The Highland Council

**Education, Children and Adult Services Committee
8 October 2015**

Internal Audit Reports

Report by Director of Care and Learning

Summary
This report provides an overview and update in relation to 6 internal audit reports which have recently been considered by the Audit and Scrutiny Committee:-   • Ben Wyvis Primary School Project   • School Lets Arrangements   • Primary School Fund – System Weaknesses   • Records Management, Nairn   • SEEMiS Integrated School Management System   • Financial Procedures in schools

1.   Background

1.1   Final audit reports for the 6 audits referred to above have been issued, with agree management action plans, and are being considered by Audit and Scrutiny Committee on 30 September 2015.

1.2   This report provides members of this Committee with copies of the audit reports, and an update on key issues and actions.

2.   Ben Wyvis Primary School Project

2.1   The objective of the audit was to review the contract processes and procedures involved in the completion of the new Ben Wyvis Primary School which opened in October 2012. The audit was undertaken given a number of concerns raised around the project, including snagging works and cost escalation.

2.2   The main findings from the report, and agreed management actions, will be progressed by both Care and Learning and Development and Infrastructure.

2.3   Of the 17 recommendations, a number fall to Care and Learning to progress and are summarised below:-

- Purchase of goods and compliance with Contract Standing Orders (CSOs) – for reasons of expediency, a decision was made to source furniture from the main project contractor, without going through a formal procurement procedure in line with CSOs. Care and Learning have given assurance

that all such procurements are now undertaken in line with CSOs.

- Ensure that buildings are not handed over until completed to an acceptable standard – this was a key recommendation from the audit, and one which had previously been progressed through a lessons learned review. There is a clear understanding between both Care & Learning and Development & Infrastructure officers that this is the approach taken, and can be evidenced by recent actions taken in relation to the Lundavra Primary and Noss Primary projects.

- Contract variation procedures – the agreed management action includes the need to ensure that contract variation procedures are followed, with decisions properly approved, documented and paperwork retained.

- Decision making, project monitoring and reporting – the audit highlighted issues in relation to project monitoring and reporting, to officers and to Committee, and lack of documentation in relation to key decisions. Officer decisions on major projects are now approved at the Care and Learning Programme Board, at which senior officers from C&L and D&I attend. Revised project monitoring and reporting arrangements are being progressed Council-wide, in response to an Audit Scotland report on capital planning.

- Lessons learned review – Care and Learning will undertake a review into previous project lessons learned, to review and update on progress in relation to implementation of agreed actions. This will be reported back to this Committee.

2.4 As referred to within the bullet points above, a number of lessons learned from the Ben Wyvis project are already implemented, most notably a clear understanding between both Care & Learning and Development & Infrastructure officers in relation to ensuring buildings are only handed over when to an acceptable standard, which is already in place. Other actions will be progressed as per the agreed audit action plan.

3. School Lets

3.1 The purpose of the audit was to review administrative and financial arrangements in relation to school let bookings and charging. The audit involved sampling across a number of school sites.

3.2 All of the agreed actions are for Care and Learning officers to progress. The main issues arising from the audit, and management actions, are summarised below.

- Reminder on guidance and updating of guidance – the audit found inconsistencies in practice being applied across schools. All schools are to be reminded of existing guidance, and the guidance itself will be updated to reinforce a number of matters arising from the audit.

- Use of other payment mechanisms including direct debits – due to issues with the charging process, with some charges issues late, inaccurately or in some cases no charge levied at all, the audit recommends consideration is given to direct debit as a means of payment, for regular and pre-planned series of bookings.

- Shared Business Support (SBS) role – procedures will be reviewed to ensure that SBS have the appropriate information to ensure that charging is processed with up to date and accurate information.

3.3   Audit actions are in progress, with some aspects to be considered as part of the wider review of school lets charging policy, which is the subject of a separate report on this Committee's agenda.

4.   Primary School Fund – System Weaknesses

4.1   This report relates to issues dating back to 2013, and an audit report which was completed in January 2014. Due to an ongoing police investigation into this same matter, the audit report is only now being considered by Committee, with criminal proceedings now concluded and the former clerical assistant now having plead guilty to embezzlement.

4.2   The audit has highlighted a number of system weaknesses in relation to school fund procedures within this particular school, which if addressed earlier may have either prevented the fraudulent activity from happening, or allowed the activity to have been uncovered more quickly.

4.3   With the time that has elapsed since the audit findings were first reported to Care and Learning Management, the agreed action plan has been completed, with reminders issued to schools in relation to the procedures to be followed.

4.4   Further activity is also underway in this area, with an officer working group established to review existing procedures and guidance, with the intention of updating these for issue to schools.

5.   Records Management at Care and Learning Store, Nairn

5.1   The purpose of the audit was to review management of records at the Council's records store located at Nairn Town & County Hospital, Nairn, which holds health and social care records.

5.2   The agreed audit actions are being progressed by Care & Learning officers, as well as officers from within the Council's Information Security team.

5.3   The main issues and actions are summarised below:-

- User training and policy guidance – not all staff had received the Council's information management online training, and this will be progressed. The audit also identified that the Council's records retention and disposal policy had no reference to health records under integration arrangements, and

this will be reviewed as part of the annual revision of that policy. The Council's Information Asset Register and Record Management Plan will also be updated to reflect records held on behalf of other organisations.

- Arrangements to secure records when removed from store – the audit identified a need to review policy and advice in relation to removed records, as well as practical arrangements for staff. Agreed actions include the review and updating of policy and guidance, and provision of lockable bags.

- Archiving Policy – the audit identified a need to implement a common policy in relation to archiving of health records, which will be progressed per the timescales agreed within the report.

6.   SEEMiS

6.1   The purpose of the audit was to review the school's management information system – SEEMIS, which went live in Highland in August 2014, following withdrawal from the market of the Council's previous system provider, Phoenix E1.

6.2   The audit was undertaken while the SEEMIS implementation project was still underway, with aspects of the system still being implemented, and training provided, as part of phase 2 of the project implementation.

6.3   The main issues arising, and management agreed action, is summarised below:-

- Access control – a user access control policy has to be finalised and agreed, and arrangements for ongoing review of user access will be implemented. Some aspects of the audit recommendations relate to core system functionality and will therefore be dependent on the supplier's development plans.

- Data input – the audit identified some issues in relation to data input for pupil attendance/absence and Education Maintenance Allowances. Arrangements will be put in place to monitor system usage and issue reminders to schools in relation to procedures.

- Reports – the audit identified a recommendation in relation to absence data and reporting within SEEMIS. Staff training is underway at present, and the Service is working with Shared Business Support and the Resource Link project in terms of how the SEEMIS system can work with the Council's wider change project which will migrate absence reporting to the Resourcelink system corporately.

- SEEMIS licence and support – at the time of the audit the SEEMIS members agreement had not been signed. This is now complete.

- Performance/function – the audit raised questions in relation to potential

duplication of data between SEEMIS and other corporate systems, and also the extent to which some aspects of the SEEMIS system are not yet implemented/being used. As the action plan states, aspects of the SEEMIS system are still being implemented within Highland, and as part of that ongoing process, the issues highlighted in the audit will be considered.

7.   Financial Procedures in schools

7.1   The purpose of the audit was to review the financial procedures at selected secondary schools.

7.2   The main issues arising, and agreed management actions are as follows:-

- Face to face meetings between Finance Officers and Head Teachers – regular meetings do currently take place, using telephony or video calls as appropriate to make best use of Finance Officers time, and minimise need to travel. It has been agreed that in next planned review of the schools DSM manual, the relevant wording will be updated to reflect use of technology, rather than sole reliance on 'face to face' meetings.

- Schools in budget deficit – the report highlights that the 4 schools subject to audit were in deficit in 14/15 financial year. The report also highlights that management action has already been implemented, and pre-dating the audit, following the Council's decision in December 2014 to remove the budget provided to top-up deficit schools. Work is ongoing with schools who are in deficit to work in partnership in resolving the financial position, with some early signs of positive progress to date.

- Contract standing orders (CSOs) and purchasing – the audit highlighted instances where goods were bought without following the Council's ordering procedures and CSOs. Reminders will be issued to all schools in relation to the need to follow the appropriate procedures.

- Imprests – the audit highlighted instances of schools not using the official Council imprest pad. Reminders will be issued to all schools in relation to the need to follow the appropriate procedures.

- Inventories – the audit highlighted not all schools were maintaining inventories, as required by financial regulations. Reminders will be issued to all schools in relation to the need to follow the appropriate procedures.

8.   Implications

8.1   Resource – there are no resource implications to highlight. Any agreed management actions to be progressed will be taken forward within existing resources.

8.2   Legal implications – there are no implications to highlight.

8.3   Equalities implications – there are no implications to highlight.

8.4   Climate Change/Carbon Clever implications – there are no implications to highlight.

8.5   Risk implications – the actions agreed and being taken forward will mitigate against the risks highlighted within the internal audit reports.

8.6   Gaelic implications - there are no implications to highlight.

8.7   Rural implications - there are no implications to highlight.

9.   Recommendation

9.1   Members are asked to consider this report and note progress in relation to the agreed management action arising from the internal audit reports.

Designation: Director of Care and Learning

Date: 27 September 2015

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The Highland
Council
Comhairle na
Gàidhealtachd

INTERNAL AUDIT
FINAL REPORT

CARE & LEARNING SERVICE

CAPITAL CONTRACTS –
BEN WYVIS PRIMARY SCHOOL

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Contents

1. INTRODUCTION

The objective of this audit is to review the contract processes and procedures involved in the completion of the new Ben Wyvis Primary School.

After completion of the project on 08/03/13 it was reported to the Adult & Children's Services Committee on 31/08/13 that in view of various concerns raised by Members regarding the project as a whole, a Lessons Learned report would be prepared. This was subsequently provided to the Committee meeting of 13/11/13 and is referred to within this report.

Specific concerns regarding the project, particularly the extensive snagging works and the cost escalation, were also referred by local Members to the Head of Audit & Risk Management. These were part of a series of wider concerns which were discussed at a meeting between local Members, community representatives and senior officers on 30/07/14. It was therefore agreed that an audit of the project would form part of the planned audit work for 2014/15.

Following recent Council structure changes, Services names have changed since the completion of the project. For the purposes of this report, previous Service names have been used throughout. Hence, Education, Culture & Sport and Housing & Property Service are currently known as the Care & Learning and Development & Infrastructure Service respectively.

For background purposes, a summary of key information is provided as follows:

(i) Costs

The table below provides a comparison between the awarded tender cost and the final sum paid:

TABLE 1

Original Contract Value	Actual Contract Value	Variance	
£6,547,717	£7,410,325	Cost increase	£862,608
Contingency allowance			
£341,550		Client Instructed	371,028
		Design	153,100
		Mechanical & Engineering	322,743
		Structural Engineer	10,024
		Building Control	63,623
		Unknown/below ground	89,434
		Loss & Expense	194,206
		Less:	1,204,158
		Contingencies/dayworks	(341,550)
			£862,608

The above table noting project value and costs was provided by the Consultancy Manager, Housing & Property Service. However, it was noted that the above variations were apportioned differently in terms of cost classification by the sponsoring Service, Education Culture & Sport.

1

(ii) Timeframe

The contract was undertaken in three Sections as noted below. These Sections are referred to at various points throughout the audit report.

- Section 1 – bus layby;
- Section 2 – construct the new school;
- Section 3 – demolish the old school.

TABLE 2

Key Milestones	At Tender stage	Revised	Actual	Variance
Contract Period	75 weeks	75 weeks	84 weeks	9 weeks
Date of Possession	25/04/11	01/08/11	01/08/11	14 weeks
School Opening (date of practical completion – Section 2)	15/06/12	21/09/12	24/10/12	-
Contract Duration at School Opening	60 weeks	60 weeks	65 weeks	5 weeks
Date of Practical Completion	28/09/12	04/01/13	08/03/13	9 weeks*

* A total of 23 weeks elapsed from the original programmed date of completion to the actual completion date. The figure excludes the 14 week delay at the start.

The following comments are provided in respect of the above:

(1) The original date of possession, 25/04/11 was deferred by 14 weeks to 01/08/11.

(2) Although the revised date of possession was identified as 01/08/11, the contractor did not start on site until 06/09/11, 19 weeks from the original programmed date of possession.

(iii) Extension of Time: award and duration

TABLE 3

Contract	Original		Revised timetable following 14 wk delay		Actual	
	Start	Completion	Start	Completion	Start	Completion
Section 1	25/04/11	29/07/11	01/08/11	04/11/11	22/10/12	08/03/13
Section 2	25/04/11	15/06/12	01/08/11	21/09/12	01/08/11	24/10/12
Section 3	15/06/12	28/09/12	21/09/12	04/01/13	22/10/12	08/03/13

With regard to the 14 week delay from the original programmed date of possession, initially, there was an eight week delay in connection with a water mains diversion, although no evidence of this delay was provided for examination. This was followed by a six week delay following the liquidation of the appointed Structural Engineer.

Due to initial delays Section 1 works, were moved over to Section 3. Four extensions of time, totalling 9 weeks, were granted over the term of the contract

2

(Section 4.2.7). Due to these extensions, the date of practical completion was achieved on 08/03/13.

(iv) Resources

A number of key officers involved in the project, including the Principal Architect and four Project Managers have since left employment with the Council. Consequently, the audit review has been moderately compromised due to lack of relevant explanations.

It was also noted that two Clerks of Works were involved in the contract. One covered the main contractor works, the other Mechanical and Electrical Engineering installations. However, due to the apparent lack of resources, the project did not receive as much main Clerk of Works cover as required and this therefore led to increased input from the Contract Administrator.

(v) Lessons Learned

In addition to the Lessons Learned report concerning this project referred to at Section 1. above, this report also refers to an earlier Lessons Learned report which was presented to the meeting of the Adult & Children's Services Committee on 21/08/13 regarding the Lochardil Primary School – Modular Accommodation project.

2. REVIEW OBJECTIVES

The objectives of the review were to ensure that:

(1) Tenders were evaluated in accordance with Contract Standing Orders.

(2) Sound management was exercised over the contract, including that related to the performance of the contractor.

(3) Sound financial management was exercised over the contract, including additional contract expenditure.

3. SCOPE, METHOD AND COVERAGE

The audit examined the implementation, performance and completion of the Ben Wyvis Primary School contract. The review also considered the documents held by Education, Culture & Sport, the Housing and Property Service and the previously issued Lessons Learned reports for both Ben Wyvis and Lochardil Primary Schools.

4. MAIN FINDINGS

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

4.1 Tenders were evaluated in accordance with Contract Standing Orders

4.1.1 Tender report information

Although there is no clear guidance within Contract Standing Orders regarding the format of Tender Evaluation Reports, the Tender Report prepared by the then Housing & Property Service lacked a considerable amount of key information in comparison with the standard Tender Report format used by the Head of Procurement for corporate supplies and service contracts. However, this has not been issued by the Head of Procurement as a standard tender template to guide all Services.

It is recognised that considerable contractor information is contained within the Pre-Qualification Questionnaire document as used by the Housing & Property Service. However, this document did not align the specifics of the contract with those of the chosen contractor.

On comparing the two documents, the Housing & Property Service tender report did not contain sufficient information to help inform and support the award decision and no provision was made to incorporate a formal tender sign off section. The notable differences have been highlighted below:

- Identification of the Sponsor owner/procurement lead: project owner/contact details;
- Project aims, objectives, requirements, budget, target, start/ finish dates;
- Contract commencement and completion dates;
- Process used and justification;
- Advertising route;
- Pre-Qualification Questionnaire evaluation criteria/weightings;
- Tender Evaluation criteria;
- Expression of Interest and Pre-Qualification Questionnaires received;
- Identities of Shortlisted suppliers;
- Evaluation process;
- Cost of Recommended Tender;
- Cashable/Non cashable savings or cost increase;
- Recommendations – contractor/Sub-contractor reasoning and value;
- Lessons Learned from tendering exercise;
- Tender Signatories (nb 4 signatories on corporate tender).

It is important that qualitative information is available to clearly evidence decision-making with regard to Contractor selection. At present, the document used lacks critical information in this respect.

4.1.2 Determination of the Price/Quality Ratio

(1) For tender evaluation purposes, a ratio of 75% price and 25% quality was determined for this project which, it is understood, was one of the ratios highlighted within the Scottish Government's Procurement manual. Although the report used for evaluating corporate supplies and service tenders detail the reasons behind the evaluation ratio selected, the reports used for capital projects in the Housing & Property Service do not similarly provide this information.

(2) It is understood that the Price/Quality apportionment was proposed by the Project Manager and thereafter was reviewed and discussed by the Design Team before the final decision was made. However, there is no clear evidence to suggest that there was appropriate input from the sponsoring Service.

(3) Regarding the selection of appropriate ratios, it was noted that there was no advice within Contract Standing Orders regarding which ratio to use. It is critical that the correct weighting is chosen for the purposes of evaluating the project requirements as this can have a significant impact on the tender evaluation result.

(4) On discussing the above matter with the Education, Culture & Sport's Estates Strategy Manager, it was noted that a 60%/40% ratio is now being used which suggests that the use of this ratio is more relevant, thus giving a greater emphasis to quality. It was unclear whether, on reflection, the aforementioned ratio should have been applied to this project. If so, a different contractor may have been selected.

