The Highland Council	Agenda Item	3
Audit and Scrutiny Committee – 16th June 2016	Report No	AS/6/16

Internal Audit Reviews and Progress Report – 05/03/16 to 06/06/16

Report by the Audit & Risk Manager

Summary

This report provides details of the final reports issued since the previous meeting of this Committee; work in progress and other information relevant to the operation of the Internal Audit Section. The report also refers to amendments which require to be made to the Audit Plan for 2016/17.

1.   Audit Reports

1.1   <u>Final Reports</u>

There have been 8 final reports issued in this period as referred to below:

SERVICE	SUBJECT	OPINION
Care and Learning	Self Directed Support	Limited
Care and Learning	Inspection of Equipment in Schools (follow-up)	Limited
Care and Learning	Managing School Rolls	Limited
Community Services	Administration of Fuel	Limited
Community Services	Grass Cutting Contract – Monitoring and Contract Payment Arrangements (follow-up)	Reasonable
Corporate Development/ Finance	Review of Performance Indicators 2014/15	Reasonable
Development & Infrastructure	Compliance with the Carbon Reduction Commitment Energy Scheme 2014/15	Limited
Finance	Procurement – Review of the Taxi and Private Hire Vehicle Inspections Contract	Substantial

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

(i)   **Full Assurance**: There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.

(ii)   **Substantial Assurance**: While there is a generally a sound system, there are minor areas of weakness which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

(iii)   **Reasonable Assurance:** Whilst the system is broadly reliable, areas of weakness have been identified which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk**.**

(iv)   **Limited Assurance**: Weaknesses in the system of controls are such as to put

the system objectives at risk, and/ or the level of non-compliance puts the system objectives at risk.

(v) **No Assurance:** Control is generally weak, leaving the system open to significant error or abuse, and/ or significant non-compliance with basic controls leaves the system open to error or abuse.

1.2 <u>Update report on Ben Wyvis Primary School Project</u>

The Internal Audit report on the above was provided to the Audit & Scrutiny Committee on 30/09/15. The report contained a total of 17 recommendations comprising of 10 high and 7 medium grades. There were a number of management agreed actions in response to these recommendations and responsibilities were split across officers from the Care & Learning, and Development & Infrastructure Services. One of the actions was to report back to the relevant Committees on progress with the action plan arising from the audit, and actions arising from a previous lessons learned report. This has now been done and this information is provided at **Appendices 1 and 2**.

In summary, 27 of the 29 actions agreed have now been completed. Of the 2 that remain outstanding (ref 4.2.4), these are in progress, and have not as yet been completed for the following reasons.

- Line management of Clerk of Works staff has been changed from Community Services to Development & Infrastructure. While transfer of some staff has been effective 1 April, the complete transfer will not conclude until June 2016.

- Clerk of Works. Investigation is taking place into new software that will support/facilitate the electronic reporting of project information. The target for implementation for this is September 2016.

2. Other Work

2.1 In addition to the reports referred to in the table at section 1.1 above, the Section has been involved in a variety of other work which is summarised below:

(i) Work has been undertaken on behalf of the Valuation Joint Board and the Pension Fund.

(ii) Migrating audit reports/ documents from shared drives to SharePoint.

(iii) Action tracking of outstanding audit actions and this information is reported in a separate agenda item.

3. Corporate Fraud

3.1 As previously reported, a number of investigations into tenancy fraud have been undertaken and this work continues. A recent initiative involved publicising the Council's approach to deterring, investigating and preventing fraud. Various posters and leaflets have been produced and will be displayed in Council buildings including Service Points. One poster refers specifically to tenancy fraud and a number of referrals from the public have been received as a result of this campaign. A link to the press release on 4th April is provided below:

http://www.highland.gov.uk/news/article/9393/join_your_councils_fight_against_fraud_report_it

3.2 A set of performance indicators for the work of the Corporate Fraud Team has been developed and this together with the outcome of investigations will be reported to each Committee meeting on a quarterly basis. Information for the period 1st August

2015 to 31st March 2016 is contained within the 2015/16 Annual Report which is provided as a separate agenda item.

4. Staffing Issues

4.1 In the covering report that accompanied the 2016/17 Audit Plan, the Director of Finance provided information relating to the audit resources which were affected by a vacant post and the decision to grant 3 applications for voluntary redundancy. This amounted to 3.6 FTE. The report stated that this reduction was too much and that the Plan assumed a further 2 FTE from July 2016. These 2 posts relate to the filling of the vacant Auditor post and replacing the Head of Audit & Risk Management (now re-evaluated and the job title is the Corporate Audit & Performance Manager). Recruitment is now underway for both posts and interviews will take place in late June/ early July.

4.2 The Performance Team moved to the Finance Service on 01/04/16 but is currently managed by the Director of Finance. Once the new Corporate Manager is in post this will allow the transition to take place for the new Audit & Performance Team.

5. Progress Against the 2016/17 Plan

5.1 The audit reviews that are in progress and which will be the subject of a future report to this Committee are shown in the table at **Appendix 3**.

5.2 In addition, the following changes to the audit plan are proposed:

- Remove the planned audit of the procurement function and replace this with testing of a sample of 30 Housing Benefit cases (15 Rent Allowance and 15 Rent Rebate) where payment was made during 2015/16. Previously, this work was shared equally between Internal Audit and Audit Scotland with each set of Auditors reviewing a sample of 20 cases each. It had been proposed that Internal Audit would cease this work and but it was agreed with the Director of Finance that this would be undertaken in order to avoid additional fees being charged by Audit Scotland.

- An audit of the extension/ refurbishment project being undertaken at Cromarty Primary School. The exact scope of this audit will be agreed with the local Members who requested this audit and the Committee Chair and Vice-Chair. This will be an additional audit to the Plan.

6. Performance

6.1 Quarter 4 performance information is provided below together which allows comparison with previous quarters:

Category	Performance Indicator	Target	2015/16 Actuals			
			Q1	Q2	Q3	Q4
Quality						
Client Feedback	(i) % satisfaction from individual audit engagements expressed through Client Audit Questionnaires	90	92	80	83	98
	(ii) % of Client Audit Questionnaires returned	70	100	85	80	100
Business Processes						
Timeliness of Final Report	(iii) % of draft reports responded to by client within 20 days of issue	85	67	78	71	50
	(iv) % of final reports issued within 10 days of receipt of management response	90	83	89	100	100

Six audit reports were issued in the above period and commentary on the above is provided as follows:

(i) The level of satisfaction as to the work performed is above the target figure. As previously reported, the questionnaire was considered to be outdated and was not user friendly, and so was overhauled during quarter 2. Therefore, the responses shown since quarter 2 cannot similarly be compared against the quarter 1 figure. However, it is pleasing to report that these are now showing an upward trend from quarter 3 onwards.

(ii) The timeliness of response from Services is still below the target figure. However, procedures are now in place to ensure that if Services fail to respond within 20 days, the matter is immediately escalated to the responsible Director. This has produced very positive results and all draft reports were actually responded to within 23 days. Furthermore, the new Reporting & Escalation Protocol was approved by the Executive Leadership Team and came into effect from 30/05/16.

(iii) All final reports were issued within the 10 day target.

7. Implications

7.1 There are no Resource; Legal; Equalities; Climate Change/Carbon Clever; Risk, Gaelic and Rural implications as a direct result of this report.

Recommendation

The Committee is invited to:
(i) Consider the Final Reports referred to in Section 1.1 above and the update report provided on Ben Wyvis Primary School Project;
(ii) Note the current work of the Internal Audit Section.
(iii) .Approve the amendments to the Audit Plan for 2016/17.

Designation: Audit & Risk Manager

Date: 6th June 2016

Author: Donna Sutherland, Audit & Risk Manager

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
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, then revised to 31/05/16 (Complete)
Action taken		Corporate tender report template was obtained by the Acting Programme Manager from the Head of Procurement. Discussion has taken place with Principal QS to merge the tender and project report templates and to adopt the corporate report template format. The project procedures are currently under review generally and the review process will be completed in May 2016. A sharepoint site is being finalised which will provide an easy access point for project procedures, guidance and templates. A training session for all property staff and client reps/project sponsors has been arranged for early June to inform all staff of the sharepoint site and changes in procedures.				
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. (2) There is no advice within Contract Standing Orders to advise on the use and selection of ratios.	(1) The ratio selection decision should be documented and should involve the Project Sponsor. (2) Contract Standing Orders should be amended to reflect Scottish Government guidance regarding the use and selection of appropriate ratios for major capital projects.	(1) The Project Price/Quality ratio selection will be documented and agreed with the relevant Project Sponsor going forward. (2) Detailed amendments will, be incorporated in the Council's Procurement Manual which is already referred to within the Orders.	Acting Programme Manager (D&I) Head of Procurement	31/10/15 (Complete) 31/03/16 (Complete)

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
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Action taken		(1) The standard project price/quality ratio is now 60/40 although in some circumstances this may be reviewed depending on specifics relating to the uniqueness of the project. Any deviation from the standard should be agreed with the Project sponsor. The ratio should be noted in the Project Execution Plan (2) Revised contract standing orders were approved at Committee in February 2016 and section 8, Supplier Selection advises that contract award criteria must be set in such a way as to ascertain and award contracts in favour of the most appropriate tender put forward in response to the invitation in terms of the most economically advantageous or lowest priced tender. The Council must identify the most economically advantageous tender on the basis of the best price-quality ratio, which must be assessed on the basis of criteria linked to the subject-matter of the public contract in question and must include the price or cost, using a cost effectiveness approach. The criteria must be weighted according to the needs of the contract, and both the criteria and their weightings must be published in the Pre-Qualification/tender documentation.			
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**
Action taken		Property Managers will continue to ensure that Contract Standing Orders are being followed in this regard. Work is in progress to create a simplified structure to deal with procurement, evaluation and contracting activities within property.				
4.1.4	High	(1) The appointment of two Structural Engineers was not subject to formal tendering procedures. (2) The replacement Structural Engineer service was provided by an associate of the main contractor.	(1) Contract Standing Orders should be observed. (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.	Contract Standing Orders are being followed in regards to the appointment of Project Consultants 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) Acting Programme Manager (D&I)	**Complete** 31/10/15 (Complete)

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
Action taken		(1) Property Managers will continue to ensure that Contract Standing Orders are being followed in this regard. Work is in progress to create a simplified structure to deal with procurement, evaluation and contracting activities within property. (2) Project Procedures have been put in place to ensure that any potential conflict of interest surrounding consultant appointments is identified early in the project and mitigated accordingly.				
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**
Action taken		Project sponsors are ensuring that goods should be formally tendered and where a framework can be accessed, that best value is being assessed in line with Contract Standing Orders.				
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 (Complete)
		(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.	(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	A project execution plan will be put in place for future major capital projects	Acting Programme Manager (D&I)	30/11/15 (Complete)

