

The Highland Council

Audit and Scrutiny Committee – 24th March 2016

Agenda Item	3
Report No	AS/1/16

Internal Audit Reviews and Progress Report – 09/11/2015 to 04/03/2016

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.

1. Final Reports

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

SERVICE	SUBJECT	OPINION
Care & Learning	Information Security in Schools	Reasonable
Care & Learning	Family Teams – Management of Staffing Establishment	Substantial
Care & Learning	Off Site Excursions (follow up)	Limited
Corporate Development	Data Protection	Reasonable
Corporate Development	Community Challenge Fund – Governance Arrangements	Reasonable
Development & Infrastructure	EFF Programme 2014/15	Full
Development & Infrastructure	LEADER 2014/15	Substantial
Development & Infrastructure	Corporate Property Asset Management System	Substantial
Development & Infrastructure	Drummuie Offices – Chimney Rebuild	N/A
Finance	Purchase Cards	Reasonable

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) Working with the Human Resources Section to improve the Council's exit procedures, particularly in response to Voluntary Redundancy.
 - (ii) Reviewing the arrangements in Community Services for the payment of overtime and standby allowances which has resulted in savings proposals being put forward for 2016/17.
 - (iii) Migrating audit reports/ documents from shared drives to SharePoint.
 - (iv) Action tracking of outstanding audit actions.
 - (v) Attending the Information Management Governance Board as the Finance Service representative.

3. Corporate Fraud

- 3.1 The Section now has the Corporate Fraud Team which came into being on 1st August 2015. This team consists of 2 staff that transferred from the previous Investigations Team and an Auditor who, it was envisaged, would be involved in fraud investigations as well as undertaking audit reviews. However, the Auditor post has remained vacant since 11th December 2015.
- 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. Ali MacGregor, the Team's Senior Investigator has recently been successful in passing the CIPFA Accredited Counter Fraud Specialist exams and this will assist with creating an anti-fraud culture within the Council and ensuring that the work undertaken accords with best practice, including the *CIPFA Code of Practice on Managing the Risk of Fraud and Corruption*.
- 3.3 The last Committee report referred to work being undertaken with regard to housing tenancy fraud. This work is continuing and to date 4 properties have been recovered; 7 properties are pending and a further 8 properties are being investigated. Although these cases originated as housing tenancy frauds, many of them also involve benefit fraud as well, including Council Tax Reduction. A publicity campaign is in the process of being launched which will highlight the work of the Team, particularly with regard to tenancy fraud.
- 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.

3.5 There is an ongoing irregularity investigation regarding the loss of school meals income, the details of which will be reported to this Committee in due course.

4. Staffing Issues

4.1 In addition to the current Auditor vacancy referred to at section 3.1 above, it has been reported previously that an Auditor had been on long-term sickness absence following a road traffic accident on 16th July 2015. It is pleasing to report that he has now returned to work, on a phased basis, from 12th February 2015.

4.2 Members may recall that the Section underwent a restructuring exercise in 2013, which included the appointment of Josh Gallimore as the Trainee Auditor in January 2014. This followed difficulties in recruiting qualified staff to Auditor posts. Josh has recently been successful in completing all exams at Diploma level and will shortly commence studying towards the Qualification in Internal Audit Leadership (QIAL).

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 At the last meeting, the impact of the resourcing position was explained in terms of the requirements of the Public Sector Internal Audit Standards. In particular, these 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. Therefore, with regard to the audit plan for the remainder of this year, it was reported that priority would 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 would also have to be given to investigating any suspected incidents of fraud.

5.3 It was agreed at the meeting on 17th November 2015 that 5 audits (out of a total of 44 within the 2015/16 Plan) would be deleted and that these would be considered for inclusion within the Plan for 2016/17 (see agenda item 4). Since that meeting one further audit has been added to the Plan concerning Drummie Offices – Chimney Rebuild. This was originally requested at the meeting of the North Planning Applications Committee on 28th April 2015 and was supported by the Chair of the Resources Committee. However, this was not brought to the Head of Audit & Risk Management's attention until December 2015. The addition of this work to the Plan has now been approved by the Chair and Vice Chair of this Committee.

5.4 It has been identified that further audits will now need to be deleted from the Plan as follows:

Audit Name	Service	Notes
School ICT capacity and storage arrangements	Care & Learning	Included in 2016/17 Plan
Care & Learning – capital programme underspends	Care & Learning	Since concerns were expressed regarding this there has been a new corporate approach to capital monitoring.

Cloud computing	Corporate Development	Included in 2016/17 Plan
Capital projects	Development & Infrastructure	It was envisaged that work would include a review of a heating project. This work is included on the 2016/17 Plan

There are a number of reasons for these deletions which can be summarised as follows:

- (i) Sickness absence has been greater than envisaged as referred to at section 4.1 above.
- (ii) Other non-planned work, including that set out at section 2.1 above.
- (iii) Failing to respond to requests for information. It has been disappointing that many reviews have been delayed this year as a result of the need to continually remind Services of the need to respond to requests for information to allow audit reviews to progress. Many of these requests have involved escalation by the Head of Audit & Risk Management to the appropriate Head of Service. With current resourcing challenges it is a concern that Internal Audit is unable to operate efficiently. The Head of Audit & Risk Management will therefore look at ways to bring about improvement. One option is to introduce an escalation policy, agreed by this Committee, in order that issues are remedied in an appropriate and timely manner.
- (iv) Budget overruns. All audit reviews are given an allocation of time to enable the work to be completed. Although the budget can be determined with reasonable accuracy in most cases, this has been more challenging for other reviews where the work has been of an ad hoc nature. In particular, reviews of Ben Wyvis School and IOTA which were reported earlier this year have exceeded the time allowed which has then impacted on the wider Audit Plan.

6. Performance

6.1 Quarter 3 performance information is provided below together which allows comparison with previous quarters:

Category	Performance Indicator	Target	Actual Q1 2015/16	Actual Q2 2015/16	Actual Q3 2015/16
Quality					
Client Feedback	(i) % satisfaction from individual audit engagements expressed through Client Audit Questionnaires	90	92	80	83
	(ii) % of Client Audit Questionnaires returned	70	100	85	80
Business Processes					
Timeliness of Final Report	(iii) % of draft reports responded to by client within 20 days of issue	85	67	78	71
	(iv) % of final reports issued within 10 days of receipt of management response	90	83	89	100

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 that this is below the target figure. However, the questionnaire was overhauled at quarter 2 as this was dated and was not user-friendly. On that basis, the responses shown since

quarter 2 cannot similarly be compared against the quarter 1 figure. It is also important to highlight that a score of 83% still demonstrates excellent performance.

- (ii) The number of questionnaires returned is positive in comparison with previous quarters. In this respect, it should be noted that any non-returns are now issued with one reminder and no further attempts are made to pursue these.
- (iii) The timeliness of response from Services is still below the target figure. However, 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. This has produced very positive results and all draft reports were actually responded to within 23 days.
- (iv) All final reports were issued within the 10 day target.

6.2 In addition to the quarterly indicators referred to above, the following indicator which considers the relative cost of the Internal Audit service over all 32 Scottish Councils has recently been published and is provided below:

Cost of Internal Audit per £m of net Council expenditure		
Year	Cost	Ranking
2013/14	£827.71	7 th
2014/15	£747.24	5 th

As shown above, there has been a positive movement in the cost of the provision of the Internal Audit service.

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: 4 March 2016

Author: Nigel Rose, Head of Audit & Risk Management

Internal Audit – Planned Work in Progress

SERVICE	SUBJECT	PROGRESS
Care & Learning	Inspection of equipment in Schools (follow-up)	Draft report in progress
	Self-Directed Support	Draft report in progress
	Managing school rolls	Draft report in progress
Chief Executive's Office	Common Good Funds – rental income	Fieldwork in progress
Community Services	Managing tenancy fraud risk	Draft report in progress
	Administration of fuel	Draft report issued
	Grass cutting contract – monitoring and contract payment arrangements (follow-up)	Draft report issued
Corporate Development	Web content management	Fieldwork in progress
	Managing Third Party ICT suppliers/services	Fieldwork in progress
	Review of Performance Indicators 2014/15	Draft report in progress
	SharePoint	Fieldwork complete
Corporate Development/ Finance	Review of personnel recruitment process	Fieldwork in progress
Development & Infrastructure	Rental income	Fieldwork in progress
	Compliance with the Carbon Reduction Commitment Energy Efficiency Scheme 2014/15	Draft report issued

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**INTERNAL AUDIT
FINAL REPORT**

CARE & LEARNING SERVICE

INFORMATION SECURITY IN SCHOOLS

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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 information security in schools. The review follows on from a review of corporate information security which resulted in a report issued on 18 March 2014. Both reviews examined the staff awareness of the Council's guidance on information security. They also examined physical security arrangements for storing and disposing of paper based information.

2. REVIEW OBJECTIVES

The objectives of the review were to ensure:

- (i) Information security governance arrangements, in the form of roles, responsibilities, policies and procedures are in place for schools
- (ii) The use of personal information in schools is strictly controlled
- (iii) Information is securely disposed of by schools.

3. SCOPE, METHOD AND COVERAGE

The scope of the review covered physical security in schools where personal information is stored across the Council. There was a specific check of storage of pupil or teacher personal information on computers, electronic media and paper in schools across the Council in order to ensure this complied with best practice standards including:

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

The audit review was undertaken by sending out a security questionnaire to head teachers for a sample of thirty schools. This was followed up by visits to a sample of three schools to verify the returns. In addition the questionnaire return for a fourth school was discussed with a deputy head teacher from the school.

The questionnaire covered school staff knowledge and understanding on the following topics:

- 1) Council guidance on information security and data sharing guidance in the Highland Practice Model
- 2) Council guidance on data protection
- 3) Storage of paper based personal information including specifically Pupil Profile Records and the Child's Plan.
- 4) Disposal of paper based personal information
- 5) PC and laptop security within the context of the ICT in Learning Strategy
- 6) Password management
- 7) Key security
- 8) Mobile Working within the context of the ICT in Learning Strategy
- 9) Email security
- 10) Information Security Incidents

In addition a sample check of data sharing records will be carried out and the third party Care and Learning Alliance will be contacted to obtain assurance on the security of Child's Plans that are shared by the Council.

4. MAIN FINDINGS

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

4.1 Information Security Governance

This objective was mainly achieved. The expected controls are that:

- Information Security is controlled by an appropriate governance process
- Staff have been allocated appropriate roles and responsibilities with respect to governance
- School staff are either trained or made fully aware of the Council's guidance on information security, data protection and information sharing.

In accordance with control expectations, the findings were as follows:

- Corporately the Council has a documented Information Security Management System (ISMS) and an Information Security Policy in place. The Information Security Policy details roles and responsibilities for information security management. Information security is overseen by ICT Services and an ICT Security Group. The Group reviews information security risks and incidents and refer any high level issues to the Information Management Governance Board for consideration. The Council's intranet also contains an Information Management Toolkit which includes guidance for staff on securing and sharing information.
- In relation to information security governance for children's information, there is a website entitled 'For Highland's Children' which contains the Highland Practice Model. This Model documents the key components and practices in relation to 'Getting It Right For Every Child' and the Children and Young People's Bill of 2014. The Highland Practice Model identifies when to share information in relation to a child. In addition it links to the 'Information Sharing Procedures' which is guidance for practitioners produced by the Highland Data Sharing Partnership.
- The Information Sharing Procedures include guidance on when data sharing agreements are required. The Council has a corporate Data Sharing Register in place which details all the data sharing agreements which are in place throughout the Council.
- There are two sources of training material in relation to information security and information sharing. The corporate My Online Learning website contains an online information management training course which contains information security and information sharing guidance. In addition there is the training on the Highland Practice Model which is provided by Care and Learning staff and the Children's Services Training team, along with Child Protection advisers. This training also provides guidance on sharing children's information.

However two concerns were also identified which are detailed below.

4.1.1 Reference to the Care & Learning data sharing agreements is contained on the Council's Data Sharing Register. The data sharing agreements, which need to be in place to comply with the Information Commissioner's statutory Data Sharing Code of Practice, referred to are:

- With NHS to protect children and adults and secure multi-agency data exchange
- With the software supplier to facilitate effective service delivery via Phoenix e1

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- With the software supplier to facilitate effective service delivery via the SEEMiS System

The data sharing agreement relating to sharing data with the NHS could not be located. However, this may be because the register entry is referring to the Highland Data Sharing Partnership procedures and, if so, this needs to be clarified in the register. In addition data is shared with the third sector organisations, the Care and Learning Alliance and the Action for Children charity, but they are not included in the Highland Data Sharing Partnership.

With regard to the entries for sharing data with Phoenix e1 supplier and SEEMiS supplier, the reference to Phoenix e1 supplier is out of date as the Council no longer uses Phoenix e1. For SEEMiS, the data sharing agreement corresponding to the entry could not be found. In fact a data processing agreement should be in place and not a data sharing agreement. It should form part of the license and support agreement with the SEEMiS Limited Liability Partnership (a partnership between the 32 Scottish councils).

In addition to the above entries it was identified that Care & Learning share information with a number of external bodies in the third sector including the Care and Learning Alliance (CALA) charity. Data sharing agreements are not in place for these bodies.

4.1.2 The number of teachers who have completed the training are as follows:

- 45 teaching staff have completed the corporate My Online Learning Information Management training which contains guidance on information security and information sharing
- 4352 teaching staff have completed 'An Introduction to the Highland Practice Model' training
- 355 teaching staff have completed the 'Understanding the Highland Practice Model' training

Therefore a substantial number of teaching staff have completed training relating to the Highland Practice Model which includes guidance on sharing children's information, but few teaching staff have completed the corporate information management training which contains guidance on information security.

There is data sharing guidance on the My Online Learning (MOL) website and the data sharing guidance in the Information Management Toolkit (IMT) website, but neither of these websites refers to the Highland Practice Model which is the Highland Data Sharing Partnership's data sharing model. The Highland Practice Model is held on the For Highlands Children website. Hence there is a disconnect here between three websites in that the MOL and IMT websites should be referring specifically to the Highland Practice Model. In addition some of the links in the IMT website are not working and the sharing flowchart is not the same as the Highland Practice Model website.

Both the questionnaire responses and school visits highlighted that some school staff were not aware of basic information security guidance such as:

- How to lock a PC or laptop quickly using the Windows and L keys
- How to manage their passwords securely
- The importance of encryption and the protection it provides both to personal data and the teachers who use it
- How to report an information security incident.

In addition teaching staff requested data protection guidance in the form of examples of types of personal information which, if lost or stolen, would incur a substantial Information Commissioner's Office (ICO) fine.

4.2 Control of Personal Information in Schools

This objective was partially achieved. The expected controls are that:

- Paper based personal information is stored securely in locked cabinets or cupboards
- PC and laptops are always screen locked when not in use
- School staff keep their passwords secure and do not disclose them
- Keys for cabinets containing confidential personal pupil and teacher information are either taken home or kept in locked key cabinets
- School staff who work from home are provided a secure method of doing so, e.g. by using encrypted memory sticks
- School staff members are aware the internet email is not regarded as secure by the Information Commissioner's Office and should not send personal pupil information via it without the parent's consent.
- School staff are fully aware of existing data sharing agreements and how to share pupil data with other agencies such as the NHS
- School staff know to report information security incidents to the Fujitsu helpdesk
- Paper based personal information is disposed of securely either by shredding or via an approved confidential waste company.

Although most teachers have not completed the online information security training and there is evidence that some staff are not aware of basic information security guidance, there is also evidence that other staff had learned good practice from the information security guidance provided in both corporate newsletters and schools ICT newsletters. These staff said they:

- Store their confidential paper based pupil information in locked cabinets and some evidence to support this was found during the school visits
- Use key cabinets are used to store keys
- Know to avoid using unprotected internet email to send personal pupil information to parents.

However the above good practice is not in place across all schools and five concerns were identified below.

- 4.2.1 The school visits revealed that secure key cabinets are not in use throughout schools. Instead some keys for cabinets are held in either locked or unlocked desk drawers. This means pupil records in cabinets could potentially be accessed by unauthorised Council cleaning and janitorial staff. In addition staff employed by third parties in PPP schools to provide facilities management services could also potentially obtain unauthorised access. Furthermore these staff members have access to all the rooms in a school for security, cleaning and fire safety purposes.

The Responsible Premises Officers handbook states:

"Keys should never be left in locks. Keys should be stored securely in locked cabinets, e.g. key cabinets, if they are to be left in the building overnight. Whenever possible, keys should be numbered and strictly controlled. All staff members who are designated as "key-holders" must return keys at end of their employment or when there are changes in responsibilities."

- 4.2.2 Currently all refreshed school PCs and laptops are encrypted. In addition teachers have been supplied with an encrypted pen drive to take work home. Although concerns were raised during the review relating to the use of the remaining

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unencrypted legacy PCs and problems relating to the use of encrypted pen drives, the Director of Care and Learning has advised that the 'ICT in Learning Strategy' is that all teachers will be supplied with encrypted equipment in future. This means the concerns raised will be eliminated.

- 4.2.3 School staff members and parents use email to correspond with each other. This is often for non-confidential matters such as events taking place at the school. On occasions these emails can contain confidential personal, or sensitive personal, information about a pupil. However schools do not always alert parents to the insecurity of internet email or obtain their explicit consent to continue correspondence in this way. This is not in accordance with the Council's Acceptable Use Policy which states:

"If a member of the public requests their personal data to be emailed to them, then this can be done if they are fully aware of the risk and confirm that they want to accept that risk. If this involves sensitive personal data then this permission must be in writing and retained as a Council Record."

The ICO also recommends consent from the public must be obtained and it includes a warning in its emails when it corresponds with the public in this way. A solution to this concern, suggested by the Head of Additional Support Services, would be to include a notice in school emails of this nature to parents stating:

"Communication by internet email is not secure as messages can be intercepted and read by someone else. Therefore we strongly advise you not to email any information, which if disclosed to unrelated third parties would be likely to cause you distress. If you want us to respond by email you must realise that there can be no guarantee of privacy. If you would prefer that we communicate with you in a more secure way please provide a postal address."

- 4.2.4 Schools use shared network drive folders to store a variety of information for teachers, some of which is confidential in nature. In accordance with best practice the access to these folders should be reviewed at least annually by senior school staff, but they are not. This situation does not comply with ICT Services ICT User and Network Access Control Policy which states:

"User access rights must be reviewed annually by the Information Asset Owner and should include the revalidation of user access rights granted to users".