4.1.3 Technical References

With regard to the tender evaluation criteria, the Contract Standing Orders which were applicable at the time of the tendering exercise (version 2010), state that "evaluation of pre-qualification questionnaires must be based on an assessment of the financial, legal and technical standing of the potential tenderer only".[1]

The Pre-Qualification Questionnaire form, dated 28/10/10, showed that relevant information was required from prospective tenderers, including: competence, quality assurance, business probity and economic standing. It also included a section for the provision of references to support the standard of work previously undertaken, advising that contact would be made with referees and that unsatisfactory references may result in exclusion from the Select Tender List."[2]

The successful tenderer completed the Pre-Qualification Questionnaire as required and there was a full evaluation of Pre-Qualification Questionnaires by the Procurement Section, following which, the contractor was also financially assessed. However, no technical evaluation was performed which is contrary to the Pre-Qualification Questionnaire which require contractor references to be taken up. Given that the contractor was new to the area this review could have provided valuable insight into the contractor's performance.

[1,2] ECSB0152 Pre- Qualification Questionnaire, September 2010.

4.1.4 Structural Engineer

Contrary to requirements noted in Contract Standing Orders which were in force at the time, the Structural Engineer works were not formally tendered. Instead, five Structural Engineers were drawn from database records held by the Council and were asked to submit priced bids.

The Structural Engineer works were awarded to the lowest priced bidder on 11/03/10 in the sum of £39,000. The engineering design works were scheduled to be paid in tranches of 15% and 60%, representing the preliminary sketch plans and drawing works, with the remaining 25% on completion of the construction stage. On 21/12/10, a payment of £29,250 (75% of the total sum) was paid and on 20/05/11 a further payment of £8,385 (21.5% of the total sum) was made, suggesting that little design work remained. However, at that stage, the main contractor for the works had still to be appointed following significant delays (Section 4.2.2) and therefore no progress had been made with the construction of the building.

After making payment of £37,635 (96.5% of the total sum due), the Council was notified of the Structural Engineer's voluntary liquidation one month later on 22/06/11, one day after the revised date of site possession. As a consequence, the Council had to appoint a replacement Structural Engineer to complete the works commissioned as Structural Engineering Regulations require Structural Engineers to validate the structural design that they have prepared. This validation is not transferable.

Following liquidation, a replacement Structural Engineer was appointed on 19/07/11, thus delaying the start of the works further. It is understood that the solution was subject to considerable debate but these works were also not tendered and consequently did not comply with Contract Standing Orders. Rather than consider the results of the earlier pricing exercise, the replacement Structural Engineer was provided by an associated branch of the main contractor's organisation at a quoted cost of £41,500. It is understood that this decision was based on an assertion put forward that, as the replacement Structural Engineer "was in the same group as the main contractor, a more efficient Structural and Civil service would be delivered."[3] However, the replacement firm still had to re-perform all of the Structural Engineering calculations for the purposes of signing off the Structural Engineers Report. This work took approximately six weeks. Nonetheless, it is understood that for expediency, Services took the decision to proceed with the contractor's Structural Engineer as the best way forward to prevent any further delays to the project.

However, in view of the close relationship of the main contractor and the contractor's own Structural Engineers, there could have been a potential conflict of interest. It was also noted that concerns were subsequently raised with the replacement Structural Engineer regarding their adverse performance which included "late release of information critical to the construction programme".[4] This is therefore at odds with the earlier suggestion of "a more efficient service".[5]

4.1.5 Purchase of Furniture

School furniture is normally acquired by either the sponsoring Service or directly through the main contractor. In this case, due to various delays in the construction programme, the decision was taken to procure furniture through the main contractor for the sum of £119,022. This was not included in the tendered

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[3,4,5] HC Letter regarding the replacement Structural Engineer, 13/07/12

cost and is included in the value of client instructed variations noted in the table at Section 1(i) above.

The value of furniture was in excess of the tendering threshold but was not subject to the tender process and as such was not publically advertised. The Care & Learning Service has recently responded that the arrangement for the purchase of furniture allowed for expediency, co-ordination with the project programme and installation being integrated with the construction programme. However, it could not be demonstrated that the Council obtained Best Value.

4.2 Sound contract and contractor performance management was exercised

4.2.1 Roles & Responsibilities

It was established that the Project Manager and Contract Administrator team operate a set of project processes, and general roles are defined. Furthermore, regular minuted project team meetings are held to ensure that respective actions are agreed and understood. An outline of the roles and responsibilities was provided by the Estates Strategy Manager, Education, Culture & Sport, together with and outline of the project reporting structure extracted from the Scottish Government's website.

In considering the above, it was noted that similar roles appear to be undertaken by the Project Sponsor and the Project Manager with regard to monitoring project progress and in managing the project budget.

At the time of the audit review the Housing & Property Service was asked if a Project Manual was in place to guide officers in understanding their duties. Although it was suggested that no Manual existed, it was recently established that a paper based Project Manual was formed in the year 2000. This Manual was superseded approximately five years ago by an electronic version which was based on Royal Institute of British Architects (RIBA) guidelines. This version, which was recently updated, would have been in place at the time of the Ben Wyvis Primary School project. Nonetheless, whilst easily accessible, the use of procedural guidelines is discretionary, and as such, it was not be possible to determine whether these were uniformly applied.

Also, an observation was made that the Lessons Learned report on Lochardil Primary School recommended that project owners and sponsors should be given written terms of appointment setting out their responsibilities, authority and the resources at their disposal for each project. This is of particular importance to ensure project management efficiencies are met, the use of resources is not duplicated and there are no gaps in service provision, thus ensuring that works are executed in a timely manner.

There was no Project Execution Plan (PEP) in existence to effectively manage and control the execution of the project. The Project Execution Plan describes how, when and by whom the specific project targets should be achieved and provides details on the major activities and resources required to deliver the project within the planned timeframe. However, it is understood that a design phase deliverables programme was utilised for this project which broadly outlines the project timeframe in accordance with each relevant design phase. Nonetheless, the design programme does not provide details on the roles and responsibilities for the individuals involved in delivering the project and, there was no information concerning project management and control. Without the use of such a critical document, it is not possible to conclude that the project had been effectively managed and controlled.

7

The absence of a Project Execution Plan is amplified by points raised in this report, for example, the tender documents were issued later than planned which led to the later than expected engagement of the contractor (Section 4.2.2). Despite delays encountered at the start and during the project, excluding the completion of the Section 3 of the works, the school opened on 24/10/12 but with extensive snagging works required[6]. Ultimately, it took an additional 9 weeks to finish the construction project, although Housing & Property commented that this is not uncommon in a project of this size and complexity. (Section 4.2.6)

Throughout the term of the contract there were noted delays in the construction programme. Although is understood that six subcontractors went into liquidation during the course of the project, it is unknown whether this caused any delays in delivering the project. Nonetheless the delays ultimately led to four Extension of Time claims, coupled with four Loss and Expense claims covering the same 9 week period (Section 4.2.7).

A similar observation was also made within the Lessons Learned report on Lochardil Primary School which noted that "absence of a formal Project Evaluation Plan may well have led to a lack of clarity around the specific roles and responsibilities for each of the individuals involved on project."[7]

The Lessons Learned report concerning the Ben Wyvis Primary School project also acknowledged that there had been a lack of clarity over certain roles and responsibilities and that this had given rise to communication problems. It was therefore recommended that revised project management procedures would be agreed by the Education, Children & Adult Services Committee. However, it would seem there was no clear action plan to accommodate the agreed actions.

4.2.2   Delay in Start Date

The table at Section 1 (ii) shows that the contract date of possession, 25/04/11 was deferred to 01/08/11. This related to an 8 week delay due to water mains issues in the tender process, the reasons for which were not reported to Members and, a 6 week delay following the voluntary liquidation of the Structural Engineer.

The Indicative Tender Timeline attached to the Pre-Qualification Questionnaire was examined which showed that the tender process commenced with an OJEU advert in September 2010. It is known that the Pre-Qualification Questionnaire was submitted in October 2010 which was in accordance with the above timeframe. However, according to the timeframe, the tender evaluation should have been performed during January 2011, with the contract awarded on 11/03/11. However, this did not occur and the cause for the delay is not evident. The Tender Evaluation report was not prepared until 05/04/11.

The contract award letter was sent on 02/06/11 and the date of possession was established at the pre-start meeting on 21/06/11. However, following the liquidation of the Structural Engineer, the date of possession was deferred six weeks to 01/08/11.

Despite the deferred date of possession, the contractor did not start on site until 06/09/11 and it is understood that this was due to the fact the contractor took around five weeks to submit the Health and Safety documents and mobilise the workforce. It has been suggested that this time period is not unreasonable on a project of this scale and complexity. However, given that on 01/08/11, the project was already 6 weeks behind the revised date of possession of 21/06/11, it would have been expected that the contractor would have arranged their affairs to commence construction on, or shortly after 01/08/11. The delayed start had a

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[6] Ben Wyvis Primary School, Lessons Learned report, 13/11/2013
[7] Lochardil Primary School – Modular Accommodation, Davis Langdon, 2012.

significant impact on the contractor to complete the works by the intended completion date for Section 2 of the works (construction of new school) and, although this date was deferred to 24/10/12, the delayed start was one of the factors that resulted in the school being handed over with "extensive snagging issues" as identified in the Lessons Learned report. In this respect, Housing and Property had suggested that extremely poor site management by the contractor was also a resultant factor. This is addressed further in Section 4.2.6 below.

Excluding the 14 week delay encountered before the date of possession 01/08/11, the contract took an additional 9 weeks to complete, resulting in a contract term of 84 weeks. The additional 9 weeks is reported further at Section 4.2.7 below.

4.2.3 Variations

As shown in the table at Section 1 (i), contingencies of 5% of the contract value, £341,550, were provided for, consisting of a provisional sum of £237,000 for items which could not be defined or detailed at the time of issuing the tender document and, an amount of £104,550 for dayworks and contingencies to cover any unforeseen additional items that may have come to light during the works. However, the actual value of additional works instructed through contract variations totalled £1,204,158, an increase of 18% of the tendered contract value. This could indicate that the anticipated tendered cost was not as complete as it should have been to allow adequate cost forecasting. However, it transpired that a number of variations were required, but were not all supported by authorised Change Control Record Sheets and as such, it could not be demonstrated that these were considered and evaluated by the Project Sponsor in terms of necessity and or, cost. One of the reasons put forward by Housing & Property for the delays was that there was a 24 hour response time for costed variations and the current change control systems does not allow for this.

A table, analysing the source of the variations, was provided by the Consultancy Manager, Housing & Property Service and provides useful information for Housing & Property's internal consultant coordination purposes. Although this analysis would assist in managing and restricting the volume and value of variations for future contracts it isn't used for reporting purposes, neither internally or to Members as part of any post contract review process.

As noted above, variations were significant in respect of this contract and a similar conclusion was reached in the Lochardil Primary School report which stated that: *"a considerable number of variations were instructed which resulted in delay to the Contractor's progress. Changes of this type during the construction give rise to legitimate entitlement to extra time to complete the works."* In addition, concerns regarding the change control process were also highlighted within the Lessons Learned report relating to the Ben Wyvis Primary School project.

With regard to this contract, loss and expense of £194,206 was paid to the contractor arising from a combination of contract variations which caused construction delays and also through delays caused by other factors. This matter is considered further at Section 4.2.7 below.

4.2.4 Quality of Works

A key feature of the Ben Wyvis Lessons Learned report was with regard to the performance of the contractor and the resulting poor standard of workmanship which had given rise to Members being inundated with complaints from parents.

Earlier in this report reference was made to the importance of setting an appropriate price/quality ratio in the evaluation of tenders (Section 4.1.2). In addition, there is also earlier mention of the appropriateness of ensuring that

contractor references are provided (Section 4.1.3), particularly in respect of major projects such as this.

With regard to the day-to-day responsibility for monitoring and reporting on the quality of work as it progressed and ensuring that this was in accordance with the tender specification, contract programme, contract drawings and quality standards, two Clerks of Works were allocated these duties. One covered the main contractor's builder works, the other the Mechanical and Electrical Engineering works. However, the Lessons Learned report acknowledged that due to a lack of resources the Ben Wyvis project did not receive as much of a presence as was required.

The documents used by the Clerk of Works to record the results of their inspections are paper based documents which are sent to the following officers on a weekly basis:

- Project Manager;
- Project Supervising Officer;
- Quantity Surveyor;
- Planning Supervisor; and,
- Head of Energy and Engineering.

A review of the Clerk of Works reports noted the following matters:

(i) The reports were light on detail and were often illegible. Therefore, it is difficult to understand how these would properly inform the recipients, particularly those attending the formal site meetings with the contractor.

(ii) The records did not actually refer to the quality of work undertaken despite that task being of fundamental importance to the Clerk of Works role.

(iii) Specific attention is given to the daily weather conditions which, it is understood, are provided by the contractor. However, it is understood that in the event of any claim by the contractor relating to adverse weather conditions, Met Office records are actually used for independent verification.

(iv) The number of workers on site is recorded and, again, it is understood that the information is extracted from contractor records rather than being collected independently. However, the numbers of hours actually worked on site is not captured which would be of particular relevance in the event of any contractual claims.

(v) The manual distribution of the reports is inefficient, particularly in view of the numbers of officers receiving these.

The forms are not issued to the Clerk of Works' line manager to oversee the work performed.

In respect of (ii) above, it was noted that a letter was sent from the Principal Architect, Housing & Property Service to the contractor on 11th April 2012 which, 8 months after the start of the project, seemed to be the first intimation that the quality and standards on site were unacceptable in certain respects. The contractor responded the following day that:

- The Clerk of Works and Contract Administrator are on site on a weekly basis and had at no time approached a member of their team regarding any quality issues. *(The Housing & Property Service has recently stated that the Site*

*Agent and the Clerk of Works were to meet on site every Friday morning.
However the contractor's Site Manager rarely attended these meetings. The
Service also mentioned that snagging items were being ignored. Despite this,
there was no evidence to suggest that the Clerk of Works reporting
requirements were strengthened to take account of concerns regarding
quality. Housing & Property have recently accepted that due to a lack of
sufficient Clerk of Work coverage, the contractor was not adequately "policed"
and the quality of construction suffered.)*

- The Contractor had introduced a Site Issue Schedule to record any items of
  concern which could be raised by any member of the client team during their
  site visits. However, to date, no major issues had been raised.
- The Contractor had, on numerous occasions, suggested that a weekly meeting
  should be held on site to allow the Site Issues Schedule to be reviewed and to
  walk the site to review any client concerns, agree remedial actions and agree
  timescales to complete these actions. However, the Council had not taken up
  this offer.

In summary, there is little evidence that proper attention was paid to ensuring
that work was undertaken to appropriate standards during the progression of the
works. In this respect the Ben Wyvis Lessons Learned report contained a
recommendation that shows that the Council will `"work with contractors to
achieve zero defects at handover." This point has been accepted by Housing &
Property Service who stated that the Clerk of Works cover and reporting was light
and the Contract Administrator should have addressed this earlier. It is therefore
important that processes are in place to achieve this.

4.2.5 Site Meeting Minutes

Monthly site meetings took place throughout the duration of the project which
were attended by between 15 and 17 individuals in total, including
representatives from the Contractor; the Structural Engineer; the Electrical
Engineer, the Construction, Design & Management Coordinator and the Council.
On average, 8 officers represented the various Council disciplines, including the
Consultancy Manager, Project Manager, Architect, Contract Administrator,
Quantity Surveyor and Clerk of Works. In advance of each meeting there is
evidence showing that the Contractor submitted a progress report for discussion.

The site meeting minutes maintained for the contract were reviewed which
showed that these were relatively brief in nature and did not suggest that
important information was always highlighted, even if this was raised within the
Contractor's reports. This point was accepted by Housing & Property Service who
stated that "many of the Clerk of Work issues are not picked up in the minutes as
they are raised with the contractor on the routine site inspections." For example,
the meeting minutes did not cover adverse project management issues insofar as
highlighting progress and disruption of works, project delays, resourcing issues,
contractor performance/quality of work, and impact of extensive project
variations/costs. In respect of the site meeting which took place on the date of
handover of the new school building (October 2012) the minutes reported that the
snagging was 95% complete with the exception of the multi-use games hall. The
minutes therefore failed to capture the true picture in view of the snagging issues
subsequently reported.

The report on Lochardil Primary School similarly revealed that the site meeting
minutes failed to give an accurate impression of progress with the comment that
"from reading the minutes one does not get an impression of a job on site going
badly."

4.2.6 Handover of school building

As noted in the Introduction at Section 1 (ii), the new school building opening date of 24/10/12 was met despite the fact that there were significant delays to the contract start date. This critical decision was taken by the sponsoring Service, Education Culture & Sport, however, it cannot be established if such a fundamental decision should have fallen within their remit as there were no defined roles and responsibilities as previously reported at Section 4.2.1.

Therefore, and as highlighted in the Lessons Learned report, the building was handed over "with extensive snagging issues." This led to operational difficulties as proper progress could not be made while the school was occupied. In order to address this issue with regard to future contracts, the Lessons Learned report recommended the following:

- Work with contractors to achieve zero defects at handover.
- Do not agree to handover of building until it is completed to acceptable standard. *(In this respect, Housing & Property advised not to handover the building but this was overruled.)*
- Allow more time for handover, commissioning and occupation stages.

