from the industrial development/property portfolio.

A new charge, which had been introduced by a Service within the previous 12 months, was identified and assessed to ensure that guidance within the Corporate Charging Policy had been followed during the initial decision-making process and that the appropriate approval process had been adhered to.

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<sup>1</sup> Audit Scotland Report ["Charging for services - are you getting it right?"](#) published on 31/10/13

## **4. MAIN FINDINGS**

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

### **4.1 Compliance with the corporate charging policy**

This objective was partially achieved. The Corporate Charging Policy states that charges should be reviewed annually as part of the budget setting process with all discretionary charges increased by the inflationary percentage agreed through the budget process. For all charges examined, these were reviewed by the Service as part of the annual budget setting process and the inflationary increase of 2% applied where appropriate. The Policy also states that where there are proposals to vary charges other than by the inflationary amount, these should be presented to the Council as budget options as part of the budget setting process. The following increases were proposed for financial year 2015/16:

- School meal charges to increase by 10p per meal plus the 2% inflationary increase
- Cremation charges to increase by 10%
- Lair purchase charges to increase by 12%.

The above proposals were agreed at a meeting of the Highland Council on the 18<sup>th</sup> December 2014 as part of a package of revenue budget savings for financial years 2015/16 to 2018/19.

Additional income of £70k, relating to an increase in rental income from the industrial development/ property portfolio, was also agreed as part of the package of budget saving measures for financial year 2015/16. The additional income will be generated by minimising voids, reducing marketing and turnaround time for properties and maximising miscellaneous opportunities for generating income. A programme of checking whether 'internal lets' to other services had been fully utilised was also undertaken and, where they had not been fully utilised, the properties had been repaired and remarketed to the private sector. All of these actions are progressing well and the Property Manager (Industrial & Investment Property) is confident that the income target will be met.

4.1.1 A report to the Education, Children and Adult Services Committee on the 28<sup>th</sup> August 2014 recommended that existing free school lets be phased out over a 3 year period from 1st April 2015 (estimated lost income £150k per annum). This recommendation was removed by Members and instead it was agreed that a Member/Officer working group would be established to consider and make recommendations to Committee on the full impact of phasing out existing free lets over a three year period from April 2015. To date this group has not been established. Subsequently a savings target of £150k from a review of school lets for financial year 2016/17 was agreed by the Council on the 18<sup>th</sup> December 2014. A report setting out the scope of the review went before the Education, Children and Adult Services Committee on the 8<sup>th</sup> October 2015. The scope of the review was agreed and the intention is that it will conclude in a relatively short timescale in order that recommendations can be considered by Committee in early 2016 with the changes implemented for the 2016/17 financial year.

4.1.2 A new charge was introduced for local pre-application advice packs by the Development & Infrastructure Service in May 2015. This service, providing advice on a variety of planning related topics for small to medium scale projects has been in place for around 3 years, was previously free of charge. This mirrors the charging mechanism already in place for major developments and was introduced in order to generate income and recover some of the costs associated with providing the service. The Corporate Charging Policy includes a Framework that sets out various stages which should be followed when deciding whether to charge

for a service and what the level of that charge should be. Although all of the factors detailed within the Framework had been considered by the Service when introducing this charge, the Policy had not been consulted during this process.

The charges were introduced on the 18<sup>th</sup> May 2015 rather than from the start of financial year. This six week delay was due to a member of staff, who had previously led the project, being on long-term sick leave.

- 4.1.3 An increase in interment charges was agreed by Council as part of the package of revenue budget savings. For financial year 2015/16, interment charges were to be increased by 10% (budget saving proposal CS/7a) and in addition raised by a further 15% to equal cremation charges (budget saving proposal CS/7b). In subsequent financial years up to 2018/19, interment charges were to increase by 10% (CS/7a) plus an additional 5% (CS/7b) per annum. The individual saving proposals had been developed in isolation from each other because it was not known which would be approved by the Council. When both were approved there was a lack of clarity as to how to calculate the annual increases in charges. These have subsequently been combined and presented in one document for 2016/17 and subsequent years to 2018/19. The total projected budget savings are unchanged and the interment charges were increased by the amount stated in the budget saving proposals from 1st April 2015. The combined description and charges calculation has also been documented for retention.
- 4.1.4 The Corporate Charging Policy states that it will be subject to regular monitoring and that it will be reviewed annually to ensure that it remains appropriate, continues to support Services and demonstrates best value principles. However, there is no process in place to monitor compliance with the Policy and a review has not been carried out since its introduction in October 2011. A Commercial Manager was appointed in June 2015 and part of his remit will be to carry out a review of the Policy and monitor compliance.