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		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.	specific project targets should be achieved and provide details on the major activities and resources required to deliver the project within the planned project target timeframe/ milestones.			
Action taken		(1) Project Procedures are in place to ensure that a Project Execution Plan is created at the outset of a project. The standard PEP template includes an organogram and a description should be included regarding roles and responsibilities. The Council has also adopted a new Project Management policy for governance of projects which sets out key roles. Online training is now available to support the project sponsor role. (2) Property has adopted the approach to have a Project Execution Plan for projects with a value over £1M.				
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**
Action taken		A number of steps have been taken to ensure this action has been followed. Firstly, there have been recent projects whereby consideration has been given to delay the handover as a result of quality issues. Also, there is a structural change in process regarding the management of Maintenance Officers which will improve the inspection on major projects. Project Programmes must be realistic and allow for some flexibility to take account of possible unforeseen circumstances and Property will continue to work with Project sponsors to ensure adequate time is available to complete projects to the required standard.				
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. (2) Not all project variations were	(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 All project variations are now being supported by an	Acting Programme Manager (D&I) and Estate Strategy Manager (C&L) Estate Strategy Manager (C&L) and Acting Programme	30/09/15 (Complete) **Complete**

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION RESPONSIBLE OFFICER	TARGET DATE
		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.	authorised Change of Control Record Sheet (CCRS).	Manager (D&I)	
			(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 (Complete)
Action taken		Project procedures are currently in place and include for the change control process to be used from the outset of a project and there are templates in place to support this procedure. Continual awareness is in place to ensure that staff are using/following the process and there is a staff training session arranged for June which will include review of the change control process. Project sponsors will be invited along to this session also.				
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.	(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 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.	Director of D&I Service	30/11/15 (Revised 30 /06/16)
		(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.	(2) 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.	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.	Acting Head of Property (D&I)	31/03/16 (Revised 30/09/16)

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION RESPONSIBLE OFFICER	TARGET DATE
Action taken		Transfer of Clerks of Works staff from Community Services to Development & Infrastructure is in process with all north staff transferring as of 1 April and South staff transfer taking place in June. Inspection procedures will be documented and consistently applied to projects. Investigation is taking place into new software that will support/facilitate the electronic reporting. The target for implementation for this is September 2016.				
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.	Project Contract Administrators will capture & record the actual position of each project	Acting Consultancy Manager (D&I)	30/11/15 (Complete)
			Any potential site quality issues should be raised and documented within the Site Meeting minutes	Meeting minutes will capture and record quality matters and this information will be shared with project stakeholders	Acting Consultancy Manager (D&I)	30/11/15 (Complete)
Action taken		Project procedures and associated guidance/templates are in place to enable Contract Administrators to take a consistent approach to recording project progress. Contractor's reports can vary but usually well document progress and issues preventing progress. Significant issues are now being recorded in an issues log which is reviewed fortnightly by Acting Programme Manager, Acting Consultancy Manager, Estates Strategy Manager and Acting Head of Property.				
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	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. 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	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 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) and Acting Head of Property (D&I) Head of Resources (C&L)	**Complete** 31/03/16 (Complete)

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
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		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.	pressures. 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 (Complete)
Action Taken		The new corporate Project Management policy which came into effect in April 2016 will provide a consistent approach to governance arrangements. Projects at risk will be reported to the Capital Programme Board, chaired by Director of D&I.				
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 (Complete)
		(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 (Complete)

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION RESPONSIBLE OFFICER	TARGET DATE
Action taken		Reviews are being undertaken on all major projects at post completion stage but on some projects are also being undertaken at contract award stage, to review pre-construction activities. All reviews will be reported to the Capital Programme Board in the first instance. An internal process has been adopted within the consultancy section to have a Principal Architect review all EOT claims. This has been adopted in the QA procedure.				
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) Acting Programme Manager (D&I)	30/11/15 (Complete)
		(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.		**Complete**
Action taken		A new corporate capital monitoring process has been in place since Nov 2015 which monitors budget and programme targets on a project life basis All post contract reviews are to be reported to the Capital Programme Board, Chaired by the Director of D&I.				
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 (Complete)
		(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 project risk accordingly.	Acting Programme Manager (D&I)	30/11/15 (Complete)

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
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Action taken		The project procedures contain tasks relating to the management and recording of risk. The process of escalation is via project boards and the Capital Programme Board chaired by the Director of D&I, as per the corporate project management policy.				
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 (Complete)
Action taken		The CAL programme Board have reviewed the previous lessons learnt report, and reviewed and updated the internal audit report action plan (this report). These updates will be reported to the next available Audit & Scrutiny and Strategic Committees.				
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 (Complete) |
| Action taken | | As mentioned in previous points, a new process for capital monitoring has now been adopted across the Council which reports on capital projects on a project life (multi-year) basis. This has been in place for Care and Learning since November 2015. | | | | |

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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 (Complete)
Action taken		Cost reports are being collected in a central location so as accessible to relevant officers on a monthly basis, and are being reviewed to inform the capital monitoring process.				

Significant Lessons

The following table summarises the most significant lessons to be learned from this project under the main themes of PRINCE2.

Issue	Effect	Causes/Trigger	Recommendations
Business Case Theme			
None			
Organisation Theme			
Resources	Delays in dealing with issues or responding to queries	Resources in ECS and HAPS were stretched at times	• Both services to ensure that adequate resources are in place at the start of a project and are maintained at the required level throughout; continuity to be maintained wherever possible
Roles and responsibilities	Communication problems	Lack of clarity over certain roles and responsibilities	• In future, these should be in line with revised procedures (ECS – PRINCE2, as agreed at ACS Committee; HAPS – Consultancy/Project Management procedures)
Stakeholder engagement	Community kitchen had to be re-designed	Layout did not meet the expectations of users	• Formally log all types of communication with external stakeholders • Identify all existing users at the outset and consult where necessary • Continue stakeholder group meetings beyond handover
Action Taken (update March 2016)			*Resource and capacity issues within Care & Learning and Development & Infrastructure are kept under regular review. Since the production of this lessons learnt report, a revised structure has been agreed for the Care and Learning Estates Team to improve capacity. Where necessary project resources are prioritised to ensure resources are targeted at the correct projects, and realistic timelines set.* *New corporate project management guidelines have been introduced effective 1 April 2016, to which all Services must adhere. This ensures all Council projects follow proper project management principles.* *Stakeholder groups are used as the means to communicate with external stakeholders for major projects. Minutes and agendas are held online for ease of access.*

Lessons Report - Ben Wyvis Primary School 2013

Issue	Effect	Causes/Trigger	Recommendations
Quality Theme			
Quality management	Handover of building with extensive snagging issues	Contractor performance	• Work with contractors to achieve zero defects at handover • Do not agree to handover of building until it is completed to an acceptable standard • Allow more time for handover, commissioning and occupation stages
Action Taken (update March 2016)			*A number of steps have been taken to ensure this action has been followed. Firstly, there have been recent projects whereby consideration has been given to delay the handover as a result of quality issues. Also, there is a structural change in process regarding the management of Maintenance Officers which will improve the inspection on major projects. Project Programmes must be realistic and allow for some flexibility to take account of possible unforeseen circumstances and Property will continue to work with Project sponsors to ensure adequate time is available to complete projects to the required standard.*
Plans Theme			
Planning generally	Ambiguity over expectations and communication	Communication and control issues	• Review all project activities, assess dependencies and allocate resources • Formal communication management strategy to be implemented • Ensure programme is clear and has been shared with all parties • Ensure that the boundaries and extent of the project scope are clear
Action Taken (update March 2016)			*New corporate project management guidelines have been introduced effective 1 April 2016, to which all Services must adhere. This ensures all Council projects follow proper project management principles.*
Risk Theme			
Risk management	Uncertainty over impact on project objectives	Significant events	• Formal risk management procedure to be fully implemented on all projects from the outset and actively managed throughout
Action Taken (update March 2016)			*New corporate project management guidelines have been introduced effective 1 April 2016, to which all Services must adhere. This ensures all Council projects follow proper project management principles, including the assessment and monitoring of risk.*
Change Theme			
Issue and change control	Uncertainty over impact on project performance targets	Significant issues and changes	• Formal issue and change control procedure to be fully implemented on all projects from the outset and actively managed throughout
Action Taken (update March 2016)			*Project procedures are currently in place and include for the change control process to be used from the outset of a project and there are templates in place to support this procedure.*

Lessons Report - Ben Wyvis Primary School 2013

Issue	Effect	Causes/Trigger	Recommendations
Progress Theme			
Assessment of potential problems	Late escalation meant that corrective action not achieved earlier	Communication and reporting issues	• Clear reporting structures to be adopted along with escalation routes • Project Boards to be established for all major projects to review progress
Action Taken (update March 2016)			*New corporate project management guidelines have been introduced effective 1 April 2016, to which all Services must adhere. This ensures all Council projects follow proper project management principles, including the assessment and monitoring of risk. Escalation arrangements are also covered through Project Boards now reporting to the Capital Programme Board chaired by the Director of D&I.*

Internal Audit – Planned Work in Progress

SERVICE	SUBJECT	PROGRESS
Care & Learning	Integrating Care in the Highlands	Terms of Reference issued
Care & Learning/ Corporate Development	Network Capacity Management in Schools	Terms of Reference issued
Chief Executive's Office	Common Good Funds – rental income	Fieldwork complete
Community Services	Housing Rents	Fieldwork complete
Community Services	Review of the arrangements for the procurement and payment of Homeless services	Terms of Reference issued
Corporate Development	SharePoint	Draft report in progress
Corporate Development	Review of compliance with complaints procedure	Being planned
Corporate Development	Transformation Savings Programme Projects	Terms of Reference issued
Corporate Development/ Finance	Review of personnel recruitment process	Fieldwork complete
Development & Infrastructure	Rental income	Fieldwork complete
Finance	Housing Benefit payments 2015/16	Testing of cases being undertaken
Finance	Debtors	Fieldwork complete
Finance	Matters arising from the Statement of Internal Control 2015/16	Fieldwork complete

The Highland Council
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INTERNAL AUDIT
FINAL REPORT

CARE & LEARNING SERVICE

SELF DIRECTED SUPPORT

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Internal Audit
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REF: HAF03/001

Contents

1. **INTRODUCTION**

The purpose of the audit was to carry out a review of the administration of Self Directed Support for children and young people with disabilities as part of the 2015/16 Audit Plan.

On the 1st April 2014, the Social Care (Self-directed Support) (Scotland) Act 2013 came into force. The Act created a statutory framework to support, promote and protect the human rights and independent living of care and support users in Scotland. It aimed to ensure care and support were delivered in a way that supports choice and control over one's own life and which respects each person's right to participate in society. The Act also imposes a new duty on the Local Authority to provide four options for provision of support to all children and carers eligible for support or in receipt of services.

The four options are:

Option 1 - a direct payment as defined under Section 12B of the Social Work (Scotland) Act 1968.

Option 2- designed to provide greater transparency and control for the supported person without the requirement to take this support as a direct payment. There is a degree of discretion for the Local Authority in how it can develop and deliver this option but it should take steps to ensure that this differs in nature from both Option 1 and Option 3.

Option 3 - where the authority arranges any services on the person's behalf.

Option 4 - a mix of the first 3 options for different aspects of the person's support.