Senior school staff cannot readily check who has access to these folders as this is controlled by Fujitsu. To carry out the check they would have to log a request to Fujitsu to provide a list of users who have access. If school staff stored their information on SharePoint, an access review of this nature would be easier and more efficient. The Director of Care & Learning wants schools to use SharePoint and a business case to use it to share information between schools and Care & Learning management was initially rejected by the ICT Partnership Board on 27 August 2013. The Board instead requested a more detailed report to be submitted after discussions had taken place with ICT. After this decision ECS staff decided to use GLOW to share information instead of SharePoint. However the Director of Care & Learning no longer considers GLOW to be suitable.

The Senior Information and Security Officer stated the Corporate Improvement Programme Board / Transformational Savings Board, which is funding for the rollout of SharePoint, made it clear that schools are out of scope at this stage. However, he also suggested a pilot could be considered for a couple of schools to test the access control in preparation for a future roll out at some stage.

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4.3 Secure Disposal of Paper Based Information in Schools

This objective was achieved. Schools reported that confidential paper based information is disposed of securely in two ways. Confidential paper waste is either shredded within the school or stored in secure confidential waste bins and subsequently disposed of by confidential waste providers. The schools site visits found no evidence to contradict this.

5. CONCLUSION

Although examples of good information security practice were found throughout the review, improvements are still required. The Council has a Data Sharing Register but it needs updated. Teaching staff have completed training relating to the Highland Practice Model which includes guidance on sharing children's information and they have a basic understanding of information security. Most know to lock away paper based personal pupil information and keep their usernames and passwords secure. However the completion of the Council's online information security training by teachers is very low. In addition there needs to be an increase in the use of key cabinets throughout schools and better control of keys to ensure unauthorised staff or visitors cannot access paper based personal pupil information. Additional guidance needs to be issued to Head Teachers on the use of internet email when the protective marking scheme is implemented across the Council.

There are five recommendations in this report all of which are classified as medium priority. They are all due to implemented by the end of December 2017.

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. The levels of assurance and their definitions can be found at Appendix 1.

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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
4.1.1	Medium	Data Sharing Registers				
		1) The data sharing agreement referred to on the Council's Data Sharing Register with the NHS was not provided for review as it could not be found.	1) The reference to the data sharing agreement with the NHS referred to in the Council's Data Sharing Register should be found to ensure it exists, is complete and up to date. If the reference is not to a specific agreement but to the procedures detailed in the Highland Practice Model, then the entry should be updated to clarify this.	1) The Chief Executive of NHS Highland and the Chief Executive of Highland Council have met to review their electronic data exchange arrangements. As part of this process NHS Highland has agreed to review what is on the two data sharing registers with a view to making any required updates or corrections.	Director of Care and Learning	31/12/16
		2) The data sharing agreement with the Phoenix e1 supplier is out of date.	2) The reference to the Phoenix e1 supplier should be removed.	2) The Data Sharing Register to be updated	Service Information and Support Manager	30/04/16
		3) There should be a data processing agreement in place with SEEMiS as opposed to a data sharing agreement.	3) The Council should work with the other 31 Scottish councils to ensure a data processing agreement with the SEEMiS supplier is produced if one	3) Agreed. Enquiries about a data processing agreement will be made through our representation on the	Head of Resources	30/06/16

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REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
		4) There are no data sharing agreements in place for sharing data with the third sector organisations such as the Care and Learning Alliance charity.	4) Consideration should be given to producing data sharing agreements with all external bodies that Care & Learning share information with on a regular basis. It may not be practical to do this for all the smaller agencies, but information could be provided about Care & Learning expectations for the safekeeping of data via a covering note.	SEEMiS board. 4) The membership of the Highland Data Sharing Partnership referred to in the Highland Practice Model will be reviewed to consider the inclusion of voluntary sector organisations such as CALA.	Senior Manager – Early Years	31/01/17
4.1.2	Medium	<p>Information Security Training</p> <p>1) Although 4352 teaching staff have completed 'An Introduction to the Highland Practice Model' training, Employee Development has advised that less than two percent of teaching staff have carried out the My Online Learning training on information security.</p> <p>Head teachers commented that they would like reports from Employee Development on how many staff in their school had carried out information security training.</p> <p>Teaching staff commented during the review that some face to face information security training in addition to the My Online Learning training would increase its impact.</p>	<p>1) The delivery of information security training to school staff should be reviewed to provide assurance that teachers are completing the information security training. It should consider:</p> <ul style="list-style-type: none"> • How the completion of the training is monitored and reported • A 'train the trainer' to support the e-learning package. 	1) Will be managed through on-going revision of training and promotion of My Online Learning training.	Service Information and Support Manager	31/01/17

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REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
		<p>Both the questionnaire responses and school visits highlighted that some staff were not aware of basic information security guidance.</p> <p>2) There is data sharing guidance on the My Online Learning (MOL) website and the data sharing guidance in the Information Management Toolkit (IMT) website, but neither of these websites refer to the Highland Practice Model which is the Highland Data Sharing Partnership's data sharing model. The Highland Practice Model is held on the For Highlands Children website. Hence there is a disconnect here between three websites in that the MOL and IMT websites should be referring specifically to the Highland Practice Model. In addition some of the links in the IMT website are not working and the sharing flowchart is not the same as the Highland Practice Model website</p>	<p>2) The My Online Learning (MOL) website and the data sharing guidance in the Information Management Toolkit (IMT) website should be updated to refer to the Highland Practice Model which is the Highland Data Sharing Partnership's data sharing model.</p>	<p>2) Will be managed through on-going revision of training and a new Information Management project.</p>	<p>Service Information and Support Manager</p>	<p>31/01/17</p>
4.2.1	Medium	<p>Key Security Keys for cabinets containing confidential personal pupil information are held in unlocked desks in locked rooms. In addition pupil records in cabinets are accessible by facilities management staff, janitors and cleaners.</p>	<p>The storage of school room keys which janitors, facilities managers and cleaners may hold versus keys for cabinets holding pupil records, which only teachers and school office staff should hold, needs to be reviewed.</p>	<p>Instruction and guidance issued to schools to review key security arrangements.</p>	<p>Head of Resources</p>	<p>30/06/16</p>

OFFICIAL

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.2.3	Medium	<p>Use of Email Schools do not always alert parents to the insecurity of internet email or obtain their consent to continue correspondence when personal pupil information is included in the email. This is not in accordance with the Council's Acceptable Use Policy and not in accordance with ICO advice.</p>	<p>Schools should be reminded of inclusion of the Acceptable Use Policy guidance with regard to email and obtaining consent when personal pupil information is included in the email. In addition a standard warning regarding the insecurity of internet email should be included in emails of this nature.</p>	<p>One of the biggest email risks is sending emails to the wrong person by mistake. When the protective marking solution is live across the Council, new guidance will be provided to Head Teachers on the use of the information classifications for official-sensitive and official-sensitive-personal documents including emails. The inclusion of a standard warning regarding the insecurity of internet email will also be discussed with ICT Services as part of the deployment of the protective marking solution.</p>	Head of Resources	30/06/16
4.2.4	Medium	<p>Access Control in Schools Schools do not review user access to their shared network folders in compliance with the ICT User and Network Access Control Policy. This is because it is not an easy and efficient process.</p>	<p>A pilot of SharePoint should be considered in two schools to test access control in this environment.</p>	<p>Will be managed through a new Information Management project.</p>	Service Information and Support Manager	31/12/17

Internal Audit Opinion

Level	Definition
Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
Substantial Assurance	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.
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.
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.
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.

**INTERNAL AUDIT
FINAL REPORT**

CARE & LEARNING SERVICE

FAMILY TEAMS - MANAGEMENT OF STAFFING ESTABLISHMENT

AUTHOR

John Campbell
Internal Audit
Finance Service

DISTRIBUTION

Director of Care & Learning
Head of Children's Services, Care & Learning
Area Care & Learning Managers (x3)
Children's Services Manager (x4), Care & Learning
District Manager (x10), Care & Learning
Finance Manager (Care & Learning), Finance Service
Audit Scotland

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22/12/15

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06/01/16

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1. INTRODUCTION

Family Teams were established during 2014 to deliver universal and additional public health services, as well as social care and child protection services for children and families.

There are 10 Family Teams, managed by a District Manager with support from Practice Leads in each of the 3 specialisms covered by Family Teams:

- Universal Services and Early Intervention in Early Years;
- Universal Services and Early Intervention in School Age Children;
- Care and Protection.

Family Teams have an overall budget of £16.344m for the 2015/16 financial year.

2. REVIEW OBJECTIVES

The objectives of the review were to ensure that:

- (i) Efficient and effective processes were in place to enable District Managers to control and monitor staffing levels and ensure they were within the approved staffing establishment for each Family Team. This included processes for controlling and monitoring the use of casual contracts.
- (ii) Staffing levels for Family Teams were within the agreed establishment.
- (iii) Authority to Recruit forms were fully completed and appropriately authorised prior to vacancies being advertised.

3. SCOPE, METHOD & COVERAGE

The audit looked at the processes used by District Managers to ensure that Family Teams remain within their agreed staffing establishment. It also looked to verify that current staffing levels are within the staffing establishment for each Family Team. The scope of the audit was discussed and agreed with the Head of Children's Services. In the 2014/15 financial year around 90% of the overall budget for Family Teams related to staffing costs.

4. MAIN FINDINGS

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

4.1 Monitoring of staffing establishment

- 4.1.1 This objective was fully achieved. Each Team has a monthly budget monitoring meeting between the District Manager and Practice Leads. As part of the meeting the staffing position is reviewed to ensure that the Team's budgets are only charged for those staff within the Team. Updates are provided on vacant posts, including any measures taken to cover vacancies e.g. use of agency/bank staff. There are also bi-monthly meetings with the District Managers for each Area and the Accountant from the Service Finance Team in which the staffing position is reviewed along with monitoring of other budgets. These processes ensure that staffing levels are regularly monitored and enable action to be taken at an early stage if any issues are identified. Posts where vacancies are covered by the use of casual or agency/bank staff are recorded on the Service Accountant's spreadsheet during the monitoring meeting, and costs incurred from these posts are also monitored as part of the meeting.

4.2 Verification that staffing levels were within the agreed staffing establishment

4.2.1 This objective was substantially achieved as the staffing position for the majority of teams is within the agreed establishment. The staffing position reported for the Inverness Central, Badenoch & Strathspey, Inverness West, Mid Ross, Easter Ross and Lochaber teams all corresponded with the approved staffing establishment.

While the position for the remaining teams initially appeared to differ from the approved establishment, further enquiry with the relevant District Manager identified explanations for the apparent discrepancy. In some cases (Caithness, Skye & Wester Ross) the wrong figure was initially provided by the District Manager. For the remaining teams the differences resulted from variations in the FTE for some posts to cover vacancies in similar posts, or from temporary variations to working hours for a particular member of staff.

Following the regular budget monitoring meetings the Service Accountant provides an updated spreadsheet showing the staffing position for each Family Team to the Head of Children's Services. She also provides notification of any changes to the staffing establishment identified during the monitoring meetings.

It was noted that the responses from District Managers to a questionnaire issued by Internal Audit to establish the process to monitor staffing levels referred to regular vacancies within Family Teams. While this has ensured that the agreed establishment has not been exceeded, it also creates a risk that the Family Team may not be able to deliver services as effectively as intended due to the level of vacancies. It should be noted that the underspend resulting from the vacancies in Family Teams is highlighted to Members in revenue budget monitoring reports presented to the Education, Children & Adult Services Committee.

The level of vacancies has also created a situation where vacancy savings targets have been achieved by natural turnover of staff. There is a risk that if more challenging targets are introduced in future years they will not be achieved solely by natural turnover. Therefore it is important that District Managers formally monitor progress against vacancy savings targets for their teams. The regular meetings with the Service Accountant would provide a suitable forum to review progress against vacancy savings targets.

4.3 Completion of Authority to Recruit (ATR) forms

4.3.1 This objective was substantially achieved as Authority to Recruit forms were completed and appropriately authorised prior to vacancies being advertised. Each of the 26 vacancies reviewed had a completed ATR form, which had been approved by an appropriate Senior Officer. However, the undernoted instances were identified where the ATR form was not fully completed, despite the need for the relevant sections to be completed being clearly recorded on the ATR form:

- 2 forms, both for the Mid Ross Team, did not record the reasons why the post required to be filled or why the vacancy required to be advertised externally.
- 2 forms, 1 for Inverness Central, Badenoch & Strathspey and 1 for Lochaber, did not record the reason why the posts required to be advertised externally.
- 1 form for the Sutherland Team had the reason for vacancy recorded as "other". An explanation was provided for the reason the post needed to be filled, but the ATR did not clearly state that the post was an amalgamation of Children's Services Worker & Early Years Practitioner vacancies and therefore did not fully detail the background to the post for the officer authorising the ATR form.

The Head of Children's Services stated that if she was authorising an ATR form where the reason for filling the vacancy was not clear she would request further details by e-mail/telephone.

5. CONCLUSION

Robust procedures were in place to monitor staffing levels, and it was verified that Family Teams did not exceed their approved staffing establishment. Processes could be further improved by ensuring Authority to Recruit forms are fully completed when vacancies were being filled, and by including monitoring of progress against vacancy savings targets in the monitoring meetings that already take place. There are 2 recommendations arising from the audit, both of which are classified as medium priority. Both recommendations have been accepted by management, and are 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 **Substantial Assurance** can be given in that while there is 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.

7. ACTION PLAN

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

Description

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

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

Minor issues that are not critical but managers should address.

Total recommendations

Priority	Number
High	0
Medium	2
Low	0
Total	2

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.2.1	Medium	While Family Teams are currently achieving vacancy saving targets, there is a risk that more challenging targets would not be achieved without a formal monitoring process.	Progress on vacancy savings targets should be included as part of the budget monitoring meetings held with the Service Accountant.	Head of Service to check periodically that this is being maintained and the process to be highlighted if more challenging targets are set.	Head of Children's Services.	31/03/16
4.3.1	Medium	5 of the 26 ATR forms checked were not fully completed. As a result the authorising officer has to request further details before authorising the ATR.	ATR forms should be fully completed to provide a full audit trail and ensure that the authorising officer has all relevant information when authorising the form.	All authorisers of ATRs to query any gaps in completion before authorisation.	Head of Children's Services and Learning Managers.	Ongoing.

**INTERNAL AUDIT
FINAL REPORT**

CARE AND LEARNING SERVICE

SCHOOL OFF-SITE EXCURSIONS (FOLLOW-UP)

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1. INTRODUCTION

This audit was undertaken as part of the 2015/16 audit plan and records the findings of a recently completed follow-up audit in respect of school off-site excursions.

The original audit report was issued on 04/11/14 and had the audit opinion of "Limited Assurance". The report contained a total of 4 recommendations which were classified as follows: 1 high, 2 medium and 1 low grade. All recommendations were due for completion by 31/03/15. Due to the audit opinion, it was decided that a follow-up audit should be undertaken.

As part of the Curriculum for Excellence through Outdoor Learning, High Life Highland works with school staff to build their capacity to deliver off-site excursions. As such they are responsible for the safety management systems that underpin off-site excursions and therefore take the lead on developing related policy and guidance in this area.

2. REVIEW OBJECTIVES

To ensure that the recommendations made in the previous "HC13/019.bf – School off-site excursions" internal audit report have been implemented and the following objectives can be achieved:

- (i) The policies/ guidance on off-site excursions are adhered to.
- (ii) There are appropriate arrangements for the safe use of minibuses and recharging costs to voluntary organisations.

3. SCOPE, METHOD & COVERAGE

A sample of school off-site excursions was examined to ensure that the relevant policies and guidance had been adhered to and that a visit plan had been recorded correctly on the EVOLVE online excursion planning and management system. 13 visit plans from the following schools were selected from a list of 1,413 excursions which had taken place between 01/06/15 and 30/07/15:

- Fortrose Academy 3
- Culloden Academy 3
- Miller Academy Primary 3
- Strathpeffer Primary 3
- Arisaig Primary 1

4. MAIN FINDINGS

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

As this is a follow-up report, the audit recommendations, agreed actions, responsible officer(s) and target date for implementation (in brackets) from the previous audit report are provided in the shaded boxes. The findings from the follow up audit are then detailed below. Where the findings have shown that the agreed actions have not been fully implemented, a further audit recommendation has been made.

4.1 Policies and Guidance are adhered to

The previous audit report made one medium grade recommendation with three parts which related to the need to review and update the guidance provided to schools and ensure that schools complied with this.

Previous Audit Recommendation 3.1.1 (Medium grade)

- (1) The Care and Learning Service should work with Community Services and High Life Highland to update the current guidance and procedures to ensure they are fit for purpose. This should ensure that the planning process is efficient and does not cause excessive workload for staff.
- (2) The Care and Learning Service should remind all schools of the procedures to be followed when recording the planning stage of an excursion within Evolve and the need to comply with them.
- (3) The Care and Learning Service should review and if necessary update the guidance for oversea home visits and challenging pupils.

Previous Management Agreed Actions

- (1) Guidance and procedures will be updated and reviewed by the Care and Learning Healthy and Safety Group. Engagement with school-based staff will take place to ensure proposals are practical from a school perspective.

Responsible officer: Head of Resources, Care and Learning Service (31/03/15)

- (2) Reminder to be issued to all schools.

Responsible officer: Head of Resources (Care and Learning Service) (31/12/14)

- (3) Guidance will be updated and reviewed by the Care and Learning Health and Safety Group. Engagement with school-based staff will take place to ensure proposals are practical from a school perspective.

Responsible officer: Head of Resources, Care and Learning Service (31/03/15)

This objective was partially achieved. In response to the first agreed action, High Life Highland (HLH) colleagues, other local authorities, the Head of Education, Area Education Managers, Education Quality Improvement Managers (EQIMs) and a number of Head Teachers were consulted during the process of reviewing the guidance and procedures. As a result the guidance was completely re-written and the updated version, 'The Highland Council and High Life Highland Excursions Policy and Guidance', was issued on the 15th June 2015. It is available on the HLH website (Outdoor Education section), there is a link to this from the Council's website, and it can also be found on the EVOLVE system.

