

Agenda Item	3
Report No	AS/18/19

THE HIGHLAND COUNCIL

Committee: Audit & Scrutiny Committee

Date: 28th November 2019

Report Title: **Internal Audit Reviews and Progress Report – 07/09/19 – 15/11/19**

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 Members are asked to:
- i. consider the Final Reports referred to in Section 4.1 of the report, and
 - ii. note the current work of the Internal Audit Section outlined at section 5 of the report and details of progress against the plan at **Appendix 1**.

3. Implications

- 3.1 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.
- 3.2 There are no Resource, Legal, Community (Equality, Poverty, Rural and Island), Climate Change / Carbon Clever or Gaelic implications

4. Audit Reports

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

Service	Subject	Opinion
Care & Learning	Provision of Early Learning and Childcare services	Reasonable Assurance
Care & Learning	Pupil Equity Fund	Substantial Assurance
Development & Infrastructure	Leader Programme 2018 - 19	Substantial Assurance
Corporate Resources	Review of Insurance Arrangements	Reasonable Assurance
Corporate Resources	Review of Absence Management Arrangements	Limited Assurance
Community Services	Investigation into missing housing income (system weaknesses)	Limited Assurance

Each report contains an audit opinion based upon the work performed in respect of the subject under review. The five audit opinions are set out as follows:

- (i) **Full Assurance:** There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
- (ii) **Substantial Assurance:** While there is a generally a sound system, there are minor areas of weakness which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
- (iii) **Reasonable Assurance:** Whilst the system is broadly reliable, areas of weakness have been identified which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
- (iv) **Limited Assurance:** Weaknesses in the system of controls are such as to put the system objectives at risk, and/ or the level of non-compliance puts the system objectives at risk.
- (v) **No Assurance:** Control is generally weak, leaving the system open to significant error or abuse, and/ or significant non-compliance with basic controls leaves the system open to error or abuse.

5. Other Work

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

- (i) Work for other Boards, Committees or Organisations
Audit work was undertaken for the Valuation Joint Board during this period.
- (ii) Certification of grant claims
Work was undertaken in respect of the Hitrans grant claims for the Smart Peripheral and Remote Airports (SPARA) 2020 project, and the Northern

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

- (iii) Corporate Fraud activity and investigations
In this period, investigations into suspected cases of tenancy fraud has resulted in the recovery of 2 houses; 1 each in the Sutherland and Ross and Cromarty areas. Further cases are still being investigated.
- (iv) Members' training
The Corporate Audit Manager has also been involved in developing training materials for Members through My Online Learning. This includes specific training for the Audit & Scrutiny Committee and wider scrutiny and governance training for all Members.

6. Progress against the 2019/20 audit plan

6.1 **Appendix 1** gives details of progress against the revised plan which reflects the changes agreed by Committee on 19/09/19 in terms of reduction in planned days and deleted audits.

6.2 Performance information for quarters 1 & 2 for 2019/20 is provided below

Category	Performance Indicator	Target	2019/20 Actuals		
			Q 1 & 2	Q3	Q4
Quality					
Client Feedback	(i) % satisfaction from individual audit engagements expressed through Client Audit Questionnaires (CAQ)	75	93%	-	-
	(ii) % of Client Audit Questionnaires returned	70	100	-	-
Business Processes					
Timeliness of Final Report	(i) % of draft reports responded to by client within 20 days of issue	85	75%	-	-
	(ii) % of final reports issued within 10 days of receipt of management response	90	100%	-	-

There was a minor delay in receiving the response to an audit which took 23 days compared to the 20 days which resulted in the target not being met. As shown above, all other performance targets were met.

Designation: Corporate Audit Manager

Date: 18th November 2019

Author: Donna Sutherland

Background Papers:

Appendix 1

Service	Audit Name	Scope	Priority	Revised Plan Days	Status/ Comments
Care & Learning	Provision of Early Learning and Childcare services	Review of the arrangements for the expanded provision of Early Learning and Childcare as required by the Scottish Government.	Medium	5	Final report issued
Care & Learning	Use of the Pupil Equity Fund in Schools	Review of the use of PEF within schools to ensure that the expenditure is in accordance with the criteria set out by the Scottish Government and any local agreements.	High	5	Final report issued
Care & Learning	Review of the systems for the payment of relief and temporary Teachers	Review of the process for the submission of hours claimed using SAL6 forms to ensure that this is appropriate and that appropriate controls are exercised over such claims. Also to ensure that these are used for the correct groups of staff and cannot be used to bypass the system for the management of vacancies within the Council.	High	25	Not started
Care & Learning	Review of the arrangements for the funding to External and Third Sector Organisations	Review of the arrangements for the funding and payment to organisations across the Service to ensure this is undertaken in a consistent manner. Also that any arrangements accord with Council policies including the single grants process, procurement requirements and Following The Public Pound guidance.	Medium	25	Not started

Care & Learning	Workforce Planning and Staffing Arrangements	Review of the Service's workforce planning and staffing arrangements.	Medium	28	Being planned
Care & Learning	Review of ICT arrangements in Schools	Review of the controls in place for the management of network capacity and storage in schools. Also how this links with the roll out of chrome books and the ongoing technical support in place.	High	25	Not started
Community Services	Review of arrangements for the award of works to sub-contractors	Desktop review of the arrangements for the award of work to sub-contractors by staff within the Housing and Building Maintenance function.	Medium	20	Not started
Community Services	Car Parks	Review of car park arrangements across the Council including deployment of staff, income systems and parking enforcement arrangements.	Medium	20	TOR issued
Community Services	Fleet Management arrangements	Review of the fleet management arrangements to ensure that these accord with the requirements of the Councils operator's licence. This will also include review of the Tranman system.	High	10	Fieldwork in progress
Community Services	Review of Street Lighting	Review of the Street Lighting operations to ensure that these operate as efficiently and effectively as possible.	Medium	0	On hold due to long-term sickness absence
Community Services	Review of Mobile and Flexible Working arrangements	Review of the Total Mobile Building Maintenance system looking at the impact and new arrangements from this system and stores implications.	Medium	30	Not started

Corporate Resources	Pension Fund Annual Governance Assurance Statement 2018-19	Time for the provision of the Annual Governance Statement and annual Internal Audit opinion.	Core/Critical/Commitment	1	Completed in Qtr 1
Corporate Resources	HC Annual Governance Statement 2018-19	Time for the provision of the Annual Governance Statement and annual Internal Audit opinion.	Core/Critical/Commitment	3	Completed in Qtr 1
Corporate Resources	Review of fraud prevention and detection arrangements	Review of arrangements to ensure that the Council has robust arrangements in place to prevent and detect any fraud and irregularities.	High	20	In progress
Corporate Resources	Audit Certificates 2019-20	Time allowance for review and certification of various grant claims.	Core/Critical/Commitment	50	On-going
Corporate Resources	Pension Fund Investments	Review of the arrangements in place for the effective management of Pension Fund investments.	Core/Critical/Commitment	12	Completed in Qtr 1
Corporate Resources	Pension Fund Contributions	Review of the arrangements for the accurate collection of Pension Fund contributions including transfer of monies within the Fund.	Medium	15	Not started
Corporate Resources	Insurance	Review of the Council's processes for dealing with insurance claims including those financed through the Insurance Fund.	Medium	5	Final report issued
Corporate Resources	Review of financial controls	Review of the controls in place for the financial authorisation of payments. This will include consideration of authorisation levels and segregation of duties applied to key officers.	Medium	1	Completed in Qtr 2

Corporate Resources	Review of purchase to pay arrangements	Corporate review of the arrangements for the purchasing and payment of goods and services to ensure that appropriate controls are in place. This will also link with budgetary control arrangements and consideration of the roles and responsibilities of budget holders in approving expenditure and monitoring and control of their budgets.	High	30	Being planned
Corporate Resources	Procurement	Review of significant areas of expenditure to ensure that the contract suppliers are used as appropriate. Also consideration of any major areas where either contract suppliers have not been used or there are no contracts in place, to ensure that there are valid reasons for these or whether corrective action is required.	Core/Critical Commitment	27	Being planned
Corporate Resources	Income Systems	Review of the reconciliation and different systems interfaces to ensure the completeness and accuracy of income received. Also that these processes work as efficiently as possible.	High	18	In progress
Corporate Resources	Financial Assessments	Review of the processes for the claiming, processing and payment of other entitlements incl. EMA, free school meals and clothing grants.	Medium	0	Completed in Qtr 1
Corporate Resources	Continuous Auditing Exercises	Allocation of time for continuous auditing of financial systems with aim of providing assurance that the expected controls are operating and that there is no fraudulent activity.	High	3	Completed in Qtr 1

Corporate Resources	Follow Ups Allowance 2019-20	Allowance of time for action tracking of audits which are not subject to individual follow-up reviews.	Not Applicable	25	Ongoing
Corporate Resources	Review of absence management arrangements	Corporate review to ensure that robust arrangements are in place for the management of absence across the Council. This will include review of the timeliness and completeness of absence data produced and ensuring compliance with the relevant policies and procedures.	High	32	Final report issued
Corporate Resources	Review of Information Management arrangements	Review of the Council's Information Management arrangements to provide assurance that these are operating as expected and in accordance with the prescribed Policy Framework.	High	15	Completed in Qtr 2
Corporate Resources	Cyber Security	Review of the Council's Cyber Security arrangements to ensure that these are appropriate and effective. This will also include review of the service's incidence response arrangements.	High	23	Not started
Corporate Resources	ICT Contract Management Arrangements	Review of the arrangements for the management of the ICT contract with Wipro to ensure that these are working effectively.	High	27	In progress
Corporate Resources	Lean review - follow up	Time allocated to follow-up of improvement plan from the lean review of the internal audit processes.	Not Applicable	5	Not started
Development & Infrastructure Service	LEADER Programme 2018-19	Ensure that the obligations set out in the 2014-2020 Leader Programme Service Level Agreement (SLA) have been adhered to for project claims and verification checks.	Core/Critical/Commitment	23	Final report issued