#### **4.2 Assessment of compliance against the Audit Scotland report**

This objective was partially achieved. The October 2013 Audit Scotland report "Charging for services – are you getting it right?" outlined a number of areas of best practice and the following are already in place:

- There are clear overall objectives for charging
- Charges are set within a clear Corporate Policy framework
- Any decision to vary or introduce charges takes into account the Council's priorities and objectives
- The policies for charging and concessions are consistent with the Council's overall approach to equal opportunities
- Councillors provide strong leadership and direction over charges and are actively involved in charging decisions
- The Council has been proactive in consulting with service users and stakeholders in relation to charging
- The Council considers the ability and willingness of service users to pay when making charging decisions
- The cost of delivering a service is considered when making charging decisions
- Charges are compared with other providers and there is awareness of practice elsewhere
- There is an understanding of the contribution that charges make to the Council's overall financial position.

In addition, the Corporate Charging Policy is highlighted as an example of good practice within the Audit Scotland report.

- 4.2.1 However, there are a number of areas of good practice set out in the report which the Council could consider in order to improve existing practices:

- Introduce a register of charges setting out current charges and the annual adjustment to the charge
- Introduce a process for the structured, cyclical review of charges
- Ensure a coherent and coordinated approach to concessions by means of introducing a concessions policy
- Involve Councillors more closely in the setting of charges i.e. outside of Committee. For example, North Lanarkshire Council ran an option appraisal and challenge process, including both Councillors and senior officers, which assessed charging proposals, including their impact on services, client groups, savings targets and strategic priorities.
- Improve transparency in the use of charges by setting out a clear charging schedule on the Council's website or at point of service delivery
- Use the checklists provided within the report for Members and Officers to help them apply good practice.

It was agreed at a meeting of the Finance, Housing and Resources Committee on the 27<sup>th</sup> November 2013 that a review of the Audit Scotland report should be carried out by the Corporate Improvement Programme Income Generation Project Board. The objective of the review was to identify areas, such as those mentioned above, where improvements could be made to existing practices and policies. At the time of the audit this review of the report had not been undertaken. However, as stated at 4.1.4 above, this will be part of the Commercial Manager's remit.

## 5. CONCLUSION

There is a good awareness within Services of the need to review charges each year as part of the budget setting process in order to assess the level of existing charges and to identify new areas for charging. This has become increasingly relevant in recent years due to continuing financial pressures faced by the Council. The existence of a Corporate Charging Policy, which is embedded in Financial Regulations, means that there is a requirement by Services to adopt a corporate approach when considering charges. However, compliance is not monitored, and as the Policy has not been reviewed since its implementation in October 2011, it may no longer be fit for purpose.

There are a number of examples of good practice set out in the Audit Scotland report "Charging for services – are you getting it right?" which could be introduced by the Council in order to further strengthen existing charging practices. Also, the recently appointed Commercial Manager will provide additional support to Services in relation to charging for services by working with them to review current charging schemes and identify new areas for charging. This should allow Services to maximise potential income opportunities.

As a result of the audit, 1 high grade, 2 medium grade and 1 low grade recommendations have been made. All of these have been accepted by management and the final agreed action is due to be implemented 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 **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 4 recommendations as follows:

Description	Priority	Number
Major issues that managers need to address as a matter of urgency.	High	1
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
<b>Total recommendations</b>		<b>4</b>

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.1.1	High	A report to the Education, Children and Adult Services Committee on 28/08/14 recommended that existing free school lets be phased out over a 3 year period from 01/04/15 (estimated lost income £150k per annum). This recommendation was removed by Members and instead it was agreed that a working group would be established to assess the implications. To date this group has not been formed. Subsequently a budget saving of £150k from a review of school lets for 2016/17 was agreed by Council on 18/12/14. Recommendations made as a result of the review are due to be considered by Committee in early 2016 with changes implemented from 01/04/16.	A report with recommendations made as a result of the review should be presented to the ECAS Committee in early 2016 to ensure that changes are implemented in line with the target date of 01/04/16.	ECAS Committee agreed review scope on 8/10/15 and the review will progress over coming months with proposals to be presented to Committee early in 2016.	Head of Resources, Care and Learning	31/03/16

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT ACTION	IMPLEMENTATION	
					AGREED	RESPONSIBLE OFFICER
4.1.2	Low	The Corporate Charging Policy was not consulted by the Service when introducing a new charge for pre-application advice packs for small to medium scale projects. However, consideration was given by the Service to all of the areas detailed within the Corporate Charging Framework.	(i) Awareness should be raised within Services of the existence of the Corporate Charging Policy and the areas covered within the Policy.	(i) As a result of the issues highlighted in the draft internal audit a full review of our charging policy has taken place and a communication plan is being devised.	Commercial Manager	30/11/15
			(ii) Services should be reminded of the requirement to consult the Policy when reviewing existing charges and also when introducing a new charge.	(ii) In addition to the revision a guide explaining officers' responsibilities is being produced.	Commercial Manager	30/11/15
4.1.4	Medium	The Corporate Charging Policy states that it will be subject to regular monitoring and will be reviewed annually to ensure that it remains appropriate. There is currently no process in place to monitor compliance with the Policy and it has not been reviewed since its introduction in October 2011.	(i) A formalised procedure should be introduced whereby Services compliance with the Corporate Charging Policy is monitored by an appropriate Officer.	(i) The Commercial Manager will monitor compliance by regularly reviewing information populated on the Council-wide charging SharePoint site by Services.	Commercial Manager	Ongoing
			(ii) A review of the Corporate Charging Policy should be carried out by the Commercial Manager, prior to budget setting for 2016/17, to ensure that it remains fit for purpose.	(ii) The Commercial Manager's recommendations are being progressed for 2016/17.	Commercial Manager	30/11/15
			(iii) The Corporate Charging Policy should be reviewed annually thereafter.	(iii) The new charging policy will stipulate an annual review by the Commercial Manager.	Commercial Manager	Ongoing