- 4.1.1 For the second agreed action, a reminder had not been issued to schools by the target date. However, all Head Teachers, EQIMs, Area Education Managers, Head of Education, Head of Resources, and relevant HLH staff were made aware of the revised guidance by email on the 15/06/15. Information and links to the revised guidance were also posted on the HLH website, GLOW and EVOLVE. Therefore, all relevant staff should be aware of the current guidance that should be followed.
- 4.1.2 Despite this, from the sample of 13 EVOLVE visit plans examined, the revised guidance was not being consistently applied by staff when recording the planning stage of an excursion within EVOLVE:
 - The most significant issues related to the approval of visit plans and the preparation of risk assessments for each excursion. 8 visit plans had not been submitted for approval within the specified time period and 2 had not been granted final approval by the Head Teacher. The guidance states that "staff are expected to consider and consult with Generic Risk Assessments in order to create their Excursion Risk Assessment" and that "the Excursion Risk Assessment should be attached to the EVOLVE visit plan". In 3 cases a Generic Risk Assessment had been attached to the visit plan rather than a specific Excursion Risk Assessment which indicates a lack of understanding of this requirement.
 - An essential part of excursion planning is to ensure that the members of staff deployed possess the relevant competencies and qualifications appropriate to

the excursion. This information is recorded within the 'Awards' section on EVOLVE which all staff are required to keep up to date. This section had either not been completed for all staff or the relevant attachments had not been uploaded in support of the stated awards for all of the 13 visit plans examined.

- Even though guidance states that "the EVOLVE system should be used by all Highland Council children's establishments when deploying young people", 5 instances were identified whereby a visit plan had not been created on EVOLVE for a school off-site excursion.

The Outdoor Activity Manager (HLH) is aware of the issues noted above and believes that improvements could be made if Educational Visits Co-ordinator (EVC) training sessions were better attended. He/she is currently working with EQIMs to increase the number of EVCs attending training.

- 4.1.3 The third agreed action was that off-site excursion guidance relating to overseas home visits and challenging pupils would be reviewed and updated if necessary. These particular areas of concern had been raised by Head Teachers during the previous audit. SAPOE (Scottish Advisory Panel for Outdoor Education) are currently working on guidance for overseas visits with the final draft having closed for viewing on the 15/09/15. Basic guidance on overseas visits is included within the revised guidance. Also, some overseas excursion training has been delivered and the Outdoor Activities Manager (HLH) has recommended that it be delivered further.

However, guidance relating to challenging pupils has not yet been drafted. The Outdoor Activities Manager (HLH) has stated that he would require more information in order to establish whether or not there is a universal need for further guidance on this area as staff should already have access to the most suitable advice on these issues.

4.2 Safe use and recharging of minibuses

This objective was partially achieved as only the low grade management agreed action has been implemented.

Previous Audit Recommendation 3.2.1 (High grade)

The Care and Learning Service should work with Community Services to ensure that the Council's policy and associated guidance is up to date, consistent and fit for purpose. The policy and guidance should be held in one place and easily accessible.

Previous Management Agreed Actions

Guidance to be reviewed and updated, making appropriate links to the on-going work of the Integrated Transport Project.

Responsible officers: Head of Resources, Care & Learning Service and Integrated Transport Development Officer, Community Services (31/03/15).

Previous Audit Recommendation 3.2.2 (Medium grade)

The Care and Learning Service have agreed to review the Council's minibus Policy and associated guidance. This review should address the points detailed above. Once this has been completed it should be distributed to all schools using minibuses and they should be instructed of the need to comply with the guidance.

Previous Management Agreed Actions

Policy and guidance to be reviewed and updated, making appropriate links to the ongoing work of the Integrated Transport Project. Engagement with school-based staff will take place to ensure proposals are practical from a school perspective.

Responsible officers: Head of Resources, Care & Learning Service and Integrated Transport Development Officer, Community Services (31/03/15).

- 4.2.1 Both of the above agreed actions relate to the Council's policy and associated guidance for minibus use and stated that this would be reviewed and updated, making appropriate links to the ongoing work of the Integrated Transport Project. Due to delays with the project, this was not completed within the agreed timescale but a new policy has been drafted and circulated to schools for consideration. The revised draft policy, which represents a significant revision from existing policy, and seeks to integrate minibus use more closely with Integrated Transport Project objectives, has required considerably more discussion and consultation with stakeholders than expected. It was originally intended that the final version of the policy and guidance would be presented for approval to the Community Services Committee on the 05/11/15 but due to the reasons noted above this has not been done.

Previous Audit Recommendation 3.2.3 (Low grade)

- (1) The Care and Learning Service should remind schools about the requirements of the Fuel Card User Reference Guide and the need to ensure that it is complied with.
- (2) Action should be taken to ensure that the fuel card costs are recoded to the correct cost centre.

Previous Management Agreed Actions

- (1) Reminder to be issued to schools.

Responsible officer: Head of Resources, Care and Learning Service (31/12/14)

- (2) The bus at Drummond School now has a fuel card which is correctly coded to the school.

Responsible officer: Head Teacher, Drummond School (Complete)

A reminder was posted on the ECS staff communication portal, Heads Up, on the 02/06/14 with a link to the latest fuel card guidance on the Intranet. The reminder was issued before the previous audit report was finalised and therefore this action should have been marked as complete.

5. CONCLUSION

There has been some progress made towards completion of the agreed actions following the previous audit. In particular the guidance relating to school off-site excursions has been updated and made available to schools. However, it is disappointing to report that this is still not being consistently applied by schools when recording the planning stage of an excursion on EVOLVE. The importance of staff complying with the guidance cannot be understated; if an incident occurred during an excursion, the Council could be found liable if this compliance cannot be evidenced. The revised guidance relating to minibus use was due to be presented

to the Community Services Committee on the 05/11/15 but this has not been done.

As a result of this follow-up audit, 2 high grade and 1 low grade recommendations have been made. In addition, due to the audit findings, the opinion of Limited Assurance remains. The recommendations have been accepted by management, with resultant agreed actions due to be implemented by the end of June 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 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 **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	0
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
4.1.1	High	<p>All relevant Council and HLH staff were made aware of the revised off-site excursion guidance by email on the 15/06/15. Information and links to the revised guidance were also posted on the HLH website, GLOW and EVOLVE. Therefore, all relevant staff should be aware of the current guidance.</p> <p>However, from the sample of 13 EVOLVE visit plans examined, it was found that the guidance was not being consistently applied by staff when recording the planning stage of an excursion within EVOLVE. The Outdoor Activity Manager (HLH) believes that improvements could be made if EVC training sessions were better attended.</p>	<p>(1) An instruction should be issued to all schools regarding the requirement to adhere to the guidelines when recording the planning stage of an excursion on EVOLVE and an explanation as to why this is so critical.</p> <p>(2) Further steps should be taken to increase and monitor the uptake of EVC training.</p> <p>(3) Monitoring of schools compliance with the guidance should be carried out on an ongoing basis.</p>	<p>(1) A further instruction will be issued to all schools, with regard to adherence to guidelines.</p> <p>(2) A target to increase attendance at EVC training is being incorporated within the Service Health and Safety Action Plan, with performance indicators to monitor progress.</p> <p>(3) This has been considered though at present scope for monitoring is limited within existing resources.</p>	Head of Resources, Care and Learning	31/01/16
					Head of Resources, Care and Learning	31/03/16

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.1.2	Low	It was agreed that the off-site excursion guidance for overseas home visits and challenging pupils would be updated and reviewed if necessary. However, this has not been done with regards to challenging pupils.	Information should be sought from Head Teachers as to whether or not the current level of guidance in this area is sufficient. Based on responses received, the guidance should be updated appropriately.	Linked with the issue of new national guidance, consultation with Head Teachers and other stakeholders will take place to assess what further action and guidance may be necessary.	Head of Resources, Care and Learning	30/06/16
4.2.1	High	It was agreed that the Council's minibus policy and associated guidance would be reviewed and updated by the 31/03/15. However, this has not yet been completed. It was intended that the revised policy and guidance would be presented to the Community Services Committee on the 05/11/15 but this has not been done.	The revised minibus policy and associated guidance should be finalised and presented to the next available Community Services Committee. If agreed, it should be distributed to all schools using minibuses and they should be reminded of the need to fully comply with the guidance.	A final policy proposal will be discussed with representatives of Primary and Secondary Head Teachers early in 2016, with the target of then taking a revised policy to the ECAS Committee in March 2016 for agreement.	Head of Resources, Care and Learning Principal Transport Officer, Community Services	30/04/16

**INTERNAL AUDIT
FINAL REPORT**

CORPORATE DEVELOPMENT SERVICE

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REF: HFB03/001

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1. INTRODUCTION

This audit reviewed management of personal data within the Council, in particular data that is shared and / or processed by others. At the time of this review, the Data Protection Act 1998 had been in place for many years and a revised General Data Protection Regulation legislation was expected by the end of 2015.

The review referred to guidance to organisations from the Information Commissioner's Office [ICO] on compliance to the principles of the 1998 Act, including the code of practice for sharing personal information; governance implications for data controllers and data processors and local authority information sharing and data protection. The ICO blog on how to prepare for the General Data Protection Regulation is also referred to.

To assist in compliance with the 1998 Act [hereafter referred to as the Act], the Council's Information Management Policy Framework, including the Council's Data Protection Policy, is reviewed annually.

The Act provides definitions for data controllers, or enterprises that own the data and data processors, such as cloud providers. These different roles affect responsibilities and governance for compliance to the Act.

The review was carried out as part of the 2015-2016 audit plan.

2. REVIEW OBJECTIVES

The objectives of the review were to ensure that:

- (i) The Council has organisational measures in place to assist in compliance to the current Act with regard to data sharing
- (ii) Policies and procedures are in place for users to refer to when sharing personal data
- (iii) The Council's Registers of Data Sharing Agreements and Data Processing Agreements are adequately maintained

3. SCOPE, METHOD & COVERAGE

The audit examined Corporate policies, procedures and practices for managing data sharing as defined by the Act. Training and guidance for Council users were also reviewed, including Data Management online training.

The Council's Data Protection Policy refers to products including the Register of Data Processing Agreements, the Register of Data Sharing Agreements, and the Corporate Information Asset Register. The policy also refers to notifications by the Council as a data controller for the public register of data controllers and roles and responsibilities.

Best practice provided by the ICO is referred to including

- Local authority information sharing and data protection checklist version 1, Dec 2013
- Data Sharing Code of Practice, May 2011
- Data controllers and data processors: what the difference is and what the governance implications version 1.0, dated May 2014
- How to prepare for the EU reforms blog by the Deputy Commissioner and Director of Data Protection

Interviews were carried out with officers including the Freedom of Information & Data Protection Manager and the Senior Information & Security Officer.

As there are expected changes with new General Data Protection Regulation legislation due, this is referred to also to put the review findings into context.

The audit scope excluded areas of review covered in other planned audits including Information Security in Schools review and Managing Third Party Services.

4. MAIN FINDINGS

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

4.1 Organisational measures – Responsibilities and ownership

The first objective was partly achieved in the areas reviewed.

In line with the ICO's checklist for local authority information sharing and data protection, there are named roles and responsibilities within a Corporate Information Management Policy Framework for security of information.

Governance of information is defined in the same policy; The Information Management Governance Board (IMGB) oversees the delivery of the Highland Council Information Management Strategy and governs the implementation of this across the Council. The IMGB is chaired by the Head of Digital Transformation as the corporate owner of Information Management Strategy and Policy and as SIRO (Senior Information Risk owner). There is a Lead Officer from each of the Services that will represent their Service Director on the Board. Each Service Director is required to identify a member of their senior management team to act as IM Lead Officer for their Service.

There is an officer with lead responsibility for Data Protection compliance, with support specifically for compliance to principle 7 – security of personal data also managed by another senior officer.

The Council's corporate Data Protection Policy was approved at the February 2015 Resources Committee as part of the annual review of the corporate Information Management Policy Framework. The Data Protection Policy is one of a range of policies that make up this framework and assist towards the Information Management Strategy for 2013-2017. The Council's Information Management Strategy and Information Management Policy Framework are an integral part of corporate procedures towards compliance with statutory and regulatory obligations including the Data Protection Act. Governance and responsibilities are set out for managing information, including personal data with the establishment of the Corporate Information Management Team, Records Management Service and the Information Management Governance Board or IMGB.

There is also a Framework for Information Sharing with other public bodies named in the Highland Data Sharing Partnership, published in March 2013. This refers to the Data Sharing Protocol which is owned by the Highland Data Sharing Partnership.

Areas where risks to achieving objectives were found included the following:

- 4.1.1 The corporate Data Protection Policy states that the Information Management Governance Board [IMGB] is responsible for reviewing the Council's entry in the data protection register annually, prior to notification to the Information Commissioner. However, no reference was found in the IMGB meeting minutes to confirm this task is being done

4.1.2 A Framework for Information Sharing to assist practitioners across Highland services was developed and agreed in March 2013 by the Highland Data Sharing Partnership [HDSP]. This Partnership recognised that sharing information for provision of co-ordinated services by public agencies should take place within a secure framework cognisant of statutory requirements and professional responsibilities of the partner agencies - Highland Council, NHS Highland, Northern Constabulary, Argyll and Bute Council and Highland and Islands Fire and Rescue Service.

The framework described overarching guidance on data sharing, underpinned by professional guidance on specific areas of information sharing -

- When to share data, including the role of consent
- What to share and who is responsible for shared data
- Who to share with and the role of disclosure
- How to share securely
- How to resolve disputes.

Partner agencies Northern Constabulary and Highland Fire and Rescue Services have since been replaced with Police Scotland and Fire & Rescue Scotland in April 2013. No evidence was found of the framework agreement being updated for change. In addition, the Highland Practice Model Guidance [GIRFEC] was produced in 2015 and includes general principles for information sharing. Again, this guidance refers to the old framework agreement.

There is a national template Scottish Accord on the Sharing of Personal Information (SASPI) similar to the local HDSP framework. However, it is unclear to what extent this has been adopted by other public authorities to make this a useful alternative in Highland

4.2 Policies and Procedures for sharing personal data

The second objective was achieved in the following areas. Areas of good practice included:

The Council's Data Protection Policy was last reviewed in 2015.

There is corporate guidance on the intranet for reference on protecting personal data sharing and processing and also on the Information Management Toolkit page of Corporate Development.

The Online Learning (MOL) section Data Management has three mandatory courses for all officers, and three specialised training course for Managers. These include Information Management which has reference to Data Protection principles and good practice.

All officers are required to complete the Council Security Classification Scheme online training course. This defines the different levels of security required for different types of data, including protective marking for large volumes of personal data and personal sensitive data in line with the Act.

A pilot project to install new software for protective marking of emails and electronic files was underway.

The Highland Practice Model Guidance specifically for Highland Children's Services [GIRFEC] describes procedures for practitioners sharing information with another agency within the Data Sharing Partnership area. A report to Education, Children and Adult Services Committee in May 2015 reported that the Highland Practice Model had emerged as the delivery framework to take forward GIRFEC components, principles and ethos. The Practice Model sets out the roles and responsibilities of staff.

Information sharing is also recorded in Child Protection Committee minutes which are then reported at Education, Children and Adult Services Committee. Members from Highland Child Protection Committee included the Council, NHS Highland, Police Scotland and other bodies.

- 4.2.1 One area where this objective was not achieved was the level of uptake and completion of the mandatory online course, Information Management. It was found that 1,030 officers, or under 10% of Council staff had completed this course since it was introduced in July 2011. The Council's Information Management Policy states that

'As part of the core training, staff and any person handling Council Information are provided with an online learning module that provides an introduction to the expectations the Council places on those handling information.

All staff must complete the information management online learning module and managers must ensure that this has been completed by their staff and is part of Personal Development Plans.

Any other person handling Highland Council information must also complete this training and the relevant Information Asset Owners and Manager within the Council responsible for the contract must ensure this takes place.'

4.3 Registers of Data Sharing and Data Processing Agreements

The third objective was not achieved as follows.

- 4.3.1 The Council's corporate register of Data Sharing Agreements is referred to in the HC Data Protection Policy section 8, the corporate Information Security Policy and the Council's Record Management Plan under Element 14 – Shared Information. The register is an excel spreadsheet. The Register was reported as work-in-progress at the IMGGB in April 2015. This review found the register was still not up to date and was incomplete. The responsible officer for the register of Data Sharing Agreements, the Senior Information & Security Officer advised there was a lack of resource to manage this.

There is another Corporate register, the Information Asset Register, maintained in the Records Management Portal by the Records Team. Detail on security requirements can be noted within a specific column for all information assets listed, plus level of risk is identified with controls applied in practice. However, the Senior Information & Security Officer preferred that the Data Sharing Register was not embedded within Information Asset Register because of different data classification types in each register:

- the Data Sharing Register should be Public; the Council has an obligation to complete this, whereas
- the Information Asset Register is Private; it contains confidential data such as risk assessment element.

- 4.3.2 The Council's register of Data Processing Agreements, referred to in the HC Data Protection Policy section 7 does not exist. There is no named responsible officer for this register to create and maintain this. The Information Asset Register is not an alternative listing; this Register may list systems but does not record data processing agreements. It is not clear if this register is required by the Act. Council Services have partnership agreements with other bodies, for example the NHS Highland care services contracting team manage contracts on behalf of the Council.

4.4 Changes to Data Protection legislation

4.4.1 During the review period, case law passed in October 2015 relating to the use of 'Safe Harbor Agreement' for transfer of data out-with the EU to the USA. This agreement was intended to provide a secure solution to requirements of principle 8 of the Act.

Concerns about the 'Safe Harbor' are not new; a new privacy protective arrangement to replace Safe Harbor was reported by the ICO to be under discussion between the European Commission and US authorities.

The ICO also recognises that it may take some time for organisations to review how they will transfer data to the US in line with the law. As the judgment focused on the Commission Decision that had given the assurance to businesses, there is still a measure of protection for personal data transferred under the scheme. However the assurance that meant Safe Harbor was automatically considered to provide adequate protection required by the 8th data protection principle is no longer there.

As the Council does not have a data processing register, it is not known how many third party processing contracts include personal data processed out-with the European Economic Area and may use this Safe Harbor Agreement. Therefore the level of risk is unknown. A sample check of two systems holding records of personal data [Pensions system and customer relationship management system] were found to be managed within the European Economic Area. A Council system for managing online forms, was known to hold data out-with the EEA and protected by a 'safe harbor agreement', however this did not hold personal data.

Another expected change is new General Data Protection Regulation legislation due around the end of 2015. The ICO offers guidance on how to prepare for this with an estimated timetable of changes likely to start at the earliest at June 2016 and the Regulation in force by June 2018. The impact will depend on the line of business; however a few areas are recommended to look at by the Deputy Commissioner and Director of Data Protection; such as ensuring current responsibilities are met. Others are listed in Appendix 2 for information.

Bearing this in mind, this review recommends a pragmatic view is taken to ensure the Council continues to meet its current responsibilities prior to new regulations being enforced.

5. CONCLUSION

All three objectives were partially achieved in the areas reviewed. Six recommendations have been made, all classified as medium grade; these are due to be fully completed by 31/05/16.