Development & Infrastructure Service	Review of capital projects	Review of the project management arrangements in place in respect of selected Flood Team projects. Will check that these comply relevant project governance guidance and procedures.	Medium	28	Being planned
Development & Infrastructure Service	Review of charging and monitoring of time to projects	Examination of the systems in place for the recording, charging and monitoring of time to projects.	Medium	18	Not started
Development & Infrastructure Service	Compliance with the Carbon Reduction Commitment Energy Efficiency Scheme 2018-19	Review of the arrangements for compliance with the Carbon Reduction Commitment Energy Efficiency Scheme (CRC EES) and to ensure that the necessary Scheme requirements have been met.	Core/Critical/Commitment	19	In progress
Development & Infrastructure Service	Collection of school meals income	Review of the arrangements for the collection of school meals income to ensure that this is operating as efficiently as possible. This will also include review of the arrangements for the effective management of debt.	Medium	25	Being planned
Development & Infrastructure Service	Review of Local Full Fibre Network project	Review of the governance arrangements to ensure that these accord with the prescribed framework. Also review of the grant claim process and payments to suppliers to ensure that these comply with the relevant policies and procedures.	High	18	In progress
Total Days				636	

Internal Audit Final Report

Care & Learning Service

Provision of Early Learning and Childcare services

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	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 **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:

Interim Chief Officer Resources – Care and Learning
Interim Head of Education, Care and Learning Service
Senior Manager Early Years, Care and Learning Service
Principal Project Manager, Corporate Resources Service
Operations Manager (South), Corporate Resources Service
External Audit

Report Ref: HAA01/001
Draft Date: 31/10/19
Final Date: 19/11/19

1. Introduction

- 1.1 The audit objectives were to evaluate the effectiveness of the processes to record childcare usage and collect the resulting income, and to assess the governance arrangements around the transition to providing 1140 hours by August 2020.

The objective on childcare usage and income collection was requested by the previous Senior Manager Early Years, as there have been issues in previous years with the accuracy of billing for parents/carers who use more than the current funded allowance of hours. The Commercial & Efficiency Team were involved in work to improve the reliability of the database used to record attendance and provide statements to parents/carers, and to improve the accuracy of data input prior to the start of the 2018/19 academic year.

The audit also reviewed the processes in place to deliver 1140 hours to verify that any slippage in the project plans to provide the necessary capital work, workforce and partnering required would be quickly identified and rectified.

2. Main Findings

- 2.1 *Recording Childcare usage and collection of income*

This objective was partially achieved. Childcare usage by pre-school children and out of school care by primary school pupils is recorded on a database developed by a software supplier in conjunction with the Council. The database has been in use since 2016/17 and has evolved considerably to try to cope with the high level of flexibility offered to parents/carers by the Council. Clerical staff within each school record the number of hours used for each pupil, with any hours in excess of the government funded hours (600 or 1140 depending on the setting) being funded by the parent/carer. Each school has a link Childcare Manager who is available to support the clerical staff. The parent/carer must select a monthly payment method, with most payments being made by direct debit or by childcare vouchers. Business Support staff upload payment information to the

database after each direct debit run to ensure individual account balances are up to date.

Parents/carers should receive a monthly statement detailing the hours they have used, the amount they have paid and their overall account balance. However, statements for the 2018/19 academic year only started to be issued in late October 2018. The delay was a result of wanting to ensure data was accurate for all schools and statements reliable before issue. This meant parents had a significant delay in receiving the information to enable them to verify charges against their accounts and adjust payment amounts if necessary. Statements are now being issued monthly. An "Outstanding Debt Report" has recently been developed to assist in monitoring account balances. A report run on 08/07/19 was provided to Internal Audit, which showed the total debt balance was £277,943. This was comprised of credit balances (where 1113 customers have overpaid) totalling £139,285.94 and debit balances (where 1941 customers have debt outstanding) totalling £417,228.94.

Credit balances ranged from £0.20 to £2194.10, 85 of the credit balances were for less than £10 while 12 were for over £1,000. 221 of the accounts in credit, totalling £17,890.92, showed no payments made or attendance recorded in 2019, and are therefore likely to be historic accounts where a refund is due to be paid by the Council.

Debit balances ranged from £0.02 to £4,482.40. 98 of the debit balances were for less than £10 while 69 were for over £1,000. 355 of the accounts with outstanding debt, totalling £63,834.87, showed no payments made or attendance recorded in 2019, and are therefore likely to be debts where the customer no longer uses the service. However, Business Support pointed out that some of the balances shown on the database are likely to be wrong due to input errors, but these would have to be investigated individually to confirm the accuracy or otherwise of the balance stated. A Childcare Manager also stated that cases where it appears no payment has been made could be related to Social Work clients, where costs incurred are recharged at the end of each term by Business Support. They added that prior to

the report being developed, Childcare Managers were reliant on statements, but these are only generated for those customers who have used the service during the statement period - therefore historic credit and debit balances would not be highlighted if the service had not been used within the last month (See Action Plan ref H1).

Accurate data input by school Clerical staff is essential for the process to function efficiently and effectively. Additional clerical hours are funded from the early years budget, but there is a feeling from some Childcare Managers that this time is not necessarily used for Early Learning & Childcare (ELC) activity. A new Business Support post within ELC has recently been filled, and part of the remit of the post is to try to collate information on the allocation and use of clerical hours within ELC settings. Matrix management can also cause issues as Childcare Managers are line managed by the Head Teacher at their base school, but can also be allocated tasks by managers within the early years team. Similarly, Childcare Managers are responsible for the accuracy of input to the database by Clerical staff, but are not their line manager (See Action Plan ref H2).

Childcare Managers were trained by one of the Childcare Managers who helped to develop the database. They then delivered training to Clerical Assistants, however this approach has led to inconsistencies and differing confidence levels when using the database. Some Childcare Managers only record registers on the database in settings where flexible childcare is available, whereas others record registers for all their link schools. One school uses an excel based spreadsheet for their registers as the Childcare Manager feels that the register that the Database would provide is not as easy to use for the number of children attending. However, other Childcare Managers have reported that once the registers are set up that the database operates efficiently. There is a guidance document available providing step-by-step details of the process. This is now slightly out of date as the system continues to change. The Scottish Government are developing a new "NAMS" module within the SEEMIS system used in all schools, with the intention that this

will be ready for use across Scotland from August 2020. (See Action Plan ref M1).

There is no proactive communication with parents/carers in the lead up to children moving into P1 to identify potential over or underspends on their account. As a result, there have been instances where direct debits have not been cancelled resulting in overpayments and subsequent refunds requiring to be processed. Similarly, parents/carers in arrears are not advised to increase their payment amount to ensure that it is sufficient to cover the anticipated use for the remainder of the academic year, resulting in an outstanding balance when the child moves into Primary School. The direct debit/childcare voucher amount is the average monthly payment spread over 12 equal instalments - this has caused confusion with some parents/carers who did not expect the direct debit to continue over the summer holidays. One of the Childcare Managers has started working on providing a clear approach around transitions from Nursery4 to P1, and for out of school club users moving from P7 to S1 (See Action Plan ref M2).

Clerical staff can only see records for children at their school, so if a child is on a split placement (i.e. using some funded hours at more than one setting) they don't have a full overview of the hours used or the account position. Similarly, Childcare Managers can only see records for children attending their schools, so again may not be aware of the full circumstances for a child. There is therefore a risk that parents could exceed their funded hours and not be billed if the child attended more than one setting. This is particularly true if one of the settings is not a Highland Council facility, as external partners do not use the ELC database (See Action Plan ref M3).

2.2 *Delivery of 1140 hours ELC expansion*

This objective was fully achieved. A Project plan covering capital and staffing requirements is in place for each of the 4 areas. There is also a separate document that includes additional detail for any capital works required, including budget, project manager and procurement route. These reports include

contingency plans in the event of progress being delayed at any site.

There are weekly ELC Project team meetings, which are reported to the project lead and sponsor. The report provides a summary of the overall position, including the RAG rating, and highlights any accomplishments, priorities and risks. The meeting is attended by the Project Manager, Estates Manager, ELC Commissioners and representation from the West area (the ELC Commissioner post for West is on hold as part of a review of the C&L service structure), Catering Project Co-ordinator and Business Support Officer.

There are also fortnightly "Budget & Change" meetings within Care & Learning, which are also updated on progress with ELC. This meeting has replaced the previous ELC Programme Board. The Project Manager feels this is working better in terms of decision making and ensures that a more strategic service-wide approach is taken to issues that affect areas across the service.

There are monthly area meetings to review the progress for each area. If any issues need to be escalated they go initially to the ELC Project Team, and can be reported to the Budget & Change meeting if required.

The capital requirements from the 1140 hours project are co-ordinated with the overall Care & Learning capital programme, as outlined in a report to Highland Council on 27/06/19.

3. Conclusion

- 3.1 Robust processes are in place to enable the Council to deliver the expansion to 1140 hours to all eligible children by the August 2020 deadline. The main issues identified in the audit relate to the customer account balances for childcare funded by parents/carers. Urgent action is required to review these balances, and where the balance is recorded accurately to reimburse any overpayments, and initiate recovery action for outstanding debts. The effectiveness of the process for recording and collecting income could also be improved if management responsibility was more clearly defined. It should be noted that

as 1140 hours is delivered in more settings (a further 71 sites began delivery in August 2019, with another 51 due to begin in January 2020) the risks around this area will reduce as fewer parent/carer funded hours will be required. This factor, in combination with the findings on the delivery of the 1140 hours project have led to the classification of reasonable assurance for this audit.