Despite the fact that the start date was delayed, the potential risk associated with failing to open the school building by the planned October date or the risk of occupying a partially complete building were neither identified nor managed, certainly not through any formal risk management process. In view of that, mitigating actions were not considered. This matter is also addressed at the Section 4.2.9 below headed "Risk Management."

In addition, with regard to reporting to Members, the Education, Culture & Sport Committee of 15/09/11 was informed of a six week delay in starting the project. However, as referred to in Section 4.2.2 above, the delay was greater than six weeks because due to the contractor 5 week lead in period, the works did not commence until 06/09/11 and it was suggested that "discussions were ongoing with the main contractor as to how this lost time can be recovered."[8] However, there was no subsequent update provided until the Committee of 26/09/12 when it was reported that "the school is on target to be handed over to the Council on 21/09/12 as planned and the new school will open at the start of the new term after the October school holidays." As it transpired, the school opened the day after the start of the October term but only partial possession was granted on 24/10/12 as Section 3 of the works had yet to be completed.

4.2.7 Extensions of Time/Loss & Expense

A contract period of 75 weeks was provided for within the contract to allow completion of the works as a whole, comprising Sections one to three. As noted in Section 1 (ii) and (iii), the date of possession was deferred until 01/08/11 which resulted in the 75 week contract being revised with a scheduled completion date of 04/01/13. The revised completion date was scheduled to occur immediately after the end of the 2 week Christmas shutdown period. Thus, in addition to the 4 weeks of delays encountered during Section 2, the impact of this further delay caused the contract to be 6 weeks behind schedule.

Four separate Extensions of Time claims covering 9 weeks of delays were granted to the contractor in respect of circumstances beyond their control which had caused delays to the contract. Furthermore, under the terms of the contract, the contractor can apply for a Loss and Expense reimbursement claim if it can be demonstrated that they have incurred costs as a result of such delays.

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[8] Appendix 1, ECS Committee Report, 39/11, 15/09/11

The various Extensions of Time granted were as follows:

(1) The first 6 week Extension of Time claim, covering the period 04/01/13 to 15/02/13 related to the deferred start date and subsequent delays encountered during Section 2 of the works. The contractor was unable to take possession of the existing school (Section 3) until 4 weeks after the date originally planned, 22/10/12. As a result of this delay, coupled with the impending onset of the 2 week Christmas shutdown period, the contractor was prevented from completing the contract by the revised completion date, 04/01/13.

(2) The subsequent Extensions of Time were granted as three, one week Extensions. One week related to delays restrictions imposed on layby works and the remaining two weeks related to delays due to adverse weather.

With regard to contractual claims, it is necessary to point out that an Extension of Time does not always give rise to a Loss and Expense claim. However, in this case, four Loss & Expense claims were all granted covering the same 9 week period. (**TABLE 4**)

TABLE 4

Basis of Payment	Sum (£)
6 wks Extension of Time (04/01/13 – 15/02/13)	100,631
1 wk Extension of Time (15/02/13 – 22/02/13)	12,095
1 wk Extension of Time (22/02/13 – 01/03/13)	6,308
1 wk Extension of Time (01/03/13 – 08/03/13)	6,308
Site possession date deferred 6 wks to 01/08/11	18,556
Winter working	16,312
Disruption through works	50,308
	£210,518

Comments provided in respect of the above payments are as follows:

- On 27/08/12, a Loss and Expense claim covering a 6 week contract delay was submitted by the contractor following the award of a 6 week Extension of Time. The claim, which amounted to £100,631, was paid in March 2013. This consisted of approximately 30 payment headings, including salary costs, hotels and accommodation costs, staff expenses and travel, plant and equipment hire, office accommodation, hire etc.
- Standard contract conditions show that Extensions of Time for poor weather are justified in the event of "exceptionally adverse weather conditions". With regard to this contract the corresponding Clerk of Works report for one of the extensions showed that the weather was "poor" and there was frost on one day. With regard to the other weekly report this reported "normal working" and no adverse weather conditions were noted. In view of the information provided by the Clerk of Works, the validity of the two payments, totalling £12,616 is questioned.
- The total of £210,518 differs to the analysis in the Introduction at 1(i) which shows Loss and Expense payments totalling £194,206 as the winter working figure of £16,312 was inadvertently omitted.
- The sum of £210,518 is not the full extent of the costs associated with the delays and disruption costs claimed by the Contractor. Although not falling within the definition of Loss and Expense payments, additional "non-value" payments were made, including those relating to "additional tar costs due to the multi-use games area taking place after Christmas 2013;" additional costs associated with an extended performance bond and also revised/extended hires. These costs totalled approximately £20,000.

13

Comments are also provided below in respect of the remaining three areas where Loss and Expense was paid as shown in the above table.

Deferred Site Possession

The date of possession originally agreed with the contactor was deferred by 6 weeks to 01/08/11.   This was a result of the originally appointed Structural Engineer going into administration.   This event was outwith the contractors' control and therefore, a payment relative to ascertained loss and expense of £18,556 made.   However, despite this delay, it took the contractor another 5 weeks to mobilise the workforce before the works commenced on 06/09/11. This point was also covered in Section 4.2.2 above.

Winter working and Disruption of works

As a consequence of working through the winter period, a total of £66,620 was paid to the contractor with regard to "winter working and disruption through works."   This was in addition to the £125,342 already paid towards the Loss & Expense claims.

It is important that when Extensions of Time are granted, lessons are learned as to why these occurred and whether the circumstances that led to these could have been avoided, particularly as these can frequently give rise to significant claims from the Contractor for Loss & Expense. Such lessons should form part of the overall post contract review process which is also referred to in the Section 4.2.8 below.

4.2.8   Reporting to Committee

A summary table of the information reported to Committee regarding the Ben Wyvis Primary School project is provided within Appendix 1 of this this report. This demonstrates that reporting was poor and failed to give Members an accurate and up to date picture with regards to both progress and cost. In particular, no mention was made of the following:

- The fourteen week delay at the beginning of the contract;
- The appointment of the contractor's Structural Engineer following the liquidation of the original Structural Engineer;
- The project delays and slippage;
- The budget overrun;
- The approval of Extension of Time requests and the payment of a subsequent Loss and Expense claims.

The Audit Scotland national report of June 2013, "Major Capital Investment in Councils," and the subsequent follow up of February 2015 identified issues regarding reporting as a whole that are relevant to this project. In particular:

- No information is provided on performance against project milestones, time, scope targets, risk or intended or realised benefits."
- Despite Financial Regulations requiring a post-contract review to be reported to the relevant strategic committee, no such reviews are performed.
- There is no assessment undertaken to determine whether the intended benefits set out in the business case have been achieved."

As a result of the above reports, it is understood measures have now been put in place to address the above concerns for all projects greater than £5m.

4.2.9 Risk Management

An important aspect of any multi-million pound project involving various phases which are time critical is a sound process to identify and manage risks on an ongoing basis.

The Council's Financial Regulations (August 2010), which were in existence at the time that the contract originated, refer to the Council's Risk Management Strategy and require that projects have specific risk registers in order to manage risks on an ongoing basis. This requirement was previously clarified to all Council Managers by the Chief Executive in an e-mail of 30th April 2010 following the Internal Audit report on Caithness Heat & Power.

In addition to the above, Directors also provide annual assurance which is used to support the Council's Annual Governance Statement. This assurance covers a number of areas including assurance that "a formal system of project governance operates within the Service."

Despite the above, it was found that risks were not embedded in the Project Management procedures at the time of this contract, suggesting that risks were not properly managed. It was acknowledged that Housing & Property hold risk review meetings on a regular basis, but these are not documented in a clear and concise manner; therefore, it was not possible to conclude that project risk was effectively managed.

The report on Lochardil Primary School was critical of the absence of a regularly maintained risk register and, similarly, the Lessons Learned report regarding Ben Wyvis Primary School acknowledged that a formal risk management procedure needed to be fully implemented on all projects from the outset and actively managed throughout.

4.2.10 Follow up of earlier agreed actions

Reference has been made within this report to both the project review report relating to Lochardil Primary School and the Lessons Learned report relating to Ben Wyvis Primary School. The former report contained 23 observations/recommendations and gave assurance to Members that whilst reports to previous meetings of the Committee had identified a range of improvement measures in relation to the delivery of the capital programme, PRINCE 2 project management methodology was now in place and that one of the key principles of this approach is learning from experience by identifying and recording lessons and applying them to current and future projects. However, whilst the sponsoring Service uses PRINCE 2 methodology, it is understood that this is not fully in place within the Housing & Property Service. With regard to the Ben Wyvis report presented to the Adult & Children's Services Committee on 13/11/13, this provided 16 recommendations including those addressing quality, resources, roles and responsibilities and risk management. However, one area that was omitted from the report which had been flagged as requiring to be addressed at an earlier meeting of the Adult & Children's Services Committee of 25/09/13 was with regard to the need for improved cost reporting.

The report to the Adult & Children's Services Committee on 13/11/13 confirmed to Members that "various measures have been put in place to address the issues

with immediate effect." However, Members expressed "disappointment that this was not more in depth."

Given the time invested in these reports, the significance of the issues raised therein to the Council's schools' capital programme and the lack of detail presented to Members, it would be appropriate for the Audit & Scrutiny Committee and the Education, Children & Adult Services Committee to receive a report giving assurance that actions have been taken to address all recommendations.

4.3 Sound financial contract and additional expenditure management was exercised

4.3.1 Reporting to Committee (Service role)

The full extent of the cost reporting to the Service Committee over the term of the project is summarised at Appendix 2. In addition, Appendix 1 also shows the narrative reporting but, as Section 4.2.8 highlighted, this was restricted to very little information regarding the status of the project. Appendix 2 shows that the financial reporting covers four financial years, 2011/12 to 2014/15 and suggests that further expenditure is still outstanding. Although the monitoring reports submitted by Education, Culture & Sport provide financial monitoring on a year by year basis against the annual budget, they provide no information regarding the status of the project as a whole. In this respect the following observations are made:

- There is no information provided regarding the status of the project as a whole with regard to total cumulative expenditure to date, estimated expenditure and the total estimated cost of the project. In view of this it is not possible to determine whether any overspend is forecast.
- The reports do not provide explanation as to the variance in budgeted expenditure nor why the budget figure has been amended.

As referred to in Section 4.2.8 above, Audit Scotland's *Major Capital Investments in Councils: follow up report* of February 2015 similarly highlighted the limitations of the capital monitoring reports submitted to individual Service Committees in that these only provided financial information (annual budget, spend to date, projected spend and estimated out-turn) on a project by project basis.

4.3.2 Contract Expenditure (Contract Administrator and Quantity Surveyor role)

Although the table at Section 1(i) above shows that there was a considerable overspend on the project, the reasons for this are due to the number of contract variations issued during the course of the works. It is evident that throughout the project, a comprehensive cost control process was in place by the then Housing & Property Service's Senior Quantity Surveyor. This ensured that variations and additional costs identified during the project were captured and priced. However, there were some issues with regard to a lack of formal change control procedures (as referred to within the Lessons Learned report on this project) which to some extent hindered the Quantity Surveying role.

The detailed documents produced included:
- Contract cost analysis.
- Cash flow forecast information.
- Budget estimates.
- Financial Statements.

- Final Account analysis.
- Analysis of labour monitoring report.

Excluding the analysis of labour monitoring report, most of the above documents were prepared on an approximate monthly basis throughout the duration of the contract.

With regard to project cost analysis and reporting, this was undertaken by the regular production of detailed financial information such as:
- Additional cost forecasts.
- Information for each Architect Instruction.
- Financial Statements, providing an analysis of actual and forecasted costs, compared against the approved budget.

During the period September 2011 to December 2012 inclusive, 24 Financial Statements were prepared which provided for a thorough analysis of the current position and anticipated position regarding the project, thus allowing for accurate monitoring and forecasting. However, despite this information being prepared, it was not used in Service Committee reports, either in the financial reporting or accompanying narrative as this was restricted to annual monitoring only as referred to in Section 4.3.1 above.

The table below **(TABLE 5)** illustrates the two very different aspects of monitoring:

TABLE 5

QS Reporting Period	Contract expenditure: QS Forecast Statement overspend (£'000)	Committee Report to EC&S/ A&CS		
		ECS/A&CS Reporting Period	Committee Report	Capital monitoring: Forecast overspend/ (underspend) for year (£'000)
02/11/11	£0.181	10/11/11	12/01/12	(£1,300)
30/03/12	£0.352	31/03/12	23/08/12	(£2,025)
31/01/13	£1,375	31/01/13	20/03/13	£0.938
31/03/13	£1,434	31/03/13	21/08/13	(£0.075)

Note: figures shown are inclusive of all fees

In summary, although there was sound financial reporting of the contract by the Quantity Surveying Service in ensuring that expenditure charged to the project was proper, valid and accurate *(the one exception being some elements of the Loss & Expense claim, referred to at Section 4.2.7 above)*, it seems that this work was not put to good effect, such as sharing information with other Services and updating Members with the timely and accurate information that was available.

5. **Conclusion**

Extensive and thorough financial reports were prepared by the Housing & Property Service's Senior Quantity Surveyor. In addition, sound financial management was exercised over the issue and evaluation of Architects Instructions, final account costings and other project related documents. However, this significant information was not communicated onwards to inform Members as to the likely and actual project costs and how these compared with the original budget.

This report has identified various weaknesses in the management of this contract and in the wider management of contracts as a whole. Many of these weaknesses have previously been brought to the attention of Members within the Lessons

Learned report presented to the Adult & Children's Services Committee on 13/11/13. Previously, a Lessons Learned report had been presented to the same Committee on 21/08/13 regarding Lochardil Primary School. More recently, Audit Scotland has identified weaknesses in their follow up report of February 2015 on *Major Capital Investment in Councils,* which referred to their earlier report of March 2013. It is therefore important that the Services now demonstrate that the various actions arising from these reports are embedded within current processes as part of the response to this report.

In addition to the various governance improvements identified within this report, it has been observed that some of the processes in place are very paper-intensive and that multiple copies of documents are maintained. On that basis it has been recommended that a fundamental review is undertaken to ensure that processes are efficient and add value.

There are a total of 17 recommendations in this report, 10 assessed as high priority and 7 as medium priority. However, it is recognised that since issuing the draft report that one medium and two high priority actions have since been completed.

6. **Audit Opinion**

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

7. ACTION PLAN

The Action Plan contains **17** recommendations as follows:

Description

Major issues that managers need to address as a matter of urgency.
Important issues that managers should address and will benefit the Organisation if implemented.
Minor issues that are not critical but managers should address.
Total recommendations

	Priority	Number
	High	10
	Medium	7
	Low	0
		17

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	RESPONSIBLE OFFICER	TARGET DATE
				IMPLEMENTATION		
4.1.1	Medium	Although not circulated as a standard document by the Head of Procurement, Housing & Property's Tender report did not contain critical contract administration and evaluation information in comparison to the tender document used by the Procurement Section. In particular, the decision making process concerning contractor evaluation and selection was not documented. Also, the Tender report did not include a formal tender sign off section.	The Tender report template should be issued to reflect the reporting structure and reporting requirements outlined in the standard Procurement Tender report. This is available within the Procurement Manual.	The Tender report and Project report process is being reviewed and the reporting format will be updated with input from the Head of Procurement. The revised reporting process will be adopted for all future capital projects	Acting Programme Manager (D&I)	31/10/15
4.1.2	Medium	(1) Decisions behind the Price/Quality ratio selection were not documented. In addition, the ratio was chosen without any input from the Project Sponsor.	(1) The ratio selection decision should be documented and should involve the Project Sponsor.	(1)The Project Price/Quality ratio selection will be documented and agreed with the relevant Project Sponsor going forward.	Acting Programme Manager (D&I)	31/10/15
		(2) There is no advice within Contract Standing Orders to advise on the use and selection of ratios.	(2) Contract Standing Orders should be amended to reflect Scottish Government guidance regarding the use and selection of appropriate ratios for major capital projects.	(2)Detailed amendments will, be incorporated in the Council's Procurement Manual which is already referred to within the Orders.	Head of Procurement	31/03/16

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT ACTION AGREED	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.1.3	High	Technical references were not pursued for the purposes of evaluating the contractor as required by Contract Standing Orders.	Contract Standing Orders, should be observed with regards to the requirement to ensure the technical capability of contractors.	Project Technical references are now being taken up in line with the Councils Contact Standing Orders	Acting Programme Manager (D&I)	Complete
4.1.4	High	(1) The appointment of two Structural Engineers was not subject to formal tendering procedures.	(1) Contract Standing Orders should be observed.	Contract Standing Orders are being followed in regards to the appointment of Project Consultants	Acting Programme Manager (D&I)	Complete
		(2) The replacement Structural Engineer service was provided by an associate of the main contractor.	(2) Within the tender evaluation form, an additional line should be inserted to draw attention to potential "conflicts of interest". If applicable, procedures should be in place to manage and control any possible conflicts. Any such potential risks should be entered onto the project risk register.	Project Procedures will be put in place to ensure that any potential conflict of interest surrounding consultant appointments is identified early in the project and mitigated accordingly	Acting Programme Manager (D&I)	31/10/15
4.1.5	High	Goods in excess of the Contract Standing Orders threshold were acquired from the main contractor without being formally advertised. It could not be demonstrated that Best Value had been achieved.	Contract Standing Orders should be followed for any goods or services in excess of the tender threshold.	Project Sponsors are ensuring that Contract Standing Orders are being followed to ensure that best value is achieved when instructing the purchase of goods	Head of Resources (C&L Service)	Complete