In addition to the recommendations made in section 7, it is advised that Council officers prepare for change with the new General Data Protection Regulation (GDPR) expected to be published shortly. This new regulation is intended to establish a fully harmonised, directly effective, EU-wide data protection law. The current clear distinction between data controllers [enterprises that own the data] and data processors [such as cloud providers] is expected to change; liability for data breaches and rule violations may change. Legal obligations may no longer rest solely on the data controller as has done to date.

Given this level of expected change, it would be useful to carry out a further review on this area once the new General Data Protection Regulation is published.

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 **6** 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	6
Minor issues that are not critical but managers should address.	Low	0
Total recommendations		6

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT ACTION	AGREED	IMPLEMENTATION	
						RESPONSIBLE OFFICER	TARGET DATE
4.1.1	Medium	<p><u>The Council's public register entry</u> The ICO public register current entry for HC has an expiry date of 09July2016 and appears up to date.</p> <p>However, no detail was found in the IMGB minutes to confirm the IMGB is assisting in the annual review of Council's entry in the data protection register annually, prior to notification to the Information Commissioner.</p>	IMGB to include this as an agenda item as required to assist in arrangements for reviews as per the Council's DP Policy	This matter will be placed on the agenda of the IMGB to be reviewed annually		FOI & DP Manager	30/04/16
4.1.2	Medium	<p><u>Highland Data Sharing Partnership Framework</u> The local Highland Data Sharing Partnership [HDSP] agreed in March 2013 included Highland Council, Northern Constabulary and Strathclyde Police. The latter have since been replaced with Police Scotland and Fire & Rescue Scotland. No evidence was found of an updated framework agreement with these new bodies.</p> <p>This is a national issue affecting Data Sharing frameworks through re-organisation of these Scottish Emergency Services.</p>	As this is a national issue, it might be useful to raise this at national level; for example at the Scottish Branch of the Society of Local Authority Chief Executives and Senior Managers [SOLACE Scotland] for consideration	The HDSP will be reviewed in light of the national changes relating to Police Scotland and Fire & Rescue Scotland as well as the changes taking place in provision of Social Care between NHS Highland and Argyll and Bute Council.		Director of Care & Learning	31/03/16

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT ACTION	IMPLEMENTATION	
					AGREED	RESPONSIBLE OFFICER
		The SASPI or Scottish Accord on the Sharing of Personal Information (SASPI) national template might be an alternative to the HDSP; however, this new template has not progressed				
4.2.1	Medium	<p><u>Completion of Information Management online training</u></p> <p>Learning and Development Team figures reported that under 10% of Council officers had completed this course since it was introduced in July 2011. The Council's Information Management Policy states -</p> <p><i>'As part of the core training, staff and any person handling Council Information are provided with an online learning module that provides an introduction to the expectations the Council places on those handling information...'</i></p>	The Information Management Governance Board [IMGB] to include this as an agenda item and remind Services in improving uptake of the course	Uptake will be reported to IMGB and IM Lead Officers will be asked to report to their Senior Management Teams.	Senior Information and Security Officer	29/02/16
4.3.1	Medium	<p><u>Data Sharing Register</u></p> <p>The Council's register of data sharing agreements is an excel spreadsheet. This was found to be incomplete and not up to date.</p> <p>The officer currently responsible for this register, the Senior Information & Security Officer said there was a lack of resource to manage this.</p>	<p>a) Consider options for improvement- update of data sharing agreements into the register, and</p> <p>b) resource to adequately manage this register of agreements</p>	It is agreed to transfer management of the data sharing register to the FOI & DP Manager.	Senior Information and Security Officer and FOI & DP Manager	31/03/16
4.3.2	Medium	<p><u>Data Processing Register</u></p> <p>No HC register of data processing agreements was found to exist although it is referred to in the Council's Data Protection Policy. There is no responsible</p>	Review if there is a legislative need to list data processing agreements in a register and how best to address data protection	The Data Protection policy will be reviewed in light of these comments. Amendments to be	FOI & DP Manager	31/05/16

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT ACTION	IMPLEMENTATION	
					AGREED RESOURCES	RESPONSIBLE OFFICER
		officer named to manage this register. It is not clear that this register is required by the Act	within contracts. For example, is this process better managed within the data protection policy, rather than having a separate list of data processing agreements.	approved by the IMGB and Resources Committee		
4.4.1	Medium	<p><u>Data sharing and principle 8: international data transfers</u></p> <p>As the register of data processing agreements does not exist, it is not known how many third party processing contracts include personal data processed out-with the European Economic Area [EEA].</p> <p>New risk has arisen through the European Court of Justice [ECJ] ruling in October 2015 that use of 'Safe Harbor Agreement' for transfer of data to the USA is no longer valid.</p> <p>Concerns about the 'Safe Harbor' are not new; a new more privacy protective arrangement to replace Safe Harbor is under discussion. The ICO recognises that it may take some time for organisations to review how they will transfer data to the US in line with the law.</p>	IMGB to raise this as an item for discussion for Service IM Lead Officers to review and confirm where HC personal data is processed to assess the adequacy of any international data transfers to the 8th DPA principle.	A report was presented to IMGB on 04/11/2015. IM Lead Officers are to review cloud computing within their Services and to report issues to IMGB	IM Lead Officers	29/02/16

APPENDIX 1: GENERAL DATA PROTECTION REGULATION REFORM

With new General Data Protection Regulation (GDPR) legislation set for publication by the end of 2015, recommended areas to review in preparation are:

Consent and control

How far do you give your customers genuine control over what information you keep about them and how you use it? If you're relying on their consent, do they know that they are consenting and the implications of this? This is especially pertinent if they are children. Can they easily say no or withdraw their consent later on?

Accountability

Do you have effective processes in place to ensure that you are data protection compliant? Can you explain what these are and demonstrate that they work in practice? Can individuals easily find out not just what information you hold about them and how you might use it but also more generally about your personal data handling practices?

Staffing

It may not be clear yet whether you'll be required to designate a Data Protection Officer but even so, do you have the right people in place to help you understand and meet the requirements of the Regulation? If not, do you at least have some idea where you might get the necessary expertise from? It's a myth that the Regulation will require every business to recruit a Data Protection Officer, but they will need resources to help them deliver the necessary change, even if these resources come through training and developing existing staff.

Privacy by Design

What steps do you take to make sure that your systems and processes, particularly new ones, deliver data protection compliance as a matter of course? Are you reviewing the personal data you hold and why you hold it to ensure that you can meet the requirement for 'data minimisation'? Do you know what a privacy impact assessment is? [Have you used one yet?](#)

Breach management

Do you have a breach management process in place? Is it ready to be activated even if you've been fortunate enough not to suffer a significant personal data breach so far? Does your process include arrangements to notify affected individuals as well as the ICO? Most importantly, do you have effective technical and organisational security measures to prevent breaches in the first place? Are you sure that these are kept up to date?

Source: ICO Deputy Commissioner and Director of Data Protection blog



**INTERNAL AUDIT
FINAL REPORT**

CORPORATE DEVELOPMENT SERVICE

COMMUNITY CHALLENGE FUND - GOVERNANCE
ARRANGEMENTS

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DISTRIBUTION

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1. INTRODUCTION

The Community Challenge Fund (CCF) was established at a meeting of the Highland Council on 25/10/12. It was agreed that a sum of £1 million would be allocated from the General Fund to help community groups deliver Council services. No additional resources were provided to implement this policy, the coordination of applications and meetings was undertaken by the Depute Chief Executive's office. For a community group to receive funding from the CCF it must demonstrate that it will meet one of the following criteria:

- Deliver a Council service at a lower cost
- Provide a higher level of service at the same cost
- Reduce the Council's cost for maintaining premises
- Deliver a project which could prevent the need for Council services to be provided or expanded in the future.

Community groups must submit an initial Expression of Interest (EoI) to demonstrate they will meet at least one of the criteria. The EoI is assessed by an Officers' Working Group which makes a recommendation to the CCF Applications Panel on whether to accept or reject this EoI. If it is approved by the Panel, the group is asked to submit a full application for assessment by a designated Lead Officer. Approved applications will lead to one of the following outcomes:

- Community groups take over the running of Council services. A Service Level Agreement (SLA) is drawn up which sets out the responsibilities of the Council and the relevant community group and payment(s) being made
- Community groups receive a one-off contribution to fund a pilot project
- A Council asset is transferred to community groups.

Details of the process are provided on the Council's website, including a leaflet that has been produced for community groups.

At the time of the audit, a total of six applications had been approved. It was agreed at the Council meeting on 18/12/14 to transfer £500,000 of the earmarked budget to the 2015/16 revenue budget leaving a revised CCF budget of £500,000. This budget is to be used for one-off contributions to approved projects and these payments initially come from Ward budgets. Ward Managers then contact the Community and Democratic Engagement Manager and the CCF budget is used to reimburse the Ward budgets. To date no funds have been drawn from the CCF budget but the total to be drawn down is £43,950. Groups with SLAs who are providing formerly Council run services are funded by the Service budget whose duties they took over.

2. REVIEW OBJECTIVES

The objectives of the review were to ensure that:

- (i) There is a robust and effective system in place to assess and approve applications to the Fund.
- (ii) There are appropriate arrangements in place for the transfer of assets and payments to successful applicants.
- (iii) There are appropriate arrangements in place for the monitoring of approved projects to ensure that the specified objectives are being achieved or will be achieved in accordance with the prescribed timescale.

3. SCOPE, METHOD & COVERAGE

The audit examined a sample of successful and unsuccessful applications to the CCF to ensure that these have been administered in accordance with the criteria agreed by Members. The table below lists the community groups examined and the status of their application at the time of the audit (September 2015).

Community Group	Status of application
Fort Augustus and Glenmoriston Community Company	Approved and SLA in place. Payments made.
Kyle and Lochalsh Community Trust	Approved and SLA in place. Payments made.
The Kirkmichael Trust	Approved for one-off contribution which will be paid once the lease has been agreed.
For the Right Reasons	Approved and part of one-off contribution paid.
Fort William Shinty Pitch/ An Aird Users Group	Approved and payment made. However, the SLA is still to be finalised.
Alness Community Council	Approved, further investigation being undertaken before payment is made and the SLA is prepared.
Caberfeidh Horizons	EoI approved but the full application was rejected. The group is working on a revised application although a small one-off contribution has been paid.
Nairn River Community Council	EoI accepted, full application not yet received.
Community Land Scotland	EoI rejected.
NICE (Nairn Improvement Community Enterprise)	EoI rejected.
The Coigach Community Development Company	Two separate EoIs were rejected.
Kincraig & Vicinity Community Council	EoI rejected.

4. MAIN FINDINGS

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

4.1 Assessment and Approval of Applications

This objective was partially achieved as there are procedures in place which are made available to relevant officers who are involved in assessing Expressions of Interest (EoI) and full applications. The Community Challenge Fund Applications Panel consists of six Members and meets to consider all EoIs and full applications, and this is undertaken using the CCF assessment criteria. Appropriate Council officers also attend these meetings to answer any questions raised by Members.

The Community Challenge Fund Applications Panel is provided with all EoIs, EoI assessment forms and full application forms. The Panel is also provided with a report which makes recommendations on which full applications to accept or reject based on the CCF criteria and has the opportunity to request further information. These Panel meetings are minuted and where an application is considered to meet the criteria, it is recommended that Council approve this. The minutes are then considered at the next available meeting of the Highland Council.

4.1.1 Of the fifteen EoIs examined during the audit, fourteen were assessed against the Community Challenge Fund criteria, one did not use the prescribed assessment form. While the official assessment form should be used for all EOI examinations this EOI was assessed adequately with input from the relevant Area Manager.

4.1.2 Full applications are assessed by Lead Officers, who are assigned this role by the Depute Chief Executive and Director of Corporate Development's team based on their knowledge and experience of the application being submitted. The document

"Guidance for Officers" was produced in April 2013 outlining the steps Lead Officers should follow when assessing applications. However, there was varying evidence to demonstrate that this process had been followed. Some Lead Officers have left the Council and a record of their correspondence with groups was not available.

Whilst the Lead Officers still working for the Council confirmed that they met with groups to discuss the applications, there is varying documentation from these meetings making it difficult to understand how applications were assessed and taken forward. However EOIs and assessment forms along with meeting minutes for Officer Working groups are retained so there is an audit trail of the documents Lead Officers were required to provide. The Guidance was updated in September 2014 to provide more detailed instructions to Lead Officers.

A new template for assessing applications has been produced and it is intended this will be used to assess future applications.

There is no central record detailing all applications, their status and the Lead Officer for each group. However, a master log of all applications showing their current status and Lead Officer is being developed by the Community and Democratic Engagement Manager who has recently taken over responsibility for coordinating the CCF.

- 4.1.3 It was noted that one Member who had been a Director of a group for the period 26/03/13 – 14/06/13 failed to declare this at the Council meeting of 27/06/13 when the Panel meeting minutes were approved (which included the recommendation that this group's full application be approved). As the Member had only recently resigned their Directorship, it would have been expected that they would have declared this recent non-financial interest.

4.2 Transfer of Assets and Payments to Applicants

This objective was partially achieved as the "Guidance to Officers" produced in April 2013 states that Officers should meet with groups to agree on a plan of implementation regarding service transfer. The Guidance was revised in October 2014 to include more detail on how to take forward successful applications with the creation of project teams. However, for three of the applications examined as part of the audit which were still on-going at this time, it could not be established that the latest Guidance had been issued to the Lead Officers.

- 4.2.1 Two of the approved projects have SLAs in place and these contain all expected information including roles and responsibilities, the assets to be transferred, payment arrangements and the length of time the service will be provided for. However, at the time of the audit another SLA was still due to be signed but the payment of £6,470 had already been transferred to the community group. It was explained that the payment allowed the group to deliver the service and the SLA could be signed once changes had been made to the community group's constitution.
- 4.2.2 One application was approved and the SLA was being prepared when it was discovered that the number of staff to be transferred from the Council to the group was incorrect as a staff member who was on sick leave had been omitted from the assessment in error. This information was highlighted by the other affected staff member and had not been identified during the initial assessment. This matter is now being addressed prior to completing the SLA and it is acknowledged that this is the only instance where this occurred. Furthermore, the current guidance, which came into place after this application was approved, should ensure that an adequate assessment of staff implications takes place at the application stage.

- 4.2.3 One community group was awarded a one-off contribution of £9,950 to undertake a pilot scheme which may prevent the need for Council services to be provided in the future. The group has not been required to provide formal records of how the donation has been spent but regular meetings take place between the Ward Manager and the community group to record the work being undertaken. This has been done at the initiative of the Ward Manager. This is an experimental project to see how preventative services can be provided.

4.3 Monitoring of Projects

This objective was partially achieved as the SLAs that are in place set out the relevant monitoring arrangements. Responsibility for the performance monitoring for the current SLAs lies within Community Services. One SLA is the responsibility of the Roads and Community Works Manager's team who also monitors part of the other SLA. Their inspections are carried out on a reactive basis i.e. responding to complaints which is in accordance with the SLAs. Inspection records are maintained on a database and showed that services were operating as expected. In addition, the Assistant Area Managers are responsible for liaising with community groups to assess the overall costs and best value of working projects.

- 4.3.1 However, responsibility for monitoring the other part of the SLA for the aforementioned group, the inspection of pontoons, was only partially established. The SLA states that *"the Council's Quality Service Performance Officer shall conduct random inspections to confirm that the Services are being provided in accordance with the Performance Standards"*. There is no such Officer and the SLA does not detail who within the Council will undertake this task. Furthermore, the SLA does not state how it will be verified that the performance standards are being met.

It is understood that Harbours officers are required to work with the community group to ensure the performance standards are met but they have not been tasked with conducting random inspections. However the Harbours Manager confirmed that the community group liaises with the Harbour Master to ensure the standards are being met, but details of this are not documented.

- 4.3.2 It is unclear how it can be assessed that a community group has prevented the need for Council Services to be provided or expanded in the future. Therefore, it is questioned how groups will demonstrate that they meet this criteria. However any assessment of the CCF must acknowledge that the Fund is being used as an opportunity to explore alternative service delivery methods and that the projects set up are in their early stages of development.
- 4.3.3 In February 2015, the Panel was informed that following its request that consideration be given to the introduction of a process for monitoring project outcomes and for undertaking a lessons learnt exercise with applicants, this would be taken forward by the Community and Democratic Engagement Manager. It was also stated that the Head of Corporate Finance will be responsible for the financial assurance of the programme and for ensuring that budget savings are taken as a result of agreed work. However, at the time of the audit this process had not yet started.

5. CONCLUSION

Since the Community Challenge Fund was originally established the process has been reviewed and refined, and governance arrangements revised to take account of lessons learned. Whilst there is guidance for officers involved in assessing CCF applications, this does not detail what documentation should be retained in respect of EoIs and applications, what conditions should be attached to one-off contributions or how to evaluate projects that are supposed to prevent the need

for future Council services. However it is acknowledged the CCF is a recently established concept. It has been used as an opportunity for the Council and community groups to pursue experimental methods of delivering services. The increased involvement of the Community and Democratic Engagement Manager will provide an opportunity to further review and enhance the governance arrangements.

There are 4 recommendations as a result of this audit, 1 high grade and 3 medium grades. All recommendations have been accepted by management and the final agreed action is due to be implemented by 30/06/16.

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	3
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
4.1.1 – 4.1.3	Medium	One application considered by the Panel did not contain a completed Expression of Interest assessment form. As a result, it could not be demonstrated that the EoI was fully assessed.	All Expressions of Interest and full applications should be assessed using the standard documents in order to demonstrate that these have been fully assessed against the CCF criteria.	Master log to be completed.	Community & Democratic Engagement Manager	30/04/16
		The documents held by Lead Officers varied and where Officers had left the Council, their records of correspondence with groups could not be obtained.	The Guidance for Officers should clearly state what application information should be retained concerning meetings with groups. It should then be ensured that this is securely held when any Lead Officers leave the Council.	Guidance to be updated.	Community & Democratic Engagement Manager	30/04/16
		There is no central record of all EoIs and full applications received and the allocated Lead Officer. In response the Community and Democratic Engagement Manager has agreed to create a master log of applications.	The master log should be introduced as soon as possible in order that the status of applications can be tracked.			

