

Agenda Item	5
Report No	AS/11/18

## HIGHLAND COUNCIL

**Committee:** Audit & Scrutiny Committee

**Date:** 20<sup>th</sup> September 2018

**Report Title:** **Internal Audit Reviews and Progress Report – 07/06/18 – 07/09/18**

**Report By:** Corporate Audit Manager

### **1. Purpose/Executive Summary**

- 1.1 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.

### **2. Recommendations**

- 2.1 The Committee is asked to:
- i. consider the Final Reports referred to in Section 3.1 to the report;
  - ii. approve the addition of an audit to the 2018/19 Audit Plan as detailed at section 5.1;
  - iii. note the current work of the Internal Audit Section.

### 3. Audit Reports

3.1 There have been 7 final reports issued in this period as referred to below:

Service	Subject	Opinion
Care & Learning	Review of the administration and payments in respect of Fostering Adoption and Kinship Care	Substantial Assurance
Care & Learning	Review of School Funds	Reasonable Assurance
Corporate Resources	Use of purchase cards	Reasonable Assurance
Corporate Resources	Review of IT controls surrounding payments to creditors	Reasonable Assurance
Corporate Resources	Review of ICT projects	Reasonable Assurance
Development Infrastructure &	Affordable housing	Substantial Assurance
Development Infrastructure &	Compliance with the Carbon Reduction Commitment Energy Efficiency Scheme 2016-17	Limited Assurance

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.

### 4. Other Work

4.1 In addition to the reports referred to at section 3.1 above, the Section has been involved in a variety of other work which is summarised overleaf.

(i) Certification of grant claims

Work has continued for 2 grant claims; the Highlands and Islands Transport Partnership grant claims for Smart Peripheral and Remote Airports (SPARA) 2020 with periods 4 – 6 now being addressed, and the Northern Periphery and Artic Programme (NPA) Lighthouse project claim period 3 now received with period 4 expected shortly.

(ii) Corporate Fraud activity and investigations

The investigation into the misuse of staff resources, plant, materials and equipment has been completed and the system weaknesses report is now being drafted for management.

A number of referrals of suspected tenancy fraud have been received recently and are in the process of being investigated.

In addition to the above investigations have also been undertaken into concerns about the administration of a School Fund and suspected fraudulent payments from an imprest. For the latter an officer has been suspended and an irregularity report has been issued to management. An internal disciplinary investigation is also in progress.

(iii) Other work

The report from the LEAN review of the Internal Audit process is being prepared. The upgrade of the Section's audit management system is nearly complete and staff training is being planned for staff next month.

There has been ongoing advice to the LEADER Programme team on various issues for different project applications.

## 5. Progress against the 2018/19 audit plan and performance information

### 5.1 2018/19 Audit Plan

Progress against the plan for Quarter 1 and the position for Quarter 2 up to 07/09/18 is provided at **Appendix 1**.

An additional audit has been added to the plan at the request of management. This relates to the Local Full Fibre Network project where the Council has successfully bid for £4.2m from the UK Government. It is a condition of the grant funding that an internal audit review of the project is undertaken.

### 5.2 Internal Audit Team Restructure

The Corporate Audit & Performance Manager has restructured the Internal Audit Team to improve productivity, create opportunities for staff development and consider succession planning and potential single points of failure. Currently 9.2 FTE report directly to the Corporate Audit Manager and from a work force planning perspective, given the complexity of the work undertaken, was identified as too many. Two new posts of Senior Auditor were created from within the existing staff complement and each will manage a small team of Assistant Auditors. This will result in a structure where the Corporate Audit Manager has three direct reports, the third being the Senior Investigator. The overall result will be a more effective management structure, greater flexibility and resilience in the team along with improved management capacity to deliver the Annual Audit Plan and contribute to corporate initiatives. The review will return a very modest overall saving against the current staffing budget without loss of capacity.

The full establishment is not in place as an Auditor resigned with effect from 14/10/18 and only one Senior Auditor was appointed. The other senior post is therefore currently vacant and the approach to recruitment will be considered by the Corporate Resources Management Team shortly in the context of the Council's current budget position. This

means that the anticipated results outlined above are not likely to be fully realised this year and there will be an impact upon delivery of the audit plan. Further details together with any audits to be deleted from the plan will be provided to the Committee meeting in November.

5.3 Performance information for quarter 1 of 2018/19 is provided below.

Category	Performance Indicator	Target	2018/19 Actuals			
			Q1	Q2	Q3	Q4
Quality						
Client Feedback	(i) % satisfaction from individual audit engagements expressed through Client Audit Questionnaires (CAQ)	75	91	-	-	-
	(ii) % of Client Audit Questionnaires returned	70	100	-	-	-
Business Processes						
Timeliness of Final Report	(iii) % of draft reports responded to by client within 20 days of issue	85	100	-	-	-
	(iv) % of final reports issued within 10 days of receipt of management response	90	100	-	-	-

## 6. Implications

6.1 Resources - As outlined at section 5.2 there will be less staffing resource than originally planned and the effect on the audit plan has yet to be calculated. However, any changes will ensure that the annual audit opinion can still be provided.

Risk – the risks and any associated system or control weaknesses identified as a result of any corporate fraud investigations will be reviewed and recommendations made for improvement

Legal, Equality, Climate Change/Carbon Clever, Rurality and Gaelic – there are no further implications from this report. Any implications arising from audit reports are detailed within the individual reports.

Designation: Corporate Audit Manager

Date: 11<sup>th</sup> September 2018

Author: Donna Sutherland

Background Papers:

**Internal Audit – progress against 2018/19 audit plan**

Service	Audit Ref and Name	Priority	Planned Days	Status by Quarter			
				Qtr 1	Qtr 2 (as at 07/09)	Qtr 3	Qtr 4
Care & Learning	HAA01/001 - Provision of Early Learning and Childcare services	Medium	20	Being planned	In progress		
Care & Learning	HAA03/001.bf - Review of the administration and payments in respect of Fostering, Adoption and Kinship Care	Medium		DR issued	FR issued		
Care & Learning	HAA05/001.bf.bf - Commissioning of Throughcare and Aftercare services	High		FR issued			
Care & Learning	HAB01/011.bf - Review of School Funds	High		In progress	FR issued		
Care & Learning	HAB01/015 - Controls over network capacity and storage in Schools	High		Not started	Not started		
Care & Learning	HAB01/016 - Use of the Pupil Equity Fund in Schools	High		Not started	Being planned		
Care & Learning	HAD06/004 - Workforce Planning and Staffing Arrangements	Medium		Not started	Not started		
Care & Learning	HAE01/001 - Review of Additional Support for Learning	High		Not started	Not started		
Chief Executive's Office	HBC03/002 - Licensing	Medium		Not started	Being planned		
Community Services	HCA03/003 - Review of the arrangements for the procurement and payment of Homeless services - follow up	Low		TOR issued	In progress		
Community Services	HCC02/001 - Car Parks	Medium		Not started	Not started		
Community Services	HCC03/005 - Fleet Management arrangements	High		Not started	TOR issued		
Community Services	HCC04/002 - Review of Street Lighting and Communications	Medium		Not started	Being planned		
Community Services	HCC07/001.bf - Winter Maintenance	High		In progress	Being drafted		
Community Services	HCD01/003 - Review of Mobile and Flexible Working arrangements	Medium		Not started	Not started		

Service	Audit Ref and Name	Priority	Planned Days	Status by Quarter			
				Qtr 1	Qtr 2 (as at 07/09)	Qtr 3	Qtr 4
Corporate Resources	HBA01/007.bf.bf - Review of ICT projects	Core/ Critical/ Commitment		DR issued	FR issued		
Corporate Resources	HDA05/001.bf - Review of VAT arrangements	High		In progress	Being drafted		
Corporate Resources	HDA06/002.bf - Review of self-serve payroll processes	High		In progress	In progress		
Corporate Resources	HDA09/002.bf - Review of IT controls surrounding payments to creditors	Core/ Critical/ Commitment		DR issued	FR issued		
Corporate Resources	HDA11/001 - Insurance	Medium		Not started	Being planned		
Corporate Resources	HDA14/002 - Review of financial controls	Medium		Not started	Being planned		
Corporate Resources	HDA16/001 - Commercial and Procurement Services	Core/ Critical/ Commitment		Not started	Not started		
Corporate Resources	HDB03/004 - Housing Benefit Payments 2017-18	Core/ Critical/ Commitment		In progress	Completed		
Corporate Resources	HDB03/005 - DWP Housing Benefit Review - Performance Measurement exercise	Core/ Critical/ Commitment		Completed			
Corporate Resources	HDB05/004.bf - Income Systems	High		Not started	Being planned		
Corporate Resources	HDB10/001 - Financial Assessments	Medium		Not started	Being planned		
Corporate Resources	HDB11/001 - Review of compliance with corporate complaints procedure	High		Not started	Not started		
Corporate Resources	HDC03/005 - HC Governance Assurance Statement 2017-18	Core/ Critical/ Commitment		Completed			
Corporate Resources	HDC06/026 - Review of fraud prevention and detection arrangements	High		Not started	Not started		
Corporate Resources	HDD01/004.bf - Use of Purchase Cards	Core/ Critical/ Commitment		In Progress	FR issued		
Corporate Resources	HDD04/001 - Review of Information Management arrangements			Not started	Not started		