Currently option 2 is unavailable but a report to the Education, Children and Adult Services Committee (ECAS Committee) on the 20th January 2016 provided details of proposed changes in order to support the implementation of improved choice and access to SDS including tendering for a Brokerage service which would enable option 2 to be provided. However, this was not agreed and the decision was deferred until the March Committee. The Council administers Self-directed Support (SDS) personal budgets for children affected by disability and those in transition to adulthood. The SDS Team employed by NHS Highland operates SDS direct payments (Option 1) on behalf of the Council with all other SDS payments made directly by the Council.

Implementing SDS involves changing the way the Council supports children and families with staff working together with the clients to support what they want and what best suits their needs. Children and their families may choose to use new and different types of support which they had not considered before.

There is no new or additional funding associated with SDS, budgets require to be transferred from traditional services and resources to support SDS personal budgets.

2. **REVIEW OBJECTIVES**

The objectives of the review were to ensure that:

(i) There is an adequate framework for the administration of Self Directed Support.

(ii) Appropriate methods have been developed to assess the impact of Self Directed Support by monitoring how successful the improvements are to people's lives.

(iii) There is a clear plan and effective arrangements for managing the risks to successfully implementing Self Directed Support.

(iv)   There is a plan of how to allocate money to pay for support for everyone who is eligible as demand for service increases.

3.   SCOPE, METHOD & COVERAGE

The audit reviewed the management of SDS from implementation to July 2015. During the audit the Chair of the SDS Screening Panel, Development Officer Disability, Children's Service Managers, Team Managers, Practice Lead Health & Disability, Legal Manger, Service Finance Team, Business Support Team, SDS Team (NHS) and Team Leader Projects & Technology (NHS) were all consulted. An SDS Screening Panel was attended to observe the procedures in place and access was granted to all of the applications to the Screening Panel for detailed review.

Guidance referred to during the audit process included The Audit Scotland report on Self-directed support, published June 2014, Self Directed Support: practitioner guidance, published by ADSW, the Charted Institute of Public Finance & Accountancy, Self Directed Support guidance. Statutory guidance to accompany the Social Care (Self-directed Support) (Scotland) Act 2013, and Guidance Notes for Self Directed Support for use by Council Staff.

4.   MAIN FINDINGS

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

4.1   SDS Framework

This objective was partially achieved, as the client and their family together with the Lead Professional complete a Child's Plan which includes the Resource Allocation System (RAS) section. The RAS is based upon the SHANARRI wellbeing indicators Safe, Healthy, Achieving, Nurtured, Active, Respected, Responsible and Included and provides a point score and an indicative budget which is agreed which the local Team Manager. The Lead Professional, client and their family agree a Support Plan, identifying how they would like to use the indicative budget to suit their required need. This Plan should detail the desired outcomes against the SHANARRI indicators, what the outcomes mean for the child and family, how this will be achieved, who will be involved, cost over 12 months and breakdown of this against the different options. Once this is agreed with the Team Manager, the Support Plan is submitted to the SDS Screening Panel for consideration. The SDS Screening Panel evaluates the supporting evidence to establish whether the needs identified in the Child's Plan can be met by the RAS score, Personal Budget and that the planned outcomes meet the support needs of the child and family. The Panel is Chaired by an Area Manager with membership comprising of District Managers and the Development Officer Disability.

4.1.1   Within the Support Plan there is limited information regarding the reasoning behind the proposed items of expenditure, and on occasions seen out of context, the expenditure could be seen as inappropriate. Given the current budget situation clear justification of expenditure is required. The recent CIPFA guidance refers to managing public resources, achieving Best Value, ensuring that accountability for the use of public resources is maintained and service monitoring.

4.1.2   Review of a sample of approved SDS packages proved problematic as there is no single record. Instead, three spreadsheets with details of applications to the SDS panel exist; one used up to the end of 2014, a new spreadsheet used from January 2015 to the present day and a spreadsheet used for a desktop exercise. The earlier spreadsheet is particularly ambiguous, some clients were unidentifiable, it was unclear under which options the funding had been approved

and if there would be an effect on an existing service. All clients receiving a Direct Payment (option 1 & 4) could be traced through the SDS Team, however, there was no central record of all children and young people with an SDS Personal Budget. Therefore, it could not be established how many children were receiving SDS Personal Budgets, the total value of funding committed, and under which option they were funded. The SDS Screening Panel up until this point had received no Business Support time and Area and District Managers were attempting to administer and record the Screening Panels with no assistance. The recent allocation of Business Support time to the SDS Screening Panel should assist in ensuring that a complete and accurate record of SDS Personal Budgets exists.

4.1.3 Direct payments were already provided under section 22 (1) of the Children (Scotland) Act 1995. Report number ECAS 34/14 to the ECAS Committee on 28th August 2014, paragraph 1.4 stated *"Priority is being given to a review of all cases where there is an existing Direct Payment, including the number of very exceptional cases. This will provide a reasonable sample in order to gauge the cost implications of the choices being made and project potential cost for 2015 and beyond".* However, during the audit a comparison between the list of clients receiving SDS through Direct Payments against the two spreadsheets of clients with approved SDS packages identified 54 clients still receiving Direct Payments but had yet to be assessed using RAS and approved by the SDS panel. This point has been acknowledged and these are recognised priority cases but there is currently a back load of such cases priority.

4.1.4 From attendance at a meeting of the Screening Panel an issue was identified with the Council directly purchasing services/activities on behalf of clients. Following advice from the Council's Legal Manager, staff have been informed they should ensure that the service/activity is suitably registered and their staff have undergone the appropriate Protecting Vulnerable Groups checks, before these are used. Where families are directly purchasing services/activities, they should also be advised to make the same checks. This would also apply to any potential Brokerage Service.

4.1.5 Under option 3 and as part of option 4, the client's services are organised on their behalf using existing Council resources or a combination of this and purchasing services from other providers. In the South Area, due to the variety of services available to clients, the District Child Health and Disability Team are responsible for administering an ever increasing number of payments from the client's personal budget to a variety of suppliers. Currently no electronic records are maintained; instead a hard copy expenditure record is kept on the case file. However, this is updated after the invoice has been paid, therefore it would be possible to overspend the available budget. Although Carefirst Finance has been in place for a number of years only the payments made through the SDS Team are recorded in the system. It was confirmed with the NHS Highland's Team Leader (Projects & Technology) there is a module available where all balances and payments are shown specifically for SDS and they are looking to use this module in the future but there is no firm date for implementation.

4.1.6 The maximum level of funding available through the RAS process is £21,000. However, a number of clients are in receipt of personal budgets over this limit where Direct Payments were already provided to the client under the section 22 (1) of the Children (Scotland) Act 1995. These individuals have very complex needs and it is considered that their budgets cannot be reduced to the threshold. However, there is no formal process in place for staff in how such exceptions should be addressed both to assess and process new applications over the £21,000 threshold or for existing personal budgets over £21,000.

4.2 Monitoring Arrangements

4.2.1 This objective was not achieved as there is no system in place to record and monitor how successful the improvements are to people's lives from receiving SDS. Whilst the SDS support plan identifies the desired outcomes and what these mean to the family, the actual outcomes are not recorded and evidenced although this will be known to the staff working with families. The actual outcomes could be recorded in the SDS support plan and used if there was a system in place to monitor the impact of SDS. The Audit Scotland report on Self-directed Support included a self-assessment checklist for Council Officers which identified monitoring the impact of SDS as an important issue for Councils when implementing SDS.

The need for monitoring is also emphasised by the CIPFA guidance which states *"A key focus for service monitoring will be the extent to which the support plan is supporting the achievement of outcomes. This implies that outcome for the supported person will be monitored and reported over time" "All staff involved, with the financial and non-financial responsibilities for the supported person, should liaise to ensure that the monitoring undertaken is co-ordinated, comprehensive and fully informed"*. However, the only financial monitoring of payments is for Direct Payments which is carried out by the NHS SDS Team.

4.3 Managing the risks of implementing SDS

4.3.1 This objective was partially achieved as the implementation of SDS is included as an Improvement Priority within "For Highland's Children Four". The corresponding work plan has 5 target areas, outlined below, and 11 action points:

A - identify future funding requirements for SDS and options for budgetary reconfiguration within Children's Services.
B - develop clear processes and governance structures to ensure consistency, financial assurance and monitoring of SDS.
C - engage with service providers to ensure greater choice but continue to support and safeguard individuals and their families.
D - ensure staff involvement, commitment and competence in SDS.
E - alignment of assessment, support and payment processes with adult services.

Whilst there is a clear plan in place, 7 of the actions are "RAGGED" as Amber (a little behind time) and 4 as Green (on time). In addition, it is unclear who is responsible for the implementation of the plan as the original Implementation Group is no longer in existence and now any issues arising are dealt with at the end of the SDS Screening Panel.

4.4 Financial planning

This objective was partially achieved. The Statutory Guidance that accompanies the Act states *"the Local Authority can take into account its overall resources when determining eligibility criteria. However once it has decided that the person's needs are such that they require provision of services (i.e. are 'eligible needs') the authority cannot then refuse to meet those needs because of budgetary constraints"*. The report to the ECAS Committee on the 20th January 2016 outlined the need to move money from traditionally provided Council services into more flexible SDS individual budgets. The three main changes proposed and agreed to be introduced incrementally over the next 3 financial years are: reconfiguring the use of residential respite and reconfiguring the Resource Allocation System from April 2016: introducing the true cost of services when calculating Support Plans from April 2018. From April 2016, service users will have information provided regarding agreed true costs of services and it is intended these will be phased in over a 3 year period.

4.4.1 The Council's guidance notes for staff highlight that under the Section 22(4) of the Children (Scotland) Act 1995, local authorities have discretionary powers to charge contributions for children's services where the means of the family are sufficient. To date no charges have been applied for children's services, however given the current budget situation this should be investigated fully.

5. CONCLUSION

This audit has highlighted a number of issues with the administration of SDS for children and young people with disabilities. In particular, the absence of a single, complete and accurate record of clients and in receipt of SDS and the associated agreed budget/ costs and the absence of any monitoring process are of concern.

There are 9 recommendations made as a result of this audit, 5 high, and 4 medium grades. All of these have been accepted by management who have already completed some actions with the final one due to be completed by 30/11/16.