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
		A Member failed to declare their recent non-financial interest when the CCF Panel meeting minutes were approved by full Council on 27/06/13. These minutes included the recommendation to approve an application from a group which the Member had been a Director for the period 26/03/13 – 14/06/13.	Members should be reminded of the need to declare their interests if they have board or management responsibilities for a group which submits a CCF EoI or application.	Members have received refresher training in the Code of Conduct.	Depute Chief Executive	Complete 31/12/15
4.2.1 – 4.2.3	Medium	<p>The following issues were identified with approved applications: One group has been paid their contribution but the SLA had not been signed.</p> <p>One successful application has been delayed as it was found that a staff member on long-term sick would be affected by the transfer. This information was provided by the other affected staff member and was not identified during initial assessment. It is essential that all relevant information is identified in order that the financial viability of all applications can be properly assessed.</p>	<p>Payments to groups should not be made until the SLA has been agreed and signed by all relevant parties.</p> <p>A minor addition to “The Guidance for Officers” should be made, stressing the need to ensure that Lead Officers only submit applications for approval once all affected staff have been identified. If there are staffing implications a full assessment needs to be undertaken with the contractor/ Service identifying all affected staff.</p>	<p>In future any SLAs required will be signed before funding is released.</p> <p>Guidance to be updated.</p>	<p>Depute Chief Executive</p> <p>Community & Democratic Engagement Manager</p>	<p>Complete</p> <p>30/04/16</p>

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.3.1 – 4.3.3	High	<p>The following issues were found with regard to monitoring arrangements:</p> <p>For one project the SLA is unclear whose responsibility it is to conduct inspections and how performance standards will be verified.</p> <p>The one-off contribution paid to a group did not contain any conditions stating what the funds should be used for. While this was an experimental project and meetings between the group and Council have taken place there is a concern that there is no documented assurance that contributions are being used for the agreed objectives.</p>	<p>SLAs should clearly state which Council officers or teams are responsible for monitoring arrangements and how the performance standards should be verified.</p> <p>Where sums of £10,000 or above is paid, the groups should be required to account for how the contribution was spent in order to demonstrate that it was used for the agreed purpose.</p> <p>Assessment criteria needs to be put in place with regard to how the CCF will evaluate applications which are intended to prevent the need for Council Services in the future.</p> <p>These requirements should be incorporated into the current process and Guidance.</p>	<p>SLA to be updated.</p> <p>Guidance to be updated.</p>	<p>Head of Corporate Governance</p> <p>Community Democratic Engagement Manager</p>	<p>30/04/16</p> <p>30/04/16</p>

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.3.4	Medium	Whilst it was reported in February 2015 that a process would be introduced for monitoring project outcomes and a lessons learnt exercise would be undertaken with applicants, this has not yet occurred. In addition, it is unclear when the Head of Corporate Finance will take over responsibility for the financial assurance of the programme and ensuring that budget savings are taken as a result of agreed work.	An update should be provided to the Panel regarding the introduction of a monitoring system and date for the Head of Corporate Finance to assume responsibility for the financial assurance of the programme.	Report to Panel.	Community & Democratic Engagement Manager	30/06/16

**INTERNAL AUDIT
FINAL REPORT**

DEVELOPMENT & INFRASTRUCTURE SERVICE

EFF PROGRAMME 2014-15

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1. INTRODUCTION

This audit was undertaken as part of the 2015/16 Audit Plan and was the third and final audit assessing the administration of the European Fisheries Fund (EFF) Axis 4 Programme. The final programme claim to Marine Scotland was submitted on 04/11/15. The audit is a requirement of the Service Level Agreement (SLA) between Marine Scotland and the Council and covers the period 01/07/14 to 05/11/15.

The EFF Axis 4 Programme in Scotland is aimed at providing funding and support to local Scottish fishing communities, affected by decline, to sustainably develop these areas. Funding from the EU is centrally distributed by Marine Scotland to eligible areas. With the exception of the Inverness Settlement Development Area and part of the Highland Council area within the Cairngorms National Park the whole of the Highland Council area is eligible for this funding. The overall administration of the funding is by the Fisheries Local Action Group (FLAG).

The FLAG began to accept project applications in spring 2012, with all project applications to be decided by 30/06/14, following an extension by Marine Scotland. Marine Scotland awarded the FLAG an additional £124,228 in November 2013. The total value of the Highland EFF Axis 4 Programme was £715,029. The programme administered approved projects until its official close on 31/10/15.

2. REVIEW OBJECTIVES

The objectives of the review were to ensure that:

- (i) The obligations in the Service Level Agreement have been adhered to by Council Officers.
- (ii) The projects funded by the Highland EFF Axis 4 Programme comply with the requirements of the Service Level Agreement.
- (iii) The agreed actions arising from the previous audit report have been satisfactorily implemented by Management.

3. SCOPE, METHOD AND COVERAGE

This was the final review of the current European Fisheries Fund – Axis 4 programme and it reviewed compliance with the SLA in place between the Council and the Scottish Government. The audit also examined a sample of projects, which have not been reviewed in the previous 2 audits, with approved funding ranging from £28,815 to £259,013. The 3 remaining projects with the largest funding were chosen for review. Therefore 10 of the 13 completed projects have been reviewed in audits during the current programme. The audit also followed-up the actions taken by management in response to the audit recommendations in the 2014 EFF programme audit report.

The projects reviewed were:

Project Reference	Project Name	Applicant	Location	Total Project Costs	Funding sought from FLAG	FLAG % towards total project costs	EFF	HC	Other Public Sector Funds
HEFF/008	Kyle Pontoons	Kyle & Lochalsh Community Trust	Lochalsh	£ 297,426.00	£ 259,013.70	87%	£ 200,762.55	£ 58,251.15	£ 8,669.70
HEFF/009	Mallaig Shoreside Promenade	Mallaig Harbour Authority	Mallaig	£ 173,224.06	£ 112,603.33	65%	£ 90,439.27	£ 22,164.06	£ 7,982.37
HEFF/018	Scrabster Harbour Amenities Upgrade	Scrabster Harbour Trust	Scrabster	£ 38,420.55	£ 28,815.41	75%	£ 21,611.56	£ 7,203.85	-

4. MAIN FINDINGS

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

4.1 Service Level Agreement Compliance

This objective was substantially achieved. The obligations in the SLA were assessed and this showed:

- There are procedures in place to notify Marine Scotland as soon as reasonably practical about any suspected breaches, frauds, irregularities or breaches of contractual obligations concerned with scheme claims that are likely to impact adversely on the EU budget;
- There are procedures to ensure that the required retention period will be adhered to;
- A spreadsheet database has been created to record project claims;
- A separate accounting code has been set up for the programme;
- Standard forms and guidance have been provided by Marine Scotland to be used in the project application, decision and approval processes; and
- The Council is submitting expenditure information to Marine Scotland as requested.

There was 1 example of non-compliance with the SLA's performance targets (Kyle Pontoons) where the Council did not advise Marine Scotland of awards of grant within 2 weeks of this award being made.

4.2 Project Compliance

This objective was substantially achieved as the 3 projects reviewed complied with the requirements of the SLA.

The eligibility of each project was assessed against the eligible measures of EFF Axis 4 (EU Reg 1198/2006 – chapter IV and article 44), the Local Fisheries Development Strategy and the associated EFF Axis 4 Business Plan. Checks were also carried out to ensure that:

- Declarations of interest had been recorded when the project was assessed by the FLAG;
- Marine Scotland had been provided with copies of the project application form and award letter; and
- The most recent claims from each project had the supporting documentation on file, the amount claimed agreed to the amount reclaimed from Marine Scotland, and the expenditure was in accordance with the community and national rules.

These were found to be satisfactory except for 1 project where the documents were sent at a later date, which was prompted by a previous audit recommendation. Also, 1 project (Mallaig Shoreside Promenade) was missing some documentation but this was put on file during the audit review.

4.3 Audit Report 2014 Follow-up

This objective was fully achieved as all of the management agreed actions have been implemented. The previous audit report contained 7 recommendations (5 were graded medium and 2 low) which consisted of a number of different management agreed actions.

The first medium grade recommendation related to missed performance targets. The second, third and fourth recommendations (all graded medium) related to project file issues found during a review of 4 projects. The fifth low grade recommendation related to holding keys in an unlocked drawer when not in use. The sixth recommendation (graded medium) related to general publicity project

advice. The seventh recommendation (graded low) related to a project file issue that had been reported in the previous year's audit report.

5. CONCLUSION

Following implementation of previous audit recommendations, the EFF Axis 4 programme is being administered accurately. The reviews of project files found that, other than minor issues with file completion, they were complete and accurate. Therefore there have been no recommendations made in this report.

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 **Full 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.



**INTERNAL AUDIT
FINAL REPORT**

DEVELOPMENT & INFRASTRUCTURE SERVICE

LEADER PROGRAMME 2014-15

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1. INTRODUCTION

This audit was undertaken as part of the 2015/16 Audit Plan and was the final audit assessing the administration of the 2007-13 Highland Leader Programme, which has now ended and all outstanding projects have been completed. The audit is a requirement of the Service Level Agreement (SLA) between the Scottish Government Rural Payments and Inspections Directorate (SGRPID) and the Council. This is the seventh required audit in accordance with EC Regulation 885/2006 and covers the period 16/10/14 to 15/10/15.

Audit Scotland found significant issues with project eligibility during the 2007-13 Leader Programme. This resulted in a file review for all projects and, due to errors found, the Scottish Government had to fund some Leader projects separately. Errors in project eligibility can result in much higher EU fines than errors within the project claims process. The eligibility criteria for the 2014-20 Leader Programme is detailed in the Local Development Strategy (LDS), which was written by the Council's Leader team. Therefore the LDS was reviewed to ensure the eligibility requirements agree with the relevant EU Regulations, legislation and Government guidance.

The Leader Programme is part of the Scottish Rural Development Programme (SRDP), aimed at promoting economic and community development within rural areas. Funding from the EU is centrally distributed by the SGRPID to eligible areas. With the exception of the Inverness Settlement Development Area and the Cairngorm National Park Boundary (within the Highland area), the whole of the Highland Council area is eligible for this funding.

The overall administration of the funding is by the Highland Leader Local Action Group (LAG). The LAG is divided into 11 Local Area Partnerships (LAPs) relating to the different regions of the Highlands. There is also 1 strategic LAG, which sets the strategic direction and delivery of the programme, approves Highland-wide projects, and monitors and evaluates the programme. A similar structure will be in place for the 2014-20 Programme but with 7 LAPs rather than 11 and also with the inclusion of two sectoral partnerships: the FLAG which will oversee the delivery of EMFF funding and a Rural Enterprise Group who will deal with rural enterprise and farm diversification applications.

The total value of the Highland Leader Programme 2007-13 was £16.5m, which included £2.33m of Community Services and Facilities funds transferred from the SRDP Rural Priorities programme. The 2014-20 Highland Leader Programme has been awarded £8.8m.

2. REVIEW OBJECTIVES

The objectives of the review were to ensure that:

- (i) The obligations in the 2007-13 Leader Programme Service Level Agreement have been adhered to for outstanding project claims, verification checks, and any closure work carried out.
- (ii) The Local Development Strategy has been correctly authorised and provides accurate guidance to assess project eligibility.
- (iii) The agreed actions arising from the previous audit report have been satisfactorily implemented by Management.

3. SCOPE, METHOD AND COVERAGE

This is the final review for the 2007-13 Leader Programme and reviewed compliance with the SLA for outstanding project claims and inspections that had occurred in the audit review period. Also, a review of the 2007-13 programme closure administration expenditure took place.

The Local Development Strategy details the aims and objectives of the new Highland Leader Programme 2014-20. This strategy was reviewed to ensure the eligibility guidance detailed agreed with the SRDP and EU Regulations requirements.

The audit followed up the actions taken by management in response to the audit recommendations in the 2014 Leader Programme audit report.

4. MAIN FINDINGS

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

4.1 Adherence to the 2007 – 13 Programme SLA

This objective was partially achieved. The obligations in the 2007-13 Leader Programme Service Level Agreement have been adhered to. During the audit period, 2 claims from the 4 legacy projects were processed and reclaimed from the Scottish Government. 1 claim was checked and, except for a minor non-material error, it was accurate and complete. The 1 on the spot inspection carried out during the audit review period was also checked and found to be complete.

A review of the 2007-13 programme closure administration expenditure took place. The April 2014 claim was reviewed and agreed to financial ledger reports.

- 4.1.1 However, new claim rules for administration expenditure were introduced in July 2015 for the interim period ahead of the 2014-20 Programme's launch. These rules require that the officers compiling and authorising the claims cannot be involved in processing and authorising projects, and neither their salary nor expenses can be included in the claim. This is contrary to practice from the previous programme and would require organisational changes to be made within the Council for claims processing of claims.

4.2 Local Development Strategy

This objective was fully achieved as the Local Development Strategy (LDS) has been prepared and was authorised by the Scottish Government in July 2015.

The LDS demonstrates how each of its themes meets one or more of the 6 Rural Development Programme priority areas.

The LDS also lists 10 outcomes it expects to achieve from its 4 main themes and project examples are provided to guide applicants and also assist the Local Action Group (LAG) and Local Area Partnerships (LAPs) in assessing the eligibility of projects.

A scoring template is currently being devised by the Scottish Government and this will guide the assessment process by ensuring consistency and in documenting decision making.

There are specific eligibility requirements in the relevant EU Regulations (e.g. recoverable VAT is ineligible), which will be included in guidance to be issued later by the Government.

4.3 Follow-up of previous management agreed actions

This objective was fully achieved as all of the management agreed actions have been implemented. The previous audit report contained 2 recommendations graded medium and low, which consisted of a number of different management agreed actions.

The first recommendation (graded low) related to 8 findings from a review of 4 project files ensuring that the high risk sections of the files were complete and accurate. The second recommendation (graded medium) related to action tracking of the 2012/13 Leader audit report (4 findings). These recommendations

included project irregularity reporting to the Government, recommendations from a check of the eligibility of project files, and a recommendation to comply with the EU Regulations Information Systems Security Standard.

- 4.3.1 With regard to the new Programme, the EU Regulation 907/2014 (annex 1 – 3 (B)) requires that by October 2016 *“information systems security shall be certified in accordance with International Standards Organisation 27001.”* The Council has not reached full compliance with the ISO and therefore this requirement for the new programme should be addressed. The draft SLA (section 7.3) between the Council and the Government (which has not yet been signed by the Council) states: “All electronic activities should be carried out in accordance with ISO security compliance levels as prescribed in Commission Delegated Regulation (EU) No 907/2014, Annex I(3)(B).” Therefore non-compliance with the ISO would result in a breach of the SLA.

5. CONCLUSION

This audit’s focus has been primarily on the LDS eligibility guidance for future Leader project application assessments. This has been an area of particular difficulty in the previous Leader programme and there is a good eligibility assessment process in place for the future. While there will always be an element of subjectivity when assessing project eligibility, the LDS does provide guidance to assist LAG and LAP members to assess eligibility accurately.

The 2007-13 Leader programme is being administered accurately, with only some procedural issues with the new claims rules to be resolved. The previous audit work undertaken provides assurance that the individual project files are accurate and complete.

There are 2 recommendations in this report, both are classified medium grade. Both are due to be fully completed by 20/12/15.

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 **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	2
Minor issues that are not critical but managers should address.	Low	0
Total recommendations		2

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.1.1	Medium	The new interim claim rules (July 2015) require that those involved in compiling or authorising claims do not compile or authorise claims, which include their own salaries or expenses. This does not accord with the previous process and the existing arrangements within the Council (which were in place for the previous Programme) do not comply with this requirement.	The Leader team should resolve this issue with the Scottish Government to ensure they are complying with the required rules so that the Council will be reimbursed.	A process has been written up to detail how financial claims are dealt with by the Leader Team and The Highland Council. This should be forwarded to the Scottish Government seeking written confirmation that the process followed is compliant.	Programme Manager (Leader Programme)	20/12/15
4.3.1	Medium	EU Regulation 907/2014 requires compliance with ISO 27001 by October 2016. However, the Council does not currently comply with the ISO.	The Leader team should request progress on ISO 27001 and ISO 27002 from ICT Services and determine if the Council will be compliant with the ISO by the deadline.	Progress on ISO compliance to be requested from ICT services.	Programme Manager (Leader Programme)	20/12/15

**INTERNAL AUDIT
FINAL REPORT**

**DEVELOPMENT AND INFRASTRUCTURE SERVICE
CORPORATE PROPERTY ASSET MANAGEMENT
INFORMATION SYSTEM**

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1. INTRODUCTION

The purpose of this report is to record the findings of a recently completed audit review of the Corporate Property Asset Management - Information System (CPAM-IS) which went live on 2 February 2015. The audit was undertaken as part of the annual plan for 2015/16.

The CPAM-IS was implemented to pull together property information which was scattered across various systems and provide "one version of the truth". The system enables staff to request work, create property maintenance orders and pay for their associated invoices. It empowers them to see at a glance where asbestos exists and create maintenance programmes for properties. It holds property lease information. At a strategic level the information held in the system can be interrogated in detail to provide management information and enable property related decisions to be made more effectively.

The CPAM-IS is made up of the following modules

- Core (business units, sites, buildings, leases, valuations)
- Estates
- Condition Survey
- Portable Appliance Testing
- Legionella Survey
- Fire Risk Survey
- General Audit Survey
- Running costs
- Suitability
- Sufficiency
- Reactive Maintenance
- Planned Maintenance
- Projects
- Finance
- Computer Aided Design
- Geographic Information System interface to ArcGIS
- Internet Portal.

2. REVIEW OBJECTIVES

The objectives of the review were to ensure:

- (i) Access is restricted to authorised users,
- (ii) The data input into the system is up-to-date, complete and accurate
- (iii) Data that is sent to and received from other systems is properly reconciled to ensure the transfer is without errors
- (iv) Management and data quality reports are produced
- (v) Electronic audit trails are activated
- (vi) The system is properly licensed and supported
- (vii) The system provides the expected benefits and is being fully utilised.

3. SCOPE, METHOD & COVERAGE

The scope of the review of the CPAM-IS application covered:

- 1) A check for expected access controls including an access control policy, a formal user registration system, user access level settings and password complexity
- 2) The input of property asset and maintenance data to ensure it is complete and accurate.
- 3) Reconciliation of interface processing.
- 4) The production of data quality and management reports

- 5) The completeness of all electronic audit trails
- 6) License and support arrangements, including back-up and recovery
- 7) The efficiency and performance of the system operation.

The method was to interview staff members who operate the system and to refer to system documentation with regard to the above scope.

