

Agenda Item	3
Report No	AS/1/19

## HIGHLAND COUNCIL

**Committee:** Audit & Scrutiny Committee

**Date:** 27<sup>th</sup> March 2019

**Report Title:** **Internal Audit Reviews and Progress Report – 17/11/18 – 15/03/19**

**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 of the report
  - ii. note the current work of the Internal Audit Section outlined at section 4 of the report and
  - iii. approve the amendments to the 2018/19 audit plan referred to at section 5 and **Appendix 1.**

### 3. Audit Reports

3.1 There have been 6 final reports issued in this period as referred to below:

Service	Subject	Opinion
Corporate Resources	Review of VAT Arrangements	Reasonable Assurance
Community Services	Winter Maintenance	Reasonable Assurance
Community Services	Review of the arrangements for the procurement and payment of Homeless Services – Follow Up	Limited Assurance
Development Infrastructure &	Inverness and Highland City Region Deal	Limited Assurance
Development Infrastructure &	Compliance with the Carbon Reduction Commitment Energy Efficiency Scheme (CRCEES) 2017-18	Limited Assurance
Development Infrastructure &	Inverness Townscape Heritage Project	Reasonable 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 below:

(i) Certification of grant claims

Work was undertaken in respect of the Highlands and Islands Transport Partnership grant claims for Smart Peripheral and Remote Airports (SPARA) 2020 and the Green Passenger Transport in Rural Areas (G-PaTRA) projects, and the Northern Periphery

and Artic Programme (NPA) Lighthouse project during this period.

(ii) Corporate Fraud activity and investigations

Work has been completed on the investigation into allegations of misuse of staff resources, plant, materials and equipment. As there is still outstanding disciplinary matters then no further information can be provided but it is expected that the control weaknesses report will be provided to the June Committee.

An investigation into the possible theft of items from an establishment is continuing and relevant officers will be interviewed shortly. This also identified a further issue which is being addressed with Service management.

One investigation into the theft of petty cash by an employee has been completed. The employee resigned before the date of their disciplinary hearing and a report on the weaknesses that allowed this theft to occur will be issued shortly to management.

In addition an investigation into the theft of Council income is ongoing and a report has been issued to management. As disciplinary action is being considered, no further information can be provided at this time.

(iii) National Fraud Initiative (NFI)

Some of the 2018/19 NFI National Exercise matches have been provided (housing benefit, Council Tax discounts, blue badges, payroll and pensions) and are now being investigated. Further data set matches are still awaited.

The Council's results from the 2016/17 exercise are provided as a separate agenda item.

**5. 2018/19 audit plan progress/ amendments and performance information**

5.1 2018/19 Audit Plan

Progress against the plan is provided at **Appendix 1**. This gives full details for quarters 1 - 3 plus the position up to 15/03/19 for quarter 4. A number of the audits are stated as "Audit cxd" (cancelled) or "Audit c/f to next year" (carried forward). One member of staff left on 14/10/18 which has meant that the Section has held a vacancy since that date. As a result, some of the planned audits cannot be completed. These audits were discussed with the relevant Directors and agreement reached as to which ones can be cancelled or should be carried forward to next year. All carried forward audits are detailed in the 2019/20 audit plan which is provided as a separate agenda item.

5.2 Performance information

Performance information for quarters 1 - 3 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	80	93	-
	(ii) % of Client Audit Questionnaires returned	70	100	100	100	-
Business Processes						
Timeliness of Final Report	(iii) % of draft reports responded to by client within 20 days of issue	85	100	29	100	-
	(iv) % of final reports issued within 10 days of receipt of management response	90	100	86	100	-

## **6. Implications**

- 6.1 Resources, 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.
- 6.2 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.

Designation: Corporate Audit Manager

Date: 18<sup>th</sup> March 2019

Author: Donna Sutherland

Background Papers:

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

Service	Audit Ref and Name	Priority	Planned Days	Qtr 1	Qtr 2	Qtr 3	Qtr 4
Care & Learning	HAA01/001 - Provision of Early Learning and Childcare services	Medium	20	Being Planned	In Progress	In Progress	In Progress
Care & Learning	HAA03/001.bf - Review of the administration and payments in respect of Fostering, Adoption and Kinship Care	Medium	0	DR Issued	<b>FR Issued</b>		
Care & Learning	HAA05/001.bf.bf - Commissioning of Throughcare and Aftercare services	High	1	<b>FR Issued</b>			
Care & Learning	HAB01/011.bf - Review of School Funds	High	0	In Progress	<b>FR Issued</b>		
Care & Learning	HAB01/015 - Controls over network capacity and storage in Schools	High	25	Not Started	Not Started	Not Started	Audit cxd.
Care & Learning	HAB01/016 - Use of the Pupil Equity Fund in Schools	High	25	Not Started	Being Planned	Being Planned	In Progress
Care & Learning Service	HAD06/004 - Workforce Planning and Staffing Arrangements	Medium	30	Not Started	Not Started	Being planned	Audit c/f to next year
Care & Learning Service	HAE01/001 - Review of Additional Support for Learning	High	25	Not Started	Not Started	Not Started	Audit cxd.
Corporate Resources	HBA01/007.bf.bf - Review of ICT projects	Core/ Critical/ Commitment	3	DR Issued	<b>FR Issued</b>		
Chief Executive's Office	HBC03/002 - Licensing	Medium	15	Not Started	Being Planned	Being Planned	Audit cxd.
Community Services	HCA03/003 - Review of the arrangements for the procurement and payment of Homeless services - follow up	Low	12	Being Planned	In Progress	In Progress	<b>FR issued</b>
Community Services	HCB01/001 - Co-mingled Dry Recyclate Contract	High	25	Deleted from Plan, approved by ASC on 14/16/18.			
Community Services	HCC02/001 - Car Parks	Medium	20	Not Started	Not Started	Being Planned	Being Planned
Community Services	HCC03/005 - Fleet Management arrangements	High	25	Not Started	TOR issued	TOR issued	In Progress
Community Services	HCC04/002 - Review of Street Lighting	Medium	25	Not Started	Being Planned	In Progress	In Progress
Community Services	HCC07/001.bf - Winter Maintenance	High	0	In Progress	In Progress	Being drafted	<b>FR issued</b>

Service	Audit Ref and Name	Priority	Planned Days	Qtr 1	Qtr 2	Qtr 3	Qtr 4
Community Services	HCD01/003 - Review of Mobile and Flexible Working arrangements	Medium	30	Not Started	Not Started	Not Started	Audit c/f to next year
Corporate Resources	HDA05/001.bf - Review of VAT arrangements	High	0	In Progress	In Progress	Being drafted	<b>FR issued</b>
Corporate Resources	HDA06/002.bf - Review of self-serve payroll processes	High	6	In Progress	In Progress	In Progress	In Progress
Corporate Resources	HDA09/002.bf - Review of IT controls surrounding payments to creditors	Core/ Critical/ Commitment	0	DR issued	<b>FR issued</b>		
Corporate Resources	HDA11/001 - Insurance	Medium	20	Not Started	Being Planned	In Progress	In Progress
Corporate Resources	HDA14/002 - Review of financial controls	Medium	20	Not Started	Being Planned	In Progress	In Progress
Corporate Resources	HDA16/001 - Commercial and Procurement Services	Core/ Critical/ Commitment	30	Not Started	Not Started	Not Started	Being planned
Corporate Resources	HDB03/004 - Housing Benefit Payments 2017-18	Core/ Critical/ Commitment	25	In progress	<b>Completed</b>		
Corporate Resources	HDB03/005 - DWP Housing Benefit Review - Performance Measurement exercise	Core/ Critical/ Commitment	10	<b>Completed</b>			
Corporate Resources	HDB05/004.bf - Income Systems	High	30	Not started	Being Planned	Being Planned	Audit c/f to next year
Corporate Resources	HDB10/001 - Financial Assessments	Medium	25	Not started	Being Planned	In Progress	DR Issued
Corporate Resources	HDB11/001 - Review of compliance with corporate complaints procedure	High	20	Not Started	Not Started	Not Started	Audit cxd.
Corporate Resources	HDC03/005 - HC Governance Assurance Statement 2017-18	Core/ Critical/ Commitment	25	<b>Completed</b>			
Corporate Resources	HDC06/026 - Review of fraud prevention and detection arrangements	High	25	Not Started	Not Started	In progress	In progress
Corporate Resources	HDD01/004.bf - Use of Purchase Cards	Core/ Critical/ Commitment	0	In Progress	<b>FR Issued</b>		