4. Action Plan

Ref	Priority	Finding	Recommendation	Management Response	Implementation	
					Responsible Officer	Target Date
H1	High	<p>An outstanding debt report has highlighted a high volume and value of customer accounts that are either overpaid or have outstanding debt. Some of the accounts are likely to be made up of historic debt or overpayments, but there is a lack of certainty about the accuracy of data input for some of the accounts.</p> <p>The outstanding debt report has only recently been introduced, and guidance on the most effective means of using the report is not yet available.</p> <p>Statements are now issued to customers on a monthly basis, but are only generated for those customers who have used the ELC service within the statement period.</p>	<ol style="list-style-type: none"> 1. The outstanding debt report should be reviewed to ensure that the balances shown are accurate. Any errors should be corrected, refunds issued for any overpayments and debt recovery processes should be instigated for any outstanding amounts due to the council. A decision should also be made on how to deal with low value debts/overpayments, as it may not be economically viable to progress these. 2. Guidance on using the outstanding debt report to manage balances effectively should be provided to all relevant staff. This should include a means of following up any outstanding balances where customer usage patterns would result in them not receiving a statement each month. The guidance should also clearly state who is responsible for monitoring account balances, and whether this will be done by a centralised team or continue to be carried out 	<p>The outstanding debt report will be reviewed to establish the accuracy of the recorded balances. Where debts and overpayments are verified as being accurate these will be pursued/refunded where it is economically viable to do so.</p> <p>Guidance to Childcare Managers (CCM) is to be circulated regarding payments and debt monitoring procedures. Any common issues around the accuracy of recording identified during the review of balances will be included in the guidance. These will be tested by a Childcare Manager before being rolled out.</p> <p>Removing the inputting of data from schools to a centralised body(s) who will work closely with a CCM in each area – this is currently being trialled in Fort William. This will be achieved through the database subgroup.</p>	Senior Manager Early Years	28/02/20

Ref	Priority	Finding	Recommendation	Management Response	Implementation	
					Responsible Officer	Target Date
			by Childcare Managers.			
H2	High	Staff involved in recording ELC usage and in monitoring customer accounts have conflicting demands on their time from more than one manager. As a result, there is a risk that ELC delivery is not prioritised.	The intended review of ELC funded hours should be progressed as a matter of urgency. Clear guidance should be provided to all relevant staff on reporting lines and how tasks are prioritised to ensure that all involved are aware of their responsibilities.	In order to make efficient use of our ELC funding, a review of the current allocated clerical hours is being undertaken and we will put in place a single point of contact. Guidance has been circulated previously regarding ELC clerical responsibilities. Staff turnover has contributed to the finding cited here.	Senior Manager Early Years	30/04/20
M1	Medium	Inconsistencies were identified in how the database is used, and there are varying degrees of confidence in using the database.	Best practice in using the database should be identified and shared with all relevant staff using a specified intranet page or SharePoint site to enable all relevant information and guidance to be accessed from a single place.	ELC Business Analyst will pull together best practice guidelines to circulate to all areas via SharePoint	ELC Business Analyst	31/03/20
M2	Medium	There is a lack of clear information to parents/carers at the point where care begins, and of proactive engagement ahead of transition by children from nursery to primary and primary to secondary school.	A document clearly detailing all relevant information should be provided to parents/carers at the outset. A process to identify pupils due to transition should be introduced and early communication implemented to ensure that any issues around balances are addressed before the transition takes place.	Guidance for parents regarding payments will be provided when they enrol, including detailing the contract between parent and setting with regards to DD payments. There will also be transition guidance highlighting the need to cancel or adjust the direct debit. Conversations around transition will take place in April to highlight any changes required. A system will be introduced to identify: <ul style="list-style-type: none"> when children are due to leave a setting so Direct Debit can be cancelled; 	Business Support Officer	31/03/20

Ref	Priority	Finding	Recommendation	Management Response	Implementation	
					Responsible Officer	Target Date
				<ul style="list-style-type: none"> Ensure that Direct Debits are adjusted if usage changes. 		
M3	Medium	There is a risk that parents could exceed their funded hours and not be billed if the child attends more than one setting.	A process should be introduced to identify split placements and ensure that all unfunded hours are charged for.	The data base subgroup will develop a simple system to identify split placements to ensure this process is in place	Senior Manager Early Years	31/03/20

Internal Audit Final Report

Care and Learning Service

Pupil Equity Fund

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 **Substantial Assurance** can be given in that while there is generally a sound system, there are minor areas of weakness which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

Distribution:

Interim Head of Education
Interim Chief Officer Resources – Care and Learning
Principal Officer, Equity
Strategic Quality Improvement Manager
Workforce Planning and Staffing Manager

Report Ref: HAB01/016.bf
Draft Date: 30/10/19
Final Date: 15/11/19

1. Introduction

- 1.1 The Pupil Equity Fund (PEF) is a grant paid to schools as part of the Scottish Government's Attainment Challenge. The aim of PEF is to close the poverty related attainment gap. The amount of PEF each school receives is based on the estimated number of children and young people in P1-S3 registered for free school meals. Head Teachers have access to the full amount of funding allocated to their school but must demonstrate that work undertaken to achieve PEF objectives is clearly additional to existing school work.
- 1.2 PEF will continue for the duration of the current Scottish Parliament (2016-2021). The amount of PEF given to all Highland Schools was: 2017/18 £3,924,000, 2018/19 £4,095,000 and 2019/20 £4,039,560.
- 1.3 A full time (seconded) post of Principal Officer (Equity) was created to administer PEF (hereafter referred to as the Principal Officer). Enquiries were made with her and other Education Officers. Spending reports and guidance were examined. A survey was sent to a sample of 40 Head Teachers to understand their experiences of PEF. 13 responses were received.

2. Main Findings

- 2.1 *Pupil Equity Funding is spent in accordance with the conditions in the National Operational Guidance and Offer of Grant*

This objective was substantially achieved. The grant was received in full and correctly allocated to each school.

A sample of 10 schools' plans showed these were in accordance with National and Council guidance as the work to be done was additional to existing school work. Each plan referred to nationally recognised quality indicators and outlined how achievements would be measured. Prior to spending, all PEF plans are approved by Education Quality Improvement Officers (QIOs) and Area Managers, with the Principal Officer providing advice. PEF plans have now been integrated to School Improvement Plans (SIPs) which means better alignment of PEF with other school work. Half of surveyed Head Teachers said

they actively sought views of pupils and/or parents, whilst others had at minimum informed parents of their PEF plans. 1 Head Teacher did not involve parents in PEF planning but was interested in other schools' work on this (See Action Plan ref L1).

Additional posts created from PEF were in keeping with the Fund's objectives and it has not been used in any school to top up Devolved School Management (DSM) budgets.

PEF should be spent in the academic session it is awarded. Schools have underspent PEF in both 2017/18 and 2018/19. The underspend was calculated to be c.5% for each year. However, there are processes in place to monitor underspend and work with schools to minimise this.

- 2.2 *PEF money is spent in the most economical and efficient way, using approved Council policies and procedures*

This objective was substantially achieved, there is evidence spend is controlled and appropriate Council processes are adhered to. All PEF spending has a specific ledger code in Integra; Head Teachers should run individual budget monitoring reports for PEF. The Principal Officer creates individual spending reports for schools and there are mechanisms to ensure spending by Head Teachers is appropriate and is correctly allocated in the financial ledger. There is also support available from the Principal Officer and QIOs with ongoing discussions where required.

For 2018/19 all suppliers where more than £10,000 was spent were examined. These were all appropriate, being either contract suppliers or on an approved register of partner services. Exemptions were signed for 2 suppliers by the then Director of Care & Learning. The Principal Officer liaised with Procurement to ensure Procurement rules were followed. Schools have used purchase cards and paid into their school fund for some PEF purchases. There is less clarity on what these purchases are for (See Action Plan ref M1).

Work has been done to ensure schools do not use PEF to commit resources beyond the PEF grant period. There are a small number of exceptions to this but these were approved by Area Managers and in 1 case the then Director of Care and Learning.

Schools can dispose of assets. The majority of new posts recruited to deliver PEF are fixed term contracts, set up using a standard process with reports available to monitor the end dates of posts. However a small number of posts were set up as permanent contracts, there is concern these were not set up as fixed term contracts as there is uncertainty about whether individuals can be suitably redeployed once PEF funding finishes. Some steps have been taken to minimise potential redundancy and conservation costs but Head Teachers will need to be mindful of these for the entire duration of PEF (See Action Plan ref M2).

2.3 *The Council can demonstrate that there are measurable outcomes of PEF spending and can evidence progress to achieve the outcomes.*

This objective was partially achieved. Schools report on PEF activity in their Standards and Quality (S&Q) reports and SIPs issued annually which link PEF to national priorities. 10 schools were examined, the amount of detail to describe PEF varies. There is little quantitative reporting by schools of how PEF has been spent. QIOs said more rigorous reporting will be expected of schools in coming years (See Action Plan ref M3). Several schools' SIPs and S&Q reports were not available online which would be best practice. (See Action Plan ref L2).

The Council has reported to the Scottish Government as required by the National Conditions, providing a Statement of Compliance and details of how much of PEF was spent in each financial year.

There is extensive management information to allow for both overall and detailed analysis of PEF spend. Each school produces a plan for how they will use PEF, which is reviewed by QIOs and Area Managers to ensure that it aligns with the improvement in outcomes specified in PEF guidance. However, measuring the specific contribution by PEF is difficult as outcomes will also be affected by other initiatives undertaken by schools.

2.4 *Sufficient support is provided to schools to ensure they achieve the objectives of the PEF*

This objective was substantially achieved. Schools are given guidance on how to spend PEF to deliver the required outcomes,

and the Principal Officer has a close working relationship with many individual schools. Regular meetings have taken place between the Principal Officer and Interim Head of Education and there have been at least monthly meetings at Area level to discuss PEF issues.

The replies from the Head Teachers surveyed indicated a high level of satisfaction with the support provided. There is evidence that individual Head Teacher concerns have been resolved. The principal concern expressed by several Head Teachers is the administrative workload officers have had to take on for PEF in addition to existing duties.

3. Conclusion

3.1 To date PEF has been well administered with processes in place to ensure spending meets the requirements of the Scottish Government. Support is in place for schools and detailed information on spend is available for monitoring. Guidance is extensive but to increase support, recommendations are made below on enhancing this guidance. More detailed qualitative and quantitative reporting by schools on how PEF was spent would increase accountability and demonstrate a high level of engagement with parents and pupils.