Service	Audit Ref and Name	Priority	Planned Days	Status by Quarter			
				Qtr 1	Qtr 2 (as at 07/09)	Qtr 3	Qtr 4
Corporate Resources	HDD04/002 - Cyber Security	High		Not started	Not started		
Corporate Resources	HDD04/003 - ICT Contract Management Arrangements	High		Not started	Not started		
Development & Infrastructure	HEA05/005 - LEADER Programme 2017-18	Core/ Critical/ Commitment		Not started	In progress		
Development & Infrastructure	HEA05/006 - Review of EU funded schemes	High		Not started	Not started		
Development & Infrastructure	HEB03/001 - Review of capital projects	Low		Not started	Not started		
Development & Infrastructure	HEC02/001 - Compliance with the Carbon Reduction Commitment Energy Efficiency Scheme 2017-18	Core/ Critical/ Commitment		Not started	TOR issued		
Development & Infrastructure	HEC06/001 - Cleaning	Medium		Not started	Not started		
Development & Infrastructure	HED02/005.bf - Compliance with the Carbon Reduction Commitment Energy Efficiency Scheme 2016-17	Core/ Critical/ Commitment		In progress	FR issued		
Development & Infrastructure	HED05/001 - Housing Grants	Medium		Not started	Not started		
Development & Infrastructure	HED06/001 - Inverness Townscape Heritage Project	Medium		Not started	In progress		
Development & Infrastructure	HEE02/001.bf - Affordable housing	Medium		In progress	FR issued		
Development & Infrastructure	HEE03/002.bf - Rental Income - follow up	Medium		In progress	Being drafted		
Development & Infrastructure	HEE03/003 - City and Region Deal	High		Not started	Being planned		
Development & Infrastructure	HEE04/001.bf - Developer's Contributions	Medium		FR issued			

Key:

TOR – Terms of Reference

DR – Draft audit report

FR – Final audit report

## **Internal Audit Final Report**

### Care & Learning Service

### Review of the administration and payments in respect of Fostering, Adoption and Kinship Care

**Distribution:**

Director of Care & Learning  
Head of Children's Services, Care & Learning Service  
Resource Manager, Fostering & Adoption, Care & Learning Service  
Children's Service Manager (South), Care & Learning Service  
Children's Service Manager (North), Care & Learning Service  
Children's Service Manager (West), Care & Learning Service  
Children's Service Manager (Mid), Care & Learning Service  
Team Leader (Projects & Technology), Care & Learning Service  
Business Support Officer, Care & Learning Service (x2)  
Transaction & Income Manager, NHS Highland  
Admin Assistant, NHS Highland (x2)  
External Audit

**Report Ref:** HAA03/001  
**Draft Date:** 29/05/18  
**Final Date:** 17/07/18



## 1. Introduction

1.1 Fostering payments runs are processed on a fortnightly basis and include the undernoted fees and allowances:

- Allowances for Adoption, Fostering, Kinship and Residence;
- Fees for Foster care and Positive partner;
- Miscellaneous payments (e.g. mileage, childminding, clothing, equipment etc.);
- Holiday/Additional payments (for summer holidays, birthdays and Christmas).

The payment runs are currently processed by the Fostering Business Support Team within NHS Highland, however this is due to transfer to Highland Council's Care & Learning Business Support Service by the end of July 2018.

Payments made to carers are determined by a Service Agreement recorded in the CareFirst system. Service Agreements must be authorised by the relevant Social Work Manager before being actioned by the Fostering Business Support Team. In addition, any miscellaneous payments or enhanced allowances must be authorised by the relevant Social Work Manager.

The audit focussed on payments made through the fortnightly fostering runs. The audit did not look at the recruitment of carers, payments made to independent fostering providers or payments for out of area placements.

1.2 Three payment runs were examined in detail to verify the accuracy of payments made, and to ensure that relevant documents and authorisation were held where relevant. One of the payment runs included the summer holiday payment, to enable verification of the process for

additional payments. The other 2 payment runs were standard payment runs. On average 252 carers were paid in the 3 runs reviewed, the average amount paid in the 2 standard runs was £111,800 but this rose to £142,600 for the summer holiday payment run.

## 2. Main Findings

2.1 *Effectiveness and efficiency of processes*

This objective was substantially achieved. Research carried out during the audit highlighted that some other Councils pay adoption and residence payments either monthly or quarterly as these placements tend to be more stable, and there is therefore less risk of an overpayment arising from a placement ending unexpectedly. The Resource Manager, Fostering & Adoption, felt that monthly payments would be most appropriate, as some carers are on benefits and may have difficulties in budgeting if payments were less frequent than monthly. From the payment runs reviewed as part of the audit there are slightly fewer than 50 carers receiving adoption allowance and over 60 receiving residence allowance). If the frequency of payments for these carers was reduced it would reduce the level of administration time required, and would also reduce the postage costs for issuing remittance advice slips.

Remittance advice slips are currently created as pdf or Word files and then printed before being posted out to c. 250 carers every fortnight. If these were issued electronically there would be a reduction in administrative time and in postage costs. The Resource Manager, Fostering & Adoption would ideally like a secure site where carers could log-in to access payment information as this could also enable other confidential documentation to be provided electronically to foster carers (e.g. child's

plan, details of overpayments etc). This would be in line with the current Lean review being undertaken within the Fostering & Adoption Service. ICT Services have stated that the Office 365 software to be rolled out as part of the Council's ICT refresh can provide this functionality, and could be used to send encrypted e-mails.

## 2.2 *Framework for the timely and accurate administration of payments*

This objective was substantially achieved, as payments were made on time with very low error levels. Before the summer and Christmas payment runs Business Support send reports to the Social Work Team Managers so they can check and advise of any carers who should not receive a payment due to placements ending or alternative arrangements being in place for the holiday period. However, testing of the summer holiday payment run identified that this check also identified placements that had ended where no notification was provided by the Social Work Team. In some cases this delay had resulted in overpayments. All overpayments had subsequently been identified by Business Support, with arrangements agreed with the carer for repayment.

Review of debtor invoices issued to recover overpayments highlighted 2 instances where the invoice remained outstanding. Business Support queried these with the relevant Social Work Teams and both were approved for write-off by the relevant Team Manager. However, invoice 1000257016 was written off by a credit memo raised by the Service Finance Team rather than being authorised by the Income & Recovery Manager, as required by Financial Regulations. The write off of invoice 1000220985 has not yet taken place, but the invoice has been placed on hold to ensure that the carer is not pursued for payment.

It was also noted that where overpayments are to be recovered by instalments, individual invoices are raised for each instalment rather than allowing the debtor to pay off the invoice by instalments.

## 2.3 *Efficiency of ICT Systems*

This objective was partially achieved. Since the Council's corporate finance system moved from Oracle to Integra, overpayments cannot be deducted from ongoing payments to carers automatically as Integra is unable to cope with a negative figure being included in the payment run interface. As a result, Business Support have to maintain an overpayments spreadsheet and manually input any overpayment recoveries into Integra.

During the payment process there are 3 different stages where payment runs are "authorised" in CareFirst by Business Support staff. The Resource Manager, Fostering & Adoption also felt the authorisation process for managers could be streamlined, as currently each placement has to be approved individually.

The Projects & Technology team stated that there is no current option to reduce the number of authorisation steps in the process within Carefirst. However the Carefirst system is due to upgrade to the Eclipse system in approximately 1 year, but it is not known at this stage how authorisations will work in Eclipse.

## 3. **Audit Opinion**

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

The audit found that an effective and accurate payment process is in place, however, there are some areas where the efficiency of the process could be improved and potentially costs involved in the process reduced.

An action plan is provided at section 4 detailing the recommendations for improvement together with the

management response. This contains a total of **6** recommendations comprising of the following:

<b>Description</b>	<b>Priority</b>	<b>No.</b>
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

#### 4. Action Plan

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
Medium	Administration time and postage costs could be reduced if adoption and residence payments were made monthly rather than fortnightly.	Reducing the frequency of payments should be considered. This will require consultation with affected carers, and with the Projects & Technology Team to ensure that systems are capable of accommodating different payment frequencies.	Adoption and residence payments will be paid monthly. The system feasibility of this will have to be verified, and affected carers given adequate notice of the potential change.	Resource Manager, Fostering & Adoption	31/03/19
Medium	The efficiency of the process could be improved if remittance advice information was provided electronically to carers.	The use of Office 365 to provide information to carers electronically should be explored.	A new website is currently being considered as part of the current Lean review within the Fostering & Adoption Service. This would ideally include a secure site where foster carers and adopters could log in to access relevant documents using Office 365. Access to a secure site on the website would be restricted to Foster Carers & Adopters & a separate solution would then be required for Kinship & Residence Carers. In order to include all those who receive payments alternative software would need to be considered for this function. There will also be a small number of carers who do not have online access.	Resource Manager, Fostering & Adoption; Business Support Officer 3, Care & Learning; Lean review team	Ongoing as part of the Lean review & ICT refresh
Medium	Delays in Social Workers notifying Business Support Fostering of changes to placements resulted in overpayments that were only identified during checks on	<ol style="list-style-type: none"> <li>1. Social Workers should be reminded of the importance of notifying Business Support of any changes to placements.</li> <li>2. The reports used to enable verification of entitlement to</li> </ol>	<ol style="list-style-type: none"> <li>1. Reminders are sent regularly to Social Workers to ensure accuracy of payments. Practice Leads for Care &amp; Protection are reminded to alert Business</li> </ol>	Resource Manager, Fostering & Adoption; Children's Services	Immediate & ongoing

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
	entitlement to the summer allowance.	summer and Christmas allowances should be issued quarterly to ensure any overpayments are identified promptly.	Support when a placement ends. 2. Quarterly reports are currently issued for kinship and residence placements. Quarterly reports for fostering will be added to the process for validation. Fortnightly reports are available if required by team managers	Managers  Business Support Officer 3	30/09/18
Medium	One invoice identified for write off has yet to be completed, while another invoice was not written off using the process outlined in Financial Regulations.	1. Invoice 1000220985 should be written off; 2. The write off of invoices must be authorised in line with the requirements of Financial Regulations.	1. The invoice has been written off. 2. A copy of the guidance notes for debtor invoices have been added to the process. Financial regulations guidance notes will be followed.	District Manager  Business Support Officer 3	Completed  30/09/18
Medium	A separate invoice is currently created in Integra for each instalment to recover overpayments.	The efficiency of the process would be improved if a single invoice for the total amount of the overpayment was entered in Integra. If a programme of instalments has been agreed with a carer, this can be recorded against the invoice by notifying the Income & Recovery Team.	This has been completed and a payment plan process agreed with the Sundry Debtors Team.	Transaction and Income Manager, NHS Highland	Completed
Medium	There are currently system issues with the recovery of overpayment (Integra), and authorisation of placements (Carefirst) which are reducing the efficiency of the process.	As part of the process of upgrading from Carefirst to Eclipse, any possible improvements to the efficiency of the process should be considered, particularly in respect of interfaces with Integra, and the authorisation process.	The likely timescale of the upgrade of Carefirst to Eclipse will be in 2019. The Projects & Technology Team are attending national meetings in relation to the implementation of Eclipse.	Team Leader, Projects & Technology	Ongoing



## Internal Audit Final Report

Care and Learning Service

Review of School Funds

**Distribution:**

Depute Chief Executive/Director of Corporate Resources  
Director of Care and Learning  
Head of Education, Care and Learning Service  
Head of Resources, Care and Learning Service  
Principal Accountant, Care and Learning Finance Team, Corporate Resources Service  
External Audit

**Report Ref:** HAB01/011

**Draft Date:** 04/07/18

**Final Date:** 06/09/18

## 1. Introduction

- 1.1 As part of the 2017/18 Internal Audit Plan a review of school funds was undertaken. There are currently 235 school funds across the current school estate of 171 primary, 29 secondary and 5 special schools, with some schools having more than 1 fund.