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.2.1	High	(1) There was a lack of communication concerning project roles and responsibilities: • No Project Manual or terms of appointment was held to guide and inform individuals in their respective project roles and functions. • Similar project tasks were assigned to more than one individual.	(1) A Service Project Manual should be created to outline relevant project roles, responsibilities and functions. In addition terms of appointment should be issued to all key project personnel. This information should be linked to/replicated in the Project Execution Plan.	The existing Project Manual will be updated to ensure that project roles and responsibilities are clearly defined and allocated at the start of each project	Acting Programme Manager (D&I)	30/11/15
		(2) A Project Execution Plan was not operated. As such, all project related information, including identification of project owner, roles & responsibilities of all project personnel, resources, contractors, suppliers, contract timetable, and any other project related targets were not documented and controlled within one information source. Therefore it could not be demonstrated that the project was effectively managed and controlled, project efficiencies were met and there was no gap in service provision.	(2) An electronic Project Execution Plan template should be created for each major capital project. The plan should be used to control and document key project progression dates, including any unexpected project delays. The Plan should describes how, when and by whom the specific project targets should be achieved and provide details on the major activities and resources required to deliver the planned project within the planned project target timeframe/ milestones.	A project execution plan will be put in place for future major capital projects	Acting Programme Manager (D&I)	30/11/15
4.2.2	Medium	Although the project commenced 19 weeks after the planned possession date the reasons for the delay were not clearly set out and reported to Members.	As noted in the 13/11/13 Lessons Learned report, procedures should be put in place to "ensure that buildings are not handed over until completed to an acceptable standard".	Projects are not being accepted by the Council until the specified project objectives have been met	Acting Head of Property (D&I) and Head of Resources (C&L)	Complete

21

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION RESPONSIBLE OFFICER	IMPLEMENTATION TARGET DATE
4.2.3	Medium	(1) Contingencies were substantially underestimated and ultimately variations led to an 18% increase above the tendered contract price, rather than the 5% which was allowed for. Therefore, the level of variations was not managed or controlled within the agreed budget limit.	(1) Procedures should be put in place to ensure that: • contract variations are minimised and are controlled in a proper manner; and, • all requested project variations are subject to scrutiny by the sponsoring Service to ensure any such alterations have been scrutinised for necessity and appropriateness.	Project procedures will be followed to ensure that project variations are robustly managed and controlled	Acting Programme Manager (D&I) and Estate Strategy Manager (C&L)	30/09/15
		(2) Not all project variations were supported by an authorised Change of Control Record Sheet (CCRS).	(2) All variations should be authorised and supported by a CCRS form, signed by the sponsoring Service.	All project variations are now being supported by an authorised Change of Control Record Sheet (CCRS).	Estate Strategy Manager (C&L) and Acting Programme Manager (D&I)	Complete
			(3) Instructions surrounding the instruction and authorisation of CCRS forms should be formally documented in the Project Manual noted in 4.2.1 above.	The use of Project CCRS forms will be documented in the Project Manual and Project Plan	Acting Programme Manager (D&I)	30/11/15

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	RESPONSIBLE OFFICER	TARGET DATE
					IMPLEMENTATION	
4.2.4	High	(1) There is little evidence that proper attention was paid to ensuring that the work was undertaken to appropriate standards during the progression of the works. (2) With regard to the Clerk of Works' reports: • The level of information recorded was poor, with no detail regarding the quality of the works. • Information was largely taken from contractor records. The manual distribution of the reports and the numbers of officers these are issued too is inefficient.	(1) A review of the format, nature and purpose of the Clerk of Works role should be undertaken to ensure that the monitoring function is performed in a purposeful and effective manner. A review should be carried out of the Clerk of Work's reports to provide an electronic version which contains full and appropriate information for distribution to relevant parties only.	A review of the Capital Clerk of Works role will be carried out to ensure that future projects have suitable, competent Clerks of Works and Building Services Inspectors allocated along with sufficient time to monitor and record the standard of work as it proceeds Project Clerks of Works will be issued with electronic tablets that will allow them to submit detailed weekly project reports to all project team members	Director of D&I Service Acting Head of Property (D&I)	30/11/15 31/03/16
4.2.5	Medium	Details contained in the Site Meeting minutes were brief in nature, did not reflect any "adverse" news and failed to capture the true picture of project progression, despite this being presented in the frequent contractor reports on progress.	Site meeting minutes must capture the true position of each project. This requirement should be included within the Project Manual referred to at 4.2.1 above. Any potential site quality issues should be raised and documented within the Site Meeting minutes	Project Contract Administrators will capture & record the actual position of each project Meeting minutes will capture and record quality matters and this information will be shared with project stakeholders	Acting Consultancy Manager (D&I) Acting Consultancy Manager (D&I)	30/11/15 30/11/15

23

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.2.6	High	The handover of the school building on the planned opening date, despite extensive snagging issues remaining, highlighted the following concerns: • Despite significant delays to the project start date, the potential impact of this was not considered in terms of a late completion date or outstanding snagging issues. • No proper risk management process was in place to acknowledge or the risk associated with the delayed start. • Options concerning a later hand over date were not documented or, seemingly, considered. • Reporting to Members failed to acknowledge the true delays to the project start date or highlight that there would be any difficulties in achieving the planned handover date or that the building would not be in a fully completed state. • The decision to open the school on the intended start date was not subject to appropriate consultation and agreement.	As recommended at 4.2.1 above, the roles and responsibilities of staff need to be clearly documented to clarify the responsibility for key decisions such as the one made in respect of this project.	Key decisions on matters relating to significant delays/major defects are now being taken at C&L Programme Board level and Project Teams are being instructed accordingly	Head of Resources (C&L) and Acting Head of Property (D&I)	Complete
			As recommended in 4.2.8 below, reporting needs to be improved to ensure that Members receive an accurate picture with regard to the status of projects and any risks with regard to any late delivery or significant budget pressures.	Revised project monitoring and reporting arrangements are being implemented within the Council, as recommended in the Audit Scotland report, to improve reporting to Members.	Head of Resources (C&L)	31/03/16
			As recommended in 4.2.9 below, appropriate risk management arrangements should be in place for all projects.	All Major Projects will have live risk registers and suitable management arrangement in place until the project is formally closed off.	Acting Programme Manager (D&I)	30/11/15

24

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
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4.2.7	Medium	(1) The validity of the full extent of the Loss & Expense claim is questioned on the basis that a two week Extension of Time for adverse weather, which gave rise to a Loss & Expense payment, could not be supported by the corresponding Clerk of Works' reports which largely suggested that there was "normal working" during this period.	(1) As recommended at 4.2.8 below, post contract reviews should be undertaken of major projects which should include consideration of the circumstances leading to Loss & Expense claims.	Post Contract reviews will take place on all major projects to identify the cause and effect of loss and expense claims and also identify lessons learned to prevent similar issues occurring on future projects.	Acting Consultancy Manager (D&I)	30/11/15
		(2) No "Lessons Learned" or post project review has been undertaken to consider how the Loss & Expense claims and other "non-value" added payments arose and whether steps could have been taken to avoid these.	Post project reviews should evaluate and identify whether any preventative measures could have been taken to avoid unnecessary additional payments. Lessons Learned from these reviews should be taken forward and embedded in future contract planning assessments.	Improved application of contract conditions/scrutiny of financial claims presented by contractors will assist in the reduction of additional payments having to be considered/made on future projects.	Acting Consultancy Manager (D&I)	30/09/15
4.2.8	High	(1) Project reporting was poor during the course of the project and failed to give Members an accurate and up to date picture with regards to risks, progress and cost.	(1) Reports should be revised to ensure that full and accurate information is provided on an ongoing basis.	Project Sponsors will ensure that accurate project information is presented to Strategic Committees, incorporating recommendations from the Audit Scotland report also.	Head of Resources (C&L)	30/11/15
		(2) As reported in Audit Scotland's follow up report on "Major Capital Investment in Councils" (February 2015), post-contract reviews are not performed despite this being a requirement within Financial Regulations.	(2) It is understood that measures have now been put in place to ensure that post-contract reviews are undertaken for projects in excess of £5m.	A Corporate approach to post contact reviews has now been implemented.	Acting Programme Manager (D&I)	**Complete**

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.2.9	High	(1) Contrary to Financial Regulations which were in force at the time (June 2010), no risk register was maintained for the above contract.	(1) For all major capital projects, risk reporting procedures should be strengthened to ensure project risks are fully documented in the risk register.	Project risks will be recorded in a project risk register and reviewed at each project progress meeting. Project risks will be regularly communicated to project stakeholders.	Acting Consultancy Manager (D&I)	30/11/15
		(2) Project risks were not embedded in the Project Management procedures which suggested that risks were not properly managed.	(2) Risk management procedures should be embedded within the wider Project Management procedures to emphasise the need to continually review, manage and report on project risks.	Project Management procedures will be updated to ensure that project teams understand the importance of managing and reporting of project risk accordingly.	Acting Programme Manager (D&I)	30/11/15
4.2.10	High	Significant project weaknesses were identified and reported within a Lesson Learned report to Committee on 13/11/13 and in an earlier report on Lochardil Primary School. However, to date, the recommendations from this report have yet to be revisited to confirm that appropriate actions have been taken and that these are working effectively.	The sponsoring Service should conduct a review to provide assurance that the recommendations outlined in the previous Lessons Learned reports have been implemented. The review should be reported to the Audit & Scrutiny Committee prior to being reported to the Education, Children and Adult Services Committee.	A review of previous Major Projects Lessons Learned will be carried out and progress with previously agreed recommendations reported to the relevant Council Committees	Head of Resources (C&L)	31/03/16

26

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.3.1	High	Capital monitoring reports projects are presented on an isolated budget year basis. No accumulated project cost information is provided. In view of this it is not possible to establish the status of the project as a whole. Note: Audit Scotland's follow up report on "Major Capital Investment in Councils" (February 2015), similarly highlighted the limitations of the existing reports.	The format of monitoring reports should be amended to show the cumulative expenditure to date against the budgeted cost together with the estimated expenditure. Any amendments to budgeted costs should be explained.	Future Committee monitoring reports will be amended, in line with recommendations of Audit Scotland, to identify cumulative project expenditure to date against the budgeted cost together with estimated future expenditure. This will be implemented across the Council, with Care and Learning using the revised approach for Committee. Explanations on project budget amendments will also be include in each report.	Head of Resources (C&L)	30/11/15
4.3.2	Medium	Although a considerable amount of cost analysis and forecasting was undertaken by the Quantity Surveying Service, the information was not used in Service Committee reports, either in the financial reporting or accompanying narrative.	The Quantity Surveying resource should be used effectively with information used to better inform cost forecasting and monitoring.	The Service, as part of the implementation of revised monitoring and Committee reporting arrangements (see other actions), will review arrangements in relation to the use of data available from the Quantity Surveying Service.	Estates Strategy Manager (C&L)	31/03/16

27

SUMMARY OF REPORTS TO COMMITTEE

Report no.	Date	Details	Comments
ECS 03/10 ECS 05/10	11/03/10 20/05/10	Report from the Director of Education, Culture & Sport Report setting out the need for a replacement Maryburgh/Conon Primary School. The Design Team are "working towards detailed design of the building. Detailed planning applications are due to be submitted on 7 May 2010".	No reference was made regarding the appointment of the external Structural Engineer.
ECS 31/10	05/08/10	Report from the Director of Education, Culture & Sport: "the original approved programme has been revised to take account of the carry forwards from financial year 2009/10. In addition it has been necessary to review the original approved programme for 2010/11 to take account of the phasing of the major projects that have either commenced or will commence in the current financial year. Examples include the new Milton of Leys PS, the replacement Primary schools at Aviemore and Maryburgh/Conon.	
ECS-44-10	16/09/10	Report from the Director of Education, Culture & Sport: "Design to progress, planning application to be lodged in September, school building to be handed over in June 2012 with demolition and site works thereafter."	
ECS/53/10	11/11/10	No further information provided.	
ECS 10/03/11	10/03/11	Report from the Director of Education, Culture & Sport. No further information other than "Tenders due to be returned on 11 March.	According to the Indicative tender timeline attached to the Pre-Qualification Questionnaire, the tender return date was scheduled for 28/01/11. Tender responses were received on 16 March 2011.
ECS 9/05/11	19/05/11	Report from the Director of Education, Culture & Sport. It was reported that "progress with the major approved projects is outlined in Appendix 2. It should be noted that the following major school building projects are now underway and are due for completion in either this financial year or during the first half of the financial year 2012/13.	It was not mentioned that the planned date of possession was missed. Also, it was not mentioned that a contractor had not been appointed in time to meet the planned date of possession.

Report no.	Date	Details	Comments
ECS 09/08/11	09/08/11	Report from the Director of Education, Culture & Sport. The report mentioned that the name of amalgamated Maryburgh/Conon PS would be changed to Ben Wyvis Primary School which will be available from August 2012. Also it was noted the contract had been awarded.	It was not mentioned that the date of possession had been delayed by 14 weeks to 01/08/11. The 75 week contract was awarded on 02/06/11. Of this, 8 weeks were due to delays in the tender process and six weeks were due to the liquidation of the original Structural Engineer. No mention was made that the date of possession was revised twice. Also, the Structural Engineer's liquidation and subsequent replacement was not mentioned.
ECS/39/11	15/09/11	Report from the Director of Education, Culture & Sport: "as a result of the liquidation of the external civil/structural engineering company work in there is a 6 week delay in starting the project which will result in the programme slippage of £0.800M in the current finical year. Work on site started on 5/09/11. Discussions are ongoing with the main contractor as to how this lost time can be recovered."	No mention was made of 14 week delay. On 19/07/11 a replacement Structural Engineer was appointed but no mention was made of this in the report.
ECS/50/11	10/11/11	No project information was provided.	Again, no mention was made of 14 week delay. As at 2/11/11, the Financial Statement prepared by Housing & Property's Senior Quantity Surveyor, (excluding professional fees), noted a net project overspend amounting to £35,794.
ECS/09/12	08/03/12	Report from the Director of Education, Culture & Sport: "as a result of the liquidation of the external civil/structural engineering company work in there is a 6 week delay in starting. In addition the contractor's planned expenditure profile for the current financial year was overly optimistic. On this basis it is estimated that there will be programme slippage of £1.350m in the current financial year."	As at 31/03/12, the Financial Statement, prepared by Housing & Property's Senior Quantity Surveyor (excluding professional fees), noted a net project overspend amounting to £335,736.

Report no.	Date	Details	Comments
ACS 23/08/12	23/08/12	Report from the Director of Education, Culture & Sport that "there are several legally committed projects where the construction spanned two financial years and the actual expenditure in 2011/12 fell short of the earlier projections." Amongst six others the list included Ben Wyvis PS. And, "the collective underspend of approximately £5m is mainly due to the timing of payments to the contactors." It was also noted that the new school would become operational between August and October 2012.	
ACS 26/09/12	26/09/12	Report from the Director of Education, Culture & Sport: "the new Ben Wyvis Primary School is on target to be handed over to the Council on 21/09/12 as planned and the new school will open at the start of the new term after the October school holidays.	As at 31/08/12, the Financial Statement, prepared by Housing & Property's Senior Quantity Surveyor (excluding professional fees) noted a net project overspend amounting to £1,038,269.
ACS 07/11/12	07/11/12	Report from the Director of Education, Culture & Sport: "The new school opened as planned on 24 October 2012. The remaining works (demolition of Conon Bridge school building and completion of external works and multi-use games area) are programmed to be completed by February 2013." Also, "Post project reports have been commissioned on the Lochardil and Ben Wyvis Primary School projects and the outcome will be reported to this Committee in January 2013."	
ACS 23/01/13	23/01/13	Report from the Director of Education, Culture & Sport on the Status of Major Capital Projects on Appendix 2, notes for BWPS that "On site, school operational, external works underway".	No mention was made of the escalating project costs.
ACS/23/13	20/03/13	Report from the Director of Education, Culture & Sport stating that a review of facilities to be provided in schools and identification of lessons to be learned from the recently completed Milton of Leys, Aviemore and Ben Wyvis Primary Schools (e.g. increased provision is now made for pupils with ASN, also Inter-Agency Support rooms will be provided in each of these schools). It also stated that: "The Status of Major Capital Projects on Appendix 2, notes that Ben Wyvis Primary School that "School operational, pitches now complete".	No mention was made of the escalating project costs. As at 4/03/13, the Financial Statement, prepared by Housing & Property's Senior Quantity Surveyor (excluding professional fees), estimated a net project overspend amounting to £1,446,387.

Report no.	Date	Details	Comments
ACS/65/13	21/08/13	Report from the Director of Education, Culture & Sport stating that: "A review will be carried out after the completion of all major projects from now on and will also be carried out at the end of the key stages during some of the larger projects. A summary of main issues arising from the Ben Wyvis Primary School project will be reported to the September meeting of this Committee.	In March 2013, in their report on "Major Capital Investment in Councils," Audit Scotland recommended that Councils should carry out post-implementation reviews of projects. As at 4/04/13, the Financial Statement as prepared by Housing & Property's Senior Quantity Surveyor (excluding professional fees), estimated a net project overspend amounting to £1,212,363.