Service	Audit Ref and Name	Priority	Planned Days	Qtr 1	Qtr 2	Qtr 3	Qtr 4
Corporate Resources	HDD04/001 - Review of Information Management arrangements	Core/ Critical/ Commitment	20	Not Started	Not Started	Not Started	Being Planned
Corporate Resources	HDD04/002 - Cyber Security	High	25	Not Started	Not Started	Not Started	Audit c/f to next year

Key:

TOR – Terms of Reference

DR – Draft audit report

FR – Final audit report

Audit cxd – Audit to be cancelled

Audit c/f to next year – Included in 2019/20 audit plan

## Internal Audit Final Report

### Corporate Resources

### Review of Vat Arrangements

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

#### Distribution:

Depute Chief Executive & Director of Corporate Resources  
 Head of Corporate Finance & Commercialisation  
 Finance Manager, Corporate Budgeting, Treasury & Taxation  
 Services Finance Manager, Community Services/Development & Infrastructure  
 Assistant Pay & Pension Manager

#### Audit Opinion

The opinion is based upon, and limited to, the work performed in respect of the subject under review. Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist. It is the opinion that **Reasonable Assurance** can be given in that whilst the system is broadly reliable, areas of weakness have been identified which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

**Report Ref:** HDA05/001.bf  
**Draft Date:** 26/02/19  
**Final Date:** 12/03/19



## 1. Introduction

- 1.1 The objective of this audit was to assess the adequacy of the Council's VAT arrangements.
- 1.2 The Council, as a VAT registered local authority, must ensure that VAT is correctly charged on the supply of goods & services. There are special VAT rules for Local Authorities in relation to the recovery of VAT. If supplies are treated incorrectly penalties could be applied.
- 1.3 VAT is processed through the Council's financial system, Integra. The amount of VAT reclaimed by the Council during the review period amounted to £54.2m.

## 2. Main Findings

- 2.1 *VAT policies and procedures accord with HMRC requirements and available to all staff.*

The first audit objective was substantially achieved as the Council's policies and procedures, including the VAT Manual and A-Z listing (VAT guidance), which provides details of the VAT rate to be used for different categories of income and expenditure, was predominantly up to date and reflects HMRC's current guidance. However, there is scope to enhance the VAT guidance by including the following:

- Issues arising from HMRC's August 2017 technical update particularly regarding procedures to follow for invalid invoices and knowledge of fraud involving supply chains.
- Information on which VAT rate to use for recent changes in the Council's day to day operations such as off-street parking meter collection charges and biomass fuel purchases.

- 2.2 *Timely and accurate VAT returns and supported by accurate records.*

This objective was partially achieved as the VAT returns reviewed were submitted in an accurate and timely basis and no penalties were incurred for late submission.

However, a sample of the underlying VAT records (income and expenditure transactions) were examined to ensure that the VAT

was processed correctly by the officer inputting the transaction. The vast majority of transactions were processed correctly except for the following:

Income: can be processed through the AXIS cash receipting module which interfaces to the Cash Management System (CMS) module on Integra. A random sample of 30 income transactions were selected for examination. Of these, 3 transactions were coded to the incorrect VAT rate. Of these, 2 related to photocopy and taxi licence income which were identified and corrected prior to submitting the monthly VAT return.

However, the remaining error occurred as a result of a change to the income processing arrangements for the collection and recording of car park income for the Lochaber and Skye areas. This error resulted in a failure to correctly record and declare the associated VAT. Officers have calculated the underpaid VAT and £186,795 was notified and paid to HMRC.

Expenditure: the only issue found with expenditure transactions was in respect of staff & member's expense claims and the provision of supporting VAT receipts.

VAT included in the mileage rate paid to staff and members is automatically claimed at the point of processing expense claims and is based upon the mileage travelled. HMRC requirements state that you can recover VAT on fuel for work related mileage as long as you have appropriate VAT receipts to cover the amount of VAT claimed.

Examination of a sample of 16 paper and 14 online (My View) claim forms showed:

- 4 were satisfactory;
- 18 had no supporting receipts;
- 8 had receipts but these did not cover the amount of VAT claimed, and, or, were invalid as the receipts were dated after the date of the mileage claim.

The review of 30 items identified that overall, there was a lack of valid receipts to support both online and paper based expense claims for both mileage and "other expenses".

Furthermore, the amount of VAT reclaimed from HMRC, £473.83, was higher than the value of VAT detailed on the receipts provided, £119.59. As a result, and based on the sample examined, VAT amounting to £354.24 was claimed without the supporting receipts.

It should be noted that this is based on the audit sample and the potential discrepancy between the amounts claimed from HMRC and the value of VAT detailed on receipts provided could be much larger. The implications of this could lead to a payment of VAT plus interest and penalties where VAT was claimed without supporting VAT receipts.

Finally, although there is a guidance note on fuel receipts published within the VAT guidance, which does mention the necessity to attach fuel vat receipts to claim forms, it is out of date as it still refers to paper based claims. This information is not linked to other guidance for staff claiming expenses. Therefore, there is scope to strengthen the VAT guidance and communications to make them aware of the need to provide VAT receipts and the benefit for the Council in doing so.

### **3. Conclusion**

- 3.1 On the whole, VAT is correctly captured, calculated and accounted for. Also, it is recognised that considerable financial controls are performed in the form of VAT checks, analysis and reviews conducted to ensure VAT is correctly declared.

However, two small, but significant errors were found with the underlying records that support the Council's VAT returns. These related to a change in the arrangements for the collection and recording of income which failed to consider the VAT accounting requirements and secondly, the failure to ensure that the appropriate VAT receipts were provided to support the amount of VAT reclaimed on staff expense claims.

#### 4. Action Plan

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
High	The audit identified that as a result of changes to the cash collection and AXIS recording process, VAT was not accounted for on Lochaber & Skye off-street car park income. Under declared vat amounting to £186,795 was subsequently paid and declared to HM Revenues & Customs (HMRC).	As a matter of critical importance, the Income and Recovery section must notify the VAT team of any new income stream or financial system changes to ensure any changes along with any associated VAT implications are correctly accounted for.	VAT team has met with the income team and emphasised the point that any change in VAT treatment needs to be agreed with the VAT team before being implemented. This will happen from now on.	Revenues Manager	ongoing
High	No checks were undertaken to ensure the VAT amount claimed on expenses paid to staff were supported by valid VAT receipts. This could lead to HMRC requesting repayment of VAT plus interest and penalties where VAT is claimed without supporting receipts.	<p>The current process of automatically claiming VAT on mileage expenses should be reconsidered.</p> <p>Fuel receipt guidance should be strengthened to reinforce the regulatory requirement to hold valid VAT receipts to support reclaims of VAT.</p> <p>In addition, an alert should be built into the MYVIEW claim process to alert the claim inputter of the regulatory necessity to ensure claims are only processed where valid VAT receipts are provided, also, guidance instructions should be provided on how to attach electronic receipts onto MYVIEW. Receipts must be held for six years.</p>	<p>Following further review of the claims and receipts submitted (see below) the current policy of recovering VAT will be reconsidered.</p> <p>Budget holders should currently check all aspects of expenses and mileage claims before they approve them. An email reminder will be issued.</p> <p>A pop up reminder has been already been added to the online expenses approval process to remind managers to check claim is legitimate and correct receipts are attached.</p>	<p>Finance Manager Corporate Budgeting, Treasury and Taxation</p> <p>Finance Manager Corporate Budgeting, Treasury and Taxation</p> <p>Finance Manager Corporate Budgeting, Treasury and Taxation</p>	<p>31/10/19</p> <p>Completed.</p> <p>Completed.</p>

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
	<p>The audit sample identified that insufficient Vat receipts were held to support the sum claimed from HRMC.</p> <p>The guidance on provision of VAT fuel receipts is out of date and does not link to other guidance for staff for claiming expenses. Therefore many claimants are likely to be unaware of the reasons for the need to provide VAT receipts and the associated financial benefit to the Council.</p>	<p>A larger sample of claims should be examined to establish the extent of this problem and the potential financial implications for the Council.</p> <p>As a priority and for promptness, fuel receipt guidance should be sent out via an email alert to all staff to strengthen awareness concerning the regulatory requirement to hold valid VAT receipts when claiming VAT on expenses.</p>	<p>Further checks will be carried out and conclusions drawn and appropriate actions implemented.</p> <p>A reminder email will be issued to all staff. Including reminder to budget holders regarding the checking of claims.</p>	<p>Finance Manager Corporate Budgeting, Treasury and Taxation</p> <p>Finance Manager Corporate Budgeting, Treasury and Taxation</p>	<p>30/09/19</p> <p>Completed.</p>
Medium	The Council's VAT Manual and A - Z Listing was not amended to provide guidance concerning invalid invoice and knowledge of fraud procedures.	The VAT Manual and A - Z Listing must be updated to provide vat rate details plus guidance and examples of procedures to follow concerning invalid invoices and fraudulent transactions.	<p>The A-Z listing does state that the list is not exhaustive and if anything new is required to be added then the VAT team should be informed.</p> <p>The VAT manual will also be updated to refer to corporate criminal offence. Some controls are already in place to try to address risk areas associated with this eg additional checks are in place when requests for new suppliers are received in the creditors team.</p>	<p>Finance Manager Corporate Budgeting, Treasury and Taxation</p> <p>Finance Manager Corporate Budgeting, Treasury and Taxation</p>	<p>31/03/19</p> <p>31/03/19</p>