Schools are required to submit their school fund accounts for the previous year to their Service Finance Team. The total amount of money held in funds at the end of 2016/17 school year was £2,985,445.

- 1.2 The audit examined whether schools were complying with the Guidance on School Funds in the Council's Financial Regulations. A sample of 12 schools (8 Secondaries, 4 primaries- hereafter referred to as the examined schools) was examined in greater detail to verify the funds were being administered satisfactorily. All schools were sent a survey to query what controls they had in place to manage their funds. 79 responses were received (all examined schools replied to the survey).

## 2. Main Findings

- 2.1 *Appropriate controls are in place for the administration of School Funds in accordance with Financial Regulations.*

This objective was partially achieved. There are controls in place for overall monitoring of all school funds. The Service Finance Team maintains a spreadsheet listing all school fund accounts which is updated to show which schools have submitted their accounts for review. This also evidenced that the Service Finance Team query anomalies with the schools after accounts have been submitted.

However, only half of schools submitted their accounts by the deadline outlined in Financial Regulations (the

beginning of October holidays) and a significant number (31 or 13%) of schools as of May 2018 had yet to submit their 16/17 accounts for review.

A key reason for the delay in submitting accounts is that some schools find it difficult to get a suitable auditor/examiner. There is a wide variation in who examines accounts and a lack of awareness of who can perform this role.

Only 51 school funds included the name of the Highland Council in their fund account name.

10 schools incurred bank charges although most of these have now been refunded and the Service Finance Team has worked with schools to address this issue. However, 1 school incurred bank charges on 2 occasions due to being overdrawn which could have been avoided.

The 12 examined schools largely adhered to the Guidance Note on School Funds however, from the detailed review and survey results, the following concerns were noted:

At 28 schools the officer administering the fund is also a cheque signatory. This is a serious breach of a key control and has in the past led to fraudulent activity taking place in some funds.

24 schools used pre-signed cheques in some circumstances. This, in addition to lack of segregation of duties outlined above, is a risky practice.

9 schools do not bank income intact but use it to make petty cash expenditure. Some schools were not aware they could cash a cheque from the school fund to use for sundries.

16 schools do not require an authorisation voucher to be presented prior to expenditure.

10 schools did not issue receipts for income and the practice of issuing receipts varies considerably across schools, with no single agreed practice on when to issue receipts.

All of the examined schools were undertaking reconciliations and for Secondaries this is being done regularly. However, there was little evidence of Head Teachers signing these or the monthly bank statements.

2.2 *Spending incurred through School Funds is appropriate.*

This objective was partially achieved. For the majority of transactions examined, spending was considered appropriate except for items that should have been paid from the Devolved School Management budget including staff training and expenses. However, there is currently insufficient guidance provided to schools on what is and is not acceptable expenditure.

Schools which had received Ward discretionary money were able to account for this spending and guidance on administering such grants is available online.

2.3 *Consideration of current financial and administrative controls over School Funds with a view to improving them where necessary and beneficial.*

This objective was partially achieved. The current guidance has been developed in response to previous concerns raised by Internal Audit and following this guidance should prevent most cases of fraud or irregularity.

However, the guidance is not comprehensive and is missing the following:

- Use of online banking, debit/credit cards and bank transfers. Some schools are using these methods of banking but there are no overall agreed controls on their use.

- The expected minimum involvement of Head Teachers with school funds.
- Deadlines for staff to submit expenditure claims (39 schools have no deadline). There are concerns that without a deadline staff may not claim timeously from the fund.
- How often banking should be undertaken, 9 schools were found to bank less than monthly.

11 schools surveyed weren't aware of the guidance note on school funds.

During the audit a number of suggested amendments to the guidance were discussed with the Service Finance Team.

2.4 *Consideration of support and oversight arrangements provided to Schools by Council Officers to assess if these are appropriate and sufficient.*

This objective was partially achieved. School Financial Support Officers provide advice and support to schools regarding school funds where they need assistance (for example training for new members of staff, setting up a process for recording funds in a new school, specific queries on treatment of items). To maintain an objective view they do not assist with the detailed preparation & recording of all school fund transactions.

Overall the schools responded to the survey saying they were satisfied with current levels of support but some expressed a desire for further training.

Some support in the form of guidance is available in electronic format on the intranet and GLOW but this is limited and not up to date.

There is a further concern that support has not been made available to all relevant school staff, especially new starts who may be unaware of guidance available.



### 3. Audit Opinion

3.1 The opinion is based upon, and limited to, the work performed in respect of the subject under review. Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist. It is the opinion that **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.

No serious concerns were identified with the 12 examined schools who were able to account for income and expenditure and demonstrate that they had administrative and financial controls in place.

School funds remain a high risk area for the Council so it is imperative that all schools adhere to Financial Regulations and sufficient guidance and support should be provided to schools.

An action plan is provided at section 4 detailing the recommendations for improvement together with the management response. This contains a total of **3** recommendations comprising of the following:

Description	Priority	No.
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

#### 4. Action Plan

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
High	The following account submission issues were identified: Half of schools submitted their accounts after the required deadline with 31 schools as of 04/07/18 yet to submit their accounts.	The Service Finance Team should ensure all schools have submitted their 2016/17 accounts for review and provide guidance to schools on who can audit/independently examine accounts.	School finance support officers are working with schools to actively manage down the number of outstanding submissions. As at 21/08/18 this stood at 16 and as of 04/09/18 this stands at 3. Further contact will be made with these schools at the start of the new academic session. If non-submission continues the Principal Accountant will compile a list for escalation to the C&L Area managers with the aim of having all accounts submitted by October 2018.  The guidance around who can examine the accounts will be updated to include some suggestions based on current practice.	Principal Accountant, Corporate Resources Service	31/10/18
	The majority of schools still do not have their school fund account in the name of the Highland Council.	All schools should be reminded to ensure their fund account(s) include the name of the Highland Council.	Service Finance Team will incorporate a reminder on bank account names in the request for 17/18 accounts.	Principal Accountant, Corporate Resources Service	31/10/18

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
	Schools incurred bank charges unnecessarily.	The Service Finance Team should remind all schools of the need to avoid incurring bank charges.	Service Finance Team will remind all schools of the need to avoid incurring bank charges in the request for the 17/18 accounts.	Principal Accountant, Corporate Resources Service	31/10/18
High	<p>Schools have not adhered to Financial Regulations and the Guidance Note on school funds:</p> <p>28 schools had an officer administering the fund who is also a cheque signatory.</p> <p>24 schools used pre-signed cheques in some circumstances.</p> <p>9 schools do not bank income intact but use some of it for petty cash expenditure.</p> <p>16 schools do not require an authorisation voucher to be presented prior to expenditure being incurred.</p> <p>10 schools did not issue receipts for income and the practice for issuing receipts varies considerably across schools.</p> <p>There was little evidence of Head Teachers signing monthly reconciliations or bank statements.</p>	<p>The Guidance Note should be updated to address the issues identified during this audit.</p> <p>All schools should be reminded that adhering to guidance is <b>mandatory</b>, not optional and that it is expected that all schools will fully adhere to Financial Regulations.</p>	<p>The guidance note clearly stipulates that the person maintaining the school fund records must not be an authorised signatory see section 4.2 Authorised Signatories. This section will be updated to expressly prohibit the use of pre-signed cheques.</p> <p>The Service Finance Team will remind all schools of the mandatory nature of the financial regulations in the request for the 17/18 accounts with reference to the issues raised in this report in particular around the use of cheque signatories &amp; pre-signed cheques. This will be reinforced with a reminder issued by the Head of Resources.</p>	<p>Principal Accountant, Corporate Resources Service</p> <p>Principal Accountant, Corporate Resources Service, Head of Resources, Care and Learning</p>	<p>31/12/18</p> <p>31/10/18</p>

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
		A list of "dos and don'ts" should be issued to schools to inform them of what is and is not acceptable practice regarding school funds.	Service Finance Team will compile a list of "do's & don'ts" relating to school fund practice and issue to all schools by the end of the calendar year which will be incorporated into the school fund guidance thereafter.	Principal Accountant, Corporate Resources Service	31/12/18
Medium	<p>There is insufficient guidance for some key areas of school fund activity, specifically:</p> <ul style="list-style-type: none"> <li>• This does not cover modern banking practices e.g. online banking;</li> <li>• How much involvement a Head Teacher should have with the fund as a minimum;</li> <li>• There is no agreed deadline for staff expenditure claims from school funds;</li> <li>• No guidance on frequency of banking.</li> </ul> <p>In addition 11 schools were not aware of the current guidance.</p>	The Guidance Note and online guidance should be updated to address the audit findings. All schools should be made aware of the updated guidance.	<p>The guidance note is sent directly to all schools every year along with the request for the accounts submission. For the current year this will be by the end October 2018.</p> <p>Guidance will be updated to incorporate the following;</p> <ul style="list-style-type: none"> <li>• A section on online banking / frequency of banking.</li> <li>• Guidelines for HT's involvement in the school fund.</li> <li>• Suggested claim time limit of 3 months to bring school fund in line with HC practice re employee expense claims.</li> </ul>	Head of Resources Care and Learning, and Principal Accountant, Corporate Resources Service	31/10/18