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT ACTION	IMPLEMENTATION		
					AGREED	RESPONSIBLE OFFICER	TARGET DATE
4.2.1	Medium	There are a number of areas of good practice set out in the Audit Scotland report which the Council could consider in order to strengthen existing charging practices. It was agreed at a meeting of the Finance, Housing and Resources Committee on the 27/11/13 that a review of the Audit Scotland report should be carried out by the Corporate Improvement Programme Income Generation Project Board in order to identify such areas. At the time of the audit a review of the report had not been carried out as agreed.	A review of the Audit Scotland report "Charging for services – are you getting it right?" should be carried out and the results of this reported to the Resources Committee.	Review completed and results to be reported to Resources Committee as part of the revised Charging Policy.		Commercial Manager	30/11/15





## AUDIT REPORT SUMMARY

### Report Title

**Development & Infrastructure Service: Review of Pulteneytown People's Project**

Report No.	Type of Audit	Issue Date	
HEC01/001.bf	Systems	<b>Draft Report</b>	25/06/15
		<b>Final Report</b>	06/11/15

### 1. Introduction

- 1.1 This audit was undertaken at the request of officers from the Development & Infrastructure Service and reviewed a number of areas within Pulteneytown People's Project (PPP). PPP is a charitable organisation which was set up in 2003 for the purposes of benefitting those living in the Pulteneytown area of Wick through relieving poverty, advancing training and education and providing social welfare facilities. This has since been expanded to cover the whole of the Wick Ward rather than just Pulteneytown although this is where the charity has its roots.
- 1.2 PPP provides a variety of different services from its purpose built base, the Pulteney Centre, which opened in February 2012. These services include: childcare, Homelink, IT facilities for training and lifelong learning, rooms and a multi-function hall for use by the community, and a community café and commercial kitchen. Some of these services are funded by the Council, see details in the table below. Funding is also provided by a number of other public organisations including Skills Development Scotland for the provision of training and Albyn Housing for tenants' services. PPP was recently awarded funding from the National Lottery to enable them to extend the Centre's opening hours and from Highlands and Islands Enterprise in order to employ a Contracts Manager for an 18 month period to improve their structure and look at areas for growth.
- 1.3 During 2014/15, the following sums have been paid by the Council to PPP:

Council Funder	Service	Service Details	Source	Amount £
Care & Learning Service	Learning Service	Childcare Partnership – for the provision of a smaller ratio of childcare in what is recognised to be a deprived area	Annual grant *1	£30,000
Care & Learning Service	Learning Service	Breakfast club provision within a deprived area	Annual grant	£1,000
Care & Learning Service	Learning Service	Provision of weekly youth club	Annual grant	£12,000
Care & Learning Service	Learning Service	Activity Learning Agreements	Framework agreement *2	£18,000
Development & Infrastructure		Deprived Area Funding	Annual grant	£89,000
Community Services		Homelink – for housing support services	Service Level Agreement *3	£168,000
<b>Total</b>				<b>£318,000</b>

## Notes

\*1 – The grant awarded varies from year to year and the sum awarded for 2014/15 was the highest amount received (22,000 in the preceding year).

\*2 – PPP is on a framework agreement for this service and the income paid is per referral. Therefore, the annual sum received can vary greatly with £18,000 received in this year compared to £40,000 in the previous year.

\*3 – Council funding was cut for 2015/16 and for this and future years the SLA sum will be £144,000.

## 2. Review Objectives

The objectives of the review were to ensure that Pulteneytown People's Project (PPP) has:

- 2.1 Effective governance arrangements in place.
- 2.2 Appropriate personnel policies and procedures in place, all staff are aware of these and the need to comply with them.
- 2.3 Appropriate and robust financial procedures for the ordering and payment of goods and services and payment of staff.
- 2.4 Appropriate systems for the accurate and timely collection of all income due.
- 2.5 Robust and accurate financial management, monitoring and reporting arrangements in place.

## 3. Main Findings

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

- 3.1 This objective was fully achieved. Effective governance arrangements exist with all expected documentation available and an effective Board is in place. The Board has also recognised that there is scope to recruit additional members in order to ensure that a quorum can always be achieved for planned Board meetings.
- 3.2 This objective was fully achieved as there are appropriate personnel policies and procedures in place, and these are detailed in PPP's Staff Handbook. All staff are provided with a copy of the Handbook when they start and this is covered as part of their induction process when it is evidenced that they have received this document.
- 3.3 This objective was partially achieved as a number of paid invoices did not have supporting purchase orders. The raising of purchase orders is a key control which ensures that appropriate authority has been granted before any expenditure is incurred. This occurred before the present Finance Manager started in post, and she has reinforced the need for purchase orders which was evidenced in more recent financial transactions. However, it should be noted that there is no suggestion that there were any inappropriate purchases. In addition, some minor issues with the signing of orders and goods received notes were identified.