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
	Furthermore, the above documents did not contain details of the correct VAT rates to be used following recent changes in the Council's operations, such as: off-street parking meter collection charges and biomass woodchip purchases.		<p>This subject has also been raised for discussion at the corporate risk working group.</p> <p>VAT rates will be updated in the VAT manual and A-Z listing.</p>	Finance Manager Corporate Budgeting, Treasury and Taxation	31/03/19

## Internal Audit Final Report

Community Services

Winter Maintenance

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	3
Minor issues that are not critical but managers should address.	Low	1

### Audit Opinion

The opinion is based upon, and limited to, the work performed in respect of the subject under review. Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist. It is the opinion that **Reasonable Assurance** can be given in that whilst the system is broadly reliable, areas of weakness have been identified which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

### **Distribution:**

Director of Community Services  
Head of Roads and Transport, Community Services  
Senior Service Support Officer (HQ), Community Services  
External Audit

**Report Ref:** HCC07/001

**Draft Date:** 25/01/19

**Final Date:** 18/03/19

## 1. Introduction

- 1.1 The audit reviewed winter maintenance operations during 2017/18 to ensure that this was undertaken in accordance with the Council's Winter Service Policy. The audit focused on a number of Area operations and included pre-season preparations, the decision making process regarding gritting treatments, and management of resources. All 8 Area Operational teams were covered in the audit, but responses to queries were not received from 3 of the teams. It is accepted that the audit took place during one of the most severe winters experienced in recent years, and as the areas will have been fully engaged in winter operations, it may understandably have been difficult for some of the teams to respond to these queries. However, the deadline for responses was extended beyond the end of the winter maintenance season in recognition of this.
- 1.2 The Winter Maintenance budget for 2017/18 was £4.976m with an actual outturn of £7.074m, an overspend of £2.098m, although this was offset by additional Scottish Government funding of £0.940m in response to the severe winter weather experienced. This reduced the overspend to £1.158m.

## 2. Main Findings

### 2.1 *Winter Maintenance Policy, Operational Procedures, Manuals, and Area Winter Maintenance Plans*

The first objective was fully achieved as:

- Winter Service Policy was last reviewed and agreed by the Community Services Committee in 2016;
- Operational Procedure, which details the actions to be taken and the records to be maintained, was last amended in August 2014. The Winter Maintenance Manual, a detailed how to guide for drivers, was last updated November 2010. It is currently being reviewed and updated.
- Area Winter Maintenance Plans are prepared for operational Areas, are updated annually prior to October, and put to the relevant Area Committee for approval.

- Managers and operatives are aware of the requirements of all the key documents and all receive annual pre-season refresher talks.

### 2.2 *Winter Maintenance Operations*

The second objective was partially achieved as the audit found that most winter maintenance operations were generally carried out in accordance with policy and operational guidance. However there were a number of issues identified where these were not being adhered to.

18 of the 225 (8%) Daily Action Plans (DAPs) reviewed, which sets out the routes to be gritted and the salt spread rate to be applied, were found to have been posted late (after 1400hrs), although assurance has been given that operatives are informed by the required time. Given that this was a very severe winter, it is understandable that posting may have been late. DAPs also let the forecaster know what action is proposed and should forecasts be marginal and change significantly, this allows the forecaster to notify Duty Officers accordingly. However, drivers can convey that more grit is needed if conditions require it, which enables them to respond to changes to weather forecasts or conditions. In addition 8 of these 18 late postings (3.5% of the 225 DAPs reviewed) occurred over weekends. It should be noted that action planning at weekends is done at home and there can be network problems in posting the plans.

30 gritting routes were reviewed in their entirety to determine whether the salt spread rate adhered to the DAP instruction, whether the spread width used was in line with the actual road width, and if the route hierarchy was followed. For 19 of the 30 routes the route was either completely or partially gritted not in accordance with the DAP instructions. However it is recognised that 10 of these were as actual conditions varied significantly from the forecast, and it is acceptable for spread rates to be altered in these conditions. However, 6 of the 19 routes (32%) were due to driver error and included the gritting of Trunk Roads, which are the responsibility of Bear Scotland. Reasons for the other 3 could not be determined as no response was received from the Area team.

For width of spreading, 14 of the 30 routes were gritted at a width different to the actual road width. 6 were as a result of driver error, rather than the technical issue of spreading wet salt by using a very wide spread rate. For 3 routes the width spread was less than the road width with spreading occurring in both directions, a practice that should not occur. This results in more salt being distributed in the centre of the road where it is less effective as it is not worked in by the traffic.

The route hierarchy was followed on all but 2 of the 30 occasions reviewed – 1 of which was due to the prevailing weather conditions. The Winter Service Policy does specify that in times of severe weather, resources will be concentrated on keeping the Primary network clear and as a result there may be a delay before it is possible to treat the secondary and other road network, including residential streets.

The amount of salt used was calculated on actual spread rates and compared to what was the expected usage based on the DAP spread rate. 3 Areas namely Badenoch & Strathspey (2.1%), Ross & Cromarty (5.4%), and Lochaber (7.3%) exceeded the expected salt usage but were within the accepted tolerance limit of 10%. However for Skye actual salt usage was 18% above expected. Unlike other Areas there were no instances in Skye where a lower spread rate was used than that set out in the DAP. This results in unnecessary spend. For example, the total value of salt purchases for the Skye Area on 2017/18 was £139,154.34 – if the 18% overuse figure identified in the sample was applied to the whole winter season this would result in estimated additional costs for the Skye Area of around £25,000.

All vehicle start times in December 2017 for all Areas were reviewed to determine the number of "early starts" - this being before 0600hrs on weekdays and 0700hrs on Sundays & public holidays. The proportion of early starts in comparison to all starts, varied from 19% for Nairn to 61% for Badenoch & Strathspey. Worksheets for Ross & Cromarty, where early starts account for 53% of all starts, revealed that on 90 out of 100 occasions when operatives started early, operatives did not claim payment for the earlier start. On only 10 occasions a 0530hrs start was claimed for by one operative. It is known that

operatives may often start up vehicles early to defrost them which is necessary when there is no other pre-heat facility fitted, however the Service has recognised that excessive idling of vehicles can be costly and has committed to more robust monitoring of this with a Savings target of £30,000 set for reduction in fuel costs in 2019/20 to be achieved from HGVs engaged in Waste and Roads Operations. In addition, newer vehicles come fitted with an automated pre-heat facility that runs directly off the fuel so this issue should diminish over time.

The Winter Service Policy requires all primary priority routes to be gritted by 0830hrs and secondary priority routes by 0900hrs. All routes in Ross & Cromarty and Skye for the week 11<sup>th</sup> to 15<sup>th</sup> December 2017 were reviewed for compliance with this requirement. This week was selected as full callouts were required all week due to the weather conditions.

Table: % of routes gritted by target treatment times

Priority route	Ross & Cromarty	Skye	Overall
Primary (P)	93%	96%	94%
Secondary (S)	82%	48%	75%
<b>Overall (P+S)</b>	<b>88%</b>	<b>77%</b>	<b>85%</b>

The review found a number of Skye secondary priority routes had not been treated until the early afternoon. This was acceptable due to freezing rain which is regarded as a severe weather event, which necessitated primary routes to be gritted twice if not three times, thus delaying gritting of secondary routes. Target times apply for completion of routes during conditions of ice and light snow. Freezing rain is outwith this definition and is considered exceptional. Whilst not completing gritting routes by target times in normal conditions leaves the Council liable to insurance claims arising from road accidents, this is not the case in times of severe weather. Details of the target times and the conditions when they are applicable are included within the Winter Service Policy and the Area Winter Maintenance Plans. The target times are also included under a link to "Winter Information and Advice" on the front-page of the Council website. However the information on this section of the website does not state that the target times are only applicable



under certain conditions. Public awareness could be improved, and expectations better managed, if this was clearly stated. A comparison of gritting routes maps between Areas highlighted that some Areas show "other" priority routes whereas other Areas do not, on the assumption that everything that is not primary or secondary is other priority.