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
	There are concerns that information currently available to schools is either out of date (specifically guidance on the Intranet) or not widely disseminated, in particular to new starts.	Out of date guidance should be removed or amended and the Service Finance Team should work with the Service Development/ Systems Support Officer and Workforce Planning to ensure all relevant staff have access to updated guidance.	Finance team will provide Systems Support team with a copy of the updated guidance to allow the Intranet/GLOW to be updated.	Principal Accountant, Corporate Resources Service and Service Information and Support Manager	31/10/18

## Internal Audit Final Report

Corporate Resources Service

Use of Purchase Cards

**Distribution:**

Depute Chief Executive/ Director of Corporate Resources  
Strategic Procurement Manager (Category Management)  
Senior Procurement Analyst  
Services Finance Manager  
Finance Manager (Corporate Budgeting, Treasury and Taxation)  
External Audit

**Report Ref:** HDD01/004

**Draft Date:** 20/07/18

**Final Date:** 10/09/18

## 1. Introduction

- 1.1 In 2017, 3 separate management investigations identified concerns in the use of purchase cards. After discussion with the Depute Chief Executive/ Director of Corporate Resources it was agreed that an audit review would be undertaken of how purchase cards are used across the Council.
- 1.2 Enquiries were made with Card Holders, Officers and Controllers. A sample of 20 cards was examined in detail to check that policies and procedures had been followed and spending was appropriate. Officers in Procurement were consulted about the benefits of purchase cards and what management information is available to monitor card use.
- 1.3 There are currently 284 purchase cards in use across the Council. Expenditure on all cards from April 2017 to March 2018 was £3,393,272.

## 2. Main Findings

- 2.1 *Purchase Card Holders, Officers and Controllers adhere to Council Policies and Procedures*

This objective was partially achieved. Examination of the sampled cards showed that Card Holders had broadly adhered to this guidance. However, several concerns were identified:

5 cards were shared in contravention of the User Reference Guide, and is an unacceptable practice. There is a risk that by sharing cards, Card Holders forfeit control over spending, however, they are still accountable for all transactions.

Whilst issue of the sampled cards had been approved by an appropriate officer, cards can be applied for without the knowledge of the Card Controller which can result in

employees obtaining cards without the knowledge of a senior manager in the Service.

There are just 9 Card Controllers across the Council who oversee the Card Officers and Holders. 2 Controllers were unaware how many cards they were responsible for.

Card Controllers should ensure that all cards are subject to at least an annual audit to check that procedures are being adhered to and spending is appropriate. 13 of the 20 Card Holders stated there had been no audit of their cards in the last year. Undertaking this audit is a key control in preventing misuse of the cards or identifying inappropriate expenditure.

Transaction logs are completed by the majority of Card Holders but with the move to Integra these logs are now optional. It is questioned whether there is any value in Holders spending time completing these.

The User Reference Guidance is out of date. The Procurement Team said this was being revised and a number of comments and suggestions were provided during the audit.

- 2.2 *Expenditure is appropriate and achieves best value*

This objective was partially achieved. A sample of purchases from the 20 examined cards showed that spending was appropriate to the Card Holder's Service. The majority of Card Holders confirmed that their immediate manager was aware of their purchases.

A benefit of purchase cards is the ability to purchase ad-hoc items without having to set up a new supplier on Integra. However, this can be misused as items can be purchased avoiding the use of contract suppliers and 9 examples of this were identified during the audit. However, the lack of purchase card information recorded

on Integra makes it difficult to assess why a non-contract supplier was used for each purchase.

There is also no information available to justify whether all purchases are strictly necessary for Service delivery. There are concerns that purchase card spending is determined entirely by Card Holders and Card Officers without any higher level scrutiny of spending. This is particularly important when scrutiny of expenditure forms part of the Council's wider commitment to identify budget savings.

C. 60% of purchase card expenditure was by building maintenance stores staff which was examined in further detail. This identified that whilst contract suppliers were used, contract prices were not obtained. An example was provided by the Procurement Team for a contract supplier; 66 transactions between September 17 - March 18 cost the Council £500 in excess of the contract prices. Procurement are now working with the Service to address this issue and the £500 has been refunded.

For the sampled cards Value Added Tax (VAT) was not being treated correctly for all transactions. As a result the VAT paid cannot be reclaimed and the full cost of the transaction is charged to the Service budget. The following incorrect practices were identified:

- Extracting VAT when no VAT receipt was provided.
- Failing to obtain a VAT receipt so VAT could not be reclaimed. For the 23 transactions identified, the VAT is estimated at £992.
- Obtaining a VAT receipt but not adjusting transactions on Integra to extract VAT. 9 of 118 transactions from the 23 cards, £863 of VAT could have been reclaimed.

The last issue was of particular concern so 3 additional cards were examined. For 2 of these the audit identified £57,000 VAT, covering 3 years of transactions, had not

been accounted for correctly. These Card Holders are now working with the VAT Team to reclaim the VAT, subject to adequate receipts being provided.

The above findings demonstrate that Card Holders do not, and are unsure, how to treat VAT correctly and that Card Officers have approved transactions where VAT was treated incorrectly. As the VAT Team can only check a sample of transactions the Council relies on the Card Holder to account for VAT correctly.

The examples outlined above would indicate that significant amounts of reclaimable VAT are being lost by the Council. In addition, failure to comply with the VAT rules could result in penalties being applied by HMRC.

During the audit the Procurement and VAT Teams agreed that a more proactive approach to treating VAT correctly should be undertaken and are working together to address this. However, Card Holders will still have responsibility for ensuring VAT is treated correctly for their own transactions.

### 2.3 *Council is maximising the benefits of using purchase cards*

This objective was partially achieved. The Procurement Team outlined the benefits of using purchase cards which include: no need for supplier set ups for one-off purchases, enables out of hours purchasing or from suppliers who don't accept purchase orders and in some cases receipt of electronic invoice information. Also a rebate of between 0.4 and 0.5% of the value of all purchases is obtained from the purchase card provider (c.£15,000 is received annually).

Analysis of spending by the sampled Card Holders showed that cards are used to take advantage of these benefits but more detailed analysis would need to be undertaken to assess whether all Council Services are using cards to maximum benefit.



A considerable number of cards are used infrequently and for very low amounts (100 cards account for only 1.05% of spending). Whilst there are no costs for additional cards held the resources involved in administering the transactions and subsequent monitoring required means that this is not an efficient purchasing method. Some Services allow different departments to purchase goods and services via 1 Card Holder. This retains the benefits of having cards but reduces the number of cards in circulation.

### 3. Audit Opinion

3.1 The opinion is based upon, and limited to, the work performed in respect of the subject under review. Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist. It is the opinion that **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 audit did not find any evidence of serious misuse of cards. Evidence was found of Holders, Officers and Controllers not following procedures, there are concerns that card use is not being adequately monitored.

The Service Finance Team for Community Service/Development and Infrastructure is due to take over some purchase card administrative functions. This offers an opportunity to update guidance, ensure the current card hierarchy is satisfactory, and review all cards to assess whether they are required.

An action plan is provided at section 4 detailing the recommendations for improvement together with the

management response. This contains a total of **6** recommendations comprising of the following:

Description	Priority	No.
Major issues that managers need to address as a matter of urgency.	High	3
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	2
Minor issues that are not critical but managers should address.	Low	1

#### 4. Action Plan

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
High	<p>Card Holders, Officers and Controllers have failed to adhere to policies and procedures, in particular:</p> <ul style="list-style-type: none"> <li>• Cards have been shared.</li> <li>• The need to undertake an annual audit of all cards. This is partly due to some Controllers being responsible for a large number of cards which means that this task is unachievable.</li> <li>• Controllers were not aware of all cards they are responsible for.</li> </ul>	<p>The current My Online Learning should be revised with the purchase to pay module amended to provide separate training on purchase cards. This training should address the key points identified from this audit including the need to comply with policies and procedures, the role of the different officers and their responsibilities, use of contract suppliers and the correct treatment of VAT. All relevant officers (i.e. Card Holders, Officers and Controllers) should then be informed of this training and the need to complete this.</p>	<p>Agreed. My Online Learning will be updated, as will the guidance along with the User Reference Guide. All guidance will be incorporated in to one document.</p>	Services Finance Manager	31/1/19
		<p>The application process should also be amended to require new officers (i.e. Card Holders, Officers and Controllers) to confirm that they have completed this learning before they receive their purchase card. A similar process should also be introduced for cards which are renewed or replaced.</p>	<p>Agreed. Application process will be amended accordingly.</p>	Services Finance Manager	31/1/19
		<p>If Card Holders are found not to be following procedures they should have their cards taken off them and cancelled.</p>	<p>Agreed</p>	Services Finance Manager	Immediate

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
High	VAT was not treated correctly for card purchases, resulting in a failure to reclaim VAT where applicable.	<p>Guidance should be revised to provide examples of how to treat VAT correctly, and what documentation is required in order to reclaim VAT; this guidance should have a link to the Council's VAT Manual and associated guidance, and the online training. All Card Holders should be expected to know that a VAT invoice should be obtained wherever possible.</p> <p>A pilot exercise should be undertaken to look at reclaiming VAT on past transactions. A report could be run for transactions with £0 VAT, contacting Card Holders requesting that they provide VAT receipts to the VAT Team (if necessary obtaining receipts from suppliers). Note: this should be initially limited to high value transactions likely to have VAT charged on them and time spent on this exercise should be balanced against likely VAT reclamation.</p> <p>Going forward a report of transactions which have had £0 of VAT extracted should be regularly provided to the VAT Team who can use this to work with Card Holders, Officers and Controllers to identify instances where VAT has not been treated correctly.</p>	<p>As above, guidance will be updated and link inserted to the Council's VAT Manual.</p>	Services Finance Manager	31/1/19
			<p>Integra has been updated by way of inserting a 'tick box' confirming that VAT has been correctly applied.</p>	VAT Team	Complete
			<p>A report has been written to allow this to happen. The VAT Team will be running this report and actioning as required with the Card Holders.</p>	VAT Team	Complete
			As above	VAT Team	Complete