6. AUDIT OPINION

The opinion is based upon, and limited to, the work performed in respect of the subject under review. Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist. It is the opinion that **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 **9** recommendations as follows:

Description		Priority	Number
Major issues that managers need to address as a matter of urgency.		High	5
Important issues that managers should address and will benefit the Organisation if implemented.		Medium	4
Minor issues that are not critical but managers should address.		Low	0
Total recommendations			**9**

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION RESPONSIBLE OFFICER	IMPLEMENTATION TARGET DATE
4.1.1	High	The justification for the agreed expenditure within individual Support Plans is not always clear. This is contrary to the CIPFA guidance which refers to managing public resources, achieving Best Value and ensuring that accountability for the use of public resources is maintained.	This guidance should be adhered to and clear justification for the agreed expenditure demonstrated in the Support Plan.	New Guidance drafted and disseminated which clarifies that the outcomes to be achieved must be outlined in greater detail. This addresses the issue of being clear about best value and justification for spend. This will be kept under review.	Implementation Group	31/10/16 for review
4.1.2	High	There is no single and complete record of all the children and young people receiving an SDS Personal Budget. As a result, the number of clients, the associated financial commitment and the relevant funding option(s), could not be established.	A complete and accurate record of SDS Personal Budgets should be created and maintained.	Now all on one spreadsheet for each financial year.	SDS Screening Panel	Completed
4.1.3	Medium	CIPFA guidance refers to managing public resources, achieving Best Value and ensuring that accountability for the use of public resources is maintained.	This guidance should be adhered to and clear justification for spend demonstrated in the Support Plan.	As above. As reported Business Support now in place which will enable us to record the information in an efficient way.	Children's Services Manager North	Completed

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.1.4	Medium	Approximately 54 Clients were still in receipt of Direct Payments and have not yet been assessed using the RAS and approved by the screening panel.	All clients who are receiving an existing Direct Payment should be assessed using the RAS as a priority to ensure the clients are receiving an appropriate level of support.	Progress made with reviewing these clients. An audit will be undertaken to identify any outstanding cases which will be actioned accordingly.	Children's Services Manager North	31/07/16
4.1.5	High	Services were being purchased on behalf of clients without ensuring that these were suitably registered and staff had the appropriate PVG checks.

Following advice from the Council's staff have been informed they should make sure that the services/ activities. Once established this will also apply to the Brokerage Service. | Follow up checks should be undertaken to ensure this advice is being adhered to. | Advice and guidance given to staff and further scrutinised at the Panel. | Children's Services Manager North | Completed |

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.1.6	Medium	The District Child Health and Disability Team is responsible for administering an ever increasing number of payments from the client's personal budget to a variety of suppliers. However, manual records for each client are maintained and there is no electronic record kept on the clients approved personal budget, and spend to date. Furthermore, the present payment process means that invoices are paid before checking the available fund balance. Only Direct Payments are recorded against the client in Carefirst, and this is done by the NHS SDS Team. There is a module available where all balances and payments are shown specifically for SDS and NHS Highland is looking to use this module in the future but this has not been scheduled as yet.	Checks should be undertaken to ensure that the client still has available funds before any invoices are paid. The present process is ineffective and the option of using the Carefirst module should be pursued with NHS Highland.	Since July 2015, these cost sheets are all held electronically and there has been no package which has gone beyond its budget. A recent Rapid Process Improvement Workshop has identified a number of work streams to further improve much of this process across children's and adult's SDS packages. In addition, a separate expense head has been set up for such packages and there has been discussion with Business Support to help with developing a coordinated system for all such packages.	District Managers	31/10/16 for review
4.1.7	High	The maximum level of funding available through the RAS process is £21,000. In spite of this, a number of clients are in receipt of personal budgets over this limit. There is no process in place for dealing with budgets over £21,000.	A written procedure should be in produced for the relevant staff which sets out the process that should be followed where personal budgets exceed the maximum threshold and how any such exceptions will be approved. This should ensure that a consistent practice is followed.	This is now written into the Procedures. These cases are also now presented at Panel **along with Child's Plan** which must show justification for additional costs.	District Managers	Completed 31/10/16 for review

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.2.1	High	There is no system in place to record and monitor how successful the improvements are to people's lives from receiving SDS. Furthermore, only Direct Payments are subject to financial monitoring and this is undertaken by the NHS SDS Team.	A monitoring procedure should be developed and implemented in order to assess whether the expected outcomes and the improvements from SDS are being achieved. This procedure should also include the process for financial monitoring.	The teams are now moving to reviews and activities are placed on Care First to flag up the date for review of the SDS package, which will include a review of the outcomes identified.	District Managers	Ongoing
4.3.1	Medium	The implementation of SDS is recorded as an Improvement Priority within For Highland's Children Four. A work plan is in place which has 11 actions and 7 of these are ragged as Amber and 4 Green. It is also unclear who is responsible for undertaking this work plan. This was originally the Implementation Group but this no longer exists.	Ensure the FHC4 plan actions are up to date and accurate. The leadership of SDS needs to be clearly defined, particularly with the changes agreed at the ECAS Committee on the 20th January 2016.	The Screening Panel has been revised and will in future have fewer members, freeing up other staff to form an Implementation Group.	SDS Screening Panel	31/07/16
4.4.1	Medium	Section 22(4) of the Children (Scotland) Act 1995 states that local authorities have discretionary powers to charge contributions for children's services where the means of the family are sufficient. Applying these powers would enable the Council to increase the funds available for SDS, particularly as demands on this service are increasing and there is no additional budget to meet these costs.	The option to charge for services should be fully investigated by management to assess the implications of charging and the effect that this would have on the SDS budget.	This option will be assessed and presented to elected members for a decision.	Head of Service	30/11/16

The Highland Council
Comhairle na Gàidhealtachd

INTERNAL AUDIT

FINAL REPORT

CARE & LEARNING/ DEVELOPMENT & INFRASTRUCTURE SERVICES

INSPECTION OF EQUIPMENT IN SCHOOLS (FOLLOW-UP)

AUTHOR

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Contents

1.   **INTRODUCTION**

This audit was undertaken as part of the 2015/16 audit plan and records the findings of a recently completed follow-up audit in respect of the inspection of equipment in schools.

The original audit report was issued on 10/06/14 and had the audit opinion of "Limited Assurance". The report contained a total of 13 recommendations which were classified as follows: 2 high, 10 medium and 1 low grades. In response, there were 26 management actions, 4 of which were completed at the time of the previous audit. The majority of the remaining actions were due to be completed by the end of September 2014 with 1 longer term action for Fixed Electrical Inspection and Test reports to be held for all council buildings by the end of July 2016. Due to the number of recommendations and the audit opinion, it was decided that a follow-up audit should be undertaken.

The Property Management Section within the Development & Infrastructure Service are the contract administrators on behalf of other Council Services with the main client being Care and Learning.

There are 3 contracts for inspection of equipment in Schools:
- SER062 - Inspection & Testing of Plant & Equipment including Staging & Lighting, which commenced in August 2014.
- SER065 – Fixed Electrical Installations, which commenced in May 2014, and
- SER076 - Sports & Gym Equipment, which commenced in August 2014.

2.   **REVIEW OBJECTIVES**

To ensure that the recommendations made in the previous audit report have been implemented and the following objectives can be achieved:

(i)   There are appropriate contract arrangements in place for the inspection and testing of equipment and this is managed properly.

(ii)   The Development & Infrastructure Service maintains up-to-date, accurate and complete records of all inspections and subsequent reports. Particular emphasis will be placed upon the process for the inspection of equipment in Schools.

(iii) The appropriate action is undertaken and the relevant officers are informed following receipt of the inspection reports.

(iv) There are appropriate monitoring arrangements in place to ensure that all remedial actions are addressed within the relevant timescale. Emerging themes or issues are promptly identified and escalated in order that any costs can be identified and notified to Care & Learning (C&L) Management.

3.   **SCOPE, METHOD AND COVERAGE**

The audit reviewed the systems and databases used by the Development and Infrastructure Service to ensure these were up to date, complete and accurate. Again, this audit placed particular emphasis upon the process for the inspection of equipment in schools.

During the audit, officers within the Care and Learning Service were contacted in order that their current procedures and processes in relation to inspection contracts could be reviewed.

4.   MAIN FINDINGS

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

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

4.1   Contract Arrangements

This objective was substantially achieved as 9 out of the 13 agreed actions across the 5 audit recommendations had been implemented.

Previous Audit Recommendation 3.1.1 (Medium grade)

The Property Management Section should ensure that:
(1) Appropriate polices are in place, up to date and reviewed regularly.
(2) I&T guidance is in place to ensure all involved individuals are aware of their role and responsibilities.
(3) All appropriate contract documentation is held, including any changes such as contract extensions.

Previous Management Agreed Actions

(1) All existing and future Inspection and Testing policies will be updated and subsequently reviewed annually or in response to legislative or other requirements.

Responsible officer: Property Risk Management Officer, Development & Infrastructure Service (29/08/14)

(2) Inspection and Testing procedures for contract management arrangements will be further developed to ensure individuals are aware of their role and responsibilities. New, robust management arrangements will ensure that this recommendation is achieved.

Responsible officer: Property Manager, Development & Infrastructure Service (26/09/14)

(3) Appropriate contract documentation is now held electronically in individual contract files.

Responsible officer: Property Manager, Development & Infrastructure Service (Complete)

Action (3) has been satisfactorily implemented as individual service contracts are arranged by contract number and type on the property drives, and contain the appropriate contract documentation.

Actions (1) & (2) have not been implemented as agreed and details are provided in sections 4.1.1 and 4.1.2 below.

4.1.1 Corporate policy

The corporate Health, Safety and Wellbeing policy contains references to all associated policies. However the Electricity at Work guidance still requires to be updated and guidance on the use, inspection and maintenance of gym equipment requires to be developed. To aid the Property Management Policy (see section 4.2), the Property Management Section are working towards documenting the Services' responsibilities for all the service contracts and this will include

information such as the duty holder, their responsibilities, budget holders, involved officers and guidance. This will also require the Care & Learning Service to develop the guidance for gym equipment following the pilot undertaken within Inverness schools to enable the Property Management Section to ensure compliance to this.

4.1.2 Guidance for Client Service representatives

The Responsible Premise Officers (RPO) Manual documents the Property Management Section's responsibilities and there is a flow chart for the Contract Administrators to follow. However, there is no guidance in place for the Client Service representatives. The Property Management Section has advised that it is for the Care & Learning Service to lead on this and define the roles and responsibilities for the Client Service representatives.

Previous Audit Recommendation 3.1.2 (Medium grade)

The Property Management Section should ensure that:
- Future contracts have agreed monitoring measures in place from the outset and these are adhered to.
- Any non-conformance with the contract is addressed with the contractor in a prompt manner.
- Where Contract progress meetings are held, the Service should ensure that appropriate records and minutes are held for future reference.

Previous Management Agreed Actions

- Contract monitoring measures for contract out-puts are now in place.
- Contract management meetings are now in place for service contracts. Non-conformance issues when identified will be dealt with in timeous manner.
- Contract progress Meeting Minutes are being held and minutes are being taken and recorded in relevant project files.

Responsible officer: Property Manager, Development & Infrastructure Service (Complete)

The above agreed actions have been implemented as contract progression meetings are held and minutes are retained. The performance of contractors is reviewed and they are held to account for any unsatisfactory performance issues.

Previous Audit Recommendation 3.1.3 (Low grade)

The Property Management Section should ensure that future contracts explicitly highlight what is required from the contractor in terms of reporting requirements, including compliance with statutory legislation and quality control requirements.

Previous Management Agreed Action

All future contracts will be explicit on what outputs are required from the appointed contractor and this will be enforced by the responsible Contract Administrator.

Responsible officer: Property Manager, Development & Infrastructure Service (Complete)

This agreed action has not been implemented as detailed at section 4.1.3 below.