A number of credit cards are also in use but the guidance to staff in place at the time of the audit did not prohibit any personal purchases. However, there was no evidence of any abuse in this respect.

The system for the payment of staff is operating correctly but there was additional administration involved with the processing of payroll deductions for those members of staff who had opted out of the Time Off In Lieu (TOIL) system.

- 3.4 This objective was substantially achieved as the work on income systems had to be limited due to time constraints. However it was concluded that appropriate systems are in place for the collection, receipting and banking of income received. In addition, review of the aged debt analysis did not identify any problems with significant sums outstanding and/ or old debts which were unpaid.
- 3.5 This objective was substantially achieved, as at the time of the audit, the bank reconciliations for PPP's different accounts were not up to date. It has been recognised

that there is a need to consolidate some of the bank accounts which should reduce the number of reconciliations required.

There are appropriate arrangements in place for the setting, control, monitoring and reporting of PPP's financial position both at budget holder and Board level. However, it is recognised that due to PPP's reliance upon either annual grants or contracts with public sector organisations, particularly the Highland Council, that this is a financial risk to the on-going financial viability of the organisation both for PPP and the Council which as detailed above does grant fund or commission a number of different services from PPP. For example, the recent review of the rates paid by the Council for housing support services budget savings had a detrimental effect on PPP's Homelink service and there were concerns that this service would need to cease. This would have required a greater portion of PPP's fixed costs to be met by their other activities, affecting their ability to remain profitable. However, the service has since been re-organised and re-structured in order to provide it at a lesser cost which has been necessary to absorb the cut in funding detailed at 1.1 above. There is also significant uncertainty for PPP when applying for annual grants when there is no guarantee that these will continue and when the grant funders have their own significant financial issues such as the Council's need to make budget savings

#### **4. Conclusion**

- 4.1 Three of the five audit objectives were fully achieved and overall it is concluded that the governance arrangements and the financial systems are operating in a sound manner. Some areas for improvement have been identified and as a result, 5 recommendations have been made and actions have been agreed to address these. The material concern both for PPP and the Council as a significant procurer of its services is to ensure its on-going financial viability and this should be addressed by both parties.

#### **5. Audit Opinion**

- 5.1 The opinion is based upon, and limited to, the work performed in respect of the subject under review. Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist. It is the opinion that Substantial Assurance can be given in that while there is a generally a sound system, there are 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.

Development & Infrastructure Service: Review of Pulteneytown People's Project

HEC01/001.bf

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	1
Medium	3
Low	1
<b>Total recommendations</b>	<b>5</b>

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.1.1	Medium	The size of the present Board has meant that a quorum cannot always be achieved and meetings have had to be rearranged at short notice.	The present Board arrangements are considered to be effective but can be improved by expanding the size of the Board slightly. This point has been recognised by the Board who are presently exploring this option.	The reasons for the rearranged meeting were not related to the availability of the Board members. However, an additional member has been recently recruited.	Chief Executive, PPP	Completed
		In addition, the Council provides significant funding to PPP but does not have a Member on the Board.	It is also recommended that this option consider whether it would be appropriate for a local Councillor to be invited to join as a Board Member. This could enhance the working relationship between PPP and the Council, and recognises the importance of PPP to the local community.	To be discussed with Directors and Members of Caithness & Sutherland Working Group	Chief Executive, PPP and Employability Team Leader, D & I	30/12/15

## AUDIT REPORT ACTION PLAN

Report Title

Report No.

Development & Infrastructure Service: Review of Pulteneytown People's Project

HEC01/001.bf

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.3.2	Medium	<p>All staff given a corporate credit card are provided with a memo which outlines the process that should be followed. However, this does not preclude staff from making any personal purchases.</p> <p>One card is still registered in the name of a staff member who has left and it is now used by the training centre.</p>	<p>The memo outlining the credit card process should be revised to clearly state that the card has been provided for official purchases only and personal use of the credit card is not permitted in any circumstances.</p> <p>The records relating to the credit card now used by the training centre should be updated accordingly. All staff who can use this card should be provided with a copy of the guidance and this signed for accordingly.</p>	<p>A memo was sent on 06/05/15 to staff who hold credit cards to acknowledge that they should not be used for personal gain. This has been signed by all card holders. In addition, it was previously clear to staff that they were not for personal use and no staff have ever used their work card for personal use.</p>	Chief Executive, PPP	Completed
3.3.4	Medium	<p>A number of payroll deductions are made for Time Off In Lieu (TOIL) adjustments. This is considered to be inefficient and creates additional work for the finance staff when processing the payroll.</p>	<p>It is recommended that a separate system is maintained for the administration of TOIL. Each employee should main a record detailing any additional hours worked and time taken back which is signed by both the employee and their line manager.</p>	<p>There were only 4 members of staff who had opted out of the TOIL system. 2 of them have since left and the other 2 have agreed to re-join the TOIL system which will address this issue.</p>	Chief Executive, PPP	Completed

## AUDIT REPORT ACTION PLAN

Report Title

Report No.