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
		Card Holders and Officers who continue to treat VAT incorrectly should be sent formal warnings by their Card Controller and if necessary have their cards cancelled if problems repeat. This should be in the guidance.	VAT Team to notify Service Lead Accountants who will then speak to their respective Card Controller and to agree appropriate action.	Lead Accountants	Immediate
High	Examples were found of expenditure with non-contract suppliers. There is little information currently available to assess whether use of non-contract suppliers was reasonable for all purchases.  There is little information available to explain why all purchases are necessary for Service delivery.	<p>A report should be regularly produced for the Executive Leadership Team and all Card Controllers summarising contract and non-contract spend for all Card Holders. This should be used by the Executive Leadership Team and Card Controllers to identify illegitimate use of non-contract suppliers.</p> <p>The Procurement Team should investigate whether Integra can have new user defined fields for Card Holders to provide reasons why they did not use a contract supplier for each purchase.</p> <p>The update of the User Guide should include the requirement for Card Holders to enter a narrative for each purchase.</p> <p>Going forward the Service Finance Team should work with Card Controllers to examine card spending and assess the necessity of purchases for Service delivery</p>	<p>Contract compliance report for all purchases, includes purchase cards, run every 6 months. Could be run more frequently, currently awaiting decision from Council's Executive Leadership Team.</p> <p>Agreed</p> <p>Agreed</p> <p>Service Lead Accountants to discuss with Card Controllers if the numbers of purchase cards issued is appropriate and relevant to service delivery.</p>	<p>Procurement Team</p> <p>Procurement Team</p> <p>Services Finance Manager</p> <p>Lead Accountants</p>	<p>31/1/19</p> <p>31/1/19</p> <p>31/1/19</p> <p>31/1/19</p>

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
Medium	<p>The User Reference Guide is out of date and has some deficiencies, namely:</p> <ul style="list-style-type: none"> <li>• Card Officers can apply for cards without the knowledge of Card Controllers</li> <li>• Guidance refers to VISA rather than MasterCard</li> <li>• It is not clear whether expenditure on travel and subsistence is permitted or not</li> <li>• Some job titles are out of date</li> <li>• Some instances where it is not clear whether Card Officer or Card Controller is responsible for particular tasks</li> <li>• There is a separate document of guidance for using purchase cards on Integra which Holders may not be aware of.</li> </ul>	<p>The User Reference Guide should be updated (and circulated to all Card Holders, Officers and Controllers) addressing these concerns and should ensure the following items are covered:</p> <ul style="list-style-type: none"> <li>• Card Controllers have to be aware of all new applications</li> <li>• New card applications should have a business case attached to them explaining why the card is necessary</li> </ul> <p>The User Reference Guide should also be merged with Integra guidance on purchase cards so that all purchase card guidance is in one place.</p>	<p>As highlighted above, one User Reference Guide to be written.</p> <p>Lead Accountants to act as 'gatekeeper'. Card Controllers must have a business case and get approval from Lead Accountants before a card is issued.</p>	<p>Services Finance Manager</p> <p>Lead Accountants</p>	<p>31/1/19</p> <p>Ongoing</p>
Medium	<p>Cards have been obtained for historic reasons and there is no overall rationale for the continued holding of all cards.</p>	<p>The Service Finance Team should work with the Services to examine whether all cards currently held are necessary for service delivery. This would include looking at whether cards can be effectively amalgamated by having 1 card in a Service held by an appropriate officer who will undertake transactions for multiple departments.</p>	<p>A review of all purchase cards in issue to be undertaken by the Services Finance Team. The next complete reissue of cards is May 2020. At this time all Card Controllers will be requested for a business case and justification before a card is reissued.</p>	<p>Services Finance Manager</p>	<p>31/3/19</p>

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
Low	Transaction logs are no longer compulsory but are being maintained although the work involved in maintaining these can be considerable for some Card Holders and Officers.	A reminder should be issued reiterating to all Card Holders and Officers that transaction logs are optional. Provided receipts are held and transactions correctly adjusted Holders should only keep logs if it specifically assists them (i.e. where there is a delay between purchasing an item and receiving it such as on Travel desk).	The Services Finance Team to work with Services to see if all receipts can be held electronically within Integra.	Services Finance Manager	31/1/19



## Internal Audit Final Report

Corporate Resources Service

Review of IT controls surrounding payments to creditors

### **Distribution:**

Depute Chief Executive & Director of Corporate Resources  
Director of Community Services  
Head of Corporate Finance & Commercialism, Corporate Resources  
Head of Performance & Resources, Community Services  
Payroll and Pensions Manager, Corporate Resources  
External Audit

**Report Ref:** HDA09/002  
**Draft Date:** 25/06/18  
**Final Date:** 02/08/18  
**Revised Final Date:** 05/09/18

## 1. Introduction

- 1.1 On 13/12/17, Dundee City Council's (DCC) Scrutiny Committee considered a report <sup>1</sup>which detailed a serious fraud by an ex-employee who embezzled £1.065m over a seven year period. This involved manipulation of data by an IT officer who had high level access across IT systems, enabling him to create false invoices, pay, and then delete the evidence. Six areas of weakness through which the fraud was perpetrated were identified in the DCC report.
- 1.2 Given the significant sum involved, an audit review of controls in Highland Council (HC) in the six areas was requested by the Depute Chief Executive & Director of Corporate Resources. Controls on supplier payment data and access to supplier bank account details across the following systems were reviewed; BACS<sup>2</sup>, Integra Financials the financial management system [FMIS] and sub-systems Tranman<sup>3</sup> and the Construction Industry Tax (CIT) payments system.
- 1.3 HC paid over 140,000 supplier invoices in 2017/18.

## 2. Review of six areas of weakness

Each area of weakness reported by DCC was reviewed and the controls within Highland were established and evaluated to ensure that these are robust. A summary of the DCC weaknesses is provided below together with the Highland position.

---

<sup>1</sup> See at: <https://www.dundee.gov.uk/reports/agendas/scr131217ag.pdf>.

<sup>2</sup> Bacs Payment Schemes Limited, previously Bankers' Automated Clearing Services

<sup>3</sup> Tranman - Council's fleet management system

## 2.1 *Restricted access for privileged system users*

The task of making changes to the Council's suppliers' bank account data in FMIS is currently restricted to the Creditors Team. The Payments Officer checked all changes and evidence was maintained for each change request.

However, users whose job roles had changed had not had their access to suppliers' bank account data de-activated. Other officers out-with the Creditors Team also have access permissions to change supplier bank detail including the Finance Systems and Change Team (FSCT) and Process Development officers. Two generic usernames also have high level access.

FMIS holds audit log detail of changes to bank account data fields for several years but no regular monitoring is carried out.

Reviews of "super-user" access across several systems identified that an officer in the Creditors Team can modify bank account data in FMIS and also generate batch files from FMIS for suppliers' payments for submission to the BACS bureau. Another officer who completes the CIT monthly returns also has access to modify bank account data. However, peer review of account changes made and cross-checks of batch files are applied as compensating controls for both officers' work.

The SharePoint site with details of BACS contacts and Service User Numbers is an important reference, however it was found to be incomplete.

There were no issues regarding separation of duties for the sub-system Tranman system.

Access to compile and submit BACS payments files is separated in that compilation of BACS files is completed in FMIS by officers in the Creditors Team. The payment files



created are then submitted to an independent BACS approved bureau for submission to BACS for payment.

## 2.2 *Interface reconciliations*

Control totals are applied and reconciled for batch files of payments due to suppliers at BACS processing stage. Checks on BACS batch control totals are made before and after processing against FMIS data.

In Tranman, supplier invoice payments are extracted by the System Manager as a weekly file and submitted to FSCT to input into FMIS. File data includes subtotals by supplier invoice detail; therefore payments can be matched to FMIS supplier detail. FSCT query any weekly file if the control totals do not match totals reported during data load routines.

Construction Industry Payments and tax deducted from suppliers' invoices are collated by FMIS supplier number and invoice detail. The monthly report to HMRC is completed manually, checked and countersigned before final submission onto the website.

## 2.3 *Balance sheet reconciliations*

As detailed at 2.2, weekly reconciliations between Tranman supplier payments for workshop repairs and maintenance and FMIS are carried out; this effectively balances to the bank figures for specific ledger codes. Balance sheet reconciliation from the Tranman system as a whole to the ledger is not carried out. Other payments for vehicle and plant purchases and sales are not instigated through Tranman but go through FMIS direct.

Balance sheet reconciliations are not completed for Construction Industry Payments. Instead, monthly figures are available to the relevant suppliers and to HMRC. As monthly deductions are reported to invoice payment detail they can be traced in FMIS as necessary.

## 2.4 *Supplier statement reconciliations*

Reconciliations of the Council's 61,000+ supplier payments are not carried out. However, remittance advice notes are sent to suppliers by the Creditors Team as part of the payment process.

The Tranman suppliers' list replicated supplier details in FMIS. Therefore it is not possible for a Tranman supplier payment to be made to a different bank account without an error being flagged and a check carried out.

Another critical control is the need for budget holders to scrutinise their budget reports and be aware of their expenditure. As part of the budget monitoring process, any anomalous payments can be queried.

## 2.5 *System limitations*

The Council's system for CIT deductions is different from the end-user system used by DCC. In addition, two officers counter-sign the monthly reconciliation report. This lists details by supplier invoice numbers and values so these could be tracked through FMIS.