4. Action Plan

Ref	Priority	Finding	Recommendation	Management Response	Implementation	
					Responsible Officer	Target Date
M1	Medium	It is difficult to establish from reports what expenditure using the school fund and purchase cards was actually for. As a result, there is less transparency on these transactions when reviewing spend.	<p>School Fund accounts should include PEF spend as a separate category, with proof of purchase retained for all purchases. The guidance for PEF and reminders to Head Teachers should emphasise this.</p> <p>The Service should decide how purchase card spend can be best accounted for so assurance be taken that all spending is appropriate to PEF.</p>	<p>An email will be sent to all schools to inform them that they must keep a clear record of PEF expenditure made through their school fund, and this should be made available on request.</p> <p>There is a report available that does detail all the purchase card transactions, a request will be submitted to see if access to this report can be granted.</p>	Principal Officer	30/11/19
M2	Medium	<p>A small number of posts have been recruited to permanent contracts.</p> <p>Whilst steps have been taken to minimise legacy costs, there is scope to provide more detailed guidance to Head Teachers to ensure they avoid such costs in</p>	<p>The Service should ensure there are adequate plans in place to redeploy staff after PEF. It is also important to ensure any further appointments funded by PEF are made to fixed term contracts (It is acknowledged the Service has introduced robust scrutiny of all proposed posts but schools need to clearly understand what contracts are acceptable at this stage of funding).</p> <p>Council guidance should include scenarios and examples of legacy costs so Head Teachers are aware of what action to take. The guidance should also</p>	<p>As the number of permanent posts appointed under PEF funding is relatively small and there is a reasonable level of staff turnover within the service, the view is that redeployment if required could be achieved in most cases. The Workforce Planning Team will actively monitor the position with regard to these staff members. Posts are currently being heavily scrutinised before appointments are made and these are all being done on a fixed term basis.</p> <p>The Workforce Planning & Staffing Manager will work with the Principal Officer to produce some guidance for Head Teachers to raise awareness</p>	Workforce Planning and Staffing Manager to lead working with Principal Officer.	31/12/19

Ref	Priority	Finding	Recommendation	Management Response	Implementation	
					Responsible Officer	Target Date
		the future.	clearly state that responsibility for meeting any legacy costs lies with the school.	that legacy costs will need to be met by the school. The email to schools (see M1) will include an instruction to Head Teachers to be mindful of legacy costs.		
M3	Medium	Detail of PEF reporting in school SIPs and S&Q reports varies and there is a mixed level of qualitative reporting on the outcomes and benefits arising from PEF. More quantitative information on the breakdown of spend could also be provided.	Schools should quantify how they have spent PEF and there should be minimum agreed standards on what schools should include in their SIPs and S&Qs with respect to PEF. This should include measures to evidence the impact PEF has had on outcomes. (Note, it is acknowledged that some work has already been done on this).	A survey of SIP/SQR paperwork has now been returned by Head Teachers and Quality Improvement Team (QIT) are considering next steps. Data training and toolkits are to be rolled out with staff to enhance skills in this area. Following this there will be a review to the paperwork to include more robust data analysis linked to improvement activity/specifically PEF.	Strategic Quality Improvement Manager to lead with assistance from Principal Officer	Data training 29/02/20 Paperwork Review 31/03/20
L1	Low	Head Teachers have in some cases actively involved parents and pupils but this varies, there was uncertainty over what level of engagement was deemed adequate.	Guidance on parental involvement (i.e. best practice and examples of engagement) should be shared between Head Teachers, examples of good practice could be incorporated into existing guidance.	There is a tile set up in GLOW that can be accessed by Head Teachers and the Principal Officer can put a link to this in the guidance. There were 2 current examples of good practice, and we have recently added a further 3 schools, plus posters that schools have shared at the recent Scottish Attainment challenge conference. Discussions are ongoing between the Principal Officer and Strategic Quality Improvement Manager on how the Service can get more examples shared.	Principal Officer	31/07/20

Ref	Priority	Finding	Recommendation	Management Response	Implementation	
					Responsible Officer	Target Date
				In the National Guidance there is reference to involving parents and pupils, a reminder will be sent out to schools, and this could be highlighted in the existing guidance.		
L2	Low	Not all SIPS/S&Qs were publically available on school websites.	Head Teachers should ensure SIPS and S&Qs are available online by the agreed deadline.	This is not a statutory requirement but schools are encouraged to make a Parent friendly version of their SIP/SQR available in some format and full document available on request. We would consider an internal policy that requests Parent friendly documents are displayed on school websites. Based on this recommendation this will be discussed at senior manager level and with Head Teachers.	Strategic Quality Improvement Manager	31/05/20

Internal Audit Final Report

Development & Infrastructure Service

LEADER Programme 2018-19

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	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 **Substantial Assurance** can be given in that while there is generally a sound system, there are minor areas of weakness which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

Distribution:

Executive Chief Officer – Transformation and Economy
 Executive Chief Officer – Infrastructure and Environment
 Environment Manager, Development & Infrastructure Service
 LEADER Programme Manager, Development & Infrastructure Service
 External Audit

Report Ref: HEA05/008
Draft Date: 06/11/19
Final Date: 08/11/19

1. Introduction

- 1.1 This was the fourth audit assessing the administration of the 2014-2020 Highland LEADER Programme which is valued at £8.8m. The audit is a requirement of the Service Level Agreement (SLA) between the Scottish Government Rural Payments and Inspections Directorate (SGRPID) and the Highland Council and covers the period 16/10/18 to 15/10/19.
- 1.2 The LEADER Programme is part of the Scottish Rural Development Programme, aimed at promoting economic and community development within rural areas. Funding from the EU is centrally distributed by the SGRPID to eligible areas.
- 1.3 This is the fourth year where projects and administration claims were processed online on the Local Actions in Rural Communities System (LARCS).

2. Main Findings

2.1 Adherence to the 2014 – 2020 Programme SLA

The audit objective was substantially achieved. A sample of 8 projects and 1 administration claim were reviewed to ensure that the obligations set out in the SLA had been adhered to.

All projects reviewed met the SLA obligations and underpinning legislation. The only minor issues identified were:

- (i) For 1 project where 3 sets of accounts were required, Balance Sheets covering 3 financial years had been provided but only 2 years of Income and Expenditure Statements had been provided (See action plan M1).
- (ii) For 1 project the Committee Decision recorded on LARCS was 'Defer'. However, the conditions had subsequently been met and a grant offer had been issued. LARCS has now been updated to reflect the subsequent Committee approval.
- (iii) For 1 project the highest cost option had been chosen for the purchase of kitchen equipment. There was a brief explanation provided within Section 11 of the Project Plan

as to why this decision was made. The applicant was due to receive a discount on purchase which would take the cost down to a more comparable level and, although this had been considered when assessing value for money by the Development Officer, it had not been documented on LARCS (See action plan ref M2).

- (iv) For 1 project, a signed Fair Processing Notice had not been requested from the Senior Applicant. This has now been requested and uploaded to LARCS.
- (v) The following documentation had not been uploaded to LARCS:
 - For 4 projects the minutes documenting the project approval by the appropriate committee
 - For 1 project a cash flow projection
 - For 1 project a prepayment checklist for a claim
 - For 1 project evidence of security of tenure
 - For 1 project a Fair Processing Notice.

All the above have now been uploaded to LARCS.

At the request of the SGRPID, administration claims are now made monthly rather quarterly. The claim covering the period 01/04/19 to 30/04/19 was reviewed and 81 out of the 162 transactions were tested. All transactions reviewed had evidence that they were defrayed, and where invoices included VAT (51 transactions), this had been excluded from the amount claimed. The accompanying evidence for all sampled administration costs had been stamped "Highland LEADER Programme EC Funding Paid". All transactions met the SLA eligibility criteria. The only minor issue identified related to the salary costs for 1 Development Officer where only 60% is recharged to LEADER. The 'LAG Programme Claims Guidance' states that a timesheet must be completed for all staff who are not 100% employed by LEADER but these were not submitted as part of the claim. It was not felt necessary as the Development Officer in question works 3 set days on LEADER on a temporary basis. This has not been queried by the SGRPID when they review the claim and associated documentation (See action plan L1).

2.2 *Follow up of previous management agreed actions*

This objective was fully achieved. The management agreed actions from the 2017-18 audit were reviewed and all have been fully implemented.

3. Conclusion

3.1 The issues identified as part of the audit are minor in nature and mainly relate to the need to ensure the completeness of information recorded on LARCS. These do not impact on the eligibility of the projects and associated costs. Therefore, the Council fulfils its obligations under the 2014-2020 LEADER Programme SLA and complies with the underpinning legislation.