4. MAIN FINDINGS

The main findings of the review with reference to the above scope of the review objective are as follows:

4.1 Access Controls

This objective was partially achieved. Access is currently controlled, in accordance with expectations, in the following ways. User access requests are recorded in the Fujitsu Service Desk System and these requests are then passed by Fujitsu on to the CPAM-IS system administration team. A system administrator then allocates a user to system roles and system modules that are appropriate for his or her post. The modules came as part of the system and the roles were set up during the system implementation. Documentary access control requests are retained for users with higher level 'smart client' access. An annual review of access levels is contained in the system timetable. In addition there is an additional access control that a user's network password expires after 3 months if the user has not logged on during that time and the user can no longer log in after this point.

4.1.1 There is no formally approved access control policy in place for the system administrator to follow, although there is a plan to produce one. The lack of clear guidance in the form of a policy makes unauthorised access more likely.

4.1.2 CPAM-IS is exposed to a known corporate access risk that will be rectified at ICT re-provision.

4.2 Data Input

This objective was fully achieved. Users have been trained on how to input maintenance requests, order and pay invoices. It is re-assuring to note there are two different duplicate invoice checks, one at point of entry based on the contractor and invoice number, the other one is when the Finance Systems Admin Team load CPAM-IS invoices into Integra and the loader program validation also checks for duplicate invoices. Several examples were reported where invoice payments had been cancelled prior to being fully processed because they were identified as being duplicates.

The review of the process to input orders and authorise the payment of invoices identified that Maintenance Officers could both raise an order and then approve the associated invoice. This process did not comply with Financial Regulations because of the lack of separation of duties. However, after the audit concern was identified, the process of ordering and paying invoices was quickly corrected to include secondary approval of the payment of invoices.

4.3 Interfaces

This objective was mainly achieved. The CPAM-IS interfaces with the Council's Financial Management Information System (FMIS) called Integra. However the CPAM-IS still uses Oracle accountancy codes from the previous Oracle FMIS. As part of the interface with Integra, invoice data containing Oracle codes is output from the CPAM-IS. The Oracle codes are then converted via a pre-processor program to Integra codes prior to being uploaded into Integra by the Finance Systems Administration Team. An email is produced from the CPAM-IS showing the number of records output and any errors. When the file is loaded into Integra, a corresponding email is produced showing the number of records loaded

and any errors. Therefore the interface is monitored and reconciled. In addition the interface files are retained in case future reference to them is required and data quality reports are used to identify any missing Oracle codes. Integra accountancy codes will be entered into the CPAM-IS system at a future date to remove the need to run the pre-processor program. A system timetable has been created to document important system events including interface processing.

4.3.1 Interfaces between the CPAM-IS and the following systems are not fully operational yet due to technical problems encountered during recent user acceptance testing:

- Profess
- Total.

In addition the system administration documentation for processing and reconciling the interface between the CPAM-IS and Total is not complete yet.

4.4 Reports

This objective was partially achieved. Management reports required from the system were detailed in the Project Initiation Document. Some of these reports have already been completed, e.g. the Statutory Performance Indicator 8 report and a data quality report to check for missing accounting codes on invoices.

4.4.1 Other reports, such as Scottish Asset Management Benchmarking Group Report, have yet to be developed and the activity to identify and produce all the required data quality reports required has yet to be completed.

4.5 Audit Trail

This objective was mainly achieved. On the whole the CPAM-IS has a good electronic audit trail with respect to most updates of financial transactions. It also keeps a log of when a user has logged in and out of the system.

4.5.1 However, one deficiency was reported by the system administrator during the audit. The appropriate Council accounting code is originally recorded within the maintenance order screen. When the corresponding invoice is received it is recorded against the order. There is an electronic audit trail recorded against any changes to invoice values, but accounting code changes to individual invoice lines are not recorded in the trail.

4.6 License and Support

This objective was mainly achieved. There is a signed license and support agreement in place and an agreed Fujitsu Service Description. The system is licensed for 50 concurrent smart client users and an unlimited number of concurrent web portal users. However, there is a technical limit of a 1000 concurrent web portal users.

4.6.1 Although most of the modules within CPAM-IS are being used, the capital project module is not because it does not have all the functionality required by the Council. The options are that the Council could pay to get the required functionality developed, or wait in the hope that another customer will pay to get it developed, or have the module withdrawn by the supplier and attempt to obtain a refund on that part of the license fee.

4.7 Performance and Efficiency

This objective was fully achieved.

The Council has made a substantial investment in CPAM-IS. The first version of the proposal from Fujitsu to implement it was approximately £450K which the Council rejected due to cost. Fujitsu came forward with a revised proposal of £343K. However, during the project a number of change control notices were

agreed and the final price for implementation was £409K. Measures are now in place to ensure that all ICT project cost increases are reported to the ICT Development Board.

The implementation of CPAM-IS has met most of the main business objectives identified in the business case. It now provides a comprehensive database covering all Council owned, leased and managed non-housing properties. It is a single source for comprehensive data covering the Council's non-housing property assets, for example running costs, tenure, size, value, environmental criteria, accessibility and sufficiency. Most importantly, the Corporate Property Asset Management Team is using the system to access property information that supports the development of business cases that seek to identify substantial savings for the Council via property/office rationalisation projects. Office rationalisation projects have already taken place in the following places:

- Inverness
- Wick
- Dingwall
- Kingussie
- Fort William.

Substantial asset savings have already been realised. On 19 May 2015, a capital receipts savings outturn figure of £1.1 million for financial year 2014/2015 was reported to the Asset Management Project Board.

Development of CPAM-IS is still ongoing. The input of asbestos data is still underway and both the legionella and gas servicing functionality are currently being piloted. This functionality is not live yet.

5. CONCLUSION

The implementation of the CPAM-IS has assisted in bringing substantial benefits and savings to the Council. The main objective of the business case to have a central property asset management system has now been realised. In terms of the audit review, a key initial finding that the payment of invoice process lacked the expected separation of duties was rapidly corrected. Many of the expected access controls are in place but some need further improvement.

Although the system is live there is still substantial work to be done. Two system modules are still at the pilot stage. When these activities are complete the system will be more secure and more of the benefits identified in the business case will be realised.

There are six recommendations in this report with three classified as medium priority and three classified as low priority. All of the recommendations are due to be implemented by the end of February 2017.

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 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.

7. ACTION PLAN

The Action Plan contains **6** 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	3
Total recommendations		6

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.1.1	Medium	There is no access control policy to set the standard for user access control.	As planned, an access control policy should be produced.	An access control policy will be produced.	Property System Administrator	31/05/16
4.1.2	Medium	CPAM-IS is exposed to a known corporate access risk that will be rectified at ICT re-provision	The corporate access control risk should be addressed.	The corporate access risk will be addressed at ICT Re-provision.	ICT Operations Manager	28/02/17
4.3.1	Low	Interfaces between CPAM-IS and the following systems are not fully operational yet due to technical problems encountered during user acceptance testing: <ul style="list-style-type: none"> • Profess • Total. <p>The documentation for processing the interface between CPAM-IS and Total is not complete yet.</p>	All interface processing should be fully documented when user acceptance testing is complete and the interfaces are live.	Requests have been logged with the supplier, but the supplier has not provided an estimated completion date yet although this has been requested. Fujitsu Services have offered to implement a Fujitsu developed workaround at nil cost to the Council and this has been accepted.	Property Systems Administrator	31/03/16
4.4.1	Low	Management and data quality reports are not fully developed.	Management and data quality reports should be fully developed.	This is an ongoing task which is dependent on requests received from D&I Managers. However 150 Council bespoke reports have now been produced.	Property Systems Administrator	Complete

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.5.1	Medium	There is an audit trail against an invoice and invoice lines. However cost codes changes to invoice lines are not audited. It is financial information and should be audited.	The supplier should be contacted and asked about the lack of audit trail.	An incident has been logged with the supplier.	Property Systems Administrator	Complete
4.6.1	Low	The project module is not being used because it does not have the required functionality yet. The Council could pay to get this developed, wait for another customer to pay to get it developed, or stop paying the license fees for this module.	The three options for the project module should be considered and if it is not to be used, a refund on the license fee should be obtained.	This has been considered. Property Service is currently intending to use Profess 5 (a different system) for Capital Project Management so ceasing the K2 Projects Module will be an option if Highland Council do not have a business use for the module.	Property Systems Administrator	Complete



**INTERNAL AUDIT
FINAL REPORT**

DEVELOPMENT & INFRASTRUCTURE SERVICE

DRUMMUIE OFFICES - CHIMNEY REBUILD

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DISTRIBUTION

Director of Development & Infrastructure

REF: HED04/003

**DRAFT DATE: 15/02/16
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1. INTRODUCTION

- 1.1 This audit review was originally requested by Cllr Phillips at the meeting of the North Planning Applications Committee on 28/04/15. However, this was not brought to the Head of Audit & Risk Management's attention until 02/12/15 when Cllr Phillips copied him into an e-mail regarding continued delays in commencing the chimney rebuilding works. A key concern was in respect of the ongoing costs of scaffolding which had been in place since the chimney was originally highlighted as being structurally unsafe in November 2013.

2. BACKGROUND

- 2.1 A timeline of the key events has been established as follows:

Date	Event
20/11/13	Concerns identified regarding the stability of the chimney to the Drummie office.
22/11/13	Site visit by Structural Engineers.
06/12/13	Scaffolding erected.
19/12/13	Structural Engineers' report recommending dismantling of chimney and suggesting three options: <ul style="list-style-type: none">• No rebuild.• Rebuild to lower height – no external bracing required.• Rebuild to original height – external bracing required involving steel straps around chimney and stays to existing roof structure. No specific option was recommended and no costs were provided.
20/12/13	Maintenance forwarded the Structural Engineers' report to Conservation and recommended that chimney be rebuilt to lower height.
15/01/14	Meeting to discuss options with officers from: Building Standards; Maintenance; Conservation; Planning. The External Structural Engineer was also present. Chimney to remain in situ pending application for Building Warrant and Listed Building Consent. Structural Engineers' report forwarded to Historic Scotland.
16/01/14	Letter from Historic Scotland commenting that a reduction of the chimney would have an adverse impact on the character of the building and suggested that in order to facilitate a full rebuild they asked "if it would be feasible (and relatively inexpensive) to build an engineering brick pier up the inside face of the wall in the manner of a chimney breast. Although this would cause disruption to both rooms below it might be a way of retaining the feature without expensive steelwork at eaves level."
21/01/14	Confirmation in e-mail to various parties that Maintenance would shortly submit the required Planning Application.
18/02/14	Further letter from Historic Scotland referring to the consultation of 16/01/14 stating that they would wish to see "if there are

Date	Event
	practical/affordable ways of supporting the chimney in a way that would allow for its retention and overhaul." Again, a structural pier in the form of a chimney breast to the rooms below was suggested.
11/09/14	Application for Planning Permission submitted for rebuild to lower height.
15/09/14	Application for Listed Building Consent submitted for rebuild to lower height.
31/10/14	Planning Permission and Listed Building Consents registered as being valid.
03/11/14	Consultation with Historic Scotland regarding proposals.
21/11/14	Letter from Historic Scotland referring to consultation, noting the Council's preferred option to rebuild to a lower height. However, they were unclear as to what the Council's position was regarding their suggestion of 18/02/14 and requested costs for all the proposed alternatives.
18/12/14	E-mail from Planning to Maintenance suggesting that they may wish to consider withdrawing the applications and re-submitting on the basis of a rebuild to the original height.
11/02/15	Meeting to discuss current situation with officers from: Maintenance; Conservation; Planning; External Structural Engineer (nb all who were represented at meeting of 15/01/14). Contract Administrator also present. Planning advised that in order to comply with policy and secure Historic Scotland support it was necessary to demonstrate that the Council had fully assessed all options and demonstrated why a rebuild to a lower height was the preferred option.
27/02/15	<p>Contract Administrator prepared the costs associated with all options and submitted these to Planning. These were as follows:</p> <p>1 – Remove the chimney entirely: £85,000.</p> <p>2 – Remove the chimney and rebuild to lower height: £55,000.</p> <p>3 – Remove the chimney and rebuild to original height, bracing it off the strengthened roof with steel struts: £120,000.</p> <p><i>(nb the above options are as per the Structural Engineers' report of 19/12/13)</i></p> <p>4 – Remove the chimney and build block pillar up the inside of the full wall height. Rebuild the chimney off the widened wall to original height but increase the depth: £125,000.</p> <p>The above was forwarded to Historic Scotland.</p>
13/03/15	E-mail from Historic Scotland stating that option 4 (see above) appeared to address their previous suggestion and asked that confirmation be provided that this was clearly not feasible on economic grounds.
19/03/15	<p>Statement provided to Historic Scotland as follows:</p> <p>"I confirm that we consider it is not feasible on economic grounds to reconstruct a thicker chimney option as per option 4. This option</p>

Date	Event
	<p>would entail considerable disruption to the building and staff: all floors would have to be cut open in order to access the foundation, install new footings, and construct a skin of blockwork the full height of the gable. The first and second floors are of Pozi-Joist construction which is not simple to cut and repair.</p> <p>As the chimney would be thicker than the original, it would also necessitate bringing in additional stone, using a bond pattern which would be different to the existing, and requiring a larger cope than the original. The resultant chimney stack would not, therefore, reflect the original shape. The estimated cost at £125,000 is an unreasonable amount to spend on reconstructing one chimney at a time of tight Council expenditure targets.</p> <p>Our preferred option (Option 2) would retain the existing chimney stonework thickness and bond pattern (albeit to a lesser height than the original), and would retain the existing cope. The disruption to the building and staff would be considerably less, and the resultant anticipated cost is less than half of that for Option 4.</p> <p>I would reiterate that we wish to proceed with Option 2."</p>
25/03/15	Response from Historic Scotland confirming that there "there is now a clear justification demonstrated for the proposal – to rebuild the chimney to half its original height."
02/04/15	Contract Administrator informed that as an objection had been received from Golspie Community Council to the application, this would need to be referred to the next meeting of the North Planning Applications Committee on 28/04/15.
28/04/15	<p>Report to North Planning Applications stating that:</p> <p>"The Planning Application and Listed Building Consent applications were received on 29/10/14. Initially it had been proposed to reduce the height of the affected chimney stack. This however was not considered acceptable in terms of national guidance and policy and could not be supported. Following extensive discussions with the Conservation Officer and Historic Scotland agreement, the proposal has been amended and an acceptable solution found whereby it is proposed to reconstruct the chimney stack to its original height, but at 800mm thickness using original stones plus additional stonework.</p> <p>It is considered that the evaluation and assessment of all options does clearly demonstrate that the proposal – option 4: reconstruct chimney stack to original height, but at 800mm thickness. It balances the need for a practical repair solution with the least impact on both the external appearance and internal fabric of the building. It is therefore assessed as not having a significant impact on a significant impact on the architectural and historic fabric of the building and therefore accords with Development Plan policies 28 and 57, as well as s59 of the Planning (Listed Buildings and Conservation Areas) (Scotland) Act 1997. Both Historic Scotland and the Conservation Officer are satisfied that it has been demonstrated that the suggested course of action is the most appropriate in this instance having regard to recent legislation.</p>

Date	Event
	<p>This is a case where the Highland Council could save public money. Whilst the Planning Authority recognises the costs involved in the works, this is not a material consideration in the assessment of the proposal. The Planning Authority has a statutory responsibility to ensure the preservation and enhancement of listed buildings. Notwithstanding this, a proportionate balance has to be struck between the requirements of the Act and Development Plan policies and the practicality (and costs) of undertaking work on the historic fabric of a listed building. It is considered that the assessment of various options and the resultant justification to the preferred option 4 is acceptable."</p> <p><i>Audit Comment: An explanation has been received that an incorrect version of this report was put forward in error.</i></p>
26/05/15	Advertisement through Public Contracts Scotland for the demolition and partial reconstruction of a chimney structure at Drummuie.
09/06/15	<p>Report to North Planning Applications stating that:</p> <p>"The last meeting the Committee agreed to approve option 4 which was to reconstruct the chimney stack to its original height but at 800mm thickness. Subsequent to the report being prepared and considered by Members, further correspondence was received from Historic Scotland which has advised that option 2 as set out in the previous report was considered as being acceptable. As the decision had not been issued at this juncture it was considered appropriate to bring the matter back to committee for consideration. In light of the further comments from Historic Scotland it is considered that option 2 is acceptable. The proposal is therefore assessed as not having a significant impact on the architectural and historic fabric of the building and therefore accords with the Development Plan policies 28 and 57, as well as s59 of the Planning (Listed Buildings and Conservation Areas) (Scotland) Act 1997."</p>
16/06/15	Further advertisement through Public Contracts Scotland for the demolition and partial reconstruction of a chimney structure at Drummuie as only one response received to the earlier advert of 26/05/15.
06/07/15	Decision Notice from Historic Scotland, referring to application for reduction of height of chimney. Listed Building Consent granted without conditions.
02/10/15	Tender return date.
22/10/15	Contract award letter sent to successful tenderer. <i>NB: Works to commence after winter period in view of weather conditions.</i>

3. MAIN FINDINGS

The main findings of the review are as follows:

3.1 Ongoing scaffolding costs

- 3.1.1 The scaffolding costs expended since this was erected on 06/12/13 totalled £41,239 for the period up to 31/12/15. This sum is inclusive of erection costs and weekly hire and inspection charges. In addition, dismantling charges of £2,631 will be paid in due course. It is understood that although the scaffold remains in situ this is now "off-hire" pending the start of the remedial works.
- 3.1.2 It is evident from the correspondence reviewed that, at the initial officer meeting on 15/01/14, the cost of the scaffolding was raised as a concern by both Building Standards and Maintenance. In terms of the options proposed by the Structural Engineer in their report of 19/12/13, it was suggested that whatever decision was taken with regard to the chimney, this would have to be taken down in the first instance." An earlier example was cited of the Nairn Courthouse chimney as this was similarly supported by scaffolding and where it took a year from the start of discussions to remedial works taking place. Furthermore, Building Standards stated that "leaving it up and supported by scaffolding is expensive, and is a constant worry because the scaffolding has to be inspected weekly.
- 3.1.3 Although consideration was given to taking the chimney down at the initial stage and setting this aside for re-use, it was established that this was not permissible. In particular, it was made clear that dismantling the chimney would require a Building Warrant which would need to stipulate the precise nature of the remedial works. However, at this stage (January 2014) the solution remained unclear.
- 3.1.4 In October 2014, Cllr Phillips queried the scaffolding costs and the nature of the proposed repairs. The following month a Freedom of Information request was received from a different source.
- 3.1.5 Although ongoing scaffolding costs may well have been considered after November 2014, the only documented reference is in a file note of January 2015 where it was suggested that: "the most favourable option right now is to dismantle the chimney and store it until a decision has been reached as to how it is rebuilt. This would save on scaffolding costs and possibly further scares due to weather conditions."