A review of 34 operative's worksheets found one not signed and another not authorised (2%). Six worksheets had also not recorded salt usage. The implication of worksheets not signed nor authorised is that it may lead to overtime being paid that has not been worked. Not recording salt usage means the used book value of salt stocks will be overstated.

Operation Procedure 711 (OP711) requires that salt stockpiles "shall be measured weekly during the winter and any discrepancies between the measured totals and those supplied through the job card/timesheet system shall be corrected". Two of the three Areas who responded stated salt stockpiles are measured monthly, the third annually, with all stating that book and actual stock is only reconciled at the end of the gritting season. There is a risk that if salt stocks are not monitored in line with the policy that more stock will not be ordered from the supplier in time. However, if stocks run low in an area, there is a contingency plan to harbour salt from Inverness where a strategic reserve is maintained. This does however incur additional transportation costs which could be avoided if the policy was followed. Senior management are aware of this issue and it will be addressed for the 2018/19 winter gritting season.

### **3. Conclusion**

- 3.1 There are good policies and procedural manuals in place as set out in the Winter Service Policy, Plans, Operational Procedures, and Winter Maintenance Manual. Whilst a number of issues have been identified, the service is largely compliant with the Winter Service Policy. However, the failure of 3 Areas to respond to queries has meant that the reason for some of the inconsistencies could not be ascertained. The most significant issue relates to the control of salt, both in terms of recording salt usage and not regularly measuring stockpiles and the amounts used particularly in Skye. It is recognised that the

2017/18 winter was particularly severe. While this was the main factor behind the budgetary overspend referred to in Section 1.2, as recognised by the additional funding provided by the Scottish Government, it is considered that non-compliance with the Winter Service policy has also contributed to the budget overspend, albeit to a lesser degree.

#### 4. Action Plan

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
High	Salt usage in Skye was 18% higher than the expected amount based on the Daily Action Plan rates	Senior management should investigate the high usage of salt on Skye and address issues identified to ensure that this does not reoccur.	The usage of salt on Skye will be more closely monitored through weekly usage returns.	Roads operations Manager, Skye, Ross & Cromarty.	31/03/20
High	The frequency of measuring of salt stockpiles and the reconciliation of actual stockpiles to book values is not carried out as set out in OP711.	Arrangements should be put in place to ensure that the monitoring of salt stockpiles, both measuring and reconciling, is in accordance with OP711.	In conjunction with the Assistant Logistics Manager, we will up-date our processes to simplify the arrangements for salt reserves to be monitored.	Roads Operations Managers/ Assistant Logistics Manager	31/10/19
Medium	6 of the 14 routes where the salt spread width was greater than the road width was due to driver error.	Managers should ensure that operatives are aware of the requirement to spread salt in a single direction and to a width no greater than the road width, unless the salt is wet and that this is included in the induction process and annual pre-season staff briefings.	Operatives will be reminded of this requirement in induction process and the annual pre-season staff briefings.	Roads Operations Managers.	31/10/19
Medium	There is a variance between the proportion of early vehicle starts between Areas.	A standard approach should be adopted to provide guidance on circumstances when vehicles should be started early. If operatives have been working before the official start time this should be reflected on their worksheets.	This issue is being addressed through more close supervision of vehicle idling times and the service has a savings target of £30,000 for 2019/20 to be achieved from reduction in fuel costs for HGVs engaged in both Waste and Road Operations.	Roads Operations Managers	31/03/20
Medium	One worksheet had not been signed by the operative, and another was not authorised. 18% of worksheets did not record salt usage.	(i) All operatives should be reminded that worksheets must be signed and record any salt usage where applicable.	Operatives will be reminded through tool-box talks and Managers will be instructed that worksheets must be authorised.	Head of Roads & Transport / Roads Operations Managers.	31/03/19
	These issues have previously been raised as part of the review of the control of overtime within Community Services.	(ii) Managers should ensure that worksheets must be authorised.			
Low	Information on the "Winter Information and Advice" section of	Details of the target times and weather conditions under which the	Target times and weather conditions under which the	Policy and Programmes	31/10/19

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
	the website does not state that the target times are only applicable under certain conditions. The detail recorded on gritting routes maps also varied between Areas.	targets are applicable should be clearly detailed on the Council's website to improve public awareness and a consistent approach to gritting maps should be adopted Council wide.	targets are applicable will be clearly detailed on the Council's website. Gritting maps will be reviewed for consistency of detail.	Manager.	

## Internal Audit Final Report

### Community Services

#### Review of the arrangements for the procurement and payment of Homeless Services – Follow Up

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	0
Minor issues that are not critical but managers should address.	Low	0

#### **Distribution:**

Director of Community Services  
 Head of Housing and Building Maintenance, Community Services  
 Housing Policy and Investment Manager, Community Services  
 Depute Chief Executive/ Director of Corporate Resources  
 Strategic Procurement Manager (Category Management)

#### **Audit Opinion**

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

**Report Ref:** HCA003/003

**Draft Date:** 26/02/19

**Final Date:** 11/03/19

## 1. Introduction

- 1.1 A report on the review of arrangements for the procurement and payment of homeless service (ref HCA03/002.bf) was issued on 05/6/17. This report had the option of limited assurance and contained three high priority recommendations.
- 1.2 The scope of the follow-up audit review was to ensure that the agreed management actions from the previous audit had been satisfactorily implemented by the agreed target date. The recommendation to review procedures, staff training and performance monitoring in regard to managing arrears in temporary accommodation was addressed at the time of the audit. Therefore, the two remaining recommendations were followed up as part of this review.

## 2. Main Findings

- 2.1 *The retendering of the Temporary Homeless Accommodation framework has been undertaken and new contracts in place from April 2018*

This objective was fully achieved as the agreed management actions had been implemented. Tenders were issued in October 2017 and final award letters issued in March 2018 to commence April 2018. The Agreement is scheduled to run until 31 March 2021 with an option of a twelve month extension.

- 2.2 *The contract(s) for providing housing support linked to Specialist Supported Accommodation has been tendered and is in place from April 2018*

This objective has not been achieved as the previous agreed management action has not been undertaken.

A Framework Agreement for the provision of Housing Support Services was tendered in July 2016 and this runs to 31<sup>st</sup> March 2019 which includes the 12 month extension period. The Framework was split into 7 geographic lots and providers could tender for any or all of these lots. Specialist supported accommodation was originally to be included but due to the different issues involved with this type of accommodation, the Service decided this would be subject to a separate tender

exercise. Therefore, the instructions to prospective providers clearly stated that supported accommodation and directly related support were out with the scope of the Framework.

The tenders received were evaluated and ranked with the top 3 being included in the Framework. The exception was Lot 7, Inverness Area where due to the number of clients, the top 5 were included. Under the Framework's Standard Conditions a call-off contract may be awarded directly to a service provider in ranked order.

In May 2018 the Framework was extended to include the Specialist Supported Accommodation with the annual value of £471,380. Around 35 clients with multiple and complex needs reside in Specialist Supported Accommodation and the same provider has been awarded this service for this amount for several years without being subject to tendering.

The UK Government announced changes to funding arrangements for Specialist Supported Accommodation with effect from April 2019. The existing provider was the only one in Highland who was offering this "exempt" accommodation. As part of this process the government also committed to reform the funding for the supported housing sector, the intention being to grant fund the provision through Councils rather than through the welfare benefit system. From the Council's perspective there was a significant risk that retendering would result in costs to the Council in excess of what could be recovered in rents from clients, and a therefore an additional cost pressure on the General Fund homelessness budget.

The Service discussed with the Commercial & Procurement Shared Services (C&PSS) the possibility of incorporating the Specialist Supported Accommodation into the extension of the existing Housing Support Services framework agreement. They considered as the services had previously been block funded and no competition currently existed in the marketplace, there was minimal risk for including this within the framework, it was preferable that the services would be covered by formal conditions of contract and improved contract monitoring with supporting conditions of contract would be beneficial and help inform potential opportunities for efficiencies and improvements.

By incorporating the service within the overall Housing Support Framework the Council was able to control referrals and the level of support being received by individual clients, and therefore manage cost. It is estimated that this will result in a revenue saving of £42,000 in 2018/19.

The Council's Procurement Manual states it is important to select the supplier to ensure best value for the Council, however, a lack of competition in the marketplace and previous provision of block funding for a period of years has meant that the Service have needed an improved mechanism to monitor service provision and have confirmed to the C&PSS that in incorporating the services into the Framework Agreement, subsequent efficiencies have been achieved and will assist in creating a specification of requirements to enable a competitive tendering of the services.