Development & Infrastructure Service: Review of Pulteneytown People's Project

HEC01/001.bf

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.5.1	Low	5 bank accounts were held at the time of the audit and the bank reconciliations were not up to date.	It is recommended that action is taken as soon as possible to reconcile the account information and then close any surplus bank accounts.	The outstanding bank reconciliations have been undertaken.  2 of these accounts have since been closed. Of the other accounts, 1 is to be transferred to a high interest account and Directors need to decide whether the other 1 is also transferred to a high interest account or the main PPP account.	Finance Manager, PPP	Completed
3.5.3	High	PPP receives a significant amount of funding from the Council across 3 different Services. The decision by one Service to cut/ reduce funding could impact upon the ability of PPP to provide other grant funded/ contractual services to another Council Service. PPP Business Plan needs to reflect risks of funding changes from other Services.	Consideration should be given to producing a single SLA between the Council and PPP which incorporates details of all services provided and provides greater financial stability for PPP.	It is not possible to develop a single SLA at this time as housing support services are due to be tendered next year. An SLA is being developed for core Employability Services for 2016/17.	Employability Team Leader, D & I	31/03/16

**INTERNAL AUDIT  
FINAL REPORT**

FINANCE SERVICE

PAYROLL PROCEDURES

**AUTHOR**

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## **1. INTRODUCTION**

This audit of the Council's Payroll was undertaken as part of the 2014/15 Audit Plan. The Council uses the Resourcelink system to process payroll. The budgeted staff costs for 2014/15 was £318.9m and the actual cost was £313m. As at March 2015 the total number of Council staff employed was 10,281. The full time equivalent staffing figure was 8,060. During the financial year 2014/15 the Council started using electronic Sharepoint payroll forms. These are completed by managers and the Sharepoint system will automatically send completed forms to the correct officer in Business Support or Payroll for processing. Sharepoint also acts as the store and filing system for the processed forms.

## **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 payroll system.
- (ii) Processes are in place to ensure that payments are made only to valid employees.
- (iii) Access to the payroll system is restricted to appropriate staff and unauthorised access is prevented.
- (iv) All changes to the payroll system, permanent and temporary, are properly authorised and are accurate and complete.
- (v) Payroll payments are correctly calculated and paid over on a timely basis.

## **3. SCOPE, METHOD AND COVERAGE**

The audit reviewed the key controls in operation for the processing of the Council's Payroll. The audit examined transactions during the financial year 2014/15 and Audit Scotland intend to place reliance on this audit work.

## **4. MAIN FINDINGS**

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

### **4.1 Control framework**

The objective has been partially achieved. There is an adequate control framework in place governing the operation of the payroll system. However, Business Support staff are submitting payroll forms on behalf of managers and Head Teachers primarily within the Care & Learning Service. For new start forms this is contrary to the current HR Sharepoint site guidance, though procedures are under review to take account of the specific needs and circumstances within schools. For a third of the sampled starter, change and leaver forms, examined during the audit, Business Support could not provide any record of manager or Workforce Planning approval being formally recorded (e.g. the instruction may have been verbal by telephone or an email may have been sent but not held centrally). Management authorisation is a key control to ensure only authorised payroll forms are processed and it is important this is documented correctly on the new Sharepoint system, and addressed as part of the review of procedures. (see (4.2)).

## 4.2 Payments are made to valid employees

This objective was partially achieved. There are processes in place to ensure that payments are only made to valid employees. SAL1 forms (a MS Word template) were used to document and authorise new starts, leavers and changes within the Council prior to July 2014. Following this, electronic Sharepoint payroll forms were introduced. For the 30 new starts and 30 leavers reviewed, all payroll details and payments were processed accurately and correctly.

- 4.2.1 Business Support officers are processing payroll forms on behalf of managers, particularly for the Care and Learning Service. Alternative arrangements have been put in place for the Care and Learning Service's change and leaver forms, however management authorisation is not being recorded on Sharepoint (see 4.1). Without this information, Business Support staff are exposed if there were any subsequent problems with a payroll form. In the audit sample of new starts, changes and leavers, over a third of the payroll forms had been created on Sharepoint by Business Support and they were unable to provide written managerial confirmation for the majority of these forms. This arrangement is contrary to the way in which the Sharepoint process was designed to work which requires completion and submission of electronic forms by the appropriate manager.