## 2.6 *System and process documentation*

A process map of interfaces between FMIS general ledger, purchase ledger and cash management to sub-systems is maintained by the Finance and Systems Change Manager. System documentation was provided for specific process areas relating to supplier payments requested during the audit review.

Documents are available for producing the monthly reconciliation report of the Construction Industry Payments and tax deductions which were regularly updated. The procedure documents for the Tranman system interface to FMIS were out of date in that they referred to the previous FMIS; however, this was updated during the review by the System Manager.

### 3. Audit Opinion

3.1 The opinion is based upon, and limited to, the work performed in respect of the subject under review. Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist. It is the opinion that **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.

Given the value and timescale of the fraud carried out at DCC, Highland cannot afford to be complacent. Although the opportunity for one individual to manipulate a number of stages in the payment process does not exist in Highland in the way it occurred in the Dundee case, improvements are recommended relating to access control management and responsibilities for monitoring supplier bank account data.

An action plan is provided at section 4 detailing the recommendations for improvement together with the management response. This contains a total of **5** recommendations comprising of the following:

Description	Priority	No.
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	4
Minor issues that are not critical but managers should address.	Low	0

#### 4. Action Plan

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
High	<p>A number of issues were found where users had access to change supplier bank details:</p> <ul style="list-style-type: none"> <li>Officers had access permissions to change supplier bank detail in FMIS when this was not a business requirement. Users were identified whose jobs had changed but their access levels were not amended. These findings were acted on immediately to de-activate access</li> <li>Changes to suppliers' bank account in FMIS are monitored by the Creditors Team for their changes only. Therefore, changes could be made to supplier bank detail by other users with this access and this is not actively monitored</li> <li>Two Process Development Officers have super user access in FMIS including access to the Data Import Tool. This gives permission to change any field on any table within FMIS</li> <li>The Finance Systems and Change Team administrators also have a high level of access to support FMIS and could amend supplier bank detail data</li> <li>Two generic usernames were listed as having high level access.</li> </ul>	<p>In order to ensure that changes to supplier bank accounts are restricted to the appropriate officers the following should be undertaken:</p> <p>(i) A review of usernames of who have access to make changes to FMIS bank account detail should be made on a frequent basis. Reviews of access checks should be documented and retained to evidence these are carried out</p> <p>(ii) The FMIS System Owner and the Payroll and Pensions Manager should determine which job roles require access to the suppliers' bank account data field for amendment and viewing</p> <p>(iii) Reports on who has made changes to bank account data in FMIS should be produced and reviewed regularly by a senior officer to ensure that these are appropriate</p> <p>(iv) Detail of the controls for the two generic usernames with super-user access should be verified by the FMIS system owner to ensure these are adequate.</p>	<p>A register of officers with the ability to amend bank detail will be held and reviewed against a newly created report of who made changes.</p> <p>Report review to be undertaken monthly by Payroll and Pension Manager (Assistant Payroll Manager / Payroll Operations Manager in their absence).</p> <p>This review is independent as none of the reviewing officers have the ability to amend details in Integra</p>	Payroll and Pension Manager	31/10/18

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
	The Financial Regulations in respect of user access rights requires financial systems users to be reviewed and verified on a regular basis, at least annually, with reviews of higher access users undertaken more frequently.				
Medium	<p>The officer who collates supplier payment batches from FMIS to forward to the BACS Bureau for payment also actions changes to supplier bank account details.</p> <p>CIT deductions are processed by one of the Creditors' Team who also actions changes to suppliers' bank data. The monthly data file for construction industry supplier tax deductions is double checked and counter-signed before being input.</p>	<p>To strengthen controls over suppliers' payments the following duties should be segregated:</p> <ul style="list-style-type: none"> <li>The officer who processes batches to BACS for payment can view but not amend suppliers' bank account data</li> <li>An officer should not make changes to bank account detail and also complete the tax deductions file.</li> </ul>	<p>Segregation of duties is not feasible in a small team but the newly created report of who made changes will provide the necessary control.</p> <p>Report review to be undertaken monthly by Payroll and Pension Manager (Assistant Payroll Manager / Payroll Operations Manager in their absence).</p>	Payroll and Pension Manager	31/10/18
Medium	The SharePoint site with details of HC BACS contacts, Public key infrastructure or PKI card holders and Service User Numbers is an important reference area, however data was found to be incomplete	All details and changes to BACS PKI user access and Service User Numbers should be notified to the Corporate Budgeting, Taxation & Treasury Team as soon as possible.	For removing users - the treasury team will receive a monthly list of employees who have left the organisation from FSCT team and this will be used to identify any employees who should be removed. Additional users will be added as and when access is requested	Finance Manager – Corporate Finance Treasury and Taxation	30/09/18

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
Medium	<p>There are over 61,000 suppliers in FMIS and supplier statement reconciliations are not carried out. However, suppliers receive remittance advice notes with payment details by invoice number.</p> <p>Effective budgetary control is important and budget holders should be aware of their responsibilities for managing expenditure and knowing their main suppliers.</p>	A workshop for budget holders should be held to ensure that they are aware of their responsibilities and the requirements set out in Financial Regulations.	<p>There are mandatory e-learning modules for managers that incorporate budgetary control. A review will be undertaken to ensure all current Integra budget holders have completed this e-learning module.</p> <p>The Corporate Resources Service Plan includes Creation of wide-ranging financial management training to budget holders covering budget holder responsibilities, budget management, contract management, commercialism, procurement, improvement methodologies and key financial processes and procedures</p>	Head of Corporate Finance and Commercialism	31/12/18
Medium	The procedure documents for the Tranman system were very detailed. However, they still refer to the previous Oracle FMIS which was replaced in April 2015.	Procedure documents for the Tranman system should be updated to include details of the latest interface processes with FMIS.	The document has been updated as per Audit recommendation	Head of Performance and Resources, Community Services	26/06/18



## Internal Audit Final Report

Corporate Resources Service

Review of ICT Projects

**Distribution:**

Depute Chief Executive/ Director of Corporate Resources  
Head of People & ICT, Corporate Resources Service  
ICT Operations Manager, Corporate Resources Service  
Head of Corporate Finance & Commercialism, Corporate Resources Service  
Principal Project Manager, Commercial & Efficiency Team, Corporate Resources Service

**Report Ref:** HAB01/007.bf  
**Draft Date:** 27/06/18  
**Final Date:** 31/07/18

## 1. Introduction

- 1.1 The Highland Council Project Management Policy (the Policy) was introduced in April 2016 in order to improve the way in which Council projects are governed and managed. The Policy states that compliance will be monitored and enforced for projects where:
- Significant capital or revenue investment is required (£4m or more over the lifecycle of the project); or
  - Implementation exhibits a high level of complexity, ambiguity, tension, uncertainty or risk; or
  - Substantial cost savings are forecast by the Council's Senior Leadership Team.

However, for ICT projects it is accepted that the standards and processes within the Policy are best practice and are therefore generally applied for all projects.

- 1.2 The audit examined a sample of 3 ICT projects, selected from the 'Current Projects List' reported to the Corporate Resources Committee on 30/08/17, to ensure that they are being managed in accordance with the Policy. The projects examined were:
- Unified Communications
  - Network Programme Refresh
  - SEEMiS.

## 2. Main Findings

### 2.1 *Governance and reporting arrangements*

This objective was partially achieved. Section 4 of the Policy sets out the requirement for a 3 tier hierarchical governance structure for projects. For ICT projects this comprises of the Corporate Resources Committee

(Strategic Committee), the ICT Strategy & Investment Board or ICT Implementation Board (Higher Project Management Board) and then a project board for each project. All projects examined operated within the specified governance structure.

The 3 tier governance structure is appropriate in that each level performs an essential role in the governance of ICT projects. However, a separate governance structure was put in place in November 2016 to oversee the Council's ICT modernisation programme. As the programme progressed from the transition phase, it was found that there was some duplication of reporting between Boards. An informal review of governance arrangements for all ICT projects has been carried out by the Depute Chief Executive/ Director of Corporate Resources and practical changes have been made.

The Policy states that it *"will be subject to a full review after 12 months of publication so that any improvements/lessons learned from initial implementation can be incorporated"*. A review is due to be carried out by the Commercial and Efficiency Team but this is over 2 years after the Policy was first published.

The Policy states that a project manager will provide regular Project Status Reports to the Project Board and specifies the minimum information which should be included. For the sampled projects, although regular project updates were provided to the respective project boards, they did not contain all of the required information. The reports provided did however contain an adequate level of information which suggests that the Policy is too prescriptive in this area.

### 2.2 *Governance checkpoints*

This objective was partially achieved. Section 5 of the policy specifies that there are 6 gateway points within the project life-cycle. The project board must provide the required evidence to the Higher Project Management Board in order to allow the project to progress through each gateway. The sampled projects were examined to ensure that the required evidence had been provided prior to progression through those gateway checkpoints reached after the introduction of the Policy.

*Unified Communications* – the required evidence was provided to the ICT Development Board and progression through Gateway 3 (Project Commencement) was suitably authorised. However, a Gateway 3 checklist had not been completed.

*Network Refresh* – the standard gateway checkpoint process was not followed for this project. As the work associated with this project was awarded to Wipro, it was subsumed into the wider ICT transformation programme. Decisions on progression through gateway checkpoints were therefore made out-with the standard ICT Development Board structure, largely through the ICT Implementation Board. Decisions were also progressed directly by the then Depute Chief Executive/ Director of Corporate Development and the Director of Finance due to the urgency of moving the project forward. The Policy provides a framework to ensure that project decision-making is robust and logical and therefore the risks of project failure are increased if these principles are not adhered to.

*SEEMiS* – a project closure report had been prepared and gateway progression suitably authorised by the ICT Development Board.

### 2.3 *Financial management and procurement*

This objective was fully achieved as the financial and procurement processes for the sampled projects were found to be in line with Section 7.3 (Project Financial Management) and Section 7.4 (Project Procurement) of the Policy.