ACS/86/13	25/09/13	Report from the Director of Education, Culture & Sport again stating that "Reviews will be carried out after the completion of that all major projects from now on and will also be carried at the end of key stages during some of the larger projects. A summary of some of the main issues arising from the Ben Wyvis Primary School project are as follows:
		    ○ Briefing process;
		    ○ Communication with Stakeholders;
		    ○ Cost reporting and change control;
		    ○ Formal reporting procedures;
		    ○ Performance of the Contractor;
		    ○ Programme Management;
		    ○ Quality Management;
		    ○ Risk Management.
		
		These issues are currently being examined in conjunction with colleagues in Housing and Property and will be discussed at a further Ward business meeting prior to being reported to this Committee."
			As at 9/09/23, the Financial Statement as prepared by Housing & Property's Senior Quantity Surveyor (excluding professional fees), estimated a net project overspend amounting to £1,160,279.

Report no.	Date	Details	Comments
ACS/97/13	13/11/13	Report from the Director of Education, Culture & Sport. The report states at point 1.6 that "Section 7 advises on the progress with measures to improve communication with Members at ward level on ECS estates issues and to review performance on major capital projects, including some lessons to be learned from the Ben Wyvis Primary School project." Also, "Project Reviews – A summary of the significant lessons to be learned from the Ben Wyvis Primary School project is to be included in Appendix 7. This demonstrates the need to improve communication and provide more clarity on roles and responsibilities. Various measures have been put in place to address these issues with immediate effect. With regard to a query raised at the previous meeting of the Committee, the review of projects is in line with normal project management procedures and is best carried out by those directly involved in the project. The Council's Internal Audit staff would only become involved where it was considered that there was a specific need to do so."	

BEN WYVIS – EXTRACTS FROM CAPITAL MONITORING REPORTS

Committee	Year/ Date	Budget	Actual to date	Estimate	Variance	Notes
	2011/12					
EC&S	15/09/11	4,250	35	3,450	(800)	
	10/11/11	4,250	146	3,450	(800)	
	12/01/12	4,250	558	2,950	(1,300)	
	08/03/12	4,250	1,230	2,900	(1,350)	
A&CS	21/06/12					No monitoring report
	23/08/12	4,250	2,225	2,225	(2,025)	Near final 11/12 No explanation as to why budget was underspent by £2m
	2012/13					
	23/08/12	5,762	947	5,762	-	
	26/09/12	5,762	1,491	5,762	-	
	07/11/12	5,762	2,902	5,762	-	
	23/01/13	5,762	4,263	5,762	-	
	20/03/13	5,762	4,704	6,700	938	No explanation regarding sudden forecast of large overspend.
	22/05/13	5,468	5,393	5,393	(75)	Near final 12/13 Budget amended. No explanation regarding swing from large forecast overspend to underspend.
	21/08/13	5,468	5,393	5,393	(75)	Final 2012/13
	2013/14					
	21/08/13	850	30	850	-	
	25/09/13	850	37	850	-	
	13/11/13	892	113	892	-	Budget amended
	15/01/14	892	407	892	-	
	19/02/14	892	417	642	(250)	
EC&AS	23/08/14	892	441	-	(452)	Final 13/14
	2014/15					
	28/08/14	75	5	75	-	
	12/11/14	75	6	75	-	
	14/01/15	75	18	75	-	
	11/02/15	75	18	75	-	
	20/05/15					No monitoring report

Note: figures shown are inclusive of all fees

The Highland
Council
Comhairle na
Gàidhealtachd

INTERNAL AUDIT
FINAL REPORT

CARE AND LEARNING SERVICE

SCHOOL LETS ARRANGEMENTS

Contents

1.   INTRODUCTION

This audit was undertaken as part of the 2014/15 annual plan and records the findings of the School let arrangements within a sample of schools (Lochaber High School, Nairn Academy, Brora Primary School and Cradlehall Primary School).

In March 2009, the then Education, Culture and Sport Committee harmonised the scale of charges for public use of the Council's community facilities which included schools. On 22/05/13 the then Adult & Children's Services Committee agreed proposals to change the operating model for school lets. The first stage was to set up a pilot project from August 2013 to provide improved management and financial information to inform future policy. The second stage was to implement a consistent operating model from August 2014.

The revised operating model included:

- The then Education, Culture and Sport Service assuming responsibility for the management and administration of all school lets in partnership with schools and Shared Business Support (SBS).
- A centralised management and administration system (SharePoint) to be set up and tested as part of the pilot.
- The introduction of Facilities Management teams.
- The requirement for all school lets income to be accounted for within one of the Service's specialist support team budget headings.

2.   REVIEW OBJECTIVES

The objectives of the review were to ensure that:

(i)   The school lets arrangements are adequately controlled and monitored and consistent procedures are in place across all schools (See 4.1).

(ii)   Application forms are submitted in respect of all new school let requests and these are authorised by the Head Teacher. These are then forwarded to Shared Business Support to enable the necessary permit and information to be sent to the individual/ organisation that has requested the school let (See 4.2).

(iii)   All school lets information is completely and accurately recorded. Where possible income is collected by Direct Debit or is received in advance of service provision (See 4.3).

(iv)   School let invoices are only issued in exceptional circumstances and are issued accurately and on a timely basis (See 4.4).

(v)   All income received is receipted, held securely, processed, and banked accurately and timeously (See 4.5).

3.   SCOPE, METHOD AND COVERAGE

The audit involved visiting the 4 schools to make sure the areas described in the objectives of the review are operating satisfactory and that these accord with the requirements of the Council's Financial Regulations. The schools were selected following consultation with the Care and Learning Service's External Funding Manager.

With effect from January 2015, the Council is piloting with Highlife Highland (HLH) and Lochaber High School an arrangement where HLH take on the responsibility for bookings for many parts of the school and leisure facilities out with school hours. The following findings pre-date these arrangements.

4. MAIN FINDINGS

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

4.1.   This objective was not achieved as, at 2 schools, the let arrangements were either fully (Brora Primary) or partially (Nairn Academy), the responsibility of a local management committee. These do not accord with the new arrangements and the following concerns are highlighted:

For Brora Primary:

- No written agreement is in place with the management committee and as a result the roles and responsibilities are unclear.
- No Head Teacher approval is obtained for use of the school's facilities. In addition, the school is incurring costs from the lets usage but the income is received by the management committee.
- The bookings are administered by the management committee and, as a result, there are no let records on SharePoint.
- The rates are not in accordance with the Council's charging rates.

As it was established that the lets are fully administered by the local management committee, no further work was undertaken with regard to Brora Primary School.

For Nairn Academy:

- Within the community complex/ management committee there is a lack of clarity over arrangements and responsibilities.
- No guidance on charging rates had been provided to the management committee. As a result, the fees charged are different to the Council's charging rates.
- Again, the school is incurring costs from the lets usage but the income is received by the respective management committee.

The school let process was reviewed at 3 schools to ensure compliance with the prescribed procedures. All schools followed these but there were inconsistencies as to when application forms were required and budgetary issues with costs associated with janitorial overtime was highlighted by 2 schools.

4.2.   This objective was partially achieved as a standard application form should be completed by the applicant and approved by the Head Teacher. From review of a sample of application forms, 9/28 (32%) were not completed on the correct version of the form and so omitted the applicant's confirmation that they have read and comply with Child and Adult protection guidance for Community Groups in the Highlands. In addition, 1 applicant failed to provide this confirmation despite using the correct form and the application was processed without querying the missing confirmation.

The reverse of the let application form should be completed by the Head Teacher recording any facilities management requirements and show their approval or refusal of the request. At Lochaber High, 7/142 (5%) of let application records were missing for 2013/14. 2 schools (Lochaber High and Cradlehall Primary), did not have the reverse of the form fully completed (9 forms) and 3 forms did not have the Head Teacher's approval recorded. At Nairn Academy, all 10 forms reviewed were only partially completed. However, the copies held by SBS provided more detail and all forms had been approved by the Head Teacher.

The schools should maintain accurate records of all let activity in order to support the invoices raised, however at Lochaber High the diary used to record bookings and confirm attendance was incomplete. Also, due to a GLOW system upgrade, let activity records were missing. There was no let activity recording system in place

at Cradlehall Primary, however since the school visit, a recording system has been put in place.

There were also differences between the information held by the Schools and that recorded on SharePoint whereby 2 lets were not recorded on SharePoint. 1 of these related to a cancelled meeting, however, it could not be established if the necessary cancellation notice period had been provided to avoid being charged and the other related to a free let. Also, a number of minor issues were found where the details held at the schools, namely application dates and end dates, did not match to SharePoint.

4.3. This objective was partially achieved as the majority of the data fields on SharePoint were completed. The Care and Learning Service has introduced, and is planning further refinements to the SharePoint system to promote more consistent and standardised recording of lets information.

Review of the 10 lets with invoices (16 invoices in total) raised showed that 4 were for one-off events where payment in advance should have been considered. The other 6 were for multi week/term sessions where payment by direct debit should have been considered.

4.4. This objective was partially achieved as there are alternative methods of payment that should have been considered (as detailed above). Instead the current practice is to issue an invoice after the let has taken place. SBS teams are responsible for ensuring that the appropriate amounts are charged but the following errors were found:

- In 5 cases, lets were provided free of charge where charges would be expected.
- For 1 invoice, school records show that a small number of lets had not been invoiced at the school (£81.60 excluding VAT). A record of why these dates were not invoiced has not been retained.
- For 4 invoices, 3 had errors in the rate applied and an additional meeting had been charged for but this was not recorded in SharePoint. The rate errors in led to an undercharge of £806.90 excluding VAT.
- 3 invoices did not have VAT applied correctly. This has since been addressed when additional VAT guidance was issued to all SBS teams in January 2015.
- For 7 invoices, the details on the invoice differed from the application form. Differences included changes to organisational names, addresses and/ or invoice description. Ensuring accurate completion of the application form will assist in reducing the delay in receiving income due to the Council. A new application form was issued in December 2014 which includes a note confirming that the address provided will receive all invoices.

The SBS teams were using different rates for surcharges, let rates and different durations & accommodation/ facilities lists. However, a new template of charges was issued to all SBS teams in December 2014.

In addition, the Council's Financial Regulations and the guidance note "Issue of Debtors Accounts" have not been complied with:

- There were delays in the issuing of invoices. The guidance note states "all invoices should be issued within 14 days from the date of the provision of service, at the month end for regular invoicing or when all associated charges are available" (Paragraph 3.3, dated April 2014). The majority of invoices were raised by SBS at the end of the respective term. 4 invoices relating to December lets were issued in the following February. In 1 case there was a 6 month delay between the let start date and the invoice being raised. The guidance note was updated in November 2014 to include the termly invoicing of lets as an approved timescale for the issue of debtor accounts. However, if

debtor accounts are not issued promptly, there will be a delay in receiving income due to the Council.

- 1/16 invoices did not contain sufficient detail. This has since been addressed with additional invoice guidance issued to all SBS teams.
- Only 8/16 (50%) invoices were paid within the 14 day timeframe. If payment in advance or by direct debit were obtained then this would address this point.

4.5. It was established that the schools visited do not directly receive any school let income so no further work was undertaken in this area.

5. CONCLUSION

The aim of the pilot project was to provide improved management and financial information to inform future policy. The school let function is still in transition and there is a need to ensure consistency across the Council. This will require input from schools and Shared Business Support, and making improved use of the available technology. In addition, work needs to be undertaken in establishing any local arrangements with management committees and ensuring that formal agreements are in place which clearly set out the Council's expectations and the roles and responsibilities of both parties. These points will need to be addressed if the second stage aim of implementing a consistent operating model is to be achieved.

As a result, there are 3 medium and 1 low grade recommendations in this report. The recommendations have been accepted by management, with resultant agreed actions due to be implemented by the end of March 2016.

6. AUDIT OPINION

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

7.   ACTION PLAN

The Action Plan contains **4** recommendations as follows:

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

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION RESPONSIBLE OFFICER	IMPLEMENTATION TARGET DATE
4.1	Medium	In 2 schools, Brora Primary and Nairn Academy, local management committees are involved in administering school lets. However, these are different to the new arrangements. In particular: • There is a lack of clarity surrounding the arrangements and the respective roles and responsibilities. • There is no Head Teacher approval for use of the school's facilities. • There are no usage records on SharePoint. • The schools are incurring costs associated with the lets but the income is received by the management committee. • The rates charged are not in accordance with the Council's standard charges.	The Care & Learning Service should undertake a review into all management committees who have responsibility to administer school lets in order to ensure that accountability and responsibilities are properly agreed and fully documented. Wherever possible, these agreements should accord with the Council's standard approach to school lets.	A review of any local arrangements/agreement will be undertaken to ensure consistency of practice and charging.	Head of Resources, Care and Learning	31/03/16

5

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	RESPONSIBLE OFFICER	TARGET DATE
					IMPLEMENTATION	
4.1 (con't)		All schools followed prescribed let procedures but there were inconsistencies as to when application forms were required.	The Care and Learning Service should update the School lets Process guidance web-page to include confirmation of the circumstances in which a let application form is required.	The guidance web-page will be updated.	Head of Resources, Care and Learning	30/09/15
4.2	Low	A number of school let application forms were not properly completed. From the review of forms at the schools: • 9/28 (32%) of applications were not completed on the correct version of the form. 1 applicant failed to provide confirmation that they have read and comply with Child and Adult Protection guidance. • Various application forms did not have the reverse fully completed and did not have the Head Teacher's approval recorded. • Information on let servicing at Cradlehall Primary School was not supplied on application, as the Head Teacher was unsure who from the facilities management team would service the let. • The method of recording let activity differed at each school.	The Care and Learning Service should remind schools to comply with the let process guidance and ensure that application forms are fully and appropriately completed. The Care and Learning Service should update the School lets Process guidance web-page to include: • The requirement for schools to retain a completed and authorised copy of all let application forms for Audit purposes. • The expected arrangements surrounding confirmation of let servicing with Facilities Management teams. • The adoption of a common method for recording the let availability. The amended guidance should then be circulated to all schools.	A reminder will be issued to all schools. Guidance will be updated and schools notified In connection with this action, work has already commenced, supported by the Council's Corporate Improvement Programme Team, to review existing processes including consideration of using online forms.	Head of Resources, Care and Learning Head of Resources, Care and Learning	30/09/15 30/09/15

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.2 (con't)		Comparison of the application details to that recorded on SharePoint showed: • 2 lets not recorded on SharePoint. 1 was a cancelled meeting however, it could not be established if the required notice was provided and 1 related to a free let. • Minor issues where details held at the schools, namely application dates and end dates, did not match to SharePoint.	The Care and Learning Service should remind schools to comply with the requirement that all appropriate application forms and cancellation notices should be submitted to Shared Business Support in a timely manner.	A reminder will be issued to all schools	Head of Resources, Care and Learning	30/09/15
4.3	Medium	Payment for chargeable lets is currently sought after the let has taken place through the raising of invoices.	In accordance with the Council's Financial Regulations the Care and Learning Service should consider requesting upfront payments for one-off lets and payment by Direct debit for regular lets.	This matter will be reviewed and considered in the context of ongoing review of the school lets process, taking account of practicalities from the perspective of the Council, as well as service users.	Head of Resources, Care and Learning	31/03/16

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION RESPONSIBLE OFFICER	IMPLEMENTATION TARGET DATE
4.4	Medium	Where invoices had been issued there were a number of differences between what was invoiced and the let records held at the schools: • For 5 cases, applications for lets were "Free of Charge", when a charge would be expected. • For 4 invoices, 3 had errors in the rate applied and 1 had a charge for an extra meeting not recorded on SharePoint. • At 1 School, the diary did not show all lets which had taken place. Also there was 1 let recorded with 2 dates which had not been invoiced. A record of why these dates were not invoiced has not been retained. Financial Regulations have not been complied with as: • There were delays in the issue of debtor invoice. • 1 of the 16 invoices examined did not contain sufficient detail. • There were delays in the payment of invoices. This could have been avoided if payment in advance or by direct debit was sought.	The Care and Learning Service should work with Shared Business Support to comply with the issued guidance and Council's Financial Regulations to ensure that the sums invoiced are in accordance with the current let charges and rates on the supporting paperwork. In addition, it should be ensured that SharePoint is regularly updated to show all let activity. The Care and Learning Service should request that schools: • Operate and maintain an accurate record of whether a let was taken up by the client. • Notify Shared Business Support of any lets which have not been invoiced. The Care and Learning Service should work with Shared Business Support to comply with the issued guidance and Council's Financial Regulations to ensure that invoices are issued on a timely manner and contain sufficient detail.	Agree to review arrangements in liaison with Shared Business Support, to improve administration arrangements. As also stated above, In connection with this action, work has already commenced, supported by the Council's Corporate Improvement Programme Team, to review existing processes including consideration of using online forms.	Head of Resources, Care and Learning	31/03/16

AUDIT REPORT SUMMARY

Report Title

Care & Learning Service: Primary School Fund Investigation – System Weaknesses Report

Report No.	Type of Audit		Issue Date	
HC13/020.bf	Investigation	**Draft Report**	06/08/14
		Final Report	12/09/14

1.   Introduction

1.1   Internal Audit were asked to carry out an investigation into the School Fund operated at a Primary School in August 2013, when it was discovered that the balance held within the Fund was significantly less than expected. This was identified when there were insufficient funds within the School Fund account to pay a large invoice relating to a school trip. A Final Irregularity report arising from the investigation was issued on 21/01/14 and detailed the fraudulent activity carried out by the school's Clerical Assistant.