As part of the Homeless: Rapid Rehousing Transition Plan which was submitted to the Scottish Government in December 2018 the Council plans to establish a business case for developing Council owned Specialist Accommodation for clients with high support needs. The Service originally intended to extend the current contract arrangements for short-term housing support and the specialist supported accommodation to March 2020. However, Internal Audit identified that this this would breach Procurement Regulations on two counts as both the contract extension period and variation percentage allowed have been fully utilised, and so no further extension can be legally granted. As a result it has been agreed that the framework be extended for 6 months, to September 2019, in order to undertake procurement of the service. This has been done through approval of an exemption to Contract Standing Orders by the Depute Chief Executive and Director of Finance.

### **3. Conclusion**

- 3.1 A high priority management agreed action to tender for specialist supported accommodation has not been implemented. Instead the decision was taken by Service management in conjunction with C&PSS to continue to with the existing arrangements and incorporate into another Framework as a

contract extension. As reported in the original audit, this service has never been subject to tendering. However, the incorporation of this service into the Framework has delivered savings for the Council but does also illustrate the benefits of formal contact arrangements that would be achieved from tendering.

In addition, the audit raised serious concerns that Procurement Regulations were not followed and would be breached if the current arrangements were extended further to March 2020. Immediate action is now being taken by between the Service and C&PSS to address this concern.

The aim of a follow-up report is to provide assurance that the original management actions have been implemented as agreed. This assurance cannot be provided for the reasons outlined above and so the original audit opinion of Limited Assurance remains. Revised actions have now been agreed by management as detailed in the action plan at section 4, and once implemented, this will satisfactorily address the audit findings.

#### 4. Action Plan

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
High	<p>In response to the June 2017 audit report it was agreed that the provision of Specialist Supported Accommodation would be subject to competitive tendering.</p> <p>This has not been tendered, but instead included in an extension to an existing Framework Agreement for Housing Support. As in previous years the service is being delivered by a single provider at annual value of £471,380 pa, this figure is based on the historical grant payment received by the supplier.</p> <p>Furthermore, the audit identified that the proposal to further extend the Framework, including the Specialist Supported Accommodation, to March 2020 would have resulted in breaches of the Procurement Regulations. Immediate action is now being taken between the Service and C&amp;PSS to satisfactorily address this matter.</p>	<p>As part of the Homeless: Rapid Rehousing Transition Plan a review of specialist accommodation is taking place. Once the recommendations have been agreed if any specialist support accommodation is still required, it should be tendered to ensure the Service can demonstrate Best Value is being achieved.</p> <p>In the meantime until this is achieved, action should be taken to ensure that any interim arrangements accord with the Procurement Regulations and provide Best Value for the Council.</p>	<p>Bringing the service within the existing framework allowed the Council to manage contract conditions more effectively during this period of uncertainty and achieve a reduction in spend on the service in the current year.</p> <p>The Housing Support and specialist Supported Accommodation Services are now being separately tendered in order to ensure compliance with Procurement Regulations. Contract notices will be published by the end of March 2019.</p>	<p>Head of Housing and Building Maintenance</p> <p>Strategic Procurement Manager (Category Management)</p>	30/09/19

## Internal Audit Final Report

Development & Infrastructure

Inverness and Highland City Region Deal

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	2
Minor issues that are not critical but managers should address.	Low	1

### Audit Opinion

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

### **Distribution:**

Director of Development & Infrastructure  
Programme Manager, City Region Deal, Development & Infrastructure Service  
Services Finance Manager, Corporate Resources Service

**Report Ref:** HEE03/003

**Draft Date:** 01/02/19

**Final Date:** 08/03/19



## 1. Introduction

- 1.1 The Inverness and Highland City Region Deal (CRD) is a tripartite agreement between the UK Government, the Scottish Government (SG) and Highland Council. It was signed on 30/01/17 and sets out a series of projects and programmes which will see a significant funding package of up to £315m invested into the regional economy over a 10 year period (UK Government £53.1m, Scottish Government £135m, Highland Council and Partner Organisations £127m).
- 1.2 Governance arrangements for the CRD were agreed at a meeting of The Highland Council on 12/05/16 with subsequent updates agreed at a meeting of the Planning, Development and Infrastructure Committee on 25/01/17 and these are set out in the CRD Signatory Document. The annual grant award letter received from the SG also sets out governance and reporting requirements which are a condition of the grant award. The audit assessed whether or not the CRD is being managed in line with the agreed governance arrangements.
- 1.3 Highland Council is the Accountable Body for the CRD and is therefore responsible for the receipt of funding from the Scottish and UK Governments and the disbursement of funds to partner organisations. The audit evaluated how effectively this operates in practice.
- 1.4 A sample of 3 CRD projects was examined as part of the audit:
- Science Skills Academy (SSA)
  - Innovative Assisted Living (FIT House)
  - Inverness Castle.

## 2. Main Findings

### 2.1 Governance Arrangements

This objective was partially achieved. The signed Signatory Document clearly sets out the intent and strategic context of the CRD and the themed areas are based on the commitments set out in the Heads of Terms Agreement which was signed on the 22/03/16.

According to the Signatory Document, the Environment, Development and Infrastructure (EDI) Committee (formerly the Planning, Development and Infrastructure Committee) should "scrutinise and monitor progress as well as programme spend". However regular progress reports have not been provided to this Committee, other than update reports provided on the Members Bulletin on 01/02/18 and 17/05/18, since the meeting held on 15/06/17. A report was provided to full council on 13/12/18 on the first CRD Annual Report which contained progress reports for all projects, including financial information.

A CRD Member Scrutiny Panel, comprising of the Leaders of the Council's political groups or their nominees has been established in order to review and monitor the progress of the CRD and associated documentation prior to submission to the EDI Committee. Feedback received from the Programme Manager indicates that this group does not always meet quarterly, with some meetings cancelled due to poor attendance. However this cannot be verified as a formal record of meetings is not kept.

There is a Programme Manager in post who is responsible for all aspects of CRD management and administration and there is a Programme Board in place which meets quarterly and is chaired by the Director of Development & Infrastructure. Programme progress reports, including the RAG (Red, Amber or Green) status of each project, are provided to each meeting by the Programme Manager and each of the project leads provide project updates. The RAG status is proposed by the project lead but has to be agreed by the Programme Manager and feeds into other reporting channels such as to the SG and the EDI Committee. There is no set definition for each RAG status which means it is more open to interpretation. However the status of each of the sampled projects was considered to be reasonable.

There is a full business case in place for the SSA and FIT House projects and a part business case for the Inverness Castle Project covering the purchase of the Bridge Street site. However these had not been noted or approved by the EDI Committee which is one of the governance requirements set out in the CRD Signatory Document. The business case for the

purchase of Bridge Street went to the City of Inverness Area Committee on 22/02/18 and the Corporate Resources committee on 28/02/18. Partner business cases go through their own governance arrangements. A full business case is currently being developed for the Inverness Castle project with work ongoing to explore development opportunities within the site and options for use of the castle from 2020 onwards. Each project is overseen by a project board which meets at least quarterly, is led by an appropriate project lead and attended by the Programme Manager.

The reporting and governance requirements set out in the annual grant award letter tend to change from year to year and have evolved since the CRD programme started. The requirements set out in the 2018/19 grant award letter were examined as part of the audit to assess compliance. An Annual Conversation meeting was held with the Scottish and UK Governments at the beginning of October 2018 and an Annual Performance Report had been prepared by the Programme Manager. An updated Implementation Plan, an Annual Benefits Realisation Plan, an Annual Financial Forecast Table for 2020/21, Quarterly Performance Reports and Monthly Financial Forecast Tables had not been provided to the SG within the required timescales. These reports were subsequently submitted to the SG following the Annual Conversation meeting. As well as having a potentially negative reputational effect, the delay in providing these reports could impact on the allocation of grant funding by the SG for subsequent years and also on the settlement of grant claims for the current financial year.

## 2.2 *Receipt of grant funding from the Scottish Government*

This objective was partially achieved. Grant funding is awarded annually by the SG for both UK and Scottish Government funding and the amount awarded is based on forecasted funding requirements prepared by the Council in conjunction with partner organisations.

The timing of the annual grant award letter is irregular and is not issued by the SG at the beginning of each financial year which in turn impacts on the timing of grant claims submitted by

the Council. These should be done quarterly but only 2 claims have been submitted:

- 2016/17 financial year - £266,657
- 2017/18 financial year - £1,174,963.

For each claim, a Grant Claim form should be submitted along with the progress reports and monitoring information set out in the annual grant award letter. Adherence to these conditions could not be verified as copies of the grant claim information submitted to the SG had not been retained. However, the requested grant funds were received from the SG.