### 2.4 *Risk and issue management*

This objective was fully achieved as the risk and issue management processes for the sampled projects were found to be in line with Section 7.5 (Risk Management) and Section 7.6 (Issue Management) of the Policy.

### 2.5 *Training*

This objective was partially achieved. Section 8 of the Policy states that Project Sponsors and members of a Project Board must complete the Project Management Governance e-learning course. For the sampled projects, none of the Project Sponsors and only 2 of the Project Board members had completed the online course. In some cases the training had not been undertaken as the individuals in question were already experienced in project management.

The Policy also states that each project should have a suitably qualified and experienced project manager but does not specify what level of training is expected. In ICT, project managers are generally expected to be qualified to Prince2 practitioner level but it is not compulsory and there are some very experienced project managers without an up-to-date Prince2 certificate. It is the responsibility of the project sponsor to ensure that a project manager is suitably qualified and it is very much a judgement call on their part.

## 3. **Audit Opinion**

3.1 The opinion is based upon, and limited to, the work performed in respect of the subject under review.



Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist. It is the opinion that **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.

Although the governance arrangements in place for ICT projects follow the principles set out in the Policy, some areas of the Policy are not strictly adhered to. These areas should be addressed as part of the Policy review, the outcome of which should be to produce a Policy which sets out appropriate levels of governance but can also be practically applied by project managers. Once finalised, the revised Policy should be adhered to by all relevant staff as failure to do so could lead to project mismanagement and, in serious cases, result in disciplinary investigation and/ or action being undertaken.

An action plan is provided at section 4 detailing the recommendations for improvement together with the management response. This contains a total of **2** recommendations comprising of the following:

Description	Priority	No.
Major issues that managers need to address as a matter of urgency.	High	1
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	1
Minor issues that are not critical but managers should address.	Low	0

#### 4. Action Plan

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
High	<ul style="list-style-type: none"> <li>- The Policy states that each project should have a suitably qualified and experienced project manager but does not specify what level of experience or training is expected.</li> <li>- The Policy also states that Project Sponsors and members of a Project Board must complete the Project Management Governance e-learning course. However, none of the Project Sponsors and only 2 of the Project Board members had completed the training for the sampled projects. In some cases the training had not been undertaken as the individuals in question were already experienced in project management.</li> <li>- For the sampled projects, the project updates provided to the project boards did not contain all of the required information as set out in the Policy. However, the reports did contain an adequate level of information suggesting that the Policy is too prescriptive in this area.</li> </ul>	<ul style="list-style-type: none"> <li>(i) The forthcoming Policy review should be undertaken as soon as possible and should assess the overall appropriateness of the Policy in the context of the current operating environment. The aim should be to produce a Policy which sets out appropriate levels of governance but can also be practically applied by project managers. Input should be sought from users of the Policy and this should include ICT Project Managers.</li> <li>(ii) The review should include, but not be limited to, the following areas: <ul style="list-style-type: none"> <li>• Suitably qualified project manager – acceptable qualifications and level of experience should be clearly defined and set out within the revised Policy accordingly.</li> <li>• Support and training – staff who have not served on a project board previously must undertake the online training course prior to the first meeting of the project board. Where the training has been undertaken previously, a refresher must be</li> </ul> </li> </ul>	The Commercial & Efficiency Team will complete a review of the Policy and associated guidelines, revising as required to ensure fit for purpose, and accounting for the recommendations in this report.	Principal Project Manager, Commercial & Efficiency Team	31/10/18

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
		<p>completed at regular intervals.</p> <ul style="list-style-type: none"> <li>• Project status reporting.</li> </ul> <p>(iii) The online training should be amended to reflect changes made to the Policy as a result of the review. Staff currently serving on a project board should be asked to carry out the revised training.</p> <p>(iv) The revised Policy should be issued and a process introduced to monitor and enforce compliance for the specified categories of projects.</p>			
Medium	For the Unified Communications project the required evidence was provided to the ICT Development Board and progression through Gateway 3 was suitably authorised. However, a Gateway 3 checklist had not been completed.	Project Sponsors should be reminded of the requirement to complete the relevant checklist at each mandatory gateway checkpoint.	The revised policy and guidelines will be communicated across services.	Principal Project Manager, Commercial & Efficiency Team	31/10/18



## Internal Audit Final Report

Development & Infrastructure Service

Affordable Housing

**Distribution:**

Housing Development Manager, Development & Infrastructure Services  
Head of Development and Regeneration, Development & Infrastructure Services  
Director of Development & Infrastructure

**Report Ref:** HEE02/001

**Draft Date:** 02/08/18

**Final Date:** 03/09/18

## 1. Introduction

- 1.1 This audit has reviewed activities to ensure that the Council Programme targets for affordable housing can be delivered and works with the Highland Housing Development Hub (HHDH) to enable delivery of the 5 year new build affordable housing programme. Core membership of this group is senior officers from Albyn Housing Society; Cairn Housing Association; Caledonia Housing Association; Lochalsh & Skye Housing Association; Lochaber Housing Association; Highland Housing Alliance; Highland Small Communities Housing Trust; Scottish Government Housing Supply and Innovation Division along with internal Council staff from Housing Development, Project Management, Planning, Transport Planning and Housing Management teams.
- 1.2 The Council's share of the Scottish Government's housing investment for 2017/18 was £28.90m increasing to £40.10m for 2018/19, with a commitment to build on average 500 new affordable homes per year over the next 5 years 2017-22.
- 1.3 The audit gathered views from Council and HHDH staff through attending Development and Operational Hub meetings, 1-2-1 interviews and electronic surveys.

## 2. Main Findings

- 2.1 *Review the activities to ensure that the Council's Programme targets for Affordable Housing are able to be delivered*

This objective was partially achieved.

The Council's Housing Development Manager has weekly exception reporting meetings with Project Management staff to highlight any instances outside the programme plan. While the internal financial monitoring report

focuses on expenditure for the lifespan of the project it contains limited spend and profiling for the current year making it difficult to identify over/under expenditure at any point in time. The lack of profiling information also causes discrepancies in the report's formulas and grant income is also recorded which skews the expenditure data.

Annual reports go to the Environment, Development and Infrastructure Committee, these include the update on tender approvals and progress in the Investment Report, and full Council for the Performance Indicator (PI) figures on the number of completed new builds as in The Council Programme's annual report. The in-year programming of building contracts can have delays, such as in obtaining statutory approvals, tender negotiations and site starts causing a lag in spend/finished works within a financial year, which can impact on the ability to meet PI targets during the initial years of the Programme. In addition, very limited financial reporting for the Council house building programme is provided to Committee and the capital programme board.

- 2.2 *Highland Housing Development Hub works collaboratively to deliver the 5 year new build affordable housing programme*

This objective was partially achieved.

The Highland's housing need and demand assessment identifies the need for housing within the different Council areas. These are approved in the Local Housing Strategy and included within the Strategic Housing Investment Plan (SHIP) which sets out the delivery of these targets. The SHIP is prepared in consultation with HHDH members. During the year HHDH monitor the investment programme and agree changes to site priorities when required.

HDDH membership is based on a partnership agreement, there is good communication and members believe that their contributions are valued but there is an expectancy that Council staff will take the lead. Partners & Council staff experience technology difficulties particularly when trying to use shared areas to access files and data.

In addition the Operational Hub is attended by operational staff from all partners, this aids communications and increases cross-partnership working, with other internal staff kept informed through team meeting updates.

The HDDH partnership created a joint "Firms Foundations, Design Brief" and Technical Guidelines for the design, construction and sustainability of affordable housing. However, the need to follow these is not referred to as a requirement within Letter of Appointment for external consultants.

### 3. Audit Opinion

3.1 The opinion is based upon, and limited to, the work performed in respect of the subject under review. Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist. It is the opinion that **Substantial Assurance** can be given 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.

The HDDH is new partnership approach to the delivery of the 5 year Affordable Housing programme in Highland. This has seen improved cross partnership working and sharing of expertise both within HDDH and inviting in external partners. This set-up is quite organic with procedures still evolving. Some scope for improvement

has been identified from this audit particularly in regard to the monitoring and reporting of the Council Building Programme in financial terms.

An action plan is provided at section 4 detailing the recommendations for improvement together with the management response. This contains a total of **6** recommendations comprising of the following:

Description	Priority	No.
Major issues that managers need to address as a matter of urgency.	High	0
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	4
Minor issues that are not critical but managers should address.	Low	2

#### 4. Action Plan

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
Medium	<p>The internal financial monitoring report focuses on the lifespan of the project and contains limited spend and profiling for the current year. The following was noted:</p> <ul style="list-style-type: none"> <li>• It is difficult to identify over/under expenditure;</li> <li>• There are discrepancies in the report formulas meaning that the variances were incorrect;</li> <li>• Lack of monitoring at fixed point in time;</li> <li>• No direct feed from the Council's Financial Management System;</li> <li>• Grant income was included.</li> </ul>	<p>The report format should be reviewed to address the audit findings. Grant income should stop being recorded within the internal expenditure monitoring reports. More reliance should be placed in the Council's financial management system's monthly monitoring reports.</p>	<p>A revised monitoring form will be prepared to take account of the concerns raised</p>	Principal Project Manager/ Housing Development Manager	31/01/9
Medium	<p>There is no financial reporting provided to local area Committees for the Council house building programme. In addition monitoring information is not provided to the capital project board.</p>	<p>Local area Council house building programme financial information should be included in the annual Capital Project Report to local area committee. Housing Revenue Account new builds should be reviewed quarterly by the relevant officers to ensure that there is sufficient governance.</p>	<p>Council house build information will be included in the annual capital project report to local area committee Quarterly meeting will be held with the Head of Housing and the Services Finance Manager</p>	Head of Development and Regeneration/ Housing Development Manager	31/10/18
Medium	<p>The HHDH works as a partnership but the current IT arrangements do not support this. As a result information cannot be easily shared or accessed by all parties and the current processes are inefficient.</p>	<p>Shared storage areas should be set-up for all HHDH partners to access to ensure efficient use and maximise support staff's time. Access to shared area should be extended to all relevant Council staff.</p>	<p>Shared storage now in operation</p>	Head of Development and Regeneration	Complete