4.1.3 Referencing within gym contract scope of works

The Council's instruction to the gym contractor on inspection reports is included within the scope of works. Paragraph 3.1 states *"the format and content of the report shall be submitted on OFTEC reports as detailed in paragraph 2.4 above".*

However, there is no such paragraph number which could lead to confusion for the contractor. However, all 3 inspection contracts detail what is required with regard to compliance with legislation, reporting by the contractor and progress meetings.

Previous Audit Recommendation 3.1.4 (High grade)

The Property Management Service should ensure that contractual arrangements are adhered, in that:
- All contract variations should be recorded, reconciled to contract annual sums and once submitted to contractor, the contract variation checked to ensure the appropriate action has been taken.
- Contractors supply the appropriate schedule of works and all payments should be reconciled to this before authorisation.
- Any annual price increase should be applied as set out in the contract and confirmed in writing.

Previous Management Agreed Actions

Additional resources have been allocated and will be supplemented when necessary to ensure that Contract Administrators are able to:
- Record all variations
- Reconcile contract payments
- Apply annual contract price increases.

Responsible officer: Property Manager, Development & Infrastructure Service (31/07/14)

Actions (2) and (3) have been satisfactorily implemented as contract payments submitted by the contractors are supported by application summaries. These summaries reconcile payment for the sites inspected to the tender amount. No contract price increases were required.

Action (1) has not been implemented as agreed and details are provided in section 4.1.4 below.

4.1.4 Contract variation supporting records

Despite variations being held for all 3 inspection contracts, the records were not sufficiently accurate to clearly evidence the changes to 2 contracts.

All 3 contracts had variations where sites/ equipment additions had the cost recorded as "*To be confirmed/ TBC*". As a result, the contract sum is inaccurate. Only the Plant and Equipment (P&E) Contract Administrator undertakes a reconciliation exercise to confirm the cost of the contract variations and update the contract value. For the Fixed Electrical Inspections (FEI) contract, variations are recorded on the *"SER065 Fixed Electrical Inspections Progress Summary"* spreadsheet but this did not contain the confirmed site addition costs. For example, contract variation CAI-02-14 only recorded the costs for 4 out of 65 sites and only these costs were included on the spreadsheet. The Property Management Section has since confirmed that the progress spreadsheet is now up to date.

Furthermore, there is no record documenting changes to the contract sum. The latest variation provided (CAI-09-15) quoted the contract sum as £279,955 but the Acting Head of Property stated that the contract sum was £303,733.

For the Gym contract, during the audit review, the monitoring spreadsheet used for site visits was out of date by 2 to 3 months and it was stated that this was due to limited staffing resources. The Property Management Section has since confirmed that this is now up to date.

> **Previous Audit Recommendation 3.1.5 (Medium grade)**
>
> The Property Management Service should ensure that there are appropriate arrangements in place for the payment and recharge of contract sums, in that:
> - Where they administer contracts then they have the corresponding responsibility for the authorisation and payment of any sums due to the contractor.
> - Payments are reconciled and agreed to the contract sum including any additions/ deletions and annual uplifts.
> - Recharges are on the basis of work undertaken rather than insurance premiums.
>
> **Previous Management Agreed Actions**
>
> - Responsibility for payment of contracts has now been transferred to the Development and Infrastructure Service and payments are being administered in accordance with contract conditions.
> - Contract payment mechanisms have been reviewed and payments are being reconciled.
> - The recharging process has been realigned and will be applied to take account of actual costs incurred per Service.
>
> Responsible officer: Property Manager, Development & Infrastructure Service (Complete)

All of the above actions have been satisfactorily implemented:

(1) The responsibility for payment of inspection contracts was transferred to the Development and Infrastructure Service.

(2) Contract payments are made following review of the application for payment and receipt of all inspection reports. However, as stated at 4.1.4 above, at the time of the audit the overall contract amount was not updated to show the full cost of any contract variation.

There was also an issue where remedial works had been requested by the site RPO following receipt of the inspection report and the Contract Administrator was unaware of this. The Client Service representatives should approve any remedial works and instructions to the contractor should be issued by the Contract Administrator. The contractor has been reminded of the correct process that should be followed.

(3) The recharging process has been realigned and takes account of actual costs incurred by Services.

4.2 Records of Inspection and Testing

This objective was partially achieved as only 4 out of the 8 agreed actions in response to the 5 audit recommendations had been implemented.

> **Previous Audit Recommendation 3.2.1 (Medium grade)**
>
> The Property Management Section should ensure that future contracts include the explicit condition that contractors include the Unique Council Site identifiers, as provided within the contract in any correspondence and/ or reporting.
>
> **Previous Management Agreed Action**
>
> All recent and future contracts have or will include the Council's own unique property code for each property.
>
> Responsible officer: Property Manager, Development & Infrastructure Service (Complete)

The agreed action has been implemented as the contract documentation requires contractors to use the Council's coding. However, an example gym inspection report viewed during the audit did not have this. The Property Management Section confirmed that the standard of reporting was an issue and a meeting was held with the contractor to address this. The contractor has agreed to make improvements in software and equipment by March 2016 in order to include the Council's coding information in future reports.

Previous Audit Recommendation 3.2.2 (Medium grade)

The Property Management Section should ensure that:
(1) The Property Management Section should work with Services to ensure that an accurate asset register is produced and verified with respective site Responsible Premise Officers.
(2) Services should then ensure that this information is kept up to date and can be verified to any inspection reports.

Previous Management Agreed Actions

(1) Consultation with Council service RPOs will take place to ensure that asset registers are verified.

Responsible officer: Property Manager, Development & Infrastructure Service (31/03/15)

(2) Property Policy will require Client Service Managers to ensure that service specific asset registers are verified and maintained at all times.

Responsible officer: Property Risk Management Officer, Development & Infrastructure Service (29/08/14)

Both actions have not been implemented as agreed and details are provided in sections 4.2.1 and 4.2.2 below.

4.2.1   Accuracy of asset registers

The Property Management Section had provided the contractor with asset lists which were based on available information including that supplied by the Services. The contractor should inspect all items found on site but the Acting Property Manager and the P&E Contract Administrator highlighted that RPOs did not always present all relevant equipment for inspection. It could not be established that accurate asset registers were maintained as:

- For the FEI contract, a spreadsheet asset list is maintained by the Property Management Section. The Acting Property Manager was requested to confirm what steps were taken to confirm the accurate and completeness of this information but no response has been provided despite a reminder.
- For the Gym contract, the Property Management Section stopped recording items on the asset list due to the size and quantity of items being recorded, including irrelevant items. Therefore, it is not known what equipment is held by the Care & Learning Service.
- For the P&E contract, the asset lists are recorded on a web based portal. Any items which cannot be not found and so not inspected, are recorded by the contractor, and reported to the Contract Administrator and the RPO using the inspection reports.

It is a requirement of the Council's Financial Regulations to maintain asset lists and is also included within the RPO manual. The Property Management Section is developing procedures for risk assessments/ pre-inspection with school staff, aimed at promoting self inspection and ensuring that all equipment is available for inspection however this requires full engagement from the relevant Services.

4.2.2 Property policy

The Property policy has not been finalised and is currently out for consultation with the Development & Infrastructure Service Management Team. It was stated that this requires more work required before it is completed and then sent to the by the Central Safety Committee for approval.

Previous Audit Recommendation 3.2.3 (Medium grade)

The Property Management Section should undertake a review to discover the full impact of:
- The under-inspection of fixed electrical inspection. There is a risk that sites are not compliant with inspection and testing regulations and risks are posed to individuals operating within the sites.
- The expanding programme of inspection and testing of equipment. There is a financial risk as additional expenditure may be incurred as a result of additional inspection & testing and remedial works.

Services should be notified of any risk highlighted from this review.

Previous Management Agreed Actions

- A review of inspection records has been undertaken and interim Inspection and Testing contracts have been put in place to resolve any risks that may exist due to any omissions of the previous Inspection and Testing contractor.

Responsible officer: Property Manager, Development & Infrastructure Service (30/09/14)

- Contract payments to the previous poor-performing contractor were reduced to mitigate the need to engage new contractors to carry out an enhanced programme of inspection and testing. Council Services are being notified where site risks are identified and any failed equipment/ installations are now taken out of operation until they can be repaired or replaced.

Responsible officer: Property Manager, Development & Infrastructure Service (Complete)

These actions have been implemented as agreed as the Property Management Section advised that interim contracts were put in place and known properties missed by the previous contractor have been inspected by the current contractor. In addition, monthly meetings are held with the Care & Learning Service to review expenditure and current progress of service contracts.

Previous Audit Recommendation 3.2.4 (High grade)

The Property Management Section should ensure that:
(1) The downloaded Crimson data is cleansed to provide an accurate picture of when sites were last inspected. Any sites not listed on Crimson and those with inspection periods exceeding standard guidelines should be prioritised for inspection.
(2) Services are notified that a back-up of Crimson inspection & testing reports is held.

Previous Management Agreed Actions

The Crimson data cannot be relied upon for the purpose described. More effective actions are:
- 2 interim Fixed Electrical Inspection and Testing contracts were tendered and let in March 2014 in order to have sites that had gone out of date re-inspected and tested. These 2 contracts will conclude in September 2014.

Responsible officer: Property Manager, Development & Infrastructure Service (26/09/14)

- A further Fixed Electrical Inspection and Testing contract for all remaining Council Property has been awarded which will ensure that all council buildings will have a valid Fixed Electrical Inspection and Test report available by the end of July 2016.

Note: Services have been notified that Crimson reports are available but due to their lack of validation the reports are deemed as being unreliable

Responsible officer: Property Manager, Development & Infrastructure Service (29/07/16)

These actions have not been implemented as detailed at sections 4.2.3 and 4.2.4 below.

4.2.3   Completion of interim inspection contracts

The 2 interim FEI and testing contracts are finished however, 1 was not fully completed so the current contractor was instructed to inspect all outstanding sites. The FEI progress spreadsheet (see section 4.1.4) maintained by the Contract Administrator to monitor the contract did not record which sites were missed from the interim contract. However, the Acting Property Risk Manager has advised that there is now only 1 site awaiting inspection.

4.2.4   Completion of current inspection contract

Completion of the FEI contract is monitored by the Property Management Section through progression meetings with the contractor. Review of the meeting minutes show that progress was slower than expected and this was addressed with the contractor. In response, the contractor has taken on additional staff to increase the rate of site inspections in order to ensure that these are undertaken within the contract period.

In addition, to meet the Health and Safety requirement for a Corporate Safety Management system (to monitor and ensure that all property related statutory inspections are undertaken for all Council premises), a Monitoring Inspector is undertaking a review of all inspection contracts. A report was prepared; Electrical Risk Review (dated June 2015) which highlighted that completion of works across the contract as a whole stood at just 31%, there were a significant number of remedial works required and if these were undertaken, could result in a potential overspend on the available budgets across the Council. The Property Management Section has advised that a number of steps have been taken to address the report points and an action plan is being developed.

Previous Audit Recommendation 3.2.5 (Medium grade)

The Property Management Section should ensure that the inspection periods are monitored to ensure that these are in accordance with the contract's schedule of works and required standards. Any variances should be promptly addressed with the contractor.