It is however noted that the Care and Learning Service have highlighted a number of practical difficulties with the new Sharepoint forms and procedures, in relation to how they operate, which has led to a review of arrangements and procedures, in discussions with Business Support and Payroll. The practicalities that Care & Learning have with the new Sharepoint payroll forms system include:

- Business Support have provided Head Teachers with assistance when issues have occurred with the completion of new start or change payroll forms.
- The Workforce Planning Section completes large numbers of staff changes over the school summer holidays. These relate to compulsory transfers, and changes in contracted hours such as flexible working, phased retirement, winding down and changes from temporary to permanent or fixed contract. As schools are closed during this period it is not possible for Head Teachers to complete all the required Payroll forms.
- To tackle challenges in recruiting teacher numbers, generic adverts for bulk teaching posts have been utilised, with workarounds having to be implemented in relation to the system and process, to support this. This includes moves towards earlier advertising and recruitment to posts to avoid the summer break and practical challenges it creates.

Business Support's involvement in producing and authorising the electronic payroll forms creates an issue with segregation of duties. There is a further issue with segregation of duties as Business Support officers are now involved in producing spreadsheets containing bulk timesheet data, which are then interfaced automatically into Resourcelink. Therefore Business Support officers are involved in both the creation of and changes to employee payroll accounts and also providing the information on which they are subsequently paid.

The only officers which should have their details processed in Sharepoint by Business Support staff, are supply teachers and relief staff, as there is no set manager or base for these officers.

4.2.2 During the audit, it was found that 18 of the 22 new start Sharepoint forms reviewed did not have the "post to post hierarchy" section completed. This section details the employee's line manager's details. Whilst this information is not currently necessary, it is essential information for the next implementation stage of Resourcelink involving electronic resource management such as annual leave requests and absence reporting.

4.2.3 Leaver forms contain a section detailing the ex-employee's IT account details, which enables any IT system access to be removed. However, this was not completed fully on 7 of the 22 Sharepoint leaver forms reviewed, and therefore would not ensure immediate deletion of the IT account. There are standard leaver forms for line of business IT systems that need to be completed and the Leaver form IT section is in addition to these. In the future it would be more efficient to use this section of the Leaver form to instruct access changes to IT systems. However, at the moment it is causing duplication of effort.

#### **4.3 Access to the payroll system**

4.3.1 This objective was partially achieved. Access to Resourcelink is restricted to appropriate staff and unauthorised access is prevented. There are a small number of Council financial systems and systems development staff with full systems access, which allows them to resolve technical issues that arise with Resourcelink. It is necessary for these officers to have full system access in order to fulfill this role. However, to provide a further control, to prevent unauthorised processing of employee details and pay posting, a reporting process has been confirmed with the Council's computing supplier, Fujitsu.

#### **4.4 Payroll changes**

This objective was partially achieved. All changes to the payroll system, both permanent and temporary, are accurate and complete.

4.4.1 However, a number of monthly absence returns for schools were e-mailed by Clerical Assistants rather than Head Teachers. Because the absence forms are electronic there is no evidence to show that these were authorised by the appropriate Head Teacher's authorisation of the form.

#### **4.5 Payroll payments**

This objective was fully achieved. Payroll payments are correctly calculated and paid over on a timely basis. Exception reports are used to highlight errors and pay levels that breach set parameters. These reports are reviewed and actioned where necessary. Control totals are also used to ensure tax amounts are correctly paid to the authorities.

## 5. CONCLUSION

The Council's payroll is being processed accurately and in a timely manner. There has been a period of change within the Council including a successful transition to online payslips for 97% of Council employees.

The main issue found is the responsibility of Business Support and relates to the new electronic payroll form system being operated in Sharepoint, and changing responsibilities in the production of bulk timesheet files.

Management authorisation of Sharepoint forms is a key control and without formally recording this increases the risk of unauthorised payroll processing and payments or that fraud may occur.

It is important that procedures are reviewed timeously to take account of the particular arrangements required to support the recruitment process for school based staff, to ensure the procedures meet the needs of the Service and comply with Financial Regulations.

There are 4 recommendations in this report, 1 is classified high, 2 medium and the other low grade. All are due to be fully completed by 31/12/15.

## 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 **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 **4** recommendations as follows:

Description	Priority	Number
Major issues that managers need to address as a matter of urgency.	High	1
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
<b>Total recommendations</b>		<b>4</b>

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.2.1	High	<p>Since July 2014, a new system has been introduced for the completion and processing of electronic payroll forms, which uses Sharepoint. These payroll forms contain the details of new starts, leavers and changes, and there is a process set up on Sharepoint to send completed forms to the correct officers for processing.</p> <p>In a sample of 30 new start forms, 30 leaver forms and 20 change forms examined during the audit, 38% had been completed by Business Support or Clerical and Admin staff on behalf of Managers.</p> <p>Supply teachers have no set manager or base and therefore their details should be processed in Sharepoint by Business Support Officers. However, this is not detailed in the procedures.</p>	<p>(1) Managers should complete payroll forms for all officers (apart from supply teachers and relief staff) except where agreed alternative arrangements, with documented procedures are in place.</p> <p>(2) Revised procedures should be communicated to managers and Business Support staff.</p>	<p>A workshop has been organised for October 2015 and will include all stakeholders. This will review the payroll processes that have been live for 12 months and will also take into account this audit's findings and recommendations.</p>	<p>Head of Revenues and Business Support, Finance Service</p> <p>Payroll &amp; Pensions Manager, Finance Service</p>	31/12/15