4. Action Plan

Ref	Priority	Finding	Recommendation	Management Response	Implementation	
					Responsible Officer	Target Date
M1	Medium	<p>The following documentation had not been provided by the applicants:</p> <ul style="list-style-type: none"> - For 1 project the most recent Income and Expenditure Statement - For 1 project a signed Fair Processing Notice. <p>The following documentation for individual projects had not been uploaded to LARCS:</p> <ul style="list-style-type: none"> - 1 was missing a cash flow projection - evidence of security of tenure for 1 project - a Fair Processing Notice was missing for a project - For 4 projects the minutes documenting the project approval by the appropriate committee - For 1 project a prepayment checklist for a claim. <p>These have all now been addressed.</p>	<p>Staff should be reminded of the requirement to:</p> <ul style="list-style-type: none"> - request all documentation listed on the Technical Assessment Checklist from applicants and upload to LARCS - attach the minutes documenting the project approval by the appropriate committee to LARCS - attach a Prepayment Checklist to LARCS for each project claim. 	<p>This will be reiterated to all staff both within staff meetings and in writing by email circulation to the team.</p>	<p>Programme Manager</p>	<p>30/11/19</p>
M2	Medium	<p>For 1 project the highest cost option had been chosen for the purchase of kitchen equipment. This cost was due to be discounted and whilst this had been considered when assessing value for money by the Development Officer, it had not been documented on LARCS.</p>	<p>Where the lowest cost option is not selected by the applicant as part of the procurement process, a full explanation should be provided as to how value for money has been achieved and this should be uploaded to LARCS.</p>	<p>A file note providing a fuller explanation of how value for money was achieved for this project will be added to LARCS.</p> <p>Additionally, the claims staff and development officers will be reminded that where the lowest cost option has not been selected, a full justification</p>	<p>Programme Manager/ Development Officer</p>	<p>30/11/19</p>

Ref	Priority	Finding	Recommendation	Management Response	Implementation	
					Responsible Officer	Target Date
				should be provided as to why we have accepted that the applicant has achieved value for money.		
L1	Low	A full-time employee works 3 set days as a Development Officer with 60% of their salary costs recharged to LEADER. The 'LAG Programme Claims Guidance' states that a timesheet must be completed for all staff who are not 100% employed by LEADER but these were not submitted with claims. However, this has not been queried by the SGRPID when processing claims for payment.	In accordance with the Guidance timesheets should be completed by the part-time Development Officer covering the period employed. These should be submitted with future claims and timesheets retained for previous claim periods in the event of any queries by the SGRPID.	Timesheets are completed by the Development Officer already although these have not been submitted as part of the drawdown to the SGRPID. Previous timesheets will be retained, and all future drawdowns will include the submission of this information.	Programme Manager/ Development Officer/ Programme Administrator	30/11/19

Internal Audit Final Report

Corporate Resources

Review of Insurance Arrangements

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

Executive Chief Officer Resources & Finance
 Executive Chief Officer Customer & Communities
 Head of Corporate Finance & Commercialism
 Head of Performance & Resources, Community Services
 Head of Property Services, Development & Infrastructure
 Finance Manager, Corporate Budgeting, Treasury & Taxation
 Property Manager (Estates) Development & Infrastructure
 Legal Manager (Estates), Conveyancing & Commercial, Corporate Resources

Report Ref: HDA11/001.bf

Draft Date: 23/09/2019

Final Date: 19/11/2019

1. Introduction

- 1.1 The objective of this audit was to assess the adequacy of the Council's insurance arrangements. Maintenance and administration of the Council's core insurance; mainly property, third party motor, public and employer's liability is managed by the Corporate Resources Services' Insurance Section. The collection and administration of Fleet records for motor insurance cover purposes is managed by Community Services.
- 1.3 To reduce premium costs, the Council changed its approach in 2018, increasing insurance excess limits and by ensuring only the highest risks are covered by an external commercial policy. The remainder is covered by self-insurance using the Council's own insurance fund (the fund).
- 1.3 The fund's value at 31/03/19 was £2.3m. During 01/04/18 to 31/03/19 the claims paid from the fund amounted to £606k and reimbursements totalling £42k was received.

2. Main Findings

- 2.1 *Adequate insurance cover is in place which considers risk appetite, cost of cover and claims history*

The first objective was partially achieved as the Council has appropriate insurance cover arranged through a mixture of commercial and self-insurance. Commercial cover is in place for high value properties and liability claims. The fund covers small value claims and claims below the following excess limits: property £1m and third party motor claims below £0.5m.

However, issues were identified with motor and property insurance cover:

Fleet: Under the Motor Vehicles (Compulsory Insurance) (Information Centre and Compensatory) Regulations 2003, the Council is legally required to update the Motor

Insurers Database (MID) within fourteen days of a change (addition, deletion or amendment) occurring. Failure to comply can ultimately result in a fine of up to £5k plus a further fine of £2k per vehicle per day.

A sample of thirty owned and hired vehicles were checked to the 06/10/18 MID database records. Twenty-two vehicles were correct but for the remainder, a significant amount of time elapsed between the date the vehicle was first used and entry onto the MID which occurred at the end of March 2019. (see action plan ref H1)

A further sample of seven recent vehicle hire transactions showed that only one was recorded on the MID with four omitted. For the other two, the vehicle registration number was not recorded so these could not be checked. (see action plan ref H1)

Concerns in Community Services over the accuracy of vehicle hire records resulted in them contacting one of the contracted suppliers to provide a list of all vehicles on hire at the beginning of March 2019. Checking of this information by the Service to the MID showed:

- Thirty-one hires were correctly recorded.
- Twenty-four live hires were notified late on the MID database. Failure by areas to provide vehicle details on the weekly hire return forms resulted in the assumption that the hires had ended and so were deleted from the MID. As a result, vehicles were uninsured from the date of the last weekly hire confirmation until they were updated onto the MID on 6/03/19. This meant that five of these vehicles were uninsured for 280 days.
- Five hires were never notified on the weekly forms and so were omitted from the MID database. The two longest had hire periods of 948 and 555 days for which they were not insured (see action plan ref H1).

It is understood that all the above omitted vehicles have been recently included on the MID database.

However, this exercise has only been completed for one of eight vehicle hire companies used by the Council. Given the findings above, it is highly likely that further hire vehicles are in use without being recorded on the MID and so are uninsured (see action plan ref H1).

Damaged Council vehicles: Since 2017, no damaged vehicle reports have been provided to the Insurance Section for assessment of potential damage. Furthermore, the claim forms are not easily accessible (see 2.3) which is likely to have resulted in a lack of "own [vehicle] damage" claims. As a result, it could not be demonstrated that Council officers had followed the policy for reporting such damage. Consequently, knowledge of driver behaviours is incomplete and damage costs were paid through each Services' budget rather than the fund (see action plan ref M1).

Co-located properties: Two new build Council offices partly occupied by third parties were granted occupancy without with lease agreements being in place. The leases should also include details of insurance responsibilities. Furthermore, the Insurance Officer stated that a small number of Council buildings are fully occupied by third parties without leases. This is of particular concern as planned property asset rationalisation could result in more sharing or leasing arrangements. (see action plan ref H2)

2.2 *Appropriate controls in place to manage the insurance Fund*

This objective was substantially achieved as the Council has processes and procedures in place to administer the fund in an effective manner. An excess of £250 per claim is applied and is necessary to highlight to budget holders that something has gone wrong and also provides additional resources to the insurance fund directly linked to the area of loss.

2.3 *Insurance claims administered in an effective manner*

This objective was substantially achieved as there are processes in place to review, approve or reject submitted claims. However, only one officer is suitably qualified for evaluating or rejecting potential claims which presents a risk to the Council being dependent on one key individual (see action plan ref M2).

Motor claim forms are held within Public Folders rather than being published on the Council's Intranet so cannot be easily accessed, particularly when most applicable employees do not have computer access.

Furthermore, the basic layout of the current claim form is not designed to prompt officers to provide detailed and quality accident information. As a result, there is a risk that the Council would not be able to provide a robust defence against potential claims from third parties. Also the opportunity to analyse accident trends, patterns and address driver behaviour is lost (see action plan ref M1).

2.4 *Insurance documents held securely and in accordance with Data Protection principles*

This objective was substantially achieved as there are processes in place that accord with the current Data Protection principles. Electronic and some paper claim documentation is filed and securely retained in accordance with the Council's retention policy. Although securely held, some paper files are retained in a locked filing cabinet which can only be accessed by the Insurance Officer. (see action plan ref H3)

3. **Conclusion**

3.1 On the whole, there are appropriate controls in place surrounding the management and administration of the Council's insurance arrangements.

However, the lack of formal lease agreements setting out insurance responsibilities exposes the Council to the risk of having to pay for claims by and/ or damage caused by third parties.

Furthermore, although it is understood that remedial action is being taken by Community Services, there is an ongoing risk that the failure to notify the Fleet section of all vehicle hires resulting in vehicles being driven which are uninsured. This would put both Council employees and the public at risk should any accident occur.

There is also scope to improve the efficiency of the claim process by making this easier and more transparent.

4. Action Plan

Ref	Priority	Finding	Recommendation	Management Response	Implementation	
					Responsible Officer	Target Date
H1	High	<p>No assurance can be provided that all vehicles hired by the Council have been recorded on the MID database and so are properly insured.</p> <p>An exercise has been undertaken with one hire company and several omissions were identified. This has not yet been done for the other seven companies used.</p> <p>Motor Insurance (MID) database records were inaccurate and incomplete. From a sample of 97 vehicles, only 60 were correctly recorded on the MID, meaning that 37 vehicles were not insured.</p>	<p>Officers should identify and contact all remaining contracted hire suppliers used by the Council to obtain details of all current hires. This information should then be checked and used to reconcile with the Council's Fleet and MID database records. Any differences should be followed up and appropriate remedial action taken where required.</p> <p>Moving forward it is essential to ensure that all new purchased and leased vehicles are promptly recorded on the MID database.</p>	<p>Until 2018 this process was managed by the Insurance section. A large number of staff across the Council could hire vehicles. Managers were required to submit a weekly return to the Insurance Officer notifying him of rentals that should be added or removed from the MID. This process was not robust. A new process was implemented during 2018 with the Fleet, Hire and Travel Desk taking over responsibility for all hires.</p> <p>Suppliers have been notified not to accept any orders out-with the desk. This is to ensure the desk know what is hired and this is used to update the MID. Work is going with hire companies to reconcile hire lists for vehicles hired before the process changed and responsibility moved to the desk.</p> <p>Vehicles purchased are managed by the Transport and Logistics Manager and part of the new vehicles process is updating MID. A process exists for disposal of vehicle and removal from MID.</p>	Head of Performance and Resources	31/12/19