1.2   It is estimated that the fraud commenced in August 2012 and resulted in a loss of £15,564.62 to the School Fund. The fraud involved cash payments made by pupils for the school trip, along with other payments to the School Fund, being misappropriated by the Clerical Assistant rather than being banked in the School Fund account. There were also instances where School Fund cheques were used fraudulently.

1.3   Due to the poor quality of record keeping the fraud may have taken place over a longer period and resulted in higher losses than those stated. The Clerical Assistant was dismissed at a disciplinary hearing on 16/07/14. The fraud was also reported to the Police on 22/11/13 and the Clerical Assistant pleaded guilty to embezzling £9,000 at a court hearing on 09/09/15. While the irregularity report referred to above detailed the findings in relation to the missing School Fund money, this report focusses on procedural weaknesses which allowed the fraud to take place and remain undetected over a number of months. The report could not be presented to Committee prior to the resolution of the criminal case against the Clerical Assistant.

2.   Review Objectives

The objectives of the review were to investigate the loss of income to the Fund and, in particular:

2.1   To review School Fund records to identify the reason for the unexpectedly low balance and establish if the discrepancy could have been identified sooner;

2.2   To review the audited School Fund accounts to establish if they had been submitted timeously.

3.   Main Findings

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

3.1   The Guidance Note on School Funds within the Council's Financial Regulations requires Head Teachers to ensure that there is effective scrutiny of the Fund, and to ensure they receive regular reconciliations of the Fund balances. However, the investigation found that the Clerical Assistant operated the School Fund with minimal supervision. There was no evidence of reconciliations being carried out, and therefore the Head Teacher was not aware of the discrepancy between the expected Fund balance and the amount actually held.

The Guidance Note also required that the school's allocated Finance Officer reviews bank statements annually. Again, there was no evidence of this check being carried out.

Had the checks outlined in the Guidance Note on School Funds been carried out the fraud

would have been identified at an earlier stage. It is also possible that a robust checking process may have acted as a deterrent to the fraud being committed.

3.2 The Council's Financial Regulations require schools to submit audited School Fund accounts to the Service Finance Team before the October school holidays. The last audited accounts held for the Primary School are for 2010/11. It is unclear if the school received any reminders to submit their 2011/12 School Fund accounts (which should have been submitted by October 2012), but the Head Teacher was unaware that the accounts had not been provided which suggests that if reminders were issued they were not escalated to the Head Teacher. Historically, School Fund accounts have been submitted to the relevant Area Education Office. However, in September 2013 schools were reminded that audited School Fund accounts must be submitted to the Service Finance Team. The Service Finance Team have developed a spreadsheet to record the receipt of accounts and identify any late submissions, and therefore the procedures are now more robust than they were at the time when the fraud was committed.

4. Conclusion

4.1 While the concerns identified during the investigation relate to the conduct of the Clerical Assistant, it is considered that had the procedures detailed in the Guidance Note on School Funds within the Council's Financial Regulations been followed the fraud could have been prevented or would have been identified much sooner. However, it is recognised that robust procedures have now been introduced to monitor the completion of audited School Fund accounts. There is 1 recommendation within this report, which is classified as high priority. While the investigation was limited to the school where the fraud took place, it is important that the recommendation is considered at all schools where a School Fund is operated. The recommendation has been accepted by management and has already been implemented.

5. Audit Opinion

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

AUDIT REPORT ACTION PLAN

Report Title   **Report No.**

Care & Learning Service: Primary School Fund Investigation – System Weaknesses Report	HC13/020.bf

The Action Plan contains **1** recommendation as follows:

Description

Major issues that managers need to address as a matter of urgency.
Important issues that managers should address and will benefit the Organisation if implemented.
Minor issues that are not critical but managers should address.

Total recommendations

Priority	Number
High	1
Medium	0
Low	0
	1

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.1	High	The Head Teacher did not receive regular School Fund reconciliations, and scrutiny of the Fund was limited to signing cheques for expenditure from the fund.	(1) Head Teachers must ensure that effective scrutiny is in place in relation to School Funds, and must ensure that they receive and review regular bank reconciliations in respect of the School Fund. (2) Head Teachers must ensure that the School Fund is operated in compliance with the Council's Financial Regulations, and in particular the Guidance Note on School Funds.	(1 and 2) An instruction has been issued to all Head Teachers regarding the need to ensure compliance with the Council's Financial Regulations in relation to School Funds.	Head of Resources, Care and Learning	Completed

AUDIT REPORT SUMMARY

Report Title

Care and Learning Service – Records Management at Care and Learning Store, Nairn

Report No.	Type of Audit	Issue Date	
HBA03/001	Computer	**Draft Report**	14/05/15
		Final Report	20/08/15

1. Introduction

1.1	This audit reviewed management of records at the Council's records store located at Nairn Town & County Hospital, Nairn.
1.2	The records included in this review are health and social care paper records managed by the Council. All Highland children have a health record which can be referred to and updated by Health professionals including Health Visitors and School Nursing Officers. Some Highland children may also have a Child's Plan.
1.3	The scope of the audit excluded paper records managed by the School Nurse for Culloden Academy and feeder Primary Schools as they are stored at another site, Rowan House, Inverness.
1.4	The Council manages children's health and social care records under arrangements first set out in the Partnership Agreement of 2012; these were later incorporated into a new Highland Partnership Integration Scheme agreed in March 2015 to comply with new legislation, the Public Bodies (Joint Working) (Scotland) Act 2014. Within the new Integration Scheme, schedules and definitions cover responsibilities for transferred records and retained databases.
1.5	Records are subject to compliance to the Public Records Scotland Act, 2011 which promotes efficient and accountable record keeping by Scottish public authorities. As health and social care records contain data defined in the Data Protection Act as sensitive personal data, they require to be managed under strict conditions to comply with the principles of this Act.
1.6	This audit was undertaken as part of the 2014/15 Audit Plan.

2. Review Objectives

The objectives of this review were to ensure that

- o Records are managed to ensure confidentiality, integrity and availability in accordance with Council guidance and agreements with Council partners
- o Records management processes comply with legislation, including the Data Protection Act and the Public Records (Scotland) Act.

2.1 Areas covered in this review included:

- o Records are stored to ensure their integrity and availability as required
- o Records are labelled to identify security classification requirements
- o Quality assurance checks are carried out
- o Access to records is controlled in line guidance and requirements of the Council and Council's partner NHS Highland
- o Records of a personal nature are securely managed according to the requirements and principles of the Data Protection Act 1998
- o Other relevant records management legislation is taken into account, including the Public Records (Scotland) Act 2011.

3. Main Findings

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

3.1 The first objective was found to be achieved as follows:

- A Corporate Records Inventory or Information Asset Register identifies health and social care records for Children's Services with named responsible Information Asset Owners and Information Asset Managers, description detail of records, impact risk and retention times

- The Council has policy documents defining records management processes including the Records Management Policy, the Records Retention Policy and Disposal Authority, Information Management Policy, Data Protection Policy and Information Security Policy

- The NHS Records Management: NHS Code of Practice (Scotland) is a useful reference for expected standards of practice in the management of health records and the Nursing and Midwifery Council and Professional Nursing and Allied Health Professional Bodies have published guidance and principles of good record keeping for Care and Learning professionals

- Physical and environmental controls on storage of records at the Nairn Town & County Hospital site were satisfactory; the building is purpose built as an office with fire controls measures in place and no visible sign of pipes for potential water leaks. The store area is ventilated and temperature controlled

- Paper records are stored in opaque folders marked as confidential, with discreet marking incorporating classification levels dependent on client needs and relevant dates

- Records were verified with regular checks for quality and completeness, incorporated into NHS clinical governance processes as follows –

  - For Allied Health Professional (AHP) records – speech and language, occupational therapy, orthoptics, orthotics, physiotherapy, podiatry and prosthetics, a quality assurance check is required to be carried out every six months if records are at satisfactory or highest green level and more often if at lower levels amber and red

  - For Nursing Professional records, an annual records audit of five records per caseload is reviewed as a minimum using the NHS audit tool

  - The Health Team Manager at Nairn audited records in store in two six monthly checks. Ten health record files were reviewed, equivalent to a 5.6% check of all health records in the store for one year

- For record quality and completeness of Social Work case records, an audit is carried out every two months on a sample of 16 records across the whole of the South area, of which 2-3 cases audited are Nairn records. A checklist of items are reviewed, including quality assurance standards, wellbeing and quality indicators and completeness checks that all relevant documents are included within the record file for the Child's Plan

- There is a procedure for managing subject access requests to view personal records held by the Council to comply with the Data Protection Act - rights of access to personal information. A request form or mandate to view personal records is available on the HC website and the data subject is asked to provide appropriate identification with their request. Enquiries are checked before the team locate the original record and make copies for the enquirer. The original records do not leave the storage site as part of the request process.

Four areas are noted for improved controls:

- Health professionals have two sets of online core training to complete – the NHS 'Learnpro' module and the Council's Information Management module. Not all officers handling Council information had been confirmed as having completed the mandatory

Council training, so a date had been allocated to provide officers time to complete this in the next month

o   When records are taken off site officers do not have lockable bags for holding records. Officers can visit more than one client in a day's work and may be required to stay overnight in remote locations on home visits, therefore they may carry several record files off site at once. The guidance in the ICT Security Policy for Mobile and Flexible Working is mainly concerned with electronic, not paper records and has not been reviewed since 2012. NHS IS Security Policy is currently under re-draft

o   The Council Information Asset Register does not define records ownership of the Health Care Records stored at Nairn site in relation to the Highland Partnership Integration Scheme approved by the Council in March 2015 or the earlier Partnership Agreement

o   There is no common approach for archiving health records once they are no longer considered active and are reaching semi-dormant and archive stage. This is not an issue at the Nairn store which is very secure. However, it is a known corporate risk which is being escalated for resolution by Principal Officers for Nursing and Allied Health Professionals.

3.2   The second objective was substantially achieved in the areas reviewed for compliance to legislation:

o   The Council's Data Protection Policy defines roles and responsibilities for records management systems and assists officers in understanding the specific requirements of the Act. The Council's Information Security Policy provides guidance specific to principle 7 of the Act and the Records Management Policy specifically for principle 5 of the Act

o   Progress is being reported by the Records Manager to the Council's Information Management Governance Board or IMGB of the draft records management plan for the Highland Council and Highland Licensing Board as required by the Public Records Scotland Act 2011. The Keeper of the Records of Scotland has provided notice in advance of the Council being invited to submit a Records Management Plan. The National Records of Scotland timetable confirms that Highland Council and the Highland Licensing Board will be formally invited in April 2015 to submit record plans in August 2015.

One area is noted for improved controls:

o   The Council's Draft Records Management Plan does not refer to the Highland Partnership Integration Scheme approved by the Council in March 2015 for health and social care records. This Plan refers to options for Disposal but this is not referred to as the Disposal Log, as defined in the HC's Records Retention & Disposal Policy under ownership & disposal log.

4.   Conclusion

4.1   The paper records in the Care and Learning Nairn store were found to be managed in a secure environment with access limited to only authorised officers. Managers on site were progressing with plans to improve controls on records when they are taken out of store as required for work; this is noted as a recent information risk area for healthcare records reported nationally by the Information Commissioner's Office. Likewise, progress to ensure mandatory training was completed by all officers was underway.

4.2   The Council was progressing steadily towards submission of a Council Records Management Plan for the Keeper for Records of Scotland to comply with the Public Records Scotland Act.

4.3   Five recommendations are made, all at medium grade to further improve controls on this activity and these are all due to be completed by 30/04/2016.

5. Audit Opinion

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

AUDIT REPORT ACTION PLAN

Report Title

Care and Learning Service – Records Management at Care and Learning Store, Nairn	Report No.	HBA03/001

The Action Plan contains 5 recommendations as follows:

Description

Major issues that managers need to address as a matter of urgency.
Important issues that managers should address and will benefit the Organisation if implemented.
Minor issues that are not critical but managers should address.
Total recommendations

Priority	Number
High	0
Medium	5
Low	0
	5

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.2	Medium	<u>User training and policy guidance</u> Officers have two sets of training to complete – Council and NHS online modules. Officers handling Council health records onsite had not all been confirmed as having completed the Council's mandatory Information Management online learning module so a date had been allocated to provide time to complete this. The Council's Records Retention and Disposal Policy has no reference to health records retention and disposal and the Integration Scheme	A) Managers should ensure that their officers complete mandatory Council training on records management B) As a matter of good practice training should be reviewed and refreshed on a regular basis as recommended by the Information Commissioner's Office (ICO) C) Specific reference to health records processes and the Integration Scheme should be included in the Council's Records Retention and Disposal Policy; for example transfer of health records back to the NHS for archiving	A) Require all relevant staff to complete mandatory online training. B)The Information Management MOL Training Course will be reviewed to ensure it is current following the annual review of the IM Strategy and IM Policy Framework. C) The Records Retention and Disposal Policy will be updated as part of the annual review of the Information Management Policy Framework to include reference to records held on behalf of other organisations.	A) District Manager B) Senior Information & Security Officer [SISO] C) Senior Information & Security Officer	31/12/15 30/04/16 30/04/16

AUDIT REPORT ACTION PLAN

Report Title

Care and Learning Service – Records Management at Care and Learning Store, Nairn	Report No.	HBA03/001

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.3	Medium	Securing records when taken out of the records store The site officers did not have lockable bags for holding records when they took records off site as part of their work. When visiting several clients in remote areas, records may be taken out of store overnight. When records are taken out of the store by officers, they are currently advised to lock them in the boot of car, out of sight if they cannot carry them. One Manager reported storing records within their home overnight if necessary as the car park area was not secure	A)Care and Learning site officers should have access to lockable bags for holding records in transit as required B) The ICT Security Policy for Mobile and Flexible Working to be reviewed and updated and should include practical solutions for healthcare providers for managing paper records securely out of office, sometimes overnight in tourist accommodation with limited secure storage away from home base C) A brief checklist and a one page reminder sheet of practical guidelines for officers taking paper records home or out of office should be considered, as recommended in the ICO's top tips for community healthcare providers	A) Bags to be made available. B) The ICT Security Policy for Mobile and Flexible Working will be reviewed and added to the Information Management Policy Framework. This will include a refocusing of the Policy to cover the use of both ICT and paper information. C) Checklist to be produced and agreed with Senior Information and Security Officer.	A)District Manager B) Senior Information & Security Officer C)Principal Officer Social Work/ Principal Officer Nursing/ Principal Officer AHPs	30/09/15 30/04/16 31/12/15

AUDIT REPORT ACTION PLAN

Report Title

Report No.

Care and Learning Service – Records Management at Care and Learning Store, Nairn	HBA03/001

				IMPLEMENTATION	
REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	RESPONSIBLE OFFICER	TARGET DATE
3.4	Medium	Information Asset Register The Council's Information Asset Register does not refer to ownership of the health and social care records by reference to the Highland Partnership Integration Scheme approved by the Council in March 2015. The agreement refers to records under the definition of Transferring Records and includes reference to Retained Databases	Information Asset Register to include reference to agreement on records in the Highland Partnership Integration Scheme between the Council and NHS Highland	The Corporate Information Asset Register will be updated to include an extra column that identifies information assets that consist of records that are held on behalf of other organisations.[Care and Learning Service to assist in a commitment to review the information assets held and to identify where the information assets are held on behalf of other organisations – in particular those that are NHS records].	Senior Information & Security Officer, with assistance from Head of Children's Services	30/09/15

AUDIT REPORT ACTION PLAN

Report Title

Care and Learning Service – Records Management at Care and Learning Store, Nairn	**Report No.**	**HBA03/001**

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
3.5	Medium	Health Records storage and Archiving There is no common approach for archiving health records across the Council's Care and Learning sites once they are no longer considered active and are reaching semi-dormant and archive stage. This is not currently an issue at the Nairn store which is secure. However, it is a known risk for health records which is currently being escalated for resolution by Principal Officers for Nursing and Allied Health Professionals.	The work underway to find a common approach for archiving health records should be completed, with assistance from the Senior Information & Security Officer and the Records Manager.	Written guidance on storage of archived health records to be agreed.	Principal Officer Nursing/ Principal Officer AHPs with advice from the SISO	31/12/15
3.6	Medium	Council Records Management Plan The Records Management Plan being drafted for Highland Council has no reference to the Highland Partnership Integration Scheme (HC, NHS Highland). Element 6 Destruction Arrangements has details of destruction arrangements, but there is no reference to a 'Disposal Log' as defined in the Council's Records Retention and Disposal Policy	A) The HC Records Management Plan to incorporate reference to the Highland Partnership Integration Scheme (HC and NHS Highland) and records and the practice of Child health records being sent to NHS Highland for archiving B) Reference to the Disposal Log within Element 6 Destruction Arrangements of the Records Management Plan would provide a useful link between the two documents	A) This will be incorporated into the Records Management Plan prior to internal and final approval submission to Keeper of Records. B) This will be incorporated into the Records Management Plan prior to internal and final approval submission to Keeper of Records.	A) Senior Information & Security Officer B) Senior Information & Security Officer	30/09/15 30/09/15

**The Highland
Council
Comhairle na
Gàidhealtachd**

**INTERNAL AUDIT
FINAL REPORT**

CARE & LEARNING SERVICE

SEEMiS INTEGRATED SCHOOL MANAGEMENT SYSTEM

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DRAFT DATE: 25/08/15
FINAL DATE: 21/09/15

REF: HAD05/001.bf

Contents

1.   INTRODUCTION

The purpose of this report is to record the findings of a recently completed audit review in respect of the Education Management Information System (MIS) known as SEEMiS.