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.2.2 – 4.2.3	Low	The majority of new start forms reviewed did not have the Post to Post section completed. While this is not an issue currently because the information is not being used, this section is essential information for the next implementation stage of Resourcelink involving electronic resource management.	(1) The completion of the Post to Post section of New Start forms and the IT Account Termination section of Leaver forms should be made mandatory at the next implementation stage of Resourcelink electronic resource management.	(1) The form will be reviewed.	Head of Revenues and Business Support, Finance Service	31/12/15
		A third of leaver Sharepoint forms examined did not have the officer's IT account details listed and therefore the deletion of the IT account would be delayed. This is in addition to separate standard leaver forms for line of business IT systems. As a form of duplication it is inefficient use of manager time and also could cause confusion.	(2) The IT section on the Sharepoint Leaver form should be removed or an explanatory note added to it to ensure the correct IT forms are completed.	(2) The IT section on the Sharepoint Leaver form will be either removed or amended to ensure it is clear that separate IT forms need to be completed for staff leaving the Council.	Head of Revenues and Business Support, Finance Service	31/12/15
4.3.1	Medium	A small number of non-payroll officers have full system access to Resourcelink. These officers are predominately from the Finance Systems Administration Team and the Corporate Improvement Team and do require full access in order to carry out their duties.  There is no check in place to ensure these officers do not process unauthorised payroll information.	A report using data analysis software (Cognos) should be created to allow Payroll to regularly run a report detailing Resourcelink payroll activity of officers with full system access. This should then be checked by an appropriate officer to ensure that no inappropriate payroll changes have been made, and this check should be evidenced accordingly.	Management will review this report.	Payroll & Pensions Manager, Finance Service	31/12/15

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.4.1	Medium	A check of 10 temporary change submissions (e.g. expenses and sickness payments) identified that absence forms from schools are being e-mailed to Payroll by Clerical Assistants and not Head Teachers. Therefore, there is no assurance that these have been approved by the appropriate Head Teacher.	(1) Head Teachers should ensure they authorise absence returns before submission. Absence returns may be compiled by Clerical Assistants but they must be then authorised by Head Teachers and emailed directly to Payroll or Business Support to demonstrate authorisation.  (2) Business Support and Payroll officers should be reminded not to accept absence forms not properly authorised.	(1) Head Teachers should ensure they authorise absence returns before submission, and this should be clear for Business Support and Payroll staff.  (2) Business Support and Payroll officers will be reminded not to accept absence forms not properly authorised.	Head of Resources, Care and Learning	30/11/15
					Head of Revenues and Business Support, Finance Service  Payroll & Pensions Manager, Finance Service	30/11/15





**INTERNAL AUDIT  
FINAL REPORT**

FINANCE SERVICE

INCOME SYSTEMS

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## **1. INTRODUCTION**

The purpose of this report is to show the findings of a recently completed audit of the Highland Council's income systems. The audit was undertaken as part of the 2014/15 Audit Plan.

## **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 cash and bank system.
- (ii) Cash and bank transactions and balances are completely and accurately recorded in the financial ledger and other major systems.
- (iii) Access to the cash and bank system is restricted to appropriate staff and unauthorised access is prevented.

## **3. SCOPE, METHOD & COVERAGE**

The audit looked at the key controls in place for the central control of income, in particular this:

1. Established the current procedures for the operation of the Council's cash and banking systems to ensure that these are operating as expected.
2. Examined the reconciliation process to ensure that this is undertaken correctly and within the expected timeframe.
3. Examined access to Oracle, AXIS, and the online banking system.

The audit examined transactions during the financial year 2014/15 and Audit Scotland intend to place reliance on 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 Control Framework**

This objective was fully achieved. There is an adequate control framework in place for the opening and closing of bank accounts with this being undertaken by the appropriate Accountancy staff. No bank accounts have been opened in the last year, one account has been closed and this was authorised by an appropriate officer.

### **4.2 Recording of cash and bank transactions**

This objective was partially achieved as a control sheet is maintained which lists all reconciliations to be undertaken, who performed this and when, and who authorised it and when.

- 4.2.1 There were minor errors on the control sheet showing incorrect dates that the reconciliations were completed and there were some discrepancies between the dates recorded on this sheet and the individual reconciliation spreadsheets.
- 4.2.2 A sample of three months (April, September and January) of reconciliations was examined, all balanced and there was evidence that any discrepancies were followed-up. However, the cumulative income reconciliation contained historic discrepancies which continued to be rolled over into subsequent months rather than being rectified. This included a £10 difference between the bank and the ledger dating back to 2009 and a difference of £6,307 relating to the pensions ledger.