Ref	Priority	Finding	Recommendation	Management Response	Implementation	
					Responsible Officer	Target Date
				The message to notify the Fleet Section on a regular and timeous manner of all vehicle changes (addition, deletion or amendment) should be strengthened and re-iterated to all relevant Council area managers and all relevant staff.	Head of Performance and Resources	31/12/19
H2	High	For new Council buildings shared with third parties and, for a small number of fully leased buildings, no agreements were in place to define insurance responsibilities covering the area leased. Therefore, there is a lack of clarity on who is liable in the event of any insurance claims with the risk that any financial costs must be paid by the Council.	<p>The proposed Concerto database should be established to record all properties in which the Council has a legal interest.</p> <p>This should include details of all leased properties (excluding Council houses) together with details of the latest lease agreement.</p> <p>Lease agreements should be prepared and signed for the two buildings identified in the audit and for any other properties listed on the Corporate Landlord database which do not have these.</p> <p>In future when Services are considering co-locating or assigning buildings to third parties, early contact should be made with legal to ensure that a leases agreement is in place before occupancy is granted.</p>	<p>Agreed.</p> <p>Agreed.</p> <p>Agreed</p> <p>Agreed</p> <p>Agreed</p>	<p>Head of Property Services, Development & Infrastructure</p> <p>Property Manager (Estates), Development & Infrastructure</p> <p>Legal Manager (Estates) Conveyancing & Commercial, Corporate Services</p> <p>Property Manager (Estates), Development & Infrastructure</p>	<p>30/09/20</p> <p>31/12/21</p> <p>31/03/20</p> <p>Ongoing</p> <p>Ongoing</p>

Ref	Priority	Finding	Recommendation	Management Response	Implementation	
					Responsible Officer	Target Date
H3	High	Sensitive paper files are held in a locked filing cabinet but only one officer holds a key.	<p>The paper files should be scanned and held in secure electronic folders. This information should be filed by the relevant financial years in which the claims were settled in order that these can easily be identified when the file retention periods have passed and the information needs to be destroyed.</p> <p>This information should be made available to those officers with appropriate authority permissions thereby ensuring that reliance is not placed on a single officer.</p>	Agreed	Finance Manager	31/03/20

Ref	Priority	Finding	Recommendation	Management Response	Implementation	
					Responsible Officer	Target Date
M1	Medium	<p>A failure to report "own damage" motor claims has resulted in repairs to vehicles being paid for from Service budgets rather than being claimed from the fund. Which consequently limits the Service's knowledge of when staff are involved in accidents.</p> <p>The layout of the current claim form is not designed to actively prompt officers to provide detailed and quality accident information.</p>	<p>Discussions should take place between the Fleet and Insurance Sections to agree and then implement the most effective way of identifying and claiming for own vehicle damage. This should include ensuring that claim forms made easily accessible to all staff and that they are aware of the process that should be followed in the event of any vehicle damage.</p> <p>This should be monitored by management and where instances of unreported damages are identified these should be followed up with the drivers concerned and the appropriate remedial actions taken.</p> <p>The claim form should be re-designed into a more useful format to:</p> <ul style="list-style-type: none"> • identify trends and patterns, including driver behaviour which need to be addressed • provide useful information to help the Council when dealing with accident claims. 	<p>The Transport and Logistics Manager has strengthened the accident reporting process and redesigned the reporting form. Vehicles are not repaired until the accident report is completed. This is a driver responsibility and requires operational managers from Roads and Transport and Environmental and Amenity Services to reinforce the procedure. Correct and timely reporting provides the managers with information about driver behaviour and training needs.</p> <p>The new accident reporting form is then used to track and record the cost of repair. The details are recorded in Tranman and quarterly reports are sent to the Insurance Officer to refund costs. This process was revised in April 2019 and is now up and running.</p> <p>The claim form was an Insurance document and didn't capture information relating to the accident in any detail. The Transport and Logistics manager has redesigned the accident reporting form to gather more comprehensive information in relation to an accident, not just insurance details.</p>	Head of Performance and Resources	Complete

Ref	Priority	Finding	Recommendation	Management Response	Implementation	
					Responsible Officer	Target Date
				The new accident reporting form will be located in FHT intranet page along with all other fleet policies and forms.	Head of Performance and Resources	30/11/19
M2	Medium	One officer is responsible for evaluating or rejecting potential insurance claims.	To mitigate against the risk of being dependent on one key individual, arrangements should be put in place to ensure all challenged claims, which were originally rejected, are reviewed by another suitability experienced officer.	The Service is aware of the "key man" risk and is reviewing staffing responsibilities across the wider team to try to provide increased resilience and allow for succession planning in this area of technical expertise'	Head of Corporate Finance and Commercialism	31/03/20

Internal Audit Final Report

Corporate Resources

Review of Absence Management Arrangements

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

Distribution:

Chief Executive
 Executive Chief Officer, Resources and Finance
 Executive Chief Officer, Governance and Performance
 Executive Chief Officer, Communities and People
 Executive Chief Officer, Health and Social Care
 Executive Chief Officer, Infrastructure and Environment
 Executive Chief Officer, Transformation and Economy
 Interim Chief Officer Resources, Education and Health & Social Care
 Acting Head of Education, Care & Learning Service
 Acting Head of Human Resources, Corporate Resources Service
 HR Business Partner, Corporate Resources Service
 Senior HR Officer, Corporate Resources Service
 Attendance Support Officer, Corporate Resources Service
 External Audit

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.

Report Ref: HDD01/005

Draft Date: 28/10/19

Final Date: 18/11/19

1. Introduction

1.1 The audit looked at whether the Council's attendance management policies and guidance are adequate and consistently applied across all Services. This was done by sampling a number of reported absences and assessing compliance in areas such as:

- Notification and certification of absence
- Recording and monitoring of absence
- Return to work process
- Referrals to Occupational Health
- Managing long term and frequent short term absence.

The audit also examined the way in which absence data is recorded and then reported on at Service and Corporate level.

1.2 Budget savings relating to the reduction in sickness absence levels were agreed at Council in December 2014 (£0.679m over 4 years) and February 2016 (£0.500m over 1 year). In order to support achievement of these savings, a number of actions and initiatives were agreed, either as part of the Transformational Savings Programme (agreed 27/06/16) or the Scrutiny Working Group (agreed 30/09/15).

1.3 Taking into consideration all of the above, the audit considered the effectiveness of the actions taken by the Council in order to improve levels of attendance, therefore reducing costs, both in the past and going forward.

1.4 The scope of the audit was limited to reported sickness absence and did not address the potential issue of unrecorded absence.

2. Main Findings

2.1 *Attendance Management Policy and Guidance*

This objective was partially achieved. There is an Attendance Management Policy & Procedure (the Policy) and this is available to all staff on the Human Resources (HR) Microsite along with supporting guidance documents. However, there is no mechanism in place to ensure that it is regularly reviewed, and it

has not been updated since May 2015. The Attendance Management Guidance (the Guidance) is applicable for both managers and employees. However, it could be strengthened in the following areas:

- How often employees should contact their line manager to notify them of ongoing absence
- Employees who are absent from their Council job but continue to work elsewhere

See action plan M1.

Information on how to report sickness absence is included in the employee induction which all staff should receive at commencement of employment. However, a survey sent out to a random sample of 145 Council employees as part of an audit relating to information management showed that only 69% of the 70 respondents had received an induction. Reporting sickness is also only one aspect of attendance management and employees may benefit from a broader understanding of their responsibilities in relation to absence management.

There is an induction specifically for managers which includes a mandatory Attendance Management training course. However, only 11 out of 18 managers sampled had attended the training. All of those who had not completed the training were from the Care & Learning Service and 5 out of 7 were Head Teachers. In total there are 144 Head Teachers and 100 have attended the training since it was introduced in September 2016.

A sample of sickness absences recorded over the last 6 months across all Services were examined:

- 10 long term – absence due to ill-health lasting 28 days or longer
- 10 multiple short term – 4 separate occasions of sickness absence or 10 days in total of sickness absence in a rolling 12 month period.

18 out of 20 responses were received. The principles set out in the Attendance Management Guidance had been followed in all cases apart from:

- Fit notes had not been provided by the employee for the entire period of the absence in 2 cases
- A referral to Occupational Health had been considered in all cases and made where it was felt appropriate by the manager. However, the Guidance states that a referral should be made in all cases of absence due to stress/debility, but this was not done in 1 case.
- For multiple short term absences, the formal attendance management process had been considered in all cases but had only been initiated in 2 cases
- A return to work interview had taken place in all instances apart from in 1 case where the manager, who was a Head Teacher, stated that carrying them out proved difficult due to the member of staffs teaching commitments and their own work pressures.

See action plan H2.

2.2 *Recording and monitoring of absence data*

This objective was partially achieved. There are processes in place to ensure that absences are recorded on the ResourceLink system for payroll and reporting purposes. The majority of absences are recorded in MyView by line managers and this data is then uploaded to ResourceLink by Payroll on a monthly basis. There are some exceptions to this whereby absences are recorded by other means initially, submitted to Payroll monthly and then uploaded to ResourceLink:

- Schools (teaching staff) – recorded on SEEMiS and uploaded to ResourceLink (there are plans to move to MyView by February 2020)
- Community Services (manual workers) – recorded on Excel spreadsheet by Business Support
- Development & Infrastructure (catering and cleaning staff) – recorded on Excel spreadsheet by Business Support.

These processes work well but require manual input which increases the risk of errors being made.

Payroll upload absence data recorded in MyView to ResourceLink monthly for each staff payroll group but are working with the system supplier (Northgate) to increase the frequency to weekly. This will mean that absence information on ResourceLink will be more up to date, but this will not apply to the externally recorded absences which will continue to be uploaded monthly (see action plan M3).

The Business Support team responsible for recording absences on behalf of Community Services identified that the list of sickness reasons on the Self-Certified Sickness Form did not match those on ResourceLink. This meant that it was not always clear which sickness reason to select for upload to ResourceLink based on the information provided to them. With the agreement of HR, they have amended the form so that it matches ResourceLink, but this amended form is not being used throughout the rest of the Council (see action plan L1).

Absence data is made available to Services via the PRMS system which allows them to monitor rate of absence (days lost) and patterns of long and short term absence. This data should be reviewed at Chief Executive Quarterly Performance Review meetings, but these are currently not taking place. Each Service should report on the average number of days lost per employee to their Strategic Committee quarterly but at the time of the audit this was only being done by Community Services and Corporate Resources. Absence data is currently only reported at Corporate and Service level with further system development required to allow for the data to be interrogated at section and area level therefore allowing for more meaningful analysis (see action plan H3).