Previous Management Agreed Action

Regular contract progress meetings are being held with the appointed service contractors to ensure that contract programmes are adhered to and that contract specifications are being followed.

Any deviation from contract specifications would be discussed and resolved during regular progress meetings with the service contractors.

Responsible officer: Property Manager, Development & Infrastructure Service (26/09/14)

This action was fully implemented as contractor deviations and performance are discussed at regular contract progression meetings.

4.3 Follow-up of Inspection and Testing Reports

2 audit recommendations were made and this objective was partially achieved as 2 out of the 4 agreed actions had been implemented.

Previous Audit Recommendation 3.3.1 (Medium grade)

The Property Management Service should remind Service contract representatives that the review and forwarding of all testing and inspection reports should be undertaken in a reasonable timeframe and the appropriate records updated to evidence this.

Previous Management Agreed Action

Service contract reports will be circulated timeously to Client Service Managers. Contract Administrators will monitor and record the circulation of inspection reports to Client Service Managers. The new Inspection and Testing contract has a web based portal which provides Council Premises Managers access to copies of all inspection certificates. In addition to this all inspection certification is now e-mailed out to Premises Managers for their review.

Responsible officer: Property Manager, Development & Infrastructure Service (26/09/14)

This action has been implemented as agreed.

Inspection reports are sent to relevant officers however a delay in the FEI reports being received by the RPO was reported within the *Electrical Risk Review.* The RPO does not receive a copy of the electrical report until all the C1 (danger present) and C2 (potentially dangerous) category faults have been rectified. However, the Property Management Section advised that where serious faults are identified these are made safe and reported. In future it is expected that the inspection reports will be recorded on the K2 asset management system which is available to all RPOs.

Previous Audit Recommendation 3.3.2 (Medium grade)

(1) The Property Management Section should:
- Remind the relevant Services to ensure that appropriate information is held to evidence any remedial works authorised.
- Ensure appropriate guidance is distributed on how to operate the new contractor's inspection and testing management system.

(2) The procedure for requesting remedial works should be documented and distributed to relevant Services. This should include links to the Framework Agreement or Service contracts.

(3) Where Services identify the absence of specialist contractors on the Framework Agreement, they should notify Development & Infrastructure Service staff accordingly in order that an appropriate solution can be identified.

Previous Management Agreed Actions

(1) Instructions from Client Services to proceed with remedial works will be recorded in each service contract file.

Responsible officer: Property Manager, Development & Infrastructure Service (Complete)

Guidance will be distributed to Client Services to ensure that they are able to operate and interrogate the records held in the inspection and testing database.

Responsible officer: Property Manager, Development & Infrastructure Service (26/09/14)

(2) A procedure for requesting procurement and completion of remedial works will be established and communicated to Client Service Managers.

Responsible officer: Property Manager, Development & Infrastructure Service (29/08/14)

(3) Development and Infrastructure Service will procure specialist contracts on behalf of Client Service Managers via the Councils Quick Quote process or alternatively under the full tendering procedure.

Responsible officer: Property Manager, Development & Infrastructure Service (Complete)

Action (1) has been satisfactorily implemented as authorisation is obtained from the Client Service. Actions (2) and (3) have not been implemented as agreed and details are provided in sections 4.3.1 and 4.3.2 below.

4.3.1   Remedial work approval

A procedure is in place for all 3 contracts for the approval of remedial works by email. However, the Contract Administrator flow chart only provides guidance up to the point of arranging remedial works with the contractor rather than taking this to the completion of the works. The Property Management Section is working on documenting the respective Service responsibilities for all contracts which will include updating the guidance (see section 4.1.1).

4.3.2   Service contract listing

The Property Management Section maintains the "Service Contract Listing" which details all available service contracts and uses this to monitor and record the contract status. During the original audit, the Client Service representative stated that some remedial work was not undertaken due a lack of specialised contractors on the Framework Agreement. Therefore, during this follow-up, the Care and Learning Estates Officer was contacted to check whether appropriate contracts are

now in place. It was confirmed that these reflect the main areas where inspection arrangements are required. There is also an on-going process with further inspection arrangements being developed including water management, mechanical ventilation and addressing concerns following fire risk assessments.

It was also noted that the RPO manual incorrectly quotes contract SER068 as *"LEV testing (School)"* whereas this actually relates to the contract for non-domestic oil boilers.

4.4 Monitoring arrangements

This objective was not achieved as the agreed action was only partially implemented as detailed at 4.4.1.

> **Previous Audit Recommendation 3.4.1 (Medium grade)**
>
> The Property Management Section should remind the relevant Services to ensure that appropriate information is held to evidence that remedial works are actioned and completed.
>
> **Previous Management Agreed Action**
>
> A process of monitoring and reporting that contract remedial works are being completed to the required standards and timescales will be developed and implemented.
>
> Responsible officer: Head of Support Services and Head of Property, Development & Infrastructure Service (26/09/14)

4.4.1 Monitoring of remedial works

Some measures to improve the monitoring of service contracts have been implemented including the introduction of a contractor performance sheet which records performance and contract compliance, monthly meetings with the Care & Learning Service to review expenditure and current progress of service contracts, and spot checks which review the standard of work performed by the contractor are undertaken by an appropriate officer. However, there are still a number of issues relating to the monitoring of remedial works which require to be addressed:

(1) The current process of addressing remedial works is to "batch" various works together and put these out to tender. The progress summary should then be updated with financial information and repair findings. A review of the details held on the progress summary showed that entries were not fully completed, with information missing such as remedial cost, confirmation that inspection report sent to RPO and whether faults were fully rectified.
The Acting Property Manager advised that the monitoring and recording completion of remedial works is a fluid process which is still being developed To assist with this a review of reporting is being undertaken with the Care & Learning Service. Also, as part of the migration to the K2 asset management system a review of tracking arrangements is being undertaken to improve the monitoring of remedial work.

(2) The Electrical Risk Review report states that from the properties surveyed "Documentation is not readily available to verify that remedial works have been completed". The Property Management Section has advised that the new remedial works framework has taken this into account, and that minimal information is to be held on site. In order to receive payment the remedial repairs reports will have to be completed by the contractor and submitted with the payment application to the Property Management Section.

(3) The FEI Contract Administrator advised that there is a lack of resource to manage issues such as the back-log of electrical reports required for public entertainment licenses. In addition, the lack of electrically trained staff/ maintenance officers was also highlighted. To address these issues, the

Property Management Section has reallocated staffing resource to assist in managing the back-log and proposing to create a contractors remedial works framework to enable a quicker resolution to outstanding remedial works.

(4) The Gym Contract Administrator commented on an issue surrounding the management of equipment including what happens to defective items. It would be expected that this would be addressed with relevant procedures for staff but no such guidance has been produced by the Care and Learning Service. It was advised that the contractor should either mark items as to be removed from use and/or pass details to school staff for them to action. As previously stated, the output from the Inverness schools pilot will be used to develop guidance for all schools.

(5) The Gym and P&E Contract Administrators advised that there was no process for monitoring the completion of approved works. The Property Management Section confirmed that this is outstanding, however, advised that some measures have been taken by improving the recording of remedial works, addressing resourcing issues and documenting the process. In order for this to be completed, the input from the Care and Learning Service is necessary.

5. CONCLUSION

It is recognised that efforts have been made with the Development & Infrastructure Service to address the findings from the original report. However, this is still a process in transition and there is still room for improvement in the way the inspection and testing contracts are recorded as a whole. Furthermore, there is a broader range of contracts in place than before and the Care & Learning Service is expending significantly above budget on these contracts which reflects the measures put in place and the maintenance being undertaken. To ensure that the contracts operate smoothly requires engagement from all Services to ensure roles and responsibilities are documented, accurate supporting documentation is held and appropriate monitoring is in place to hold contractors to account where necessary.

As a result, there are 2 high and 2 medium grade recommendations in this report.

6. AUDIT OPINION

The opinion is based upon, and limited to, the work performed in respect of the subject under review. Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist. It is the opinion that **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. The levels of assurance and their definitions can be found at Appendix 1.

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	2
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	2
Minor issues that are not critical but managers should address.	Low	0
Total recommendations		**4**

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION RESPONSIBLE OFFICER	TARGET DATE
4.1.1 – 4.1.4	Medium	4 of the management agreed actions have not been implemented: (1) The Electricity at Work guidance still requires to be updated and there is no specific guidance for the use, inspection and maintenance of Gym equipment.	(1) (i) The Property Management Section should ensure that the Electricity at Work guidance is updated.	Continue to develop guidance and populate the Property Sharepoint.	Acting Property Risk Manager, Development & Infrastructure	29/08/16
			(ii) The Care & Learning Service should ensure that the additional gym equipment guidance has been developed. This should be passed to the Property Management Section to circulate and monitor.	a) C&L will work with D&I to develop guidance as an output of the piloting work undertaken within Inverness area schools on revised arrangements for gym equipment inspection and pre-use checks. b) *Note: Flow charts for 'In-house' gym equipment Inspection and the Contractor Inspection process for PE teachers have been prepared and used in pilot training sessions.*	Estates Strategy Manager, Care & Learning and Property Manager, Development & Infrastructure	30/09/16

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REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION RESPONSIBLE OFFICER	IMPLEMENTATION TARGET DATE
		(2) Whilst some guidance has been produced detailing the roles of the RPO and the Contract Administrator, there is nothing for the Client Service representatives.	(2) The Care & Learning Service should ensure that I&T guidance is in place to ensure all involved individuals are aware of their role and responsibilities.	Further guidance will be developed for client service staff.	Estates Strategy Manager, Care and Learning	30/09/16
		(3) The reference to the required format of reports does not exist within the contract documentation.	(3) The Property Management Section should ensure that the numbering and cross-referencing within future gym contracts is correct.	Continue to work with the Inspection Contractor to refine the use of an On-line portal with tablet data entry.	Acting Property Risk Management Officer, Development & Infrastructure	01/07/16
		(4) A number of contract variations showed the price was to be confirmed. Only the P & E contract had the confirmed costs and contract value updated accordingly.	(4) The Property Management Section should ensure that the cost of all contract additions/ variations are established, agreed and added to the contract sum. These should be supported by the appropriate records.	a) Develop and include in the implementation of Property governance (via Property management policy) a procedure to improve the recording of additional equipment provided in properties at time of installation to reduce / minimise items discovered during inspections.	Property Manager in conjunction with Acting Property Manager, Development & Infrastructure Service	31/03/17
				b) Develop a change control procedure in conjunction with the inspection contractor to formally record reactive / short notice requests for inspections and related repairs resulting from e.g. Public Entertainment License and include provision for estimating cost and recording actual variations to contract.	Acting Property Risk Management Officer, Development & Infrastructure Service	29/08/16