The income reconciliation is performed on a monthly basis and involves six different stages, including reconciling AXIS. This process is time consuming for officers, specifically the AXIS (income system) reconciliation takes approximately two full days. Due to the complexity of this process and the large number of transactions, it was not possible to re-perform the reconciliation process as part of the audit. This point was acknowledged by the Principal Accountant during the audit who has already taken measures to address this by writing off a number of the low value differences which were previously rolled forward each month. In addition, it is recognised that the current process is overly complex. In particular, a great deal of time is expended investigating differences which are due to timing between income being input into the ledger and being received into the bank account.

The introduction of the new Integra financial system offers the opportunity to revisit the reconciliation process in order to simplify this and ensure that it concentrates upon reconciling the information between the financial ledger and the bank account.

#### **4.3 Access to the cash and bank system**

This objective was substantially achieved as there were appropriate controls in place for the access to online banking, Oracle Accounts Receivable (AR) and the AXIS systems. Review of the user access levels consisting of all 25 online banking and 24 out of the 1,255 AR users, showed that all had access commensurate with their job roles.

- 4.3.1 However, there were issues with the AXIS users as some officers have retained access rights that are no longer required. A sample of 8 out of 337 users was examined and 2 no longer required access. One of these users had changed jobs 2 years ago and the other had been given access to perform additional temporary duties in 2007. The Financial Services Administration Team (FSAT) is responsible for carrying out annual reviews of AXIS users which involves sending details of this information to the relevant Managers who are asked to check that these are correct or inform them of any changes required. However, the last review was done in 2013 with the next one scheduled for October 2015. This review relies on System Owners keeping up to date user lists in accordance with the Council's ICT User and Network Access Control Policy and the four policies governing AXIS. Specifically the Access Control Policy for AXIS Cash Receipting (ACR) requires Line Managers to inform the relevant authorities (in this case FSAT) if a user no longer requires access.
- 4.3.2 Within AXIS there are currently 59 user names not assigned to a specific officer. These "floating" user names are used by staff that have a permanent login for one office, but are required to provide cover in a different office. Temporary access to these user names is provided following a request sent to the Finance Services Administration Team who maintain a list of these requests. This process is working satisfactorily.

#### **5. CONCLUSION**

There are appropriate controls in place for the operation of the Council's cash and bank system. However, there is scope to simplify the income reconciliation process particularly with the introduction of the new financial system. Whilst there is a system for ensuring that system access rights are granted to appropriate users, there is a need to ensure that on-going access rights remain valid. A total of 3 recommendations have been made comprising of 1 high, 1 medium and 1 low grade priorities. These recommendations have been accepted by management with all actions due to be completed 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 **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 **3** recommendations as follows:

Description	Priority	Number
Major issues that managers need to address as a matter of urgency.	High	1
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
<b>Total recommendations</b>		<b>3</b>

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.2.1	Low	The information recorded on the reconciliation control sheet was inaccurate and sometimes incomplete as dates that reconciliations were authorised were not always recorded and an area reconciliation had the wrong year recorded.	The control sheet should be kept up to date and reviewed regularly to make sure it is complete and accurate.	Following the implementation of Integra the control sheet is being revised to reflect the reconciliations carried out and a system of regular review will be implemented.	Finance Manager (Accounts & Central Services)	31/12/15
4.2.2	Medium	The current process for reconciliations is complex, time consuming and goes beyond reconciling the bank information to the general ledger. In particular the AXIS reconciliations are estimated to take 2 full days per month.	The introduction of Integra offers the opportunity to review the reconciliation process. This should be undertaken in order to ensure that the process is performed as efficiently as possible.	The Integra project team have delivered some training on the reconciliation process—the process will change significantly as a lot of the matching will be done within the system rather than on a spreadsheet. The Principal Accountant (Central Services) will meet with the Accounting Technician to review the process for AXIS reconciliations.	Finance Manager (Accounts & Central Services)	31/12/15

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.3.1	High	<p>From a sample of 8 AXIS users, 2 users had access for roles they no longer perform (one changed post and the other was for temporary duties). These changes had occurred 2 and 7 years previously.</p> <p>The last review of AXIS users was undertaken in 2013 although this should be undertaken annually.</p>	<p>To ensure that the Council's ICT and Network Access Control Policy and Access Control Policy for Axis Cash Receipting are adhered to:</p> <ul style="list-style-type: none"> <li>• FSAT should undertake the annual review of all AXIS users, instructing the responsible System Officers within Services to verify that all users on their user lists still require access to AXIS.</li> <li>• Individual officers with access to AXIS should inform their Line Manager when this is no longer required so it can be removed and Line Managers should inform FSAT of changes to AXIS user requirements as per Section 4 of the Access Control Policy for ACR.</li> </ul>	<p>An annual review will be undertaken of all AXIS users.</p> <p>An e-mail will be issued to AXIS officers reminding them of their responsibility to advise FSAT to of changes to user requirements.</p>	<p>Finance Systems Change Manager &amp;</p> <p>Finance Systems Change Manager &amp;</p>	<p>31/03/16</p> <p>31/10/15</p>