Comment:

Concerns were raised regarding potential protracted and expensive scaffolding costs at the outset and a previous example regarding works to a Listed Building was cited. It is disappointing therefore that lessons were not learned from this and a joined-up approach was not taken as to how such costs could have been minimised.

3.2 Management of Project

- 3.2.1 The Development & Infrastructure Service have formal project management procedures in place for all projects with an estimated cost of £200,000 or more in view of the large numbers of repairs below this sum. From the outset, it was considered that whatever option was taken in respect of the Drummie chimney, the costs would be below that sum and this has been found to be the case. However, possible complications were identified at the outset in that the Drummie building was a Category B Listed Building and therefore Historic Scotland would have to give final approval to any solution put forward by the

Council. Furthermore, it was also established at an early stage that the taking down and setting aside of the chimney would require a Building Warrant, setting out the precise nature of the proposed future works (see 3.1.3 above).

- 3.2.2 At the initial officer meeting of 15/01/14, various interests were represented from the Development & Infrastructure Service including Maintenance, Planning, Building Control and Conservation with the latter offering advice as to what the Historic Scotland perspective was likely to be. The Structural Engineer also attended the meeting. It is evident from the notes of this meeting that there was no consensus with various views expressed as to the best course of action to take. In fact, all three options of no rebuild, partial rebuild and full rebuild were put forward by different officers. The one clear outcome was that whatever option was decided upon, justification would need to be provided to Historic Scotland in the context of the other options and that a structural report, method statement, drawings etc. would be needed to support the submission.
- 3.2.3 Although the above meeting in January 2014 provided no clear outcome, there was no resolution for the various parties to meet again to discuss progress. No agreement was obtained to ensure that this was to the satisfaction of all concerned. Instead, communication was largely by way of e-mail with resultant delays ensuing. It was then recognised in September 2014 that the progress was unsatisfactory and it was therefore decided to create a formal project for the works. A Project Manager was duly appointed on 05/11/14.
- 3.2.4 It was not until 11/02/15, over a year after the previous meeting, that officers met once more (this time including the Project Manager) to resolve how the works should be progressed. Again, the records of this meeting showed that "in order to secure Historic Scotland support it was necessary to demonstrate that the council had fully assessed all options and demonstrated why this (nb the partial rebuild) was their preferred option." This was therefore the same outcome as the meeting one year earlier.

Comment

In addition to the scaffolding costs incurred whilst the many deliberations continued, a further consideration is the costs of the staff time from the various Sections within Development & Infrastructure. It is considered that a managed approach to this project at the outset may have helped to reduce both of these cost elements considerably. However, the appointment of a Project Manager, in November 2014, did help matters to move forward in a more structured manner.

3.3 Consideration of options and Historic Scotland requirements

- 3.3.1 The Structural Engineers' report, received by the Council on 19/12/13, was forwarded by Maintenance to Conservation. The report itself didn't provide indicative costs of the three options nor did it provide an overall recommendation. However, when Maintenance forwarded this they put forward a clear and concise case as to what the proposed solution should be. Extracts of this are shown as follows:
- A reduction of the chimney at Nairn Courthouse had been achieved previously with a pleasing visual outcome.
 - A full rebuild was problematic, particularly in respect of unknown costs. In terms of the solution put forward by the Structural Engineers, bracing the chimney off the roof wasn't straightforward as the floor was bouncy indicating that this provided neither strut nor tie to support the two walls of the building at the wall head. To properly brace the chimney it would

be necessary to open up the building to see what the structure is and then bring this up to the necessary stiffness. Although none of the full rebuild solutions were impossible "it just seems like a big expenditure of time and disturbance to retain the chimney stack as it is, when we could achieve a visually attractive solution of rebuilding it to about a third of its original height."

- 3.3.2 The view of Conservation on receiving the above report and correspondence from Maintenance was that the chimney should be rebuilt to its original height. However, as referred to at 3.2.2 above, it was stated at the meeting that took place on 15/01/14 that it would be the responsibility of Maintenance to provide an appropriate case to Historic Scotland as to the solution identified.
- 3.3.3 A key reason for delays in taking the works forward was because appropriate action wasn't taken to take forward correspondence received from Historic Scotland as follows:
- 16/01/14: Historic Scotland's initial view was that the Structural Engineer's report didn't cover their main interest in terms of the impact on the appearance of the building. They considered that reduction of the chimney would have an adverse impact on the building's character. However, in respect of the full rebuild option, they put forward a further solution to that suggested by the Structural Engineer as they considered that this would avoid "expensive steelwork at eaves level." Their proposed solution was for an engineering brick pier up the inside face of the wall in the manner of a chimney breast to support a full-height chimney.
 - 18/02/14: Historic Scotland referred to their correspondence the previous month and, with regard to their structural pier option they stated that they "would wish to see if there are practical/ affordable ways of supporting the chimney in a way that would allow for its retention and overhaul."

The above helps to demonstrate that, from the outset, Historic Scotland offered helpful and constructive advice. Although their preferred option was a rebuild to the full height, they were not insistent on this and were prepared to take account of the respective costs of the options concerned. To some extent this conflicted with advice received from Conservation and Planning. For example, the report to the North Planning Applications Committee of 28/04/15 stated that "the costs involved in the works are not a material consideration in the assessment of the proposal."

- 3.3.4 It is evident that Maintenance pursued Historic Scotland's proposal of 16/01/14 regarding a structural pier option immediately with the Structural Engineers. The Structural Engineers confirmed that they had considered this specific option but had dismissed this as they believed that "this does not solve the structural issues and would not provide the required lateral support to the chimney at height." On that basis, the option concerned did not feature within their report of 19/12/13. Despite the above reminder from Historic Scotland of 18/02/14, their question regarding a practical/ affordable solution remained unanswered in terms of the structural pier option which they considered would allow a practical/affordable full rebuild.
- 3.3.5 On 11/09/14 an application for Planning Permission was submitted, by Maintenance, for a rebuild to a lower height. The basis for this was that: "this remained the best option, particularly as rebuilding to the original height was not only the most expensive solution but it also had the greatest possibility for unforeseen problems to be discovered when the building and the roof is opened

up. This option least interfered with the status quo in that the chimney is retained and the historical perspective on the use of buildings in earlier times is not lost." It seems that the timing of the application was largely because the matter had not progressed and, therefore, the urgency of the task was recognised. However, the application was not supported by Conservation who expressed concern that this did not provide detailed support of the proposal, as previously advised.

- 3.3.6 There were delays in considering the application as this was initially deemed invalid as the site and land ownership had not been correctly identified and submitted. This was finally registered as valid on 31/10/14.
- 3.3.7 Historic Scotland responded to the application, through the consultation process, on 21/11/14 and stated that their preference was for the chimney to be retained at its original height. They referred to their letter of 18/02/14 regarding the structural pier/ chimney breast option and stated that "while we note that your Council's preferred option is to reduce the height of the chimney, it is not clear from the latest submitted information what your Council's position is with regard to our above suggestion. We would therefore be grateful if your Council could please clarify its response to our suggestion. If the introduction of a structural pier, as suggested, is not a viable option it would be helpful for this to be explained in a supporting statement." Historic Scotland also commented that they would like to see respective costs submitted.
- 3.3.8 Following on from Historic Scotland's response, Planning advised Maintenance, on 18/12/14, that they had not followed the pre-application advice and that they "may wish to consider withdrawing the application and resubmitting on the basis of a rebuild to the existing height along with a detailed supporting statement." Concerns were also expressed that the application appeared to be based on costs and not from an architectural and historic fabric perspective. To some extent this therefore went beyond the previous correspondence from Historic Scotland.
- 3.3.9 In January 2015, concerns were expressed as to the lack of progress and the resultant ongoing scaffolding (see 3.1.5 above). Although removal and setting aside of the chimney was once more suggested, it was evident that this would not be sanctioned by Planning, Conservation and Historic Scotland and was not pursued further.
- 3.3.10 There was some meaningful progress in January 2015 with regard to progressing Historic Scotland's chimney breast/ structural pier option, with a design and associated costs being commenced. This was followed by a meeting (see 3.2.4 above), in February 2015, which was attended by all relevant parties, including the recently appointed Project Manager. The notes of this meeting show wide scale approval regarding the way forward in that "it was necessary to demonstrate that the Council had fully assessed all options and demonstrated why this (nb the partial rebuild) was their preferred option."
- 3.3.11 Detailed proposals and costs were submitted to Planning on 27/02/15 showing:
1. Remove the chimney: £85,000.
 2. Remove the chimney and rebuild to lower height: £55,000.
 3. Remove the chimney and rebuild to original height using steel supporting struts: £120,000.
(nb the above options are as per the Structural Engineers' report of 19/12/13)
 4. Remove the chimney and rebuild to original height but increasing depth: £125,000.

These costs were forwarded to Historic Scotland.

3.3.12 Historic Scotland responded to the proposals on 13/03/15, stating that option 4 seemed to address their previous suggestion (nb of 16/01/14) and asked that confirmation be provided that this was clearly not feasible on economic grounds. They requested that, "if this can be established, please confirm that the best practical and economic option is as per the current application proposal, i.e. to rebuild the chimney to half its original height. Our view is that once it's confirmed that rebuild to original height is clearly not a feasible option, we can accept the current proposal."

Confirmation was duly provided to Historic Scotland on 19/03/15 which stated that: "Our preferred option (Option 2) would retain the existing chimney stonework thickness and bond pattern (albeit to a lesser height than the original), and would retain the existing cope. The disruption to the building and staff would be considerably less, and the resultant anticipated cost is less than half of that for Option 4."

On 25/03/15, Historic Scotland confirmed that: "they were satisfied that there is now a clear justification demonstrated for the proposal – to rebuild the stack to half its original height."

Comment:

It is unfortunate that the report from the Structural Engineers didn't provide for all options, even those which they dismissed. It is also unfortunate that this didn't show the respective costs of the works.

Although the partial rebuild was identified by Maintenance at the outset as being the most appropriate option, it took in excess of a year to provide the required information in support of this to Historic Scotland. Again, there was an absence of a joined-up and structured approach which contributed to this delay.

Historic Scotland's position was clear in that although they preferred to see the chimney rebuilt to its full height, they would happily allow the Council to put forward an alternative proposal on economic and practical grounds. There is no evidence to suggest that Historic Scotland contributed to any delays.

3.4. North Planning Applications Committee

3.4.1 On 02/04/15 it was established that an objection had been received from Golspie Community Council which would therefore require the application to be submitted to the next meeting of the North Planning Applications Committee on 28/04/15. Unfortunately, the report omitted to take account of recent correspondence from Historic Scotland. Instead the report proposed the option to rebuild the chimney to its original height and this was agreed by the Committee. As referred to at Section 3.3.3 above, an extract from the report showed that "the costs involved in the works are not a material consideration in the assessment of the proposal" which conflicts with the Historic Scotland view regarding affordability.

3.4.2 In view of the above error, an amended report was submitted to the next meeting of the North Planning Applications Committee on 09/06/15, recommending a partial rebuild. This was accepted by the Committee and a Decision Notice was duly issued by Historic Scotland on 06/07/15.

Comment:

The submission of an incorrect report to the North Planning Applications Committee appears to have been a genuine oversight, though this should perhaps

have been picked up in advance of the meeting. As a result of the error, a further 6 weeks was added to the approval process.

3.5 Tendering of the works

- 3.5.1 An advertisement for the demolition and partial reconstruction of the chimney was placed on 26/05/15, in advance of the North Planning Applications Committee on 09/06/15 which approved this proposal. However, this advert failed to receive sufficient interest and a further advert was placed on 16/06/15. This was therefore after the North Planning Applications Committee but was in advance of the Formal Decision Notice, received on 06/07/15, from Historic Scotland.
- 3.5.2 Tenders were returned on 02/10/15 and an award letter was sent to the successful tenderer on 22/10/15 in the sum of £36,140.87. This was followed by a pre-start meeting on 16/11/15. It was originally intended that the chimney would be dismantled before Christmas, and stored on site until March, when the weather would be more suitable for lime pointing. However, it has since been decided that it would be more appropriate to leave the scaffold in situ and it was agreed that the scaffold would come "off hire" as far as costs are concerned. Once the works commence in March or soon after the Council will incur further hire charges and also dismantling charges. However, some of this has been allowed for within the above contract price.

Comment

The decision to advertise the works in advance of consideration by the North Planning Applications Committee and Historic Scotland is questioned. However, in view of their subsequent approval, no resultant difficulties were encountered.

The contract sum is significantly less than the estimated sum of £55,000 but is actually lower than the scaffolding costs which have been incurred during the decision making and tender process.

4. CONCLUSION

It is evident that the various parties involved had differing views as to how to address the chimney renovation works. Unsurprisingly, each party considered the works in terms of their own specialism and this therefore created some tensions and delays which may have reduced if a project managed approach had been followed from the outset.

The Development & Infrastructure Service have responded to this report within the Action Plan at Section 5 and this should ensure that lessons are learned from this project and future works to listed buildings are taken forward in a more timely manner.

5. ACTION PLAN

The Action Plan contains **3** actions 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

PRIORITY	MANAGEMENT RESPONSE	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
			RESPONSIBLE OFFICER	TARGET DATE
High	It is accepted that the escalation of the issues should have happened earlier than it did. In future, escalation to Head of Service/Director will take place where there is a difference of opinion and where a quick solution is required. This will allow dialogue within the management team and will ensure that matters are resolved timeously.	Solutions to any disputes in relation to the management and control of dangerous buildings/part buildings will be discussed and resolved via the weekly Service Business Meeting.	Director of Development & Infrastructure	Complete
Medium	The original report to the North Planning Applications Committee which omitted information was unfortunate and was a genuine mistake. However, there are lessons to learn about report checking and approval which will be taken forward.	Area Planning Managers shall ensure that Committee reports are checked for accuracy prior to final publication.	Area Planning Managers	March 2016
High	Given the number of buildings the Council is responsible for, there is a wider need within the Service for clarity and understanding on conservation/dangerous buildings legislation and regulation. This will therefore be identified as a training requirement for 2016/17.	A conservation/ dangerous buildings training course will be developed and rolled out to all staff responsible for maintaining properties and enforcing dangerous building legislation.	Head of Property Services/ Head of Planning and Environment	December 2016

**INTERNAL AUDIT
FINAL REPORT**

FINANCE SERVICE

PURCHASE CARDS

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DISTRIBUTION

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1. INTRODUCTION

Purchase cards are provided by the Royal Bank of Scotland for use by the Council as part of the Visa Government Procurement Card scheme. They are used as a supplementary e-procurement tool alongside the central electronic purchase to pay system, Integra. The main objective of the purchase card is to provide a more efficient method of purchasing as generally they reduce the time, effort and associated paperwork required to process large numbers of low value purchase orders, invoices and payments.

At the time of the audit there were 273 purchase cards in use by Council employees across all Services with a further 28 cards in use by the Assessor, High Life Highland and Hi-Trans. During the 6 month period from 01/04/15 to 30/09/15 there had been 11,238 purchase card transactions with a total spend of £1,362,594.

2. REVIEW OBJECTIVES

The objectives of the review were to ensure that:

- (i) There are clear and concise policies and procedures in place to govern the operation of the purchase card scheme.
- (ii) Purchase cards are issued to authorised staff only.
- (iii) Purchases are made in accordance with the policies and processes set out in the Purchase Card User Reference Guide.
- (iv) Purchase card transaction amounts are recharged to the appropriate General Ledger (GL) code in a timely manner.
- (v) The most economic and efficient method of purchasing is used for all purchase transactions.

3. SCOPE, METHOD & COVERAGE

The audit reviewed the key controls around the operation of the Council's purchase card scheme, including compliance with relevant guidelines. A sample of 30 purchase card holders from across all Services was selected and transactions from June 2015 examined to ensure that the above objectives could be achieved.

The audit also assessed the arrangements in place to maximise the use of purchase cards as an alternative method of purchasing in order to achieve the desired efficiencies.

This audit was undertaken as part of the 2015/16 audit plan.

4. MAIN FINDINGS

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

4.1 Policies and procedures

This objective was partially achieved as there are policies and procedures in place to govern the operation of the purchase card scheme. The Highland Council Visa Government Purchase Card User Reference Guide (Version 3.6, June 2013) is available to download within the 'Finance Systems and Purchase Card' section on the Intranet.

- 4.1.1 The User Guide contains guidance on all of the main operational areas of the purchase card scheme but it is not up to date. It refers to PECOS, Cardplus and Oracle but these systems were replaced by Integra in April 2015. A separate guidance document entitled 'Integra Purchase Card Interface' is available and this

explains the process which card holders and card officers should follow when checking and authorising transactions on Integra.

4.2 Cards issued to authorised staff

This objective was partially achieved. There are 3 levels of responsibility which can be held by an individual within the purchase card scheme: card holder, card officer and card controller. Card officers are responsible for checking that card holders comply with the relevant operating procedures and authorising card transactions on Integra. Card controllers oversee the operation of the purchase card scheme within their business area and are responsible for tasks such as appointing new card holders and card officers, agreeing changes to card holder's financial limits and carrying out random audits of the usage of purchase cards. Card officers are permitted to deputise for card controllers when necessary. All new card holders, officers and controllers must sign a declaration confirming that they have read the User Guide and understand and accept the responsibilities and obligations set out in it as part of the card application process. A sample of 9 card holders, 5 card officers and 1 card controller was examined and in all cases the relevant declaration form had been completed and appropriately authorised.

- 4.2.1 The User Guide states that card controllers must ensure that "card officers are of a suitable grade and responsibility to carry out the tasks required". However, no guidance is given as to what a suitable grade or level of responsibility is. For 26 out of the 30 purchase cards sampled, the card officer held a more senior position than the card holder and would therefore be in a position to authorise card transactions and indeed question a purchase if it fell out-with the guidelines. The remaining 4 card officers held either a position at the same level as the card holder or a less senior position, making the supervisory element of the card officer role more challenging for these individuals.

The User Guide also states that "the card controller should neither be a card holder nor card officer". In 3 out of the 30 cards sampled, the card officer and card controller were the same individual. These are required to be separate individuals so that if one is unavailable the other can deputise in their absence. However, it is acceptable for the card controller and card officer to be the same person in certain situations i.e. where there is no other option. The User Guide does not accurately reflect this.

It also states that "the card must only be used by the card holder and is not transferrable". However, 2 instances were identified whereby a purchase card was being used by someone other than the named card holder. One card holder had changed roles within the Council but their card continued to be used by the business function. Another card holder had been absent for 6 months on long-term leave but their card had continued to be used in their absence.