On 25 September 2013, it was reported to the Adult and Children Services Committee that the Phoenix e1 Education MIS previously used in Highland schools was being withdrawn by the supplier. Given this decision the Council had to rapidly replace the system with the only other feasible option, SEEMiS, a web based integrated school management system which is hosted in Hamilton. SEEMiS stands for Strathclyde Educational Establishments Management Information System. Originally formed by twelve of the ex-Strathclyde Councils, SEEMiS delivers an MIS to all sectors of the Scottish education system. In July 2010, the organisation became a Limited Liability Partnership (LLP) wholly owned and managed by the then twenty eight member councils. Given the withdrawal of Phoenix e1, in 2014 the remaining four Scottish councils became members of the SEEMiS LLP and it is now used by all thirty two councils in Scotland. SEEMiS is governed by a Board of Management containing both Council Officers and Elected Members that acts on the behalf of the member councils. SEEMiS Click and Go is the generic name the supplier gives to its system. It contains a large number of different modules to carry out different Education functions including the following used by the Council:

- Pupil Behaviour Tracking, Monitoring and Reporting
- Pupil Pastoral Notes
- SQA and Prelim Exam Planning
- Additional Support Needs
- Education Maintenance Allowance Management
- Clothing grants and free school meals
- Staff Absence and Appointment
- Supply Staff Booking
- SEEMiS Vision – a statistical overview tool use to provide management information

There is also a web enabled version of Click and Go that allows a limited subset of pupil information to be accessed over the internet by teachers working from home or elsewhere away from school.

SEEMiS went live in Highland Council on August 2014 at the start of the 2014/15 school year following a short implementation period. Development of the live system is still work in progress. The security of the system is very important given it contains both personal and sensitive personal details of pupils, as defined by the Data Protection Act, that could cause substantial distress if it was lost or stolen. Personal data loss of this nature has previously resulted in substantial fines from the Information Commissioner's Office in other councils.

2.   REVIEW OBJECTIVES

The objectives of the review were to ensure that:

(i)   Access to the system is adequately controlled

(ii)   System, pupil and staffing data input is complete, accurate and up to date

(iii)   Interface processing to and from other systems is properly checked and reconciled

(iv)   Sufficient management and data quality reports are produced, securely distributed and then disposed of when no longer required

(v)   The system's electronic audit trails are properly set up and maintained

(vi)   License and support arrangements comply with expected best practice

(vii) The system operates both efficiently and effectively.

3.   SCOPE, METHOD AND COVERAGE

The following information relating to the system was examined:

- Modules within the SEEMiS System and its associated interface programs
- The Care and Learning policy and procedures relating to schools, staff and pupils
- All paper records associated with SEEMiS processing and system administration
- The SEEMiS implementation project documentation
- The Council's polices relating to data protection and information security

The following standards and best practice were also referred to:

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

Meetings were held with the following staff to discuss the operation of the system:

- The SEEMiS System Administrator
- The C&L Service Information and Support Manager

4.   MAIN FINDINGS

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

4.1   Access Control

Objective (i) was partially achieved.

4.1.1   A draft Access Control Policy does exist, but it is not yet formally approved for use and it is not used yet by either central or secondary school system administration staff.

4.1.2   The users accessing the system have been allocated different access levels in accordance with the SEEMiS supplier guidance, but these are not reviewed annually. A report of user access levels is not available within the SEEMiS System.

4.1.3   A formal User Registration System has been set up. Access is currently controlled in that a user has to complete a formal user registration form before he/she is set up with access to the system and be authorised by senior member of staff. The registration form is held in the Scottish Schools National Intranet, GLOW, and specifies what SEEMiS modules are being requested. Thereafter access rights are applied. A form is being developed by Care & Learning staff to automatically send an email to the authoriser. At present the email is automatically being sent to the system administrator who in turn sends an email to the authoriser. Access is

controlled by system administration staff at HQ for primaries, but secondary schools control their own access and do not use the access control form or keep access control records which increases the risk of a user being allocated inappropriate or unauthorised access. All school employees are entered into SEEMiS and given a work record when they commence employment in a school. This, in turn, generates a user name. Although each member of staff will have a username, not all staff are given access to SEEMiS modules.

4.1.4 Three different sources either recommend or use different versions of access levels, namely:

1) The Systems Support Officer stated there are three main access levels set up for primary schools, namely:

- Security
- Office
- Teachers

2) The draft Access Control Policy states the following user access groups should be set up.

- System Administrators
- Senior User Group
- Confidential Access User Group
- SEEMiS Support Staff
- Local Authority User Group
- Data Input User Group
- Read-Only Access User Group
- External and Internal Auditors.

3) An example secondary school reviewed had the following access levels set up:

- Security
- Senior Management Team
- Principal Teacher
- Guidance Teacher
- Office
- Teacher.

4.1.4 Password complexity in terms of minimum password length, mix of characters, etc. is in place.

4.1.5 Users are not currently timed out of the system after a specified period if they have logged into it but do not use it. For temporary staff user access is revoked automatically when the user's associated work record expires. However this timeout does not apply to permanent staff members who do not use the system.

4.1.6 Users are not disabled after a specified period if they are given access to the system, but do not log into it. The SEEMiS supplier has advised this facility can be configured if requested.

4.2 Data Input

Objective (ii) was only partially achieved. The types of data input into SEEMiS include the following:

- Pupil enrolments
- Teacher contracts
- Pupil attendance

3

- Pupil performance
- Education maintenance allowances
- Clothing grants and free school meals
- Scottish Qualifications Authority exam results

Some of the SEEMiS data is checked as part of the various censuses carried out by ScotXed (Scottish Exchange of data) which is part of Education Analytical Services Division within the Learning and Justice Directorate of the Scottish Government. The censuses cover checks on the following data:

- The school establishments within the council
- Staff data in each school
- Pupil data in each school
- Pupil attendance, absence and exclusion data

In addition to the above ScotXed data quality checks the system data as well as the staff and pupil data are all input into SEEMiS and separately checked to be complete, either by the system administrators for system data, or via data quality reports which are currently being developed to check staff and pupil data. For example, reports are run to identify gaps in Additional Support Needs data and action is taken to get this data updated.

However the following three concerns have been identified:

4.2.1 School attendance is supposed to be updated every period, but primary schools are putting it on paper and updating it at the end of term.

4.2.2 A sample check of pupil absence data found that the "T" absence indicator (meaning "To Be Confirmed") is not always being updated when the reason for the absence was established. For example the "T" absence indicator was still recorded against some pupil's absences relating to 2014. There is an attendance reconciliation facility within the system but the existence of the "T" absence indicator signifies this is not always being utilised. It can be used to update anomalies such as part day absences. This calls into question the accuracy of absence returns to ScotXed and raises the question as to whether EMA payments, which are dependent on accurate absence recording, are completely correct.

4.2.3 The sample tested also indicated that a small minority of EMA payments were not in accordance with the EMA guidance provided by the Scottish Government states that:

> "EMA is a weekly allowance requiring 100% attendance at all timetabled sessions. Part payments for part attendance will not be made"

There are a number of reasons for authorised absence, e.g. work experience, and there are indicators available to input and identify these. However they are not always used.

One example of absence affecting an EMA payment is parental holiday. In the sample there was one case of a pupil who took a parental holiday receiving an EMA payment whereas another pupil who also took parental holiday did not. The reason given for not receiving an EMA payment in the note was because the pupil took a parental holiday.

4.3 Interface Processing

Objective (iii) was mainly achieved. Data is extracted from and loaded into SEEMiS for a number of reasons. These include the following:

- As mentioned above, school, teacher and pupil data is extracted from SEEMiS and sent to ScotXed as part of the various censuses carried out by ScotXed

- Exam registrations, entries and results are extracted and electronically transmitted to the Scottish Qualifications Authority (SQA) and returns from the SQA are loaded into SEEMiS

- Education Maintenance Allowance BACS payment files are extracted from SEEMiS and transferred to the banks via the Council's BACS software

The interfaces are operating as expected, but two concerns were identified during the review:

4.3.1 A pupil and teacher numbers file is extracted from SEEMiS and loaded onto the ScotXed extranet. Corrections are then identified and made to the file, but not to SEEMiS itself. An exercise to make the 500 or so corrections over the summer period when the schools are closed is taking place.

4.3.2 As above, because the TBC absence indicator is not always being updated this could affect the accuracy of absence returns to ScotXed and EMA BACS payments to pupils

4.4 Reporting

Objective (iv) was mainly achieved. Data quality reports are being developed to ensure SEEMiS data is complete, accurate and up to date. However these reports are not yet complete and items such as the "T" absence indicator are not yet being captured.

4.5 Audit Trail

Objective (v) was completely achieved given the following modules containing financial information have electronic audit trails set up to audit the update of transactions:

- Clothing grants and free school meals
- Education Maintenance Allowance Payments and the Pupil Attendance source data.

There is also an electronic audit trail of when staff last logged into the system.

4.6 License and Support

Objective (vi) was only partially achieved. A Memorandum of Understanding exists between Highland Council and South Lanarkshire Council and the SEEMiS Group LLP. However the SEEMiS supplier has advised this is out of date and have stated the member councils currently have the new, approved by the AGM, 'Members Agreement' and they await the return of this signed version from Highland Council. This Agreement covers the use of SEEMiS software. A new Services Agreement is currently with SEEMiS's Lawyers and will be passed to the SEEMiS Board in September 2015 for approval and subsequent issue.

4.7 Performance

Objective (vii) was mainly achieved. The various SEEMiS modules are being widely used throughout the Council. However, two issues relating to efficiency were identified.

4.7.1 There is double entry of teachers' contract details into both the Northgate HR/Payroll System and SEEMiS. Although the same data should be held in both systems no reconciliation takes place to provide assurance that this is the case. Double entry of the same information is an inefficient use of staff time.

4.7.2 The following parts of SEEMiS are either not being used or are planned for use:

- The pupil tracker facility is not being used by primary schools because SEEMiS does not currently provide adequate functionality to support the government's "Curriculum for Excellence" agenda.

- Teacher absences are not recorded on SEEMiS but on spreadsheets instead. SEEMiS has a facility to record staff absence but it is not planned for use until October 2015.

- Supply staff booking is planned for use at a future date which would identify dates when supply staff are required and the supply staff who are available on these dates.

- The Nursery Application Management System (NAMS) for nursery enrolments is planned for use at a future date which would allow HQ staff to have an overview of the process and assist with prioritising applications.

The cost of SEEMiS license and support to Highland Council is approximately £150,000 annually and it is important to ensure as much use as possible is being made of the system.

5. CONCLUSION

The rapid implementation of SEEMiS means much of its development is still work in progress. Given this it was good to find that many of the expected controls are already in place. User access is both administered and controlled. Access levels reflect staff duties. There are checks carried out that both data input and interface processing are complete and correct. Data quality reports are being developed and financial transactions are audited.

Nevertheless some of these control areas still need further improvement to approach best practice.

There are five recommendations in this report all classified as medium priority. All of the recommendations are due to implemented by the end of January 2016.

6. AUDIT OPINION

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

7. ACTION PLAN

Description

The Action Plan contains **5** recommendations as follows:

Priority	Number
Major issues that managers need to address as a matter of urgency.	High	0
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	5
Minor issues that are not critical but managers should address.	Low	0

Total recommendations — **5**

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.1	Medium	**Access Control**				
4.1.1		A draft Access Control Policy does exist, but it is not yet formally approved, nor is it used by either the central, or the secondary school, system administration staff.	The draft access control policy should be finalised, approved and the adhered to by all system administration staff.	The SEEMiS Project Implementation is on-going with a plan to be completed by December 2015. The access control policy with be submitted for approval to a SEEMiS Project Board meeting in October.	Service Information and Support Manager	31/10/15
4.1.2		The users accessing the system have been allocated different access levels in accordance with the SEEMiS supplier guidance, but these are not reviewed annually.	User access levels should be reviewed at least annually.	Annual Audit of a sample of schools to be carried out and reviewed by Service Information and Support every January	Service Information and Support Manager	31/01/16
4.1.3		The supplier does not provide a report of user access levels so they are difficult to review efficiently.	The supplier should be asked to provide a report of user access levels.	Supplier to be asked to provide a report	Service Information and Support Manager	30/09/15

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.1.4		A form is being developed by Care & Learning staff to automatically send an email to the authoriser. At present the email is automatically being sent to the system administrator who in turn sends an email to the authoriser.	Work on the automated email to the authoriser confirming a user they have authorised has been set up should be completed.	Project development of process will aim to complete by October.	Service Information and Support Manager	31/10/15
4.1.5		Secondary schools control their own access and do not use the access control forms or keep records of who has access.	Secondary schools should adopt a formal user registration system and keep records of users they set up.	Schools can't add users and formal processes are in place through the Business Support addition of teachers, and the non-teaching approval form. An audit process will be implemented which will monitor adherence to policy.	Service Information and Support Manager	31/01/16
4.1.6		Users are not currently timed out of the system after a specified period if they have logged into it but do not use it.	SEEMiS should be asked to supply a time out facility to log out users who have logged into the system, but not used it for a specified period of time, e.g. an hour.	4.1.6 and 4.1.7 This will be raised with SEEMiS, but given their extensive development program this is unlikely to attain the necessary support from the other Local	Service Information and Support Manager	30/09/15

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION RESPONSIBLE OFFICER	TARGET DATE
4.1.7		Users are not disabled after a specified period if they are given access to the system but do not log into it. For temporary staff SEEMiS have advised that user access is revoked automatically when the user's associated work record expires. However this timeout does not apply to permanent staff members who do not log into the system. SEEMiS have advised this facility can be configured if requested.	SEEMiS should be asked to provide the facility to automatically disable users who never logged into the system after a specified period of time, e.g. 6 months.	Authorities. All users will be reminded of their training in the use of the system lock functionality. All computers are set to have a lock-screen timeout.		
4.2	Medium	**Data Input**				
4.2.1		School attendance is supposed to be updated every period, but primary schools are putting it on paper and updating it at the end of term	The update of primary school attendance should be addressed.	4.2.1 and 4.2.2 Training has been provided to achieve recording attendance on a daily basis. Monthly reports will be produced to monitor adherence and reported to Care and Learning Management by end of November. Resulting process to be approved by Head of Education before implementation.	Service Information and Support Manager	30/11/15
4.2.2		A sample check of pupil absence data found that the "T" absence indicator (meaning "To Be Confirmed") is not always being updated when the reason for the absence was established	The guidance to schools to update the 'T' indicator should be re-iterated.			
4.2.3		The sample tested also indicated that EMA payments do not always	The guidance to schools to update the notes field to explain EMA	The responsibility for managing EMA policy is	Benefits and	Complete

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION RESPONSIBLE OFFICER	IMPLEMENTATION TARGET DATE
		seem to be in accordance with guidance which states 100 percent attendance has to be achieved.	payments should be re-iterated.	in the process of transferring from Care and Learning to Finance. A policy document will be provided to the Head of Education for circulation to Secondary School Head Teachers. This policy will reinforce the Scottish Government's Guidance that states "education providers will be required to record attendance of EMA recipients". The policy will be produced by the Benefits and Welfare Manager and implemented by Head of Education and Secondary School Head Teachers.	Welfare Manager	
4.4	Medium	**Reports**				
4.4.1		Data quality reports are being developed to ensure all data is complete and correct. However these reports do not include absence data.	An exercise should be carried out to assess all the data quality reports that are required to ensure the SEEMiS data is complete and correct.	The SEEMiS Implementation Project will not complete until end December 2015. Training in Staff Absence recording is being delivered in September and October. There is a Business Intelligence SEEMIS	Service Information and Support Manager	31/12/15

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
				project which will deliver new reporting functionality. The Highland Council is a lead Authority on the BI Project.		
4.6	Medium	**Licensing and Support**				
4.6.1		SEEMiS stated the member councils currently have the new, approved by the AGM, 'Members Agreement' and they await the return of this signed version from Highland Council. This Agreement covers the use of SEEMiS software.	The Members Agreement should be signed and returned.	All documentation now up-to-date.	Head of Resources, Care and Learning	30/09/15
4.7	Medium	**Performance**				
4.7.1		There is double entry of teacher's contract details into both the Northgate HR/Payroll System and SEEMiS. Although the same data should be held in both systems no reconciliation takes place to provide assurance that this is the case. Double entry of the same information is an inefficient use of staff time.	An interface between the two systems should be considered as should reconciliation reports to ensure both systems agree. In addition the use of the information in both systems should be reviewed to ensure effort is not being duplicated.	The SEEMiS Implementation project will not be complete until end December 2015. It is not feasible to use an interface to upload contract information because Resourcelink contains more detailed contract information than SEEMiS. Basically SEEMiS only requires the contracted hours, the payroll number and the NI number. The payroll number is created by Payroll and given SEEMiS	Service Information and Support Manager	31/12/15

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
				has no bulk upload facility there is no plan to automate a feed from Payroll to SEEMiS. However, the process of recording absence data in SEEMiS and reporting in a format that can be uploaded into Resourcelink is a deliverable of the project		
4.7.2		Some parts of SEEMiS are either not being used or are planned for use in the future.	The use of SEEMiS should be reviewed to ensure value for money is being obtained.	It was always the intention that following the end of the project that there would be a process of ensuring that we exploit the system to the full. Currently we are developing the plans to implement the Supply Teacher Module, and the Nursery Administration module (NAMS) At the end of the project, an ongoing SEEMiS Governance process will be established to replace the Project Management process.	Service Information and Support Manager /Head of Resources, Care and Learning	31/12/15

The Highland Council
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CONFIDENTIAL

INTERNAL AUDIT
FINAL REPORT

CARE & LEARNING SERVICE

REVIEW OF FINANCIAL PROCEDURES OPERATED IN SCHOOLS

Contents

1. INTRODUCTION

This report shows the findings of a completed audit review of the financial procedures at selected secondary schools. The audit was carried out as part of the annual plan for 2014/15. The undernoted schools were selected for review and visited as part of the audit.