Each annual grant offer letter states that the total grant shall be payable within the financial year to which the letter refers. All grant funds were drawn down in 2016/17 but only £1,174,963 out of £5,544,757 had been drawn down in 2017/18. The financial profile is based on forecasts provided by the Council and its partners. There have been delays in project implementation partly caused by the need to have business cases signed off and this means that the spend profile doesn't necessarily meet the forecasts. Scottish Ministers are not bound to pay any instalment of the grant which has not been claimed within the offer period unless otherwise agreed by them in writing. Although this has not yet happened, there is a risk that grant funds could be lost if not claimed within the specified period.

Not all of the grant funds drawn down from the SG have been used and the Council currently holds £879,257 from funds drawn down during 2016/17 and 2017/18. The Services Finance Manager has held discussions with the SG regarding the unused grant funds and it has been agreed that they will be offset against 2018/19 grant expenditure. £1,232,351 is also held by the Council from the grant award of £3m received in 2015/16 (prior to the date of the CRD Signatory Document) specifically to fund the Inverness Castle project.

## 2.3 *Disbursal of grant funds to partner organisations*

This objective was partially achieved. Where a partner organisation is responsible for delivering a project, a letter of

undertaking should be in place between the partner organisation and Highland Council as the Accountable Body. This is a legal agreement which specifies the terms and conditions of the grant award and the associated schedules detail the payment (amount) and claim (timing) requirements. In the case of the Inverness Castle project, the project is being delivered by Highland Council, although project managed by High Life Highland, and therefore a letter of undertaking is not required.

#### *Science Skills Academy*

A legal agreement has been drafted but at the time of the audit it had not yet been signed by Highlands and Islands Enterprise. Despite this, grant funding of £273,432 has been released to HIE for the project during 2016/17, 2017/18 and 2018/19. The amounts claimed were in line with those stated in the Draft Payment Schedule but evidence of expenditure had not been submitted along with invoices and these had not been signed by their Director of Finance as per the draft agreement. An invoice dated 30/03/17 for £67,857 had not been processed for payment until 25/08/17 but no reason could be provided for the delay.

#### *Innovative Assisted Living (FIT House)*

A legal agreement had been signed by Albyn Housing but a copy of the signed agreement is not held by Highland Council. The Payment Schedule was not adhered to in 2017/18 with only £170,948 claimed out of the scheduled amount of £750,000. This relates to the point made earlier about delays in project implementation. Claims haven't matched the spend profile for a variety of reasons. However claims were supported by evidence in the form of an extract from the General Ledger and invoices had been signed by Albyn's Chief Operating Officer. An invoice dated 19/12/17 for £170,948 had not been processed for payment until 27/06/18. It was therefore paid in the wrong financial year despite having been claimed from the SG in the preceding financial year and no accrual was done. No reason could be provided for the delay.

The Claim Schedule in both cases had not always been followed and the Payment Schedule within both agreements had not been updated to reflect re-profiled spend going forward.

The following grant conditions set out in Section 4 of both agreements (Claims for Payment of Development Grants) had not been met for either project:

- The final quarterly claim in any year of the duration of the agreement shall be accompanied by an annual output profile or progress report in the agreed form signed by the Project Manager and certified by the Company Secretary of the partner organisation
- On or before 30 April in each year of the agreement, the Council shall be provided with a certificate prepared by an independent accountant in respect of expenditure incurred in respect of the project in that year.

### **3. Conclusion**

- 3.1 Although some of the crucial aspects of the agreed governance framework are in place, there are some elements which should be strengthened in order to ensure that there is an appropriate level of governance in place. The CRD should be properly scrutinised and monitored by the Member Scrutiny Group and EDI Committee given the high profile nature of projects and the level of investment involved.
- 3.2 It is essential that the reporting and governance requirements set out by the Scottish Government are adhered to. Although it is acknowledged that the evolving nature of these requirements makes it more challenging to meet the reporting conditions, more could be done by both the SG and the Council in order to improve on the current process. The Programme Manager has stated that a lack of resources has contributed to the issues in this area. The particular issue that had stretched resources has been concluded and the involvement of the Services Finance Manager and his staff, in terms of financial reporting and monitoring, will help to improve the situation and should also ensure that monies drawn down from the SG represent actual project spend.

3.3 As the Accountable Body, the Council is responsible for the management of grant funds and could be held liable if not managed appropriately. It is therefore critical that there is a legal agreement in place with partner organisations for all relevant projects and that tighter controls are in place to monitor adherence to the conditions set out within the agreements.

#### 4. Action Plan

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
High	<p>The following issues were found with regards to the receipt of grant funding from the SG:</p> <ul style="list-style-type: none"> <li>- The timing of the annual grant award letter from the SG is irregular and this has an impact on the timing of grant claims submitted by the Council. These should be done quarterly but only 2 claims have been submitted.</li> <li>- The reporting and governance requirements set out in the 2018/19 grant award letter had not been adhered to within the specified timescales.</li> <li>- Only £1,174,963 out of the total grant award of £5,544,757 had been drawn down in 2017/18.</li> <li>- Copies of the grant claim information submitted to the SG had not been retained.</li> <li>- Not all of the grant funds drawn down from the SG have been used and the Council currently holds £879,257 from funds drawn down during 2016/17 and 2017/18.</li> </ul>	<ul style="list-style-type: none"> <li>(i) A more effective financial planning and forecasting process should be put in place in order to ensure that the annual grant award more accurately reflects actual funding requirements.</li> <li>(ii) The reporting and governance requirements set out by the SG should be adhered to.</li> <li>(iii) Agreement should be sought from the SG that grant awards will be confirmed prior to the start of the financial year to which it relates.</li> <li>(iv) Grant claims should be submitted to the SG quarterly in arrears along with all required supporting evidence and this information should be retained on file.</li> </ul>	<ul style="list-style-type: none"> <li>(i) This is agreed and had previously been recognised. Availability of resource has increased but will require a watching brief.</li> <li>(ii) Done.</li> <li>(iii) Agreement will be sought from the Scottish Government.</li> <li>(iv) Agreed.</li> </ul>	<p>Services Finance Manager</p> <p>Programme Manager, City Region Deal</p> <p>Programme Manager, City Region Deal</p> <p>Service Finance Manager</p>	<p>Ongoing</p> <p>Complete</p> <p>31/03/19</p> <p>Ongoing</p>

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
High	(i) A letter of undertaking had been drafted for the SSA project but at the time of the audit it had not yet been signed by HIE. Despite this, grant funding of £273,432 has been released to HIE.	(i) The letter of undertaking for the SSA project should be finalised as a matter of urgency and signed by HIE. Until this is done, no further funds should be released to HIE for this project.	(i) Agreed. The matter has been raised on a number of occasions with partners. As the City Region Deal Programme Manager sits on the component project manager boards and has 1:1 with project leads and there was high degree of confidence that progress and associated spend was in line with the business case. However the signing of the letter of undertaking is required and has been escalated. Signed copy received 08/02/19.	Programme Manager, City Region Deal	Complete
	(ii) A legal agreement had been signed by Albyn Housing for the FIT House project but a copy of the signed agreement is not held by Highland Council.	(ii) A check should be carried out to ensure that there is an agreed signed letter of undertaking for projects where necessary and that a signed copy is held on file by Highland Council.	(ii) Agreed and reemphasised to all project leads.	Programme Manager, City Region Deal	10/03/19
	(iii) For both sampled projects, the Claim Schedule had not always been adhered to and the Payment Schedules had not been updated to reflect re-profiled spend going forward.	(iii) The associated schedule document for each project should be reviewed annually and updated as required.	(iii) Agreed.	Programme Manager, City Region Deal, Project Leads	Ongoing annually

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
Cont.	(iv) Key conditions within section 4 (Claims for Payment of Development Grants) within both agreements had not been met.	(iv) All conditions set out within Section 4 of the letter of undertaking should be adhered to for all projects. This should include ensuring that the required proof of expenditure is received along with all grant claims.	(iv) Agreed.	Programme Manager, City Region Deal, Project Leads	Ongoing
	(v) There had been a delay in paying 2 invoices submitted by partner organisations and no explanation could be provided.	(v) All grant claim invoices should be settled promptly wherever possible. If payment is delayed and falls into a subsequent financial year, then the expenditure should be accrued. The reason for any such delays should be recorded.	(v) Agreed. Partner organisations have been asked to provide electronic copies to the programme manager.	Programme Manager, City Region Deal	Ongoing
Medium	Feedback received from the Programme Manager indicates that the Member Scrutiny Panel does not always meet, with some meetings suffering from poor attendance and on occasion cancelled for this reason.	The effectiveness of the Member Scrutiny Panel should be considered and a decision taken as to whether or not it is required going forward. If it is decided that it should remain as part of the CRD governance framework then a more formal record of meetings should be kept and attendance monitored.	Agreed.	Programme Manager, City Region Deal	31/05/19