Payroll used to inform line managers when a member of staff is due to drop to half or zero pay, but this is now the responsibility of line managers to monitor on MyView. However, guidance has not been issued to line managers to this effect and the system does not provide notifications in advance of when this will take place (see action plan M2).

2.3 *Action taken by Council to reduce sickness absence levels*

This objective was partially achieved. 17 out of 30 recommendations made as a result of the Scrutiny Working Group Attendance Management Review (final report dated 14/09/15) have been implemented, in particular in the areas of improved guidance, training and Occupational Health matters. However, 13 recommendations have not been fully implemented and these relate mainly to the monitoring and reporting of sickness absence data (see action plan H3).

All of the initiatives agreed by the Transformational Savings Board on the 27/07/16 have been implemented, namely:

- Attendance management course for managers
- Absence reporting measures
- Establishment of a specialist Attendance Support Officer (ASO) post to support Services.

Following implementation of the above, improvements in the number of employees initiating both the long and short term absence trigger points were reported in January 2017. However, this trend has not continued with numbers gradually increasing up to Q1 2019/20. The average number of working days lost for teaching and non-teaching staff has increased between 2014/15 and 2017/18 from 5.60 to 7.17 (7.11 provisional 2018/19) and 9.77 to 10.75 (10.50 provisional 2018/19) respectively. This has led to Highland Council's ranking in this area amongst 32 Scottish Local Authorities to decrease for both teaching and non-teaching staff, with teaching showing the most dramatic change going from 7th in 2014/15 to 25th in 2017/18. The Council has set stretching targets for improvement and these will be monitored through the Council's new Corporate Plan. It is difficult to pinpoint all of the reasons for this increase, but influencing factors include the move from manual to electronic absence recording, including SEEMiS and ResourceLink, potentially indicating previous under-reporting of absence. The Council has also initiated a project which aims to target sickness absence in schools and deliver a budget saving of £0.500m in the 2019/20 financial year.

Only £0.708m out of £1.179m budget savings agreed by Highland Council in 2014 and 2016 were achieved. These

savings were allocated directly to Service budgets and therefore, although the savings were ultimately achieved, it is not clear whether this was due to a reduction in sickness absence or offset against underspends in other areas of the budget (see action plan H1).

3. Conclusion

3.1 The Council's Attendance Management Policy and Guidance is adequate but could provide further clarity on the 2 key areas set out in 2.1 and it should be reviewed and updated on a regular basis. There is mandatory training available for managers to ensure that they are fully aware of the Council's Policy and Guidance, but this is not attended by all. There is no such training for employees and very little information is provided as part of the induction process which not all new starts receive.

All sickness absences are recorded in the ResourceLink system to allow for staff to be paid correctly and for reporting purposes. However not all of the information is input into the system in the same way, with some effective but manual workarounds in place in some areas.

Since 2016, a number of initiatives have been introduced in order to reduce levels of sickness absence and therefore reduce the cost to the Council. However, the most recent statistics indicate that levels are rising rather than falling and this indicates that more must be done if improvements are to be made.

4. Action Plan

Ref	Priority	Finding	Recommendation	Management Response	Implementation	
					Responsible Officer	Target Date
H1	High	<p>Despite initiatives introduced to reduce levels of sickness absence and reduce the cost to the Council in 2016:</p> <ul style="list-style-type: none"> - The number of employees initiating both long and short term absence triggers have gradually increased up to Q1 2019/20 - The average number of working days lost for teaching and non-teaching staff has increased between 2014/15 and 2017/18 from 5.60 to 7.17 and 9.77 to 10.75 respectively <p>Only £0.708m out of £1.179m budget savings agreed in 2014 and 2016 were achieved.</p>	<p>The reasons for increased absences levels should be investigated and appropriate improvement plans put in place.</p>	<p>Executive Chief Officers will be responsible for producing Service Improvement plans. Plans will include management training, undertaking proactive initiatives in the service to support attendance and reduce absence levels. As part of this process Managers will be reminded of HR Microsite created in 2016 with links to Health & Safety and Learning & Development on school intranet page and of the Mandatory attendance management training introduced in 2016. The role of the ASO and support available through My online learning (online training and videos) will also be highlighted.</p>	Executive Chief Officers	31/07/20
				<p>With the appointment of a dedicated additional 12 months ASO for schools in June 2019, engagement activities undertaken with schools to support Head Teachers in understanding and managing attendance including visits, workshops, training sessions.</p>	Head of HR	31/07/20
				<p>Benchmark good absence/attendance management practice with other local authorities (family group for teacher absence) and</p>	ECO Education/Head of HR	31/03/20

Ref	Priority	Finding	Recommendation	Management Response	Implementation	
					Responsible Officer	Target Date
				understand trends in Scottish Local Authorities.		
H2	High	<p>In terms of training and staff awareness of attendance management processes:</p> <ul style="list-style-type: none"> - Only information on how to report sickness absence is included in the employee induction - There is no specific online training for employees regarding attendance management - A survey carried out as part of a previous audit showed that only 69% of respondents had received an induction - Only 11 out of 18 line managers had completed the mandatory Attendance Management training course. <p>For the sampled absences, the Guidance had been adhered to in all cases apart from:</p> <ul style="list-style-type: none"> - Fit notes had not been provided by the employee for the entire period of absence in 2 cases - A referral to Occupational Health had not been made for 1 case of long term absence due to stress/debility - The formal attendance management process had 	<p>(i) More information on attendance management matters should be provided to new employees as part of the induction process. Consideration should be given to the development of an online training tool to facilitate this.</p> <p>(ii) Line managers are responsible for ensuring the following for their staff:</p> <ul style="list-style-type: none"> - new start inductions are completed - all staff complete the necessary mandatory training; - Attendance Management policies and guidance are complied with. <p>The above requirements should be monitored, and appropriate action taken by senior management in areas of non-compliance.</p>	<p>Review Induction Guidance – include information on expectations regarding employee contact and discussion with them during and following absence.</p> <p>Promote online training and how to access this.</p> <p>Use of 'vimeo' as a presentation tool to communicate attendance management.</p> <p>ECOs will be updated monthly on training attended by their staff and ELT quarterly. ECOs to take action where staff are not attending mandatory training.</p>	<p>Head of HR</p> <p>Head of HR</p> <p>Head of HR</p> <p>Head of HR /ECOs</p>	<p>31/12/19</p> <p>31/12/19</p> <p>31/03/20</p> <p>31/12/19</p>

Ref	Priority	Finding	Recommendation	Management Response	Implementation	
					Responsible Officer	Target Date
		<p>been considered by the line manager in all 10 cases of multiple short term absence but had only been initiated in 2 cases</p> <ul style="list-style-type: none"> - A return to work interview had not taken place in 1 instance. 				
H3	High	<p>There is a need to improve the reporting and monitoring of sickness absence data. The audit identified that:</p> <ul style="list-style-type: none"> - Absence data is made available to Services via the PRMS system and this data should be reviewed at Chief Executive Quarterly Performance Review meetings, but these are currently not taking place - Each Service should report on the average number of days lost per employee to their Strategic Committee quarterly but at the time of the audit this was only being done by Community Services and Corporate Resources - Some recommendations made by the Scrutiny Working Group Attendance Management have not been fully implemented and these relate mainly to the monitoring and reporting of sickness absence data. 	<p>The current sickness absence reporting arrangements should be reviewed to ensure that they facilitate the effective monitoring of sickness absence and updated accordingly.</p> <p>The review should consider:</p> <ul style="list-style-type: none"> - how sickness absence is scrutinised by ELT going forward - how absence data can be scrutinised at not just Corporate and Service level but also by section and area - the effectiveness of ResourceLink and whether further development is required to enable adequate reporting to be carried out - the recommendations made regarding reporting by the Scrutiny Working Group. <p>The revised arrangements should be applied consistently across all Services.</p>	<p>Review use of ResourceLink in providing data.</p> <p>Review reporting of all Services sickness absence stats to either Committee or ELT to ensure consistency in reporting.</p>	<p>Head of HR</p> <p>ECOs</p>	<p>31/01/20</p> <p>31/01/20</p>

Ref	Priority	Finding	Recommendation	Management Response	Implementation	
					Responsible Officer	Target Date
M1	Medium	<p>There is an Attendance Management Policy & Procedure and supporting Guidance, but there is no mechanism in place to ensure that it is regularly reviewed, and it has not been updated since May 2015.</p> <p>The Guidance does not provide specific guidance on:</p> <ul style="list-style-type: none"> • How often employees should contact their line manager to notify them of ongoing absence • Employees who are off sick but employed elsewhere. 	<p>(i) The Policy and Guidance should be reviewed to ensure that they are up to date and provide sufficient guidance to employees and managers on all areas of attendance management.</p> <p>(ii) There should be a mechanism put in place to ensure that the Policy and supporting Guidance are reviewed and updated on a regular basis.</p>	All policies will have a biennial review, to be approved at the HR Sub Group. This review will include revising guidance for curriculum managers and ill health retirement to support managers through the process	Head of HR	31/01/20
M2	Medium	Payroll used to inform line managers when a member of staff is due to drop to half or zero pay, but this is now the responsibility of line managers to monitor on MyView. However, guidance has not been issued to line managers to this effect and the system does not make it easy for them to monitor aggregated absence over the 12 month rolling period.	Line managers should be informed that the responsibility for monitoring when an employee is due to drop to half or zero pay is now theirs and appropriate guidance should be provided. The ways in which MyView can assist with highlighting this to line managers should be looked at.	<p>Practice of payroll notifying managers of half/nil pay relates to when the payroll system was manual, and managers had no access to MyView.</p> <p>Explore options in MyView which can prompt Managers when employee will be reaching half pay or nil pay and training/guidance provided where necessary. If this is not possible, revert to notification process from payroll to the manager.</p>	Head of HR/Payroll and Pension Manager	31/12/20
M3	Medium	The majority of absences are recorded in MyView but there are some exceptions to this whereby absences are recorded by other means initially, submitted to Payroll monthly	A process review is required to look at areas where there is a workaround currently in place. The option of inputting absence data directly in MyView should be explored as this would	<p>All Teaching & Non-Teaching staff absence recorded in MyView</p> <p>Review Community Services</p>	<p>ECO Resources & Finance and Education & Learning</p> <p>Payroll and Pension</p>	<p>30/06/20</p> <p>30/09/20</p>