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.2.1 – 4.2.4	High	(1) Accurate and complete asset registers are still not maintained.	(1) The Property Management Section should work with Services to ensure that an accurate asset register is produced and verified with the respective Responsible Premise Officers.	C&L will work with D&I to develop guidance as an output of the piloting work undertaken within Inverness schools on revised arrangements for gym equipment inspection and pre-use checks. *Note: Equipment owned and operated by C&L will be subject to pre-inspection and this process will improve the effectiveness of ensuring the presentation of all equipment at the time of inspection by the contractor who can make any adjustments to the contract Asset Register.*	Estates Strategy Manager, Care and Learning and Property Manager, Development & Infrastructure Service	31/03/17
		(2) The Property Policy has not been finalised.	(2) Once finalised, the Property Management Section should ensure the Property Policy is circulated to all appropriate Officers.	Present Property Management Policy to Weekly Business meeting and Central Safety Committee with a view to formal consultation for adoption by 30/9/16.	Property Manager, Development & Infrastructure Service	30/09/16
		(3) 1 interim contract fell short of completion and the progress spreadsheet did not indicate which sites were not inspected. The current contractor has been requested to undertake these and it has been reported that only 1 site inspection remains outstanding.	(3) The Property Management Section should ensure that sites included within the original North contract have been inspected.	Arrange to check that all sites included within the original North contract have been inspected.	Property Manager, Development & Infrastructure Service	Completed 28/05/16

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
		(4) The "Electrical Risk Review" report highlighted a number of issues with the level and cost of remedial works identified across the Council.	(4) The Property Management Section should ensure that an action plan to address the findings from the "Electrical Risk Review" is considered by the Property Management.	a) Establish and pilot an Electrical Works Framework of contractors for 'call off' to assist in reducing delays in issuing orders for minor electrical works.	Acting Risk Management Officer	02/05/16 Complete
				b) Re-profile available revenue maintenance budget to target electrical remedial works. *Note: £50k only.*	Acting Property Manager	04/04/16 Complete
				c) Review Strategic Asset Management capital funding for scope to target electrical improvement works. *Note: Majority of repairs are not deemed capital.*	Head of Property and Acting Property Manager	01/08/16
				d) Source funding and establish a training programme to improve skills and knowledge of in-house designers and maintenance officers in electrical capabilities and to include RPO in general housekeeping/routine condition checks.	Head of Property in conjunction with Acting Property Manager, Development and Infrastructure	31/03/17
				e) As part of Property team re-structure, review resources allocated for contract administration and associated business and technical support with a view to improve processing of backlog volume.	Head of Property in conjunction with Acting Property Manager, Development and Infrastructure	30/09/16

| | | | | | IMPLEMENTATION | |
REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	RESPONSIBLE OFFICER	TARGET DATE
4.3.1 – 4.3.2	Medium	(1) The flow chart for the Contract Administrator document stops short of providing guidance on the process that should be followed once the remedial works have been completed.	(1) The Property Management Section should update the flow chart to provide guidance on the process to be followed once remedial works are completed and the appropriate Service is notified.	Update the flow chart to provide guidance on the process to be followed once remedial works are completed.	Acting Risk Management Officer	01/08/16
		(2) It could not be established if there were any issues with the provision of appropriate contracts for all remedial works required as no response on this matter was provided by the Care and Learning Service. Also, the RPO manual incorrectly quotes contract SER068 as LEV testing (School) rather than Oil boilers Non-domestic.	(2) The Property Management Section should correct the RPO manual to show the correct details for the SER068 contract. The Section should consider placing the Service Contract listing online, with a web-link included within the RPO manual. This would enable the prompt updating of Service Contracts and RPOs access to the current contract listing.	Arrange for the contract list in the RPO Manual to be updated.	Property Manager, Development & Infrastructure Service	Completed 06/06/16
4.4.1	High	The agreed action in respect of monitoring arrangements was not implemented as: (1) The process for the monitoring and recording completion of fixed electrical remedial works has not been documented. In addition, work is required to ensure that supporting documentation is up to date for monitoring purposes.	(1) The Property Management Section should document and improve the process of monitoring and reporting that the fixed electrical remedial works are complete.	Review resources allocated for contract administration and associated business and technical support to improve monitoring and completion checks.	Head of Property in conjunction with Acting Property Manager, Development and Infrastructure	30/09/16
		(2) The FEI Contract Administrator reported that there are issues with a back-log of electrical remedial works required which is compounded by a lack of electrically trained staff/ maintenance officers.	(2) The Property Management Section should continue to investigate courses of action to reduce the delays to undertaking remedial works.	Review resources allocated for contract administration and associated business and technical support to increase rate of backlog reduction.	Head of Property in conjunction with Acting Property Manager, Development and Infrastructure	30/09/16

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
		(3) No guidance has been produced by the Care and Learning Service for Head Teachers to follow where gym equipment has been reported as being defective or should be removed.	(3) The Property Management Section should work with the Care & Learning Service to address the issues with managing the gym equipment estate and provide guidance on the usage and removal of defective equipment.	C&L will work with D&I to develop guidance as an output of the piloting work undertaken within Inverness schools on revised arrangements for gym equipment inspection and pre-use checks.	Estates Strategy Manager, Care and Learning and Property Manager, Development & Infrastructure Service	31/03/17
		(4) The Gym and P&E Contract Administrators advised that there was no process of monitoring whether approved works are completed.	(4) The Property Management Section should work with the Care & Learning Service to implement a process of documenting, monitoring and reporting that Gym and P&E remedial works are being completed.	C&L will work with D&I to develop guidance as an output of the piloting work undertaken within Inverness schools on revised arrangements for gym equipment inspection and pre-use checks.	Estates Strategy Manager, Care and Learning and Property Manager, Development & Infrastructure Service	31/03/17

Internal Audit Opinion

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

The Highland Council
Comhairle na
Gàidhealtachd

INTERNAL AUDIT
FINAL REPORT

CARE & LEARNING SERVICE

MANAGING SCHOOL ROLLS

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Internal Audit
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Contents

1. **INTRODUCTION**

The purpose of this report is to record the findings of a recently completed audit review of managing school rolls. The audit was undertaken as part of the annual plan for 2014/15 but delays in obtaining the necessary information has meant that the audit could not be completed during this year.

Having the correct capacity and school roll forecasts figures is vital in ensuring we can plan to provide the right number of school places in the right locations and where this is not the case, put both temporary and permanent solutions into place to achieve this.

In order to promote a more consistent approach to school capacity modelling amongst Local Authorities in Scotland, the Scottish Government produced guidance on "Determining Primary School Capacity" in October 2014. The Education, Children and Adult Services (ECAS) Committee of 12/11/14 agreed that the Council would adopt the Guidance.

2. **REVIEW OBJECTIVES**

The objectives of the review were to ensure that:

(i) Current arrangements to calculate planning capacity in schools complies with all statutory requirements. School roll forecasts are calculated in accordance with the agreed methodology based on best practice and takes account of the lessons learned arising from pressures experienced in recent years.

(ii) There are appropriate plans in place to ensure that the new Scottish Government's Determining Primary School Capacity Guidance (October 2014) is implemented by the agreed timetable.

(iii) Appropriate plans are in place to manage the future demands at Bun-sgoil Ghàidhlig Inbhir Nis.

3. **SCOPE, METHOD AND COVERAGE**

The audit reviewed the arrangements for school roll forecasting and the calculation of planning capacity in schools. The main focus was on Inverness primary schools – Bun-sgoil Ghàidhlig Inbhir Nis, Holm, Kinmylies, Lochardil, Merkinch, Milton of Leys, and Smithton. This was due to issues which were reported to the City of Inverness Committee on 02/12/14 relating to increasing school rolls. Primary schools outwith Inverness with projected over-capacity were also looked at, namely Aviemore, Ben Wyvis, and Knockbreck (Tain).

The audit also examined the arrangements in place setting out short and long term plans to address roll pressures at Bun-sgoil Ghàidhlig Inbhir Nis.

School roll forecasting is within the remit of the Development Plans section, Development & Infrastructure Service (D&I) and the calculation of school planning capacity is within the remit of the School Estates section, Care & Learning Service (C&L). Both Services were consulted during the course of the audit.

4. **MAIN FINDINGS**

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

4.1 **School roll forecasting and planning capacity calculations**

This objective was partially achieved. School roll forecasting is carried out by the Development Plans section (D&I) using a documented methodology. The forecasting technique used is a 'single year of age cohort survival model' in which

pupil numbers recorded in the annual school census are rolled forward by one school year in the following September, with the Primary 1 intake forecast based on records of children registered with GPs. Other factors are taken into consideration such as placing requests, the number of new houses likely to be built, and population and birth rate projections. It is consistently applied apart from denominational and Gaelic schools where a different model is used due to the lack of a traditional catchment area.

The methodology is based on best practice guidance set out in the Department of Education and Skills (DfES) "UK Best Practice – Pupil Projection Guide", the aim of which is to assist Local Authorities to make accurate projections of pupil numbers in individual schools. There is no known standard roll forecasting technique recommended for use in Scotland.

4.1.1 One of the significant factors that affect school enrolment is the number of new build houses, and calculated pupils per new build house ratios which are used for different areas of the Highlands. These ratios are based on a 2008 Highland Council study which identified pupils living in 60 recently built developments across Highlands and provided 3 different ratios as follows:

- Major family friendly, edge of town, developments and new townships – 0.25 primary pupils per new house and 0.13 secondary pupils per new house

- General developments in all areas apart from Sutherland – 0.20 primary pupils per new house and 0.10 secondary pupils per new house

- Sutherland – 0.12 primary pupils per new house and 0.08 secondary pupils per new house.

However, as these ratios were last calculated in 2008, they may no longer reflect the current number of pupils per new house in the Highland Council area which could result in inaccurate school roll forecasts.

4.1.2 Draft school roll forecasts are supplied to the Care & Learning Service for comment prior to being finalised. However feedback from the Service and individual schools is by exception rather than on a more formal basis which would give assurance that forecasts are as accurate as possible. The Research Officer (D&I) has stated that more feedback would be welcomed as this would further validate the forecasts. It is understood that a review is already underway, involving officers of both Services, to review and improve the process relating to preparation and scrutiny of school roll forecasts.

4.1.3 Prior to the adoption of the Scottish Government Guidance in November 2014, school capacity calculations were based on work undertaken by an external Consultant, which was before the current Estate Strategy Manager was in post. The view of this Manager is that there was scope to improve consistency in the way in which they had been calculated, and better reflect the true capacity of a large number of schools.

Following the adoption of the Guidance, school capacity calculations were revisited by the Schools Estates section (C&L), starting with Inverness primary schools. The Guidance recommended that there should be no more than 2 measures of primary school capacity: Planning Capacity and Working Capacity. Planning Capacity is calculated as follows:

(i) Determine which teaching spaces will be included. The Planning Capacity should only include class bases and should not include ancillary or general purpose (GP) areas. The Guidance recommends that each primary school should have one GP per stream, with streams being calculated in multiples of 7.

(ii) Determine the size of selected class bases.

(iii) Determine the maximum number of pupils which could be accommodated in each class base by dividing total class size by 1.7m^2 and apply class size maxima (the Planning Capacity for each class base is capped by either the size of the room or the class size maxima, whichever is less).

(iv) The total Planning Capacity of the school can be found by adding together the Planning Capacity of each class base involved in the calculation.

Working Capacity is calculated in the same way as Planning Capacity but takes into account the organisational needs of a particular school session.