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
Medium	<p>(i) The EDI Committee should "monitor and scrutinise programme progress and spend". However regular progress reports have not been provided to this Committee, other than update reports provided on the Members Bulletin on 01/02/18 and 17/05/18, since the meeting held on 15/06/17.</p> <p>(ii) The business cases for the sampled projects had not been noted or approved by the EDI Committee which is one of the governance requirements set out in the CRD Signatory Document.</p>	<p>(i) CRD updates should be provided to every meeting of the EDI Committee. They should contain a level of information which will allow Members to adequately monitor and scrutinise programme progress and spend.</p> <p>(ii) The necessity and feasibility of this requirement should be reviewed. If it is decided that this does not need to be done going forward then agreement should be sought from the EDI Committee.</p>	<p>(i) Reports are generally for noting rather than decisions which is why they have been placed on the bulletin. Frequency of update reports will be reduced to twice yearly with one reported to EDI (half year) and one to full council. Agreement will be sought from EDI for this change to existing governance arrangements.</p> <p>(ii) It is not feasible to put each business case before the EDI Committee due to their complexity. Agreement will be sought from the EDI Committee for this change to existing governance arrangements.</p>	Programme Manager, City Region Deal and Director of Development & Infrastructure	31/05/19
Low	The project RAG status, proposed by the project lead and agreed by the Programme Manager, feeds into reporting channels such as the Programme Board and to the SG and EDI Committee. There is no set definition for each RAG status but the status of the sampled projects was considered to be reasonable.	The definition of each RAG status i.e. Red, Amber and Green, should be clearly defined and these should be provided when reporting on project status.	Clear definitions will be provided.	Programme Manager, City Region Deal	Complete



## Internal Audit Final Report

Development & Infrastructure Service

Compliance with the Carbon Reduction Commitment Energy Efficiency Scheme 2017-18

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	0

### Audit Opinion

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

### **Distribution:**

Director of Development and Infrastructure  
Energy & Sustainability Manager, Development & Infrastructure Service  
Senior Sustainability Officer (Energy), Development & Infrastructure Service  
External Audit

**Report Ref:** HEC02/001

**Draft Date:** 28/02/19

**Final Date:** 15/03/19

## 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 2017 to March 2018 inclusive. The Council reported on 1,172 qualifying energy supply points using a total of 33,776 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:

The management agreed action from last year's audit that a robust process is put in place for recording accurate meter readings for renewable sites is not due to be completed until 31/03/19. However, whilst the figure is for information only and does not form part of the calculated emissions, the renewable energy data figure entered for 2017/18 was the 2016/17 figure. When asked why this was done the response was "for 17/18 as there are no accurate readings to measure current readings against, so we have to adopt a best guess approach, which is to use the data from 16/17". This is despite clear errors in the estimation of some of the readings

supporting the 2016/17 figure which were reported on in last year's Internal Audit report.

A sample of 10 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, there is a lack of clarity where estimated energy use is calculated by the TEAM system using the direct comparison or pro-rata methods. This has meant the exact breakdown of the final consumption figure could not be determined in cases where these methods were used. It therefore cannot be ascertained that the period 1 April to 31 March was covered by the annual report for all supply points. However, it should be noted that the proportion of energy reported using the direct comparison or pro-rata estimate methods is less than 1% of the total reportable energy.

The classification of consumption as actual or estimated (not including direct comparison or pro-rata estimates) was found to be correct in line with the CRCEES Phase 2 definition.

For one site reviewed there was a difference of 163,845kWh between the consumption recorded on the bills for that site compared to the consumption calculated for CRC purposes. The software supplier's response was that one month's consumption had been pulled through twice but they could not identify the reason why this duplication had occurred. It is likely that this is not an isolated case given the small sample reviewed. This example coupled with the lack of clarity on certain estimation techniques within the TEAM system only deepens the concerns of the accuracy and validity of the CRC data output.

As noted in previous audit reports there is no site record established and maintained for each period of the scheme, therefore a reconciliation of sites is required.

Reconciliation between sites on the Supply List and the CRC round was properly carried out for 2017/18, but no year to year comparison of final CRC rounds was undertaken. This comparison would identify existing sites that have closed or new sites that have been added. These changes would then be verified as being correct, which is currently not being done.

#### 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 31/07/18. 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 notification to confirm allocation of allowances and no copy of the email to support the submission of the annual report in July; both confirmations had to be requested from the Senior Sustainability Officer.

### **3. Conclusion**

3.1 This is the fourth consecutive year that a Limited Assurance audit opinion has been received for this audit. Also of concern is that that 3 previous audit recommendations, all medium priority grades, have not been implemented, with 1 appearing for a third consecutive year. Assurance has been given that the LEAN review originally scheduled for completion by September 2017 then August 2018, and actually

completed December 2018, will meet most of the requirements of the action plan.

This includes the concerns that no year on year reconciliation comparing data in TEAM to an external source was undertaken and concerns of the accuracy and validity of the CRC data output from the TEAM system. As this is the eighth and penultimate compliance year and established processes are in place, it would be expected that no such issues remained a concern.

#### 4. Action Plan

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
Medium	<p>There are concerns over the accuracy and validity of the output from the TEAM Sigma system specifically:</p> <ul style="list-style-type: none"> <li>• 1 out of 10 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 three audit reports but still remains unresolved.</li> <li>• A significant difference arose between the amount billed and calculated for CRC purposes. The reason for the error could not be determined by the system supplier.</li> </ul>	<p>As previously recommended, the Energy and Sustainability Team should obtain an explanation from the software supplier to evidence how TEAM calculates the consumption figures.</p>	<p>Details of the method of calculation have been received from TEAM following the issue of the draft audit report. The Regulator of the CRC Scheme (SEPA) has confirmed that they are satisfied that TEAM fully meets the requirements regarding pro-rata and direct comparison calculations, and estimation techniques. There is no further action that can be taken.</p>	Senior sustainability Officer (Energy)	Completed
			<p>The 1 site identified by the audit was Wick Community Campus. This was a new site and billing only started on 01.04.17. In addition, Wick Campus is more complex than the majority of sites in our portfolio. It is not indicative of the estate as a whole. The error was caused by billing issues at the start, with a combination of electronic and manual billing overlapping, and manual bills subsequently being deleted. In future, sample checks on new sites and disconnected sites will be carried out to ensure bills are accurately recorded on TEAM.</p>	Senior sustainability Officer (Energy)	Ongoing

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
Medium	No site record independent of TEAM exists and while the supply list of sites was reconciled with the final CRC round list of sites, no year on year comparisons was undertaken, and any changes verified as correct.	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. This should include a year to year comparison with any additions or deletions verified as being correct.	Year on year comparisons are undertaken within TEAM. However, in future details of any additional properties, disconnected properties and changes to occupancy of leased properties will be added to the Evidence Pack to enable a full reconciliation to be carried out. There have previously been issues regarding notification of disconnected sites and changes to leased sites, but solutions to these have been identified as part of the Lean review and are in the process of being implemented.	Senior sustainability Officer (Energy)	31/07/19
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 for the 2018/19 reporting year.	Work is being undertaken and is ongoing to rectify this issue.	Energy & Sustainability Manager	31/07/19
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 three audit reports. Agreed actions have failed to rectify this issue.	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.	Two emails were omitted from the evidence pack. However, one of the emails, regarding the allocation of allowances, was sent to Finance only and was not forwarded to the CRC Officer. The other email was saved in the incorrect folder. A checklist will be created to ensure that all supporting emails will be in the evidence pack for 18/19.	Senior sustainability Officer (Energy)	31/07/19

## Internal Audit Final Report

Development and Infrastructure Service

Inverness Townscape Heritage Project

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	3
Minor issues that are not critical but managers should address.	Low	2

### Audit Opinion

The opinion is based upon, and limited to, the work performed in respect of the subject under review. Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist. It is the opinion that **Reasonable Assurance** can be given in that whilst the system is broadly reliable, areas of weakness have been identified which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

### **Distribution:**

Director of Development & Infrastructure  
Head of Development and Regeneration, Development & Infrastructure Service  
Economy and Regeneration Manager, Development & Infrastructure Service  
Regeneration and Employment Team Leader, Development & Infrastructure Service

**Report Ref:** HED06/001

**Draft Date:** 07/11/18

**Final Date:** 27/11/18

## 1. Introduction

- 1.1 The Inverness Townscape Heritage Project (the Project) was established to take a strategic view of the conservation needs of the buildings within Academy Street in Inverness and to co-ordinate a programme of repair and restoration work funded by grant assistance.
- 1.2 The Project is made up of 3 funding partners:
- Highland Council - £800,821
  - Historic Environment Scotland (HES) via the Inverness City Heritage Trust (ICHT) - £946,841
  - National Lottery Heritage Lottery Fund (HLF) - maximum of £1,494,400 linked to level of private sector investment.
- 1.3 At the time of the Audit, 5 grant awards had been made, totalling £998,149. The audit examined a sample of 3 grant awards in order to determine whether or not the grant terms for all external funders have been adhered to. The audit also looked at whether or not value for money had been achieved for the sampled grant awards which were as follows:
- 114 Academy Street - £16,978
  - 96 Academy Street - £961,173
  - 3 Market Arcade - £4,809.
- 1.4 The Project funding package requires a specific level of private sector investment to be made by property owners (25 – 75% of eligible works). The audit looked at how the risk of this not being achieved is managed.