Ref	Priority	Finding	Recommendation	Management Response	Implementation	
					Responsible Officer	Target Date
		<p>and then uploaded to ResourceLink. These processes work well but are quite manual which increases the risk of errors being made.</p> <p>Payroll upload absence data recorded in MyView to ResourceLink monthly for each staff payroll group but are aiming to increase the frequency to weekly. This will mean that ResourceLink will be more up to date, but this will not apply to the externally recorded absences which will continue to be uploaded monthly.</p>	reduce the risk of errors associated with manual processes and also improve efficiency.	<p>and Development & Infrastructure spreadsheets submissions to directly input into MyView.</p> <p>Loading of MyView absence into ResourceLink is now done on a weekly basis.</p>	Manager	
L1	Low	The list of sickness reasons on the Self-Certified Sickness Form do not match those on ResourceLink.	The Self-Certified Sickness Form should be amended so that the list of sickness reasons corresponds with those on ResourceLink.	The Self-Certified Form will be reviewed and amended.	Head of HR	31/12/20

Internal Audit Final Report

Community Services

Investigation into missing housing income

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	3
Minor issues that are not critical but managers should address.	Low	0

Distribution:

Head of Housing & Building Maintenance, Community Services
Interim Chief Officer Resources, Community Services
Housing Manager (South), Community Services

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.

Report Ref: HAC02/005

Draft Date: 23/09/19

Final Date: 17/10/19

1. Introduction

1.1 On the 18/12/18 Internal Audit were informed by the Principal Revenues Officer that 6 lodgements, supposedly made between 06/04/18 and 31/10/18, could not be located in the Council's bank account or within the financial ledger. This issue had been raised with the Income and Recovery team by the Local Housing Service when anomalies in income were identified by the Service. The total value of income for the lodgements was £2,076.60. The missing income related to cash collected at regular intervals from sheltered housing sites and then paid into the bank by an Assistant Tenant Services Officer (ATSO).

The ATSO received money collected by Sheltered Housing Wardens from guest rooms and laundries. The ATSO did not collect money directly from sheltered housing tenants.

An audit report highlighting the findings of the investigation was issued to Service management on 06/03/19. This identified that a further 13 lodgements, supposedly made by the ATSO between 01/04/16 and 31/03/18 had not been received in the Council's bank account. The total value of income for these lodgements was £4,053.30, bringing the overall total of missing income to £6,129.90. A disciplinary investigation was then instructed and a hearing was scheduled for 08/08/19 when the ATSO was dismissed.

The investigation also examined banking carried out in the same way by another officer for cash collected from a travelling person's site as they used the same Clydesdale Bank branch and Business Support staff when banking income. No issues were found and all income could be located in the Council's bank account and financial ledger.

2. Main Findings

2.1 *Sheltered housing income collection and banking*

The investigation reviewed transactions recorded in the bank pay-in book by the ATSO between 01/04/16 and 31/10/18. Out of 31 transactions, 19 could not be located in the Council's bank

account or on the financial ledger. A summary of the total number and value of missing transactions can be seen in Table 1.

Table 1

Financial Year	Total Pay-ins	Value	Missing Pay-ins	Value
2016/17	13	£3,997.80	6	£2,155.90
2017/18	12	£3,116.20	7	£1,897.40
2018/19	6	£2,076.60	6	£2,076.60
Total	31	£9,190.60	19	£6,129.90

The documentation examined showed that the ATSO was solely responsible for the collection and banking of the missing income. The investigation found that Paye.net sheets were completed for the missing income, matching what had been collected, but these were not entered onto Paye.net system. There was no system in place for routinely checking that the amount of money actually received into the Council's account matched the values entered on the paper records. The Financial Regulations Guidance Note on Receipt of Income states that:

- If possible, there should be a separation of duties between staff dealing with income collection and those with banking
- A senior officer should always ensure that proper monitoring arrangements exist between the income received and that banked.

See action plan ref H1.

A pay-in slip had been completed for each of the missing lodgements but they were not accompanied by a bank receipt or stamped by the teller. The ATSO had previously raised concerns with their line manager regarding receipts not always being given by the bank when monies are deposited over the counter, but this was not identified by the Service until November 2018. As part of the investigation the bank branch were asked what their position was on accepting cash/cheque lodgements over the counter and they stated that a receipt would always be given

as branch stamps are no longer used. Out of the 12 transactions where the monies were successfully deposited at the bank, a receipt was not provided on 2 occasions which indicates a discrepancy in the banks stated process (See action plan ref M1).

2.2 *Paye.net entry sheet processing*

A Paye.net entry sheet is completed by the ATSO each time income is banked and then emailed to Business Support for processing which allows the income to be allocated to the financial ledger. A sheet had been completed for all of the missing lodgements but these had not been received by Business Support. Conversely, a Paye.net entry sheet had been received and processed by Business Support for all occasions where income was successfully paid in to the bank.

The sheets used to be emailed to a specific person within Business Support but the process was changed which meant that they were emailed to a generic Business Support email address instead. The ATSO could have potentially sent the Paye.net entry sheets to 1 of 2 generic email addresses, both were checked but emails from the ATSO could not be traced. The ATSO had not retained the emails in their sent items and therefore there is no evidence that the emails had been sent.

Business Support used to issue confirmation that the Paye.net entry sheet had been processed but this had stopped due to staffing changes. An explanation for this was not requested by the ATSO (See action plan ref M2).

2.3 *Budget monitoring*

Not all income due to the Council had been recorded in the financial ledger but this was not identified as part of the regular budget monitoring process. For example, in the case of income for guest rooms, actual income was well below budgeted income in 2016/17, 2017/18 and up until the issue was first identified by the Service in November 2018 for 2018/19 but this was not picked up by the budget holder.

The Financial Regulations Guidance Note on Budgetary Control states that it is the Budget Holders responsibility to "ensure that all income received is promptly and appropriately processed and recorded" (See action plan ref M3).

3. **Conclusion**

3.1 The investigation identified inadequate controls for the banking of income as a result of policies and procedures within the Council's Financial Regulations not being followed, both in terms of no segregation of duties and the lack of monitoring arrangements by managers. This resulted in the theft of income going unnoticed over a number of years.

The recommendations within this report will ensure a robust process is in place. These should be shared with similar operations in other areas to minimise the possibility of a similar situation happening elsewhere, and to increase awareness of the relevant policies and procedures.

4. Action Plan

Ref	Priority	Finding	Recommendation	Management Response	Implementation	
					Responsible Officer	Target Date
H1	High	<p>Failure to follow the policies and procedures outlined in the Council's Financial Regulations increased the risk of fraud, in particular in the following areas:</p> <ul style="list-style-type: none"> - The same member of staff was responsible for the collection and banking of income - There were no monitoring arrangements in place between the income received and that banked. 	<p>(i) Appropriate monitoring arrangements should be put in place between income collected and income banked.</p> <p>(ii) If possible, the same person should not be responsible for the collection and banking of income. Where no segregation of duties is possible then consideration should be given to introducing random spot checks by another officer.</p>	<p>(i) Procedures have now been implemented since March 2019.</p> <p>(ii) The Sheltered Housing Warden has always collected the money from tenants. Arrangements are now in place to ensure that the person collecting the money from the Warden and the person banking the money are two separate Officers.</p>	Housing Manager (South)	Complete
M1	Medium	<p>A receipt is not always provided by the bank when monies are paid in over the counter and this contradicts their stated process.</p>	<p>(i) Staff should ensure that if not offered, a receipt should always be requested from the teller</p> <p>(ii) The receipt should be attached to the pay-in slip and this should be checked as part of the monitoring arrangements mentioned as part of H1</p> <p>(iii) If there ongoing issues in obtaining receipts, this should be reported to Income & Recovery who will liaise with the bank regarding this.</p>	<p>(i) All staff carrying out banking are aware that a receipt must be obtained from the bank.</p> <p>(ii) Since March 2019, a Principal Housing Officer has received the receipt and pay-in slip for monitoring purposes.</p> <p>(iii) All staff carrying out banking have been advised to not deposit if the bank refuse a receipt and report back to Principal Housing Officer.</p>	Principal Housing Officers	Complete
M2	Medium	<p>Confirmation that the Paye.net entry sheet has been processed is no longer received from</p>	<p>Confirmation should be provided by Business Support that the Paye.net entry sheet</p>	<p>Since March 2019, this confirmation has been received from Business Support and</p>	Principal Housing Officers	Complete

Ref	Priority	Finding	Recommendation	Management Response	Implementation	
					Responsible Officer	Target Date
		Business Support.	has been processed and this should be retained on file and checked as part of the monitoring process mentioned as part of H1.	passed to a Principal Housing Officers to ensure correct monitoring.		
M3	Medium	Not all income due to the Council had been recorded in the financial ledger but this was not identified as part of the regular budget monitoring process.	<p>Budget holders should ensure they are aware of all income sources for their budgets and monitor progress against income targets. Any major variations should be properly investigated and addressed as appropriate.</p> <p>New budget holders should be informed of any income budgets as part of their induction, and made aware of the expectations of them in their role as a budget holder.</p>	<p>(i) Since March 2019, a Principal Housing Officer has reconciled the income information received with the budget monitoring reports.</p> <p>(ii) This issue was originally discovered by the service and referred for investigation. Monthly budget monitoring is now in place.</p> <p>(iii) Housing Managers will ensure all appropriate staff complete a refresher of financial regulations training on My Online Learning.</p>	Housing Managers	<p>Complete</p> <p>Complete</p> <p>30/11/19</p>