However, the Guidance does state that it remains a Local Authority's responsibility to choose how to calculate capacity in their area. Therefore, in light of lessons learned from the review of Inverness primary schools, approval was sought to further refine the guidance and methodology in a report to the ECAS Committee on the 18/05/16. It was felt that the revised approach would provide a more realistic measure of the likely impact on schools of fluctuating rolls and that this would be particularly useful in future investment planning, determining if school rolls should be capped and in establishing where developer contributions are justified. The following revisions were agreed and will now be used for capacity calculations:

- The focus should be on the likely number of classrooms required in the future based on the roll projections rather than a notional capacity figure

- Streams should be calculated in multiples of 8 in relation to GP rooms as opposed to 7 as suggested in the Guidance.

Revised capacity calculations were examined for Bun-sgoil Ghàidhlig Inbhir Nis, Lochardil and Milton of Leys. Planning and Working Capacity had been calculated as per the Guidance. In addition the optimal pupil distribution had been calculated, based on school roll forecasts, and the required number of classrooms for each year had been determined as per the agreed revisions noted above.

4.2 Scottish Government's Determining Primary School Capacity Guidance

This objective was not achieved. It was agreed at a meeting of the ECAS Committee on 12/11/14 that the Highland Council adopt the Scottish Government Guidance on Determining Primary School Capacity. The Guidance recommended that if Local Authorities chose to adopt the Guidance, it should be implemented from January 2015 for the start of the new school session in August 2015 where possible. The Council's intention was to have revised capacity figures in place for most Highland Council primary schools by August 2015.

Additional resources (a Graduate Estates Officer) were put into the Estates Team in order to update the capacity figure calculations and facilitate implementation of the Guidance by August 2015. However, in July 2015 the Estate Strategy Manager stated that the process was more complicated and time consuming than envisaged and was taking longer to complete than planned. Therefore, revised primary school capacity figures were not available in August 2015 as intended. In a further update in December 2015, it was stated that limited progress had been made since August 2015 and that the proposal was to complete and publish the revised capacity figures at the same time as updated roll projections although no timescale was given.

Subsequent changes to the way in which primary school capacity figures will be calculated (4.1.3) has meant that work is currently ongoing to revise these figures with a view to publishing them later in 2016 along with school roll forecasts.

4.3 Management of future demands at Bun-sgoil Ghàidhlig Inbhir Nis (BSGI)

This objective was fully achieved as officers are aware of the pressures facing BSGI and are pro-active in attempting to find a long-term solution. A review of

ECAS Committee minutes showed that regular updates to Members were provided. It was agreed at the ECAS Committee of 20/05/15 that a feasibility study would be undertaken into the implications of either remaining on the current site or building a new school on a different site as a long-term solution. Moving classes off-site was also identified as a possible short-term solution. The current position, as reported to the ECAS Committee on 18/05/16, is that options for increasing the capacity of BSGI are currently being considered as part of the wider review of investment requirements across Inverness schools.

5.   **CONCLUSION**

Whilst the school role forecasting undertaken by the Development Plans section uses a methodology compliant with best practice, one of the factors used for new builds was calculated 8 years ago and it is questioned whether this reflects the current position. This process could also be improved further if formal feedback was provided from the Care & Learning Service, though it is recognised that both Services have already initiated a process review in advance of the completion of this audit.

Revised primary school capacity figures, based on the Scottish Government Guidance, have not been completed within previously agreed timescales. However, as a result of lessons learned from the review of Inverness schools, a revised approach was agreed by Committee and work is ongoing to update capacity figures accordingly.

As a result of the audit, 1 high grade and 2 medium grade recommendations have been made. All of these have been accepted by management and the final agreed action is due to be implemented by 31/10/16.

6.   **AUDIT OPINION**

The opinion is based upon, and limited to, the work performed in respect of the subject under review. Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist. It is the opinion that **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 **3** recommendations as follows:

Description	Priority	Number
Major issues that managers need to address as a matter of urgency.	High	1
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	2
Minor issues that are not critical but managers should address.	Low	0
Total recommendations		**3**

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION RESPONSIBLE OFFICER	IMPLEMENTATION TARGET DATE
4.1.1	Medium	The pupil per household ratios used to estimate the 'number of additional pupils as a consequence of new builds' are based on a 2008 study. This is one of the factors used to forecast school rolls and there is a risk that this information many not reflect the current position.	A new study should be undertaken on more recent new build schemes to establish if there is a need to update the pupil per household ratios used in the school roll forecasting model.	(i) Carry out a new study using the 2008 methodology to determine if Inverness specific household ratios have altered. (ii) Compare Inverness ratios against figures from comparable Scottish cities to provide benchmarking.	Head of Planning & Environment	31/10/16

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION RESPONSIBLE OFFICER	TARGET DATE
4.1.2	Medium	The school roll forecasts are prepared by the Development & Infrastructure Service but there is limited feedback provided from the Care & Learning Service. However, it is understood that a review is already underway, involving officers of both Services, to review and improve the process relating to preparation and scrutiny of school roll forecasts.	(i) Meetings should be held between Care & Learning and Development & Infrastructure officers to provide feedback on the school roll forecasts to ensure that this is accurate and reflects the future needs of the Care and Learning Service. (ii) The documented School Roll Forecasts Methodology should be updated to reflect any changes to the process agreed as part of the review.	(i) Put in place a programme of regular (2-monthly?) meetings between D&I and C&L to monitor current forecasts and any emerging development or educational pressures. (ii) As a result of staffing changes within D&I, discussions have already commenced between the two Services to review the process, roles and responsibilities in relation to forecasting. That review to be concluded over summer/autumn 2016, for review and sign off of roll forecasts to be published later in 2016. The documented methodology will be updated as part of this process.	Head of Resources/ Head of Planning & Environment Head of Resources/ Head of Planning & Environment	Immediate 30/09/16

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION RESPONSIBLE OFFICER	TARGET DATE
4.2	High	Revised primary school capacity figures, based on the Scottish Government Guidance, have not yet been completed and published. However, some changes to the way in which capacity is calculated were agreed by the ECAS Committee on 18/05/16 and work will now begin to revise these figures with a view to publishing them later in 2016.	(i) Revised primary school capacity figures should be finalised as a matter of urgency. (ii) The methodology for calculating primary school capacity, including recently agreed revisions, should be documented in order to provide full transparency regarding the calculation of school capacity figures.	(i) ECAS Committee agreed to revisions to the methodology in May 2016, which will provide improved capacity estimates, and inform ongoing planning for future schools investment requirements. That revised approach will result in revised capacity figures by October 2016. (ii) Updated methodology note to be prepared and published within the same timescales as set out at 4.2 (i) above.	Head of Resources/ Estates Strategy Manager	31/10/16

7

INTERNAL AUDIT
FINAL REPORT

COMMUNITY SERVICES

ADMINISTRATION OF FUEL

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Contents

1. **INTRODUCTION**

The purpose of this report is to record the findings of a recently completed audit review of the administration of fuel. The audit was undertaken as part of the annual plan and includes following up previous audits to ensure that the management agreed actions had been satisfactorily implemented.

Two reports have been issued in recent years regarding fuel card procedures. The initial report was presented to the meeting on 22/09/11 and a follow up report was presented on 28/03/13. The follow up report concluded that "in view of the absence of fuel monitoring as a whole *(fuel is drawn from garages and from Council depots which use separate systems, managed by different staff)* no assurance can be provided that all fuel purchased by the Council has been used for official purposes."

In order to address the high priority recommendation regarding the lack of fuel monitoring, an options appraisal was to be concluded by 30/06/13 to consider how this should be achieved. At the next meeting on 20/06/13, Members were informed that the options appraisal had been completed and although the introduction of vehicle tracking was the optimum long-term solution, data from the two separate fuel systems would be merged and then monitored. This action was to be completed by 1st November 2013. Members were also informed that other measures were being taken to improve the control over fuel, particularly with regard to in-house fuel storage.

There are two different systems for obtaining fuel; Allstar fuel cards are used for withdrawals from commercial garages and Vectec key fobs are provided to access fuel from the Council's 35 sites across the Highlands. Spend on fuel for the first nine months of 2015/16 totalled £2.1m, with £1.5m through fuel cards and £0.6m through the fuel tank network.

2. **REVIEW OBJECTIVES**

The objectives of the review were to ensure that:

(i)   There are clear and concise policies and procedures in place to govern the operation of the fuel card schemes (Vectec & Allstar) and that they are adhered to by all members of staff.

(ii)   Fuel cards are only issued to authorised vehicles or staff.

(iii)   Fuel card usage is monitored efficiently and effectively and prompt action is taken to investigate and address any anomalies and variances identified.

(iv)   Fuel consumption is subject to regular monitoring and prompt action is taken to address any anomalies.

3. **SCOPE, METHOD AND COVERAGE**

Details of the procedures in operation were ascertained by enquiry with Community Services Warehouse staff and that these covered all aspects of the administration of fuel. In addition, the Fuel Card User Reference Guide, Fuel Card Administrator's Guide and Vectec Procedure notes were reviewed to ensure that these incorporated the issues previously identified and standard documentation had been introduced for requesting fuel cards and recording transactions.

4. **MAIN FINDINGS**

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

4.1 Policies and Procedures

4.1.1 This objective was partially achieved as there are satisfactory policies and procedures in place for fuel cards. This includes both Reference Guides for fuel card users and the Fuel Card Administrator, together with standardised forms. However, the process for the fuel fobs is not as developed and would benefit from the same approach in the provision of policies and procedures. In addition, there is no guidance in place setting out the criteria as to when fuel is to be drawn from the tanks and when fuel cards are to be used.

4.2 Issue of Fuel Cards/Fobs

4.2.1 This objective was partially achieved as the medium graded agreed action to ensure that requests for fuel cards are only actioned upon receipt of the approved standard request form has been implemented. However, the system for requesting fuel fobs is not as robust as the request forms do not require authorisation from a budget holder and have not been retained. The form was revised with immediate effect during the audit to include an authorising signature and the Fuel Card Administrator agreed to retain all new forms subsequently issued.

4.3 Fuel Card Usage

This objective was partially achieved in that:

- The agreed action (medium priority grade) to introduce an escalation process which reports fuel card holders who do not record their mileages for 3 consecutive months and fail to provide appropriate responses to the fuel mismatch reports has been implemented. The escalation process is also included in the Fuel Card User Reference Guide.

- The fuel card register includes details where multi-fuel purchases are permitted and these cards are now excluded from the mismatch reports. Satisfactory responses had been received to all mismatches identified on the reports.

4.3.1 However, the medium graded agreed action to review hire and unassigned fuel cards, update the Fuel Card User Reference Guide, and undertake an annual compliance check of hire fuel cards has been only partially achieved as detailed below.

- There has been no review of the use of fuel cards for hire cars and unassigned cards which was due to be completed by 31/05/13. Business Support has undertaken a review of compliance with fuel card procedures in February 2015 which included hire and unassigned cards in the sample reviewed. A further review was planned in early 2016, but assurance has been given that all fuel cards are embossed with either a driver name, vehicle registration, or both. The Maintenance and Stores Manager also stated that any vehicle hired for 6 months or more will have a dedicated fuel