## 2. Main Findings

### 2.1 *Application assessment and value for money*

This objective was partially achieved. Application forms had been completed for all of the sampled projects and these had been scored against pre-determined criteria and a grant report prepared.

The applications were considered and approved in line with the 'Project Management and Decision Making' process agreed with external funders. However, although verbal approval had been

granted by the Chair of the Inverness City Heritage Trust and the Chair of the Townscape Heritage Partnership prior to the grant offer being issued for 114 Academy Street, there was no evidence of this on file. Written approval was subsequently provided by both parties but this was after the grant offer had been issued.

One of the funding conditions set out by HES is that "*Local Authority buildings or structures are not eligible for assistance without the consent of Scottish Ministers*". Permission was not sought by ICHT from HES for their grant award in relation to 3 Market Arcade which is owned by Highland Council on behalf of the Common Good Fund. However, HES have confirmed verbally to ICHT that this clause should not have been included within the original Project grant offer to ICHT and therefore their permission is not required in cases such as this.

HLF guidance on third party grants states that at least 3 written tenders must be obtained for any works costing more than £10,000 (excluding VAT). A minimum of 3 written tenders had been obtained for only 1 of the 2 relevant sampled projects. For 114 Academy Street, the applicant had approached 5 contractors to tender but only 2 responses were received. Although the grant report states that evidence of the tender process was seen and that it was deemed satisfactory, said evidence was not held on file or an explanation given as to why this was deemed satisfactory. In all sampled cases, the grant award was based on the lowest tender submission provided.

### 2.2 *Grant claims*

This objective was substantially achieved. All sampled grant claims were processed in accordance with the terms set out in the claimant's letter of grant award and had been accompanied by the required evidence. However, a Grant Claim Declaration form had not been submitted along with the claim for 3 Market Arcade. A form was retrospectively completed by the applicant but was dated the day after the monies were released.

### 2.3 *Funding claims to external funding partners*

This objective was partially achieved. Funding claims are submitted quarterly to HLF in line with agreed requirements. 2

out of the 3 claims examined had been submitted to HLF for the incorrect amount, due to a lack of guidance provided by them regarding the claims process. However, they were checked by the external project monitor for HLF which ensured that the correct amount was received by the Council. The external project monitor was appointed by HLF to carry out project monitoring on their behalf throughout the development and delivery phase of the project.

Funding claims are not submitted to ICHT/HES with the same regularity which increases the risk that not all relevant costs within a given period will be reclaimed. This occurred with costs relating to the Project Activity Plan and office rental not yet reclaimed for the period November 2017 to March 2018.

#### 2.4 *Risk management*

This objective was partially achieved. The audit focussed on two delivery risks which were identified as part of the funding application process to HLF:

- Property owners unable to secure level of finance required to implement project in full
- Low uptake of grant.

The Project is in year 3 of 5 and currently 40% of the capital grant is allocated with a further 31% to be allocated shortly (grant applications pending). Appropriate mitigation measures are in place with projects regularly re-profiled to ensure that a list of priority and reserve projects are in place for the remainder of the grant allocation.

Whilst these risks are reported to HLF quarterly as part of the Project Risk Table, reports prepared by the external project monitor indicate that it is not reviewed or updated on a regular basis. The last 2 monitor reports dated 22/03/18 and 14/06/18 recommend that this should be done in order that robust risk management arrangements are in place. However, the Project Risk Table is reviewed prior to submission to HLF via an online portal but, unless changes are required, there is no way of recording this on the portal and therefore highlighting this to the monitor.

### **3. Conclusion**

- 3.1 There are appropriate processes in place for assessing grant applications and dealing with grant claims. However, the timing of reclaiming grant funds from external funders could be standardised to ensure that funds are reclaimed promptly in order to reduce the risk of missed income due to the Council. Mitigating measures are in place to ensure that the risk of not securing the required level of private sector funding is managed as effectively as possible although the actions taken should be recorded to evidence this.



#### 4. Action Plan

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
Medium	<p>HLF guidance on third-party grants states that at least 3 written tenders must be obtained for any works costing more than £10,000 (excluding VAT).</p> <p>Although requested, a minimum of 3 competitive tenders had not been received for 1 of the relevant sampled projects:</p> <ul style="list-style-type: none"> <li>• <b>114 Academy Street</b> - 5 contractors were approached to tender but only 2 responses received. Evidence of the tender process was seen but this was not held on file or an explanation given as to why 2 tenders were deemed satisfactory.</li> </ul>	<p>Where less than 3 written tenders have been received by the applicant for works valued at over £10,000 (excluding VAT):</p> <ul style="list-style-type: none"> <li>- Evidence should be provided to demonstrate that an appropriate tendering process has been followed and the required number of tenders were requested</li> <li>- An explanation of why it was felt appropriate to proceed with less than 3 written tenders should also be provided.</li> </ul>	<p>Copies of all tender documents (invitation to tender, tender report and award of contract) will be kept on file.</p> <p>Explanation will, if situation arises, be incorporated into grant assessment reports to be considered by the TH Grant Sub-Committee and subsequent TH Partnership meetings.</p>	Townscape Heritage Strategic Project Officer	Ongoing
Medium	<p>A number of issues were found with the claims made to ICHT:</p> <ul style="list-style-type: none"> <li>- Claims are not submitted to ICHT with the same regularity as those to HLF</li> <li>- Rather than submitting one claim quarterly for all expenses incurred within the period, claims are made on an ad hoc basis</li> <li>- Office rental costs had not been reclaimed for the period from Nov 2017 to March 2018 (£750)</li> <li>- Activity Plan costs had not been reclaimed for the period from Nov 2017 to Feb 2018 (£135.45).</li> </ul>	<p>(i) Office rental costs for the period Nov 2017 to March 2018 and Activity Plan costs for the period from Nov 2017 to Feb 2018 should be reclaimed from ICHT as soon as possible.</p> <p>(ii) Unless specific project circumstances dictate otherwise, claims to ICHT should be done in line with those submitted to HLF on a quarterly basis.</p>	<p>Actioned</p> <p>Actioned</p>	Townscape Heritage Assistant Project Officer	<p>Complete</p> <p>Ongoing</p>

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
Medium	Whilst the Project Risk Table is reported to HLF quarterly, reports prepared by the external project monitor indicate that it is not reviewed or updated on a regular basis. However, the Project Risk Table is reviewed prior to submission to HLF via an online portal but, unless changes are required, there is no way of recording this on the portal and therefore highlighting this to the monitor.	A mechanism for evidencing that the Project Risk Table is regularly reviewed and updated should be introduced and this should be communicated to the external project monitor. This will ensure that current risks are accurately reflected and provide assurance that they are being managed effectively.	Project risk table update will be aligned with project reporting to the TH Partnership and the minute provided to the TH Monitor on quarterly basis.	Townscape Heritage Project Officer	Ongoing
Low	One of the grant conditions set out by HES is that " <i>Local Authority buildings or structures are not eligible for assistance without the consent of Scottish Ministers</i> " but their permission was not sought in relation to 3 Market Arcade. Verbal confirmation has been received by ICHT from HES that this clause should not have been included within the Project grant offer and therefore their permission is not required in cases such as this.	Written confirmation should be requested by ICHT from HES that this clause should not have been included within their original grant offer and is therefore not applicable for the Inverness Townscape Heritage Project.	Council to obtain written evidence from ICHT that HES have agreed to the removal of this clause.	Economy & Regeneration Manager	31/12/18
Low	A Grant Claim Declaration form had not been submitted along with the claim for 3 Market Arcade prior to grant funds being released to the claimant.	A Grant Declaration Form should be submitted with every grant claim. This form could be combined with the Capital Budget Claim form so that only 1 form has to be submitted with each grant claim thereby simplifying the process.	Both forms have now been combined and a copy will be submitted with every grant claim.	Townscape Heritage Assistant Project Officer	Ongoing