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
Medium	Whilst the HHDH have agreed guidance for the design, construction and sustainability of affordable housing, this need is not referred to as a requirement when external consultants are appointed.	The external consultants' letter of appointment for affordable housing projects should be amended to refer to the requirement to comply with "Firms Foundations, Design Brief" and Technical Guidelines for affordable housing.	Standard appointment letter to be revised to incorporate specification requirement	Principal Project Manager	31/10/18
Low	The targets for the Council Programme's affordable housing PI, "With our partners we will build on average 500 new affordable homes per year over the next 5 years 2017-22", will be difficult to meet during the initial years of the programme due to nature of building contracts. Scottish Governments approvals numbers are also reported to Committee which could lead to confusion.	This PI should be reviewed to reflect the nature of building contract to meet targets during initial years.  All Committee reports should reflect the difference in Scottish Government tender approval and completed build numbers.	Targets to be amended to include tender approvals and completions	Head of Development and Regeneration	31/10/18
Low	HHDH membership is based on a partnership arrangement but there is a dependency on the Council's staff to lead on this.	Discussion should take place with partners to agree that the chairing of HHDH meetings will be regularly rotated.	Revisions regarding new format of HUB have been agreed including chair rotation	Head of Development and Regeneration	Complete



## **Internal Audit Final Report**

Development & Infrastructure Service

Compliance with the Carbon Reduction Commitment Energy  
Efficiency Scheme 2016-17

**Distribution:**

Director of Development and Infrastructure  
Energy & Sustainability Manager, Development & Infrastructure Service  
Senior Sustainability Officer (Energy), Development & Infrastructure Service  
Grant Thornton

**Report Ref:** HED02/005  
**Draft Date:** 09/08/18  
**Final Date:** 10/09/18

## 1. Introduction

1.1 The Carbon Reduction Commitment Energy Efficiency Scheme (CRCEES) is a mandatory UK wide policy aimed at reducing the level of CO<sub>2</sub> (carbon dioxide) emissions in large commercial and public sector organisations. CRCEES will be abolished at the end of the 2018/19 and move to a single business energy tax, the existing Climate Change Levy.

1.2 Carbon use must be reported and internally audited annually for the period 1 April to 31 March (current scheme phase 2014/15 to 2018/19 inclusive). This audit covers the reporting year, April 2016 to March 2017 inclusive. The Council reported on 1,211 qualifying energy supply points using a total of 39,196 tCO<sub>2</sub> (CO<sub>2</sub> tonnes) within the current compliance reporting period.

## 2. Main Findings

### 2.1 *Recording, measuring and reporting of CO<sub>2</sub> emission output*

This objective was partially achieved as there are adequate processes and procedures in place to record, measure, and report CO<sub>2</sub> emission output within the Council's responsibility. However, the following issues were identified:

8 of the 34 photovoltaic renewable sites were estimates as there is no robust process in place to capture and record meter readings. All had been as a result of the disconnection of the BMS metering system following a security review. There were also a number of formula errors on the spreadsheet recording consumption at renewable sites. The reported figure of 71 tCO<sub>2</sub> is incorrect as the consumption amount equates to 65 tCO<sub>2</sub>.

A sample of 30 supply sites was reviewed to ensure that:

- they covered the whole reporting year;
- they were correctly classified as actual or estimated supply, and

- the reported consumption figures agreed to the underlying billing data.

As reported in previous years, the loss of some functionality on TEAM following a software upgrade has meant the exact breakdown of the final consumption figure could not be determined in cases where direct comparison or pro-rata estimation methodology was used. This affected 5 of the 30 sites reviewed and as a result, it cannot be ascertained that the period 1 April to 31 March was covered by the annual report for all supply points. The classification of consumption as actual or estimated was found to be correct in line with the CRCEES Phase 2 definition.

Two sites were identified during the audit, as having ceased part way through 2015/16, but TEAM, using the Direct Comparison estimation methodology, had calculated consumption figures for 2016/17. The Energy and Sustainability Team are not informed of any additions or deletions to the Property Asset Management System.

Despite the previous agreed management action, no record of eligible sites has been established. There is no definitive site list maintained independent of the TEAM system. Instead the approach taken was to compare the supply details list report which shows all utility supplies in TEAM to the list of sites produced by the CRC module of TEAM. However, the identifier used for the "VLOOKUP function" was not unique enough and resulted in 1263 sites being matched by name to 1211 sites. This reconciliation was also carried out in June rather than the final July round, meaning no assurance was gained that the final round was accurate.

This reconciliation had to be completed during the audit in order to establish that all sites included within the final CRC round were eligible.

Although the consumption is insignificant, there is no robust system in place to capture meter readings for renewable energy from photovoltaic solar panel sites due to the issues with the feeder systems.

## 2.2 *Production of Carbon Reduction Commitment reports*

This objective was partially achieved as there are appropriate arrangements in place to ensure timely CRC monitoring and evaluation reports are produced. The annual report was submitted by the deadline of 31/07/17. However, as detailed at section 2.1, it has not been possible to provide assurance of the completeness and accuracy of the data submitted.

## 2.3 *CRCEES allowances*

This objective was partially achieved as it was confirmed that records were held within the Evidence Pack to support the order forecast, payment forecast, and surrender of CRC allowances and that these had occurred within the prescribed deadline dates. However, as in previous years, not all of the required information was held as there was no record of the CRC surrender of allowances that is made in October; instead confirmation had to be obtained from the CRC Registry.

The amount surrendered was also incorrect. Following the significant overstatement of energy consumption for 2015/16 an extra 1,219 allowances erroneously purchased at a cost of £19,636 (£16.10 per tonne). This should have been off-set against allowances surrendered for 2016/17. However, for reasons unknown, only 959 allowances were off/set, leaving a further 260 allowances (£4,186) to be off-set in 2017/18. As the Scheme finishes on 31/03/19 it is vital that the purchase and surrender of allowances are accurate.

## 3. **Audit Opinion**

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

This is the third consecutive year that the opinion is limited. Also of concern is that that 3 previous audit recommendations comprising of 1 high and 2 medium priority grades have not been implemented as previously agreed, with 2 appearing for a third consecutive year. Assurance has been given that the LEAN review originally scheduled for completion by September 2017 revised to August 2018, but as of September 2018 still incomplete, will meet most of the requirements of the action plan.

This includes the significant concerns that the reconciliation was not properly completed and the adjustment in unused CRC allowances was not fully offset against this year's surrender of allowances. As this is the seventh compliance year and established processes are in place, it would not be expected that such a mistake would be made at this time.

An action plan is provided at section 4 detailing the recommendations for improvement together with the management response. This contains a total of **6** recommendations comprising of the following:

Description	Priority	No.
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	4
Minor issues that are not critical but managers should address.	Low	0

#### 4. Action Plan

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
High	5 out of 30 sites reviewed had periods where TEAM had calculated an estimated amount using direct comparison or pro-rata annual average methodologies. The basis of these calculations could not be determined. This issue was also reported on in the last two audit reports but still remains unresolved.	As previously recommended, the Energy and Sustainability Team should obtain an explanation from the software supplier to evidence how TEAM calculates the consumption figures.	Energy Team have requested a definition of direct comparison and pro rata calculation methods from TEAM and this has been completed. An additional process is now in place to carry out checks on the data.	Senior Sustainability Officer (Energy)	Completed
High	Two sites had incorrectly been included as TEAM had calculated consumption values for these even though both had ceased operating during the previous reporting year.	The Energy and Sustainability Team should obtain an explanation from the software supplier as to how this occurred and what steps are being taken to prevent a recurrence.	A request was made to the software company and an additional process is in place to check estimated values.	Senior Sustainability Officer (Energy)	Completed
Medium	No site record independent of TEAM was established, contrary to the agreed management action in last year's audit report. The reconciliation that was undertaken, between the supply and CRC list within TEAM was flawed as this attempted to match 1,263 to 1,211 sites respectively. The reconciliation had to be completed by Internal Audit.	The Energy and Sustainability Team should ensure that year-end checks and any reports are produced once all required amendments have been processed and that the annual report information agrees to all supporting documentation.	The Property records are contained in K2 and the team records will be checked with them on a quarterly basis.	Senior Sustainability Officer (Energy)	Completed and to be undertaken quarterly
Medium	The source and accuracy of meter readings provided from renewable energy sites could not be determined for all sites.	The Energy and Sustainability Team should ensure that there is a robust process for recording accurate meter readings for renewable sites.	Meter readings will be captured by the refreshed BMS connection, or other means will be put in place. Measures to be independent of IT networks where connection problems exist.	Energy & Sustainability Manager	31/03/19

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
Medium	Not all the evidence required to verify CRC allowances ordered, acquired, and surrendered had been retained in the Evidence Pack. This point has been made in the last two audit reports. In response it was agreed that a checklist and model evidence pack would be prepared and retained for future years; this has not occurred.	As previously recommended, the Energy and Sustainability Team should ensure that appropriate records are held within the evidence pack to support the annual CRCEES report.	The evidence pack will be changed to include links to the regulator information. A hyperlink has been included in the evidence pack to allow the final document to be checked.	Senior Sustainability Officer (Energy)	01/11/18
Medium	Only 959 of the 1,219 over purchased allowances were off-set against the 2016/17 surrender of allowances. As a result, 260 allowances were purchased in 2016/17 unnecessarily at a cost of £4,316.	The remaining allowances should be off-set as part of the 2017/18 surrender of allowances. Also the surrender of allowances should be calculated correctly in future years as the Scheme will be abolished after the 2018/19 compliance year.	This is the final year of the period and any allowances will be used.	Senior Sustainability Officer (Energy)	31/07/19