4.3 Purchases made in accordance with policies and procedures

This objective was partially achieved. The User Guide details the procedure which card holders should follow when making a purchase. This includes guidelines relating to: the identification of the most appropriate supplier; the recording of purchases on a transaction log and the retention of an appropriate VAT receipt/invoice. It also details the authorisation process which should be followed by card holders and card officers at the end of the month and the purchase card audit process which is the responsibility of card officers. From the sample of purchase card transactions examined, it was found that these procedures were being adhered to in some but not all cases.

- 4.3.1 The User Guide states that a transaction log must be completed and maintained for each purchase made using the purchase card. A copy of the relevant receipt/invoice should also be retained. Completion of the transaction log enables

the card holder to keep track of the monthly expenditure and to easily check purchases against the transactions which appear in the monthly statement on Integra. However, a number of transactions did not comply with this guidance:

- 6 out of the 30 card holders sampled did not maintain a transaction log.
- Where a transaction log was kept, 3 out of 239 transactions examined had not been recorded on the log. Furthermore, supporting documentation had not been retained for 10 transactions. This is also contrary to the retention schedule within the Council's Financial Regulations which requires that all purchase and payment documentation is retained for 6 years.
- For 9 purchases relating to subsistence costs, a copy of the card transaction receipt had been retained but an itemised receipt was not been requested at the time of payment. The User Guide states that expenses in respect of food consumed cannot include alcohol or other non-meal items and this cannot be verified without an itemised receipt.

As part of the month end authorisation process, the card officer should check the transaction log and supporting documentation against the transactions listed on Integra prior to authorisation. The transaction log should then be signed and dated by the card officer to evidence that a check has been carried out. Where a transaction log was kept by the card holder, only 12 out of 24 had been signed by the card officer although 2 of these were dated after the transactions had been approved on Integra.

4.3.2 When purchasing goods or services, card holders must determine the most appropriate supplier taking into account current procurement rules, including the use of Highland Council Contracts and Framework Agreements. These have been negotiated on the basis of combined demand across several Services and are likely to offer better value for money than an individual low order could. Where the required goods/services are available on one of these contracts then the purchase should be made by raising a purchase order on Integra. The User Guide also states that purchase cards must not be used for the purchase of IT supplies, personal travel and subsistence expenses and, in respect of food consumed, alcohol or other non-meal items. The following issues were found relating to 41 sampled purchases, with a total value of £5,165, which contravened the Guide:

- 14 instances whereby an IT related purchase had been made out-with the Framework Agreement with Fujitsu.
- 8 instances whereby purchases relating to the subsistence costs were in excess of the day subsistence allowances set out in the Travel and Subsistence policy.
- 7 instances whereby travel or accommodation had not been booked through the Corporate Travel Desk.
- 3 instances whereby a purchase card had been used to purchase goods from a contracted supplier rather than through Integra.
- 9 instances whereby books (including educational text books) had been purchased from an online retailer rather than a contracted supplier.

The Purchase Card Administrators carry out random checks on transactions relating to certain suppliers to establish if goods purchased could have been procured as part of a contract agreement. Where this is identified it is raised with the card officer who should highlight this to the card holder to ensure that the practice does not continue. However, the Purchase Card Administrators are unable to carry out these spot checks as often as they feel necessary as resources are limited.

4.3.3 Guidance states that purchase cards must only be used to purchase goods and services for business use. 1 of the sampled purchases was made by the card holder for personal use. The card holder had entered the purchase card details

onto a personal online account in order to purchase items for business use. However, when purchasing an item for their personal use, the purchase card was selected in error. A transaction log was maintained by the card holder but had not been passed to the card officer as part of the month end authorisation process. The card officer therefore did not pick up that the transaction had not been entered on the log and therefore did not question its validity. Although the purchase was low value and has now been repaid by the card holder this situation demonstrates a weakness in the system of controls designed to prevent purchases for non-business use.

- 4.3.4 VAT must be recorded correctly against each purchase card transaction on Integra. Failure to do so can result in a cost to the Council in the form of HMRC penalties and/or interest charges. If VAT is applicable on a purchase, a VAT receipt/invoice must be obtained for the transaction, retained along with the transaction log and the corresponding VAT type entered on Integra. The VAT type should also be checked by the card officer as part of the month end authorisation process. VAT had either been entered incorrectly, did not match supporting documentation or had been left blank for 109 out of the 320 transactions examined. Further details are provided below.

The VAT type had been left blank for 74 transactions. When Integra was first introduced in April 2015, the VAT type defaulted to blank for all transactions. This required the card holders to update the VAT type as part of the month end authorisation process. For these transactions the VAT type had not been amended by the card holder and this was not identified by the card officer as part of the authorisation process. Since July 2015, the VAT type defaults to "ZERO" on each purchase card transaction and therefore the VAT type will no longer be blank. However, this will still require card holders to amend this where a different VAT type is required.

The VAT type entered on Integra did not match the supporting invoice/receipt for 35 of the transactions examined. The most common issues found were:

- VAT type entered as Standard Rate but no VAT invoice/receipt obtained
- VAT type entered as Zero Rate but a Standard Rate VAT invoice/receipt had been obtained.

For 38 transactions, the VAT type had been correctly entered as Zero as a VAT receipt/invoice had not been obtained for the purchase. In most instances the purchases were either from a supermarket or an online retailer. In some of these cases VAT would have been applicable on the purchase and could have been reclaimed by the Council if a VAT invoice/receipt had been requested from the supplier.

- 4.3.5 The card controller or a delegated member of his/her staff must carry out selective monthly audits of card holder transaction logs and statements in order to minimise the risk of card misuse. The User Guide states that at least one audit on each card should be carried out during a 6 month period by means of a face-to-face meeting with the card holder. This requirement was complied with by 2 out of the 3 card controllers sampled. The remaining card controller is responsible for 152 purchase cards within the Care and Learning Service and, due to the number and geographical spread of the card holders, cannot comply with this requirement. The results of each audit should also be recorded on a Purchase Card Audit Record but this was only completed by 2 out of the 3 card controllers sampled.

4.4 Purchases charged to an appropriate GL code

This objective was partially achieved as 82% of the transactions sampled had been charged to an appropriate GL code thus accurately recording the expenditure within the General Ledger for budget monitoring purposes.

- 4.4.1 The Bank sends a Direct Debit request to the Council each month for the total amount of the transactions for all purchase card holders. This is paid in full by the Council and the transactions are charged to a holding code on Integra. Each transaction must then be recharged from the holding code to the most appropriate GL code. Integra generates a default GL code for each transaction; the subjective is based on the supplier's category and the cost centre is the default one listed against the card. The coding should be checked by the card holder when authorising the transactions to ensure that costs are recharged to the appropriate ledger codes. This should also be checked by the card officer when approving transactions and returned to the card holder for correction if necessary.

Out of the 320 verified transactions examined, 59 had been allocated to an inappropriate code; either to the default code or the card holder had wrongly amended the code on the transaction. In all cases this resulted in the costs being recharged to an inappropriate code and this has been approved by the card officer. Financial Regulations state that information on the General Ledger should be up-to-date, accurate and consistent to allow for effective budget monitoring. The miscoding of purchase card expenditure within the General Ledger does not comply with this requirement and could negatively impact on the budget monitoring process.

1 school had purchased gift cards to the value of £250 from Amazon for use as prizes for an annual prize giving ceremony but this cost had not been recharged to the School Fund. Although there is no guidance available to schools on this matter within the Purchase Card User Reference Guide or the DSM Manual, the expectation is that prizes would normally be funded from the School Fund.

- 4.4.2 Prior to the introduction of Integra, purchase card transactions were loaded on to the CardPlus system around the 28th of the month. Purchase card officers were required to approve and allocate ledger codes to all transactions by the 20th of the following month and reminders would be sent to them to facilitate this. The Purchase Card Administrator would then process a journal on Oracle to clear the purchase card holding code and recharge the card holder's codes. A check would be carried out each month by the Purchase Card Administrator to ensure that the holding code had been cleared and this was recorded on a spreadsheet log. Since the introduction of Integra, transactions are still loaded on to the system on the same date and allocated to a holding code. However, as Integra is a fully-integrated system, a journal is no longer required. The system runs a nightly update that identifies those transactions which have been approved by card officers that day and then automatically recharges the card holders.

However, due to an Integra system issue relating to the approval of some transactions linked with a particular online retailer, not all transactions can be authorised by card officers and therefore the requirement to have transactions authorised within a set timescale is not being enforced. This has resulted in a number of transactions, not just related to this particular retailer, remaining within the holding code. As soon as this issue is resolved the process of ensuring that transactions are authorised by a set date and periodically checking the holding code to ensure that it is clear will be reinstated. In the interim, the Purchase Card Administrator is targeting card officers with outstanding transactions in an effort to clear the holding code as far as possible. A further issue with the way in which the purchase card parameters were set up on Integra has also contributed to the difficulties in monitoring the holding code whereby a new holding code was set up for purchase cards. Therefore the parameters need to be corrected and a journal processed to transfer the charges which have been posted to the wrong ledger codes.

4.5 Most economic and efficient purchasing method used

This objective was partially achieved. Some general guidance is provided within the Procurement section on the Intranet, and also within the User Guide, regarding when purchase cards are considered the most efficient purchasing method.

Purchase cards are widely used within Services, with most officers who would benefit from their efficiency, already using them. In order to maximise usage, annual checks are carried out to identify low or no usage on cards. Contact is then made with the card holder to identify the reasons for this and advice is given on how the card could be better utilised or the card is withdrawn if no longer required.

Although purchase cards may be the more cost effective method of purchasing in certain situations, this cannot be the only consideration when determining which purchasing method should be used. Certain management information is lost when purchase cards are used rather than by raising an order on Integra. Also, the Council operates a system of commitment accounting and the use of purchase cards impacts on this. However, there is a trial taking place at the moment whereby a virtual or dummy card is allocated to a supplier. Purchase orders are raised, therefore enabling commitments to be recorded against the relevant budget with all payments made from the virtual card allocated to the account. This system combines the efficiencies from the use of a purchase card with the management information obtained as a result of raising an order in Integra. If this trial is successful, this system will be introduced for other suppliers.

Also, as detailed at section 4.3.1, some instances were identified where a purchase cards were used when it would have been more economical to procure the goods from a contracted supplier.

5. CONCLUSION

There are guidelines in place for the operation of the Scheme but these are not being consistently applied by all card users. Also, failure by card officers to check that card holders are following the operating procedures and maintaining the correct documentation each month has resulted in purchases being made which are not in accordance with Procurement guidelines. It is particularly important that the guidance relating to the recording of VAT for purchase card transactions is adhered to as the failure to do so can result in a cost to the Council in the form of financial penalties imposed by the HMRC. The audit findings indicate that there is a lack of understanding of this area amongst a high number of card holders.

Purchase cards are an effective method of purchasing but they should only be used in particular circumstances and should not be used where goods and services are available through a contract agreement. Improved monitoring and guidance is required in this area.

As a result of the audit, 1 high grade, 5 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 **7** 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	5
Minor issues that are not critical but managers should address.	Low	1
Total recommendations		<u>7</u>

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.1.1	Medium	There are policies and procedures in place to govern the operation of the purchase card scheme but these are out of date as they have not been updated to reflect the move to the Integra system in April 2015.	The current Guide should be updated to reflect the changes that have arisen from the introduction of the Integra system.	Review user guide and make changes where required.	Purchase Card Administrator	28/02/16

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.2.1	Medium	<p>The User Guide states that:</p> <ul style="list-style-type: none"> - "Card controllers must ensure that card officers are of a suitable grade and responsibility to carry out the tasks required". However, no guidance is given as to what a suitable grade or level of responsibility is. 4 out of 30 card officers sampled held either a position at the same level as the card holder or a less senior position. - "The card controller should neither be a card holder nor card officer". However, it is acceptable for the card controller and card officer to be the same person in certain situations. - "Purchase cards should be used by the authorised card holder only." However 2 instances were identified whereby a purchase card was being used by someone other than the named card holder. 	<ul style="list-style-type: none"> (i) Card officers should be of a more senior grade than the card holder, ideally the card holder's line manager. When undertaking the revision of the User Guide referred to at 4.1.1 above, this requirement should be included. In addition, it should reflect that card controllers and card officers can be the same person in certain situations. (ii) A reminder should be issued to all card holders that purchase cards should only be used by the named card holder. 	<ul style="list-style-type: none"> (i) Review cases where Card Officer is not senior to Card Holder and ask Card Controller to suggest alternative Card Officer where required. Amend User Guide to state that Card Controller and Card Officer can be the same person in certain circumstances. (ii) Prepare a draft email to be distributed to all card users by the Director of Finance to remind them that cards should only be used by the named individual. 	Purchase Card Administrator	28/02/16

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.3.1 – 4.3.3	Medium	<p>A review of a sample of purchase card transactions identified that not all purchases were made in accordance with the policies and processes set out in the Purchase Card User Reference Guide and current Procurement policy. The issues identified were:</p> <ul style="list-style-type: none"> – Transaction logs not maintained by all card holders – Where transaction logs were maintained, not all transactions were recorded on them and they were not always signed by the card officer – Adequate supporting documentation not retained for all purchases – 1 purchase had been made by the card holder for personal use – IT related purchases made out-with the Framework Agreement with Fujitsu – Subsistence costs in excess of the day subsistence allowances set out in the Travel and Subsistence policy – Travel or accommodation not booked through the Corporate Travel Desk – Purchase card used to purchase goods from a contracted supplier rather than through Integra – Books (including educational text books) purchased from an online retailer rather than a contracted supplier. 	<ul style="list-style-type: none"> (i) Card holders should be reminded of the requirement to adhere to the policies and processes set out in the Purchase Card User Reference Guide and current Procurement policy when using a purchase card. (ii) Where purchases are made from online retailers, personal accounts should not be used under any circumstances. The card holder should set up a separate online account for business use only. (iii) A structured review process should be set up to ensure that spot checks are carried out on a regular basis in order to identify inappropriate and off-contract purchases. 	<ul style="list-style-type: none"> (i) Prepare a draft email to be distributed to all card users by the Director of Finance to remind them of the policies set out in the User Guide, Financial Regulations and Contract Standing Orders. (ii) Prepare a draft email to be distributed to all card users by the Director of Finance asking them to ensure that HC purchase cards are not linked to personal retail accounts. Amend the User Guide to state this. (iii) Produce a report identifying off-contract spending on Procurement cards, and present the findings to the Executive Leadership Team. 	<p>Purchase Card Administrator</p> <p>Purchase Card Administrator</p> <p>Head of Procurement and Purchase Card Administrator</p>	<p>28/02/16</p> <p>28/02/16</p> <p>31/03/16</p>

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.3.4	High	The VAT type had either been left blank or entered incorrectly on Integra, or did not match supporting documentation for 109 out of the 320 transactions examined.	<p>(i) The guidance available to purchase card users regarding VAT should be reviewed, in consultation with the Service Finance Manager (Corporate Budgeting, Treasury and Taxation) and updated as necessary.</p> <p>(ii) Purchase card users should be reminded of the requirement to obtain a VAT invoice/receipt wherever possible and to record the VAT type correctly on Integra for all transactions.</p>	<p>(i) Consult with the VAT Team and Finance Manager, and apply the agreed changes to the user guide.</p> <p>(ii) Prepare a draft email to be distributed to all card users by the Director of Finance reminding them of VAT requirements. Email wording to be agreed with the VAT Team and Finance Manager as per (i).</p>	Purchase Card Administrator	28/02/16

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.3.5	Medium	<p>The User Guide states that at least one audit on each card should be carried out by the card controller or a delegated member of his/her staff, during a 6 monthly period by means of a face-to-face meeting. 1 card controller is responsible for 152 purchase cards within the Care and Learning Service and, due to the geographical spread of the card holders, is unable to comply with this requirement.</p> <p>The results of each audit should be recorded on a Purchase Card Audit Record but this was only completed by 2 out of the 3 card controllers sampled.</p>	<p>(i) The guidance relating to purchase card audits should be updated to reflect that audits may be carried out electronically rather than face-to-face and that each card should be audited at least once within every 12 month period (previously 6 months).</p> <p>(ii) Card controllers should be reminded of the requirement to record all completed purchase card audits on a Purchase Card Audit Record.</p> <p>(iii) An assessment should be carried out to establish whether or not the current card controller provision within Care & Learning is adequate in order to fulfil the required card controller duties. The number of card controllers should be increased if necessary.</p>	<p>(i) Amend the User Guide.</p> <p>(ii) Email all Card Controllers to inform them of the changes and remind them of the requirements of their role.</p> <p>(iii) Contact the C&L Card Controller to establish whether any changes to the current roles will be required.</p>	Purchase Card Administrator	28/02/16

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.4.1	Low	<p>Out of the 320 verified transactions examined, 59 had been allocated to an inappropriate ledger code where either the default code was not amended or when this was amended the incorrect code was selected.</p> <p>1 school had purchased gift cards to the value of £250 from an online retailer for use as prizes for an annual prize giving ceremony but this cost had not been recharged to the School Fund.</p>	<p>(i) Purchase card holders and officers should be reminded of the requirement to allocate an appropriate GL code to each transaction on Integra as part of the month end authorisation process.</p> <p>(ii) All purchases by schools of items for use as prizes should be funded by means of the School Fund. Appropriate guidance should be added to The Highland Council Visa Government Purchase Card User Reference Guide and the DSM Manual.</p>	<p>(i) Email all Card Holders to remind them to select a relevant GL code on all transactions.</p> <p>(ii) Email all Card Holders to remind them to select the School Fund where relevant.</p> <p>(iii) Amend User Reference Guide to state that the School Fund should be used for items used as prizes.</p>	Purchase Card Administrator	28/02/16
4.4.2	Medium	<p>Due to an Integra system issue relating to the approval of some transactions for a particular online retailer, the requirement to have transactions authorised within a set timescale is not being enforced. There is also an issue with the way the Purchase Card parameters have been set up on Integra which has contributed to the difficulties with monitoring and clearing the holding code.</p>	<p>(i) The issues relating to the approval of these purchases and the setting of purchase card parameters on Integra should be resolved with the system provider as a matter of urgency.</p> <p>(ii) The outstanding transactions should then be cleared, a journal raised to transfer the costs across the correct ledger code(s) and a process set up to monitor the holding code.</p>	<p>(i) Ensure that a workaround is put in place for the Integra bug which prevents users from authorising Level 2 transactions.</p> <p>(ii) Arrange for a journal to be processed to amend the incorrect ledger postings caused by the Level 2 bug.</p> <p>(iii) Create a process to monitor the purchase card holding code each month.</p>	Purchase Card Administrator	31/03/16