School	Budget 2014/15	School Roll 2014/15 (September 2014)
Gairloch High School	£ 1,218,491	142
Inverness Royal Academy	£ 4,128,032	931
Nairn Academy	£ 3,241,722	747
Thurso Academy	£ 3,188,651	776

2. REVIEW OBJECTIVES

The objectives of the review were to ensure that:

(i) The school budget is adequately controlled and monitored, and that the budgetary position is regularly reported to all relevant parties (See 4.1).

(ii) Goods and services are purchased from approved contract suppliers in accordance with approved ordering procedures. Creditor invoices are properly authorised and processed promptly and accurately (See 4.2).

(iii) All income received is receipted, processed, secured and banked accurately and promptly (See 4.3).

(iv) Imprest accounts are administered in accordance with Financial Regulations and associated guidance (See 4.4).

(v) Inventory records are maintained accurately and timeously, in accordance with Financial Regulations and associated guidance (See 4.5).

(vi) Adequate control is exercised over School Funds and this is in accordance with the Council's School Fund Guidelines and Financial Regulations (See 4.6).

3. SCOPE, METHOD AND COVERAGE

The audit involved visits to the 4 secondary schools listed above to ensure that the areas outlined in the objectives are operating satisfactorily. Schools were selected following discussion with the Head of Resources, Care and Learning Service.

4. MAIN FINDINGS

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

4.1 This objective was partially achieved. Schools are provided with adequate resources to monitor budgets and there is regular communication between the budget holders and the Principal Accounting Technicians. However face to face meetings do not take place as often as stated in the Devolved School Management (DSM) manual. In particular, there have been no meetings between the Head Teacher of Gairloch High School and the Principal Accounting Technician since May 2014. However, there is regular electronic and telephone communication to address any budgetary queries.

All of the schools examined were carrying budget deficits. The DSM Manual states that schools are permitted to carry forward a deficit of up to 3% of their devolved

budget. Traditionally schools whose budgets exceed this 3% deficit threshold are given a financial top up (additional transfer of funds) to ensure the budget deficit stays within the limit. For 2013/14 3 of the schools (Gairloch High School, Nairn Academy and Thurso High School) exceeded the deficit limit. Whilst Inverness Royal Academy had a budget surplus for the last 3 years, a deficit (under 3%) is forecast for 2014/15. With regard to the individual Schools, the position is as follows:

- Gairloch High School has required financial top ups for the last 3 years to ensure the budget deficit does not exceed the 3% threshold.
- Nairn Academy has required top ups for the last 3 years but the size of this has been reducing year on year. The school has had a budget deficit for at least 8 years, a position the current Head Teacher inherited and has attempted to improve the situation.
- Thurso High School required a top up in 2013/14 to keep their deficit wthin the 3% limit. For the 2 years prior to this the school moved from surplus to deficit. The school's budget including staffing, has been reduced due to falling roll numbers and some staff posts are being funded from the devolved budget.
- Inverness Royal Academy is expected to move from a buget surplus to a deficit in 2014/15 due to the decision to retain current staffing levels.

At Gairloch High School, Nairn Academy and Thurso High School the primary reason cited for the deficit positions was the inability to make savings on staff costs in line with falling school roll numbers.

The Education, Children and Adult Services Committee received a budget monitoring report in August 2014 showing the total DSM overspend for secondary schools and the number of schools which required a top up in 2013/14. However, the report did not indicate whether the top ups concerned had also occurred in previous years and, if so, what action was being taken to address the ongoing problems.

4.2 This objective was partially achieved. All schools have adequate segregation of duties with regard to the raising and approving of orders. However, PECOS was not always used where expected at Thurso High School where janitorial supplies were ordered without the prior knowledge of the Administrative Assistant and at Inverness Royal Academy textbooks were ordered from non-contract supliers.

All schools use purchase cards and this was working efficiently with adequate segregation of duties. However, apart from Gairloch High School and Thurso High School, the purchase card transaction log was not completed. While the Head Teachers/ Rector are aware of what is being purchased there is insufficient proof of authorisation of purchases at schools not using the transaction log. 3 schools (Gairloch, Nairn and Thurso) used the purchase card to order items which could have been ordered through PECOS from contract suppliers, most notably small IT items.

4.3 All of the schools receive income relating to the school fund which is discussed at (4.6) below. Nairn Academy receives other income but this has been examined as part of a separate audit on school lets. Therefore, no further work was undertaken.

4.4 This objective was substantially achieved with all schools operating imprests. A discrepancy was identified between the imprest held at Gairloch High school and the amount recorded by the Creditors Section which was addressed at the time of the audit. 2 schools (Gairloch High School and Inverness Royal Academy) do not use the official imprest claim pad. However, all schools have a well organised system for administering imprests and apart from some minor instances, receipts were held to support purchases and the purchases were appropriate.

4.5   This objective was not achieved as only Gairloch High School maintained an inventory as required by Financial Regulations; the inventory contained sufficient detail and is regularly reviewed. An inspection of a sample of 6 high value items on the inventory identified that all were held where expected.

4.6   This objective was not achieved. Whilst the School Fund administration is well organised, there were a number of practices occurring contrary to the guidance in Financial Regulations, specifically:

- Nairn Academy has not had its accounts audited for the last 2 years (2012/13 and 2013/14) and failed to submit copies of these to the Service Finance Manager (Care and Learning). The Council's Financial Regulations require a copy of the audited accounts to be forwarded to the Service Finance Manager annually before the beginning of the October school holidays. The explanation provided at the school for this omission was the person responsible for auditing the accounts retired and a suitable replacement had not been found.

- Copies of the accounts were obtained from the Service Finance Team for the other 3 schools. It was noted that these had not been signed by the Head Teacher of Gairloch High School and Rector of Inverness Royal Academy. In addition, none of the submitted accounts included the required declarations from the Parent Council.

- Inverness Royal Academy and Nairn Academy had School Fund accounts which, although the account name commenced "HC", did not specifically include the name of The Highland Council. As a result, it may not be possible for the Council to obtain records relating to the account in the event of a fraud.

- Claims for expenditure were not always supported with sufficient documentation as at all schools there were claims which only had cheque request forms. School staff were able to provide adequate explanations for expenditure. However, without supporting documentation there is a risk that inappropriate transactions could take place. In particular this has been an issue in the past with other schools where there has been fraudulent use of the School Fund.

- The School Fund at Thurso High School has been used for the collection and payment of sums for staff leaving the school. In addition, cash payments were made to individuals for "bouncer duties" undertaken at a school dance. These transactions are not considered to be an appropriate use of the School Fund.

- At Gairloch High School and Inverness Royal Academy the staff who administer the funds are also cheque signatories. There is therefore an insufficient segregation of duties with regard to school fund transactions.

The following practices were also found which, while not in direct contravention of the guidance note, are areas which should be reviewed:

At Gairloch High School a member of staff maintains manual School Fund records for income and expenditure, and another staff member also maintains an electronic record of all income. The Head Teacher stated that this was intended to be a temporary measure while the electronic record is set up, and at present both sets of records are being kept and reconciled with the Head Teacher reviewing this. It is intended this measure will continue until the end of the session.

There was insufficient evidence that Head Teachers/Rectors regularly reviewed the school fund reconciliations, or bank statements for the last school year. At present the guidance note states that it is good practice to sign these as evidence of review.

The Head Teacher at Thurso High School is not a cheque signatory to the School Fund; this role is currently undertaken by the Deputy Head Teachers. However, the Head Teacher has overall responsbility for the School Fund and the guidance note recommends that the Head Teacher is an authorised signatory.

5. CONCLUSION

The schools visited as part of the audit had knowledgeable and experienced administrative staff. This has ensured that the majority of financial procedures operate effectively. However, there are areas which can be improved and some arrangements at schools operate contrary to the requirements of the Council's Financial Regulations.

The majority of areas of non-compliance with Financial Regulations relate to School Funds. It is imperative that schools have adequate systems in place to ensure that these are managed correctly as the audit found a lack of segregation of duties, insufficient records for expenditure claims and lack of effective review of School Fund activity. This is an area which had been subject to a number of frauds over the years and it is essential that robust controls are in place to prevent the misuse of funds.

This report contains 5 recommendations, 2 of which are high priority and 3 medium priority. The recommendations have been accepted by management, with agreed action due to be implemented by 31/03/17. It should be noted however, that the majority of actions are due to be implemented by the end of 2015.

6. AUDIT OPINION

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

7. ACTION PLAN

The Action Plan contains **5** recommendations as follows:

Description	Priority	Number
Major issues that managers need to address as a matter of urgency.	High	2
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	3
Minor issues that are not critical but managers should address.	Low	0
Total recommendations		**5**

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.1	Medium	At the time of the audit, regular face to face meetings had not taken place between the Principal Accounting Technician and the Head Teacher of Gairloch High School since May 2014.	Regular meetings should be undertaken to discuss the financial position of the school as set out in the DSM manual.	Regular meetings do take place, making appropriate use of ICT where appropriate, rather than necessarily local meetings in all cases, to make best use of Finance officer's time. The DSM manual wording will be reviewed to reflect modern working arrangements and the increased use of ICT rather than local meetings.	Care and Learning Finance Manager, Finance Service	30/06/16 (to fit in with planned review of DSM manual)

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
		All 4 schools experienced budget deficits in 2014/15. In addition, 3 of the Schools, Gairloch High School, Nairn Academy and Thurso High School have required budget top ups in 2013/14 to bring their deficit within the stipulated 3% threshold. All schools were experiencing difficulty in reducing their deficits and the present system of top ups is not addressing the issue.	The Service Finance Team and the Care and Learning Service should work with the schools to assist in reducing budgetary deficits. Other approaches should be considered as the present top-up process does not address the crux of the problem.	The Council is already taking action in relation to schools in financial deficit. In December 2014 saving proposals were agreed to remove the 'top up' for deficit schools and also remove over-entitlement teaching posts. Work is ongoing with individual schools to support them in that, with some achievements to date, with the intention this objective is achieved in 2016/17.	Head of Education and Head of Resources, Care and Learning	31/03/17
		Although the Education, Childrens' and Adult Services Committee are informed of the total number of schools receiving top ups, there is no indication as to whether there are ongoing budgetary problems.	The report to the Education, Children and Adult Services Committee should clarify if there are ongoing budgetary problems and the measures being taken to address these.	Consideration will be given to ongoing reporting in relation to individual schools budgetary position, and progress with delivery of savings described above.	Head of Resources, Care and Learning	31/12/15

6

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.2	Medium	Official orders were not always issued at Thurso High School where these would have been expected. In addition, orders were not always placed with the relevant contract suppliers or the purchase card was used to buy items where there was a contract supplier available on Pecos. The purchase card transaction log was only used at Thurso High School and Gairloch High School.	Schools should be reminded of the requirement to use the Council's official ordering process where applicable and that orders should be placed with the relevant contract supplier. Schools should also be reminded of the need to complete the purchase card log for all transactions.	A reminder will be issued to all schools in relation to ordering of goods and services, compliance with contract standing orders and purchase card transaction logs.	Head of Resources, Care and Learning.	31/10/15
4.4	Medium	Contrary to the relevant guidance note, Gairloch High School and Inverness Royal Academy do not use the official imprest claim pad.	All schools should be reminded of the need to ensure that the official imprest claim pad is used to record imprest claims.	A reminder will be issued to all Highland schools in relation to imprest procedures.	Head of Resources, Care and Learning.	31/10/15
4.5	High	3 of the schools visited, Inverness Royal Academy, Nairn Academy and Thurso High School, did not maintain inventories.	Inverness Royal Academy, Nairn Academy and Thurso High School should create and maintain inventories in accordance with the requirements of the Council's Financial Regulations.	Best practice in those schools completing inventories, will be shared with other Highland Schools, and a reminder issued in relation to the need to maintain inventories.	Head of Resources, Care and Learning.	31/10/15

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION RESPONSIBLE OFFICER	TARGET DATE
4.6	High	A number of issues were identified in the Schools visited with regard to the administration of the School Fund contrary to the requirements of Financial Regulations. The issues were as follows: • Nairn Academy have not had their accounts audited or submitted to the Service Finance Team for the last 2 years.	Action should be undertaken to ensure that the administration of all School Funds accords with the requirements of Financial Regulations and the associated guidance note. In particular: • Nairn Academy should prepare School Fund acounts for the relevant years. These should be audited by an appropriate person and submitted to the Service Finance Team. It should also be ensured that future years accounts are prepared and submitted on time.	School fund accounts for Nairn Academy are now all audited and submitted to HQ. (August 2015)	Head Teacher, Nairn Academy	Complete
				Contact will be made with individual schools where particular actions need progressed as a priority, agreeing a timescale for conclusion of actions with the Head Teacher.	Head of Resources, Care and Learning.	31/10/15
				Reminder will also be issued across schools in relation to the importance of following existing school fund procedures and financial regulations.	Head of Resources, Care and Learning.	31/10/15
				In relation to school fund procedures generally, an officer working group has recently been established to review procedures in relation to school funds. The issues highlighted by this audit will be considered by that group, to ensure where appropriate procedures and guidance are updated.	Head of Resources, Care and Learning.	31/03/16

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
		Only Thurso High School had submitted accounts with a declaration signed by the Head Teacher. None of the submitted accounts had the necessary signed declarations by their Parent Council.	• Schools should ensure that submitted accounts contain a signed declaration by the Head Teacher/Rector and the Parent Council.	To build into Parent Council meetings at Nairn Academy.	Head Teacher, Nairn Academy;	30/04/16
				Findings for Gairloch High School and Inverness Royal Academy are covered by the actions against the Head of Resources, Care & Learning at section 4.6 above.	Head of Resources, Care & Learning	31/03/16
		Whilst each school has expenditure records there is scope for improvement as supporting documentation for expenditure was not always held. At Gairloch High School the forms were not signed by the Head Teacher. At Thurso High School a number of forms were not signed by the claimant.	• All claims for expenditure from school funds should be supported by adequate documentation (e.g. receipts). Claims for expenditure must be signed by the claimant and the officer authorising the payment.	Covered by the actions against the Head of Resources, Care & Learning at section 4.6 above.	Head of Resources, Care & Learning	31/03/16
		2 of the schools; Inverness Royal Academy and Nairn Academy did not include the full name of The Highland Council in their School Fund bank account name. In both schools the abbreviation "HC" was used	• All schools should be instructed to review the name of their school fund bank accounts and if necessary, ensure that they are changed to include the full name of The Highland Council.	Covered by the actions against the Head of Resources, Care & Learning at section 4.6 above.	Head of Resources, Care & Learning	31/03/16
		2 of the schools; Gairloch High School and Inverness Royal Academy-have the officers who administer the School Fund also as cheque signatories.	• A review of the School Fund signatories in each of the schools should be undertaken to ensure that the officers involved in administering the Fund are not also a cheque signatory.	Covered by the actions against the Head of Resources, Care & Learning at section 4.6 above.	Head of Resources, Care & Learning	31/03/16

9

| REPORT REF. | GRADE | FINDING | RECOMMENDATION | MANAGEMENT AGREED ACTION | IMPLEMENTATION | |
					RESPONSIBLE OFFICER	TARGET DATE
		• There is a temporary but ongoing duplication of work at Gairloch High School with two members of staff recording income payments, one manually together with the expenditure and another maintaining a spreadsheet of all income only.	• The present practice should be revised to ensure that one set of School Fund records are maintained. It is recommended that the records are maintained in the format of spreadsheets.	Covered by the actions against the Head of Resources, Care & Learning at section 4.6 above.	Head of Resources, Care & Learning	31/03/16
		• The Head Teacher at Thurso High School is not currently a cheque signatory to the School Fund.	• The Head Teacher at Thurso High School should become a cheque signatory.	Covered by the actions against the Head of Resources, Care & Learning at section 4.6 above.	Head of Resources, Care & Learning	31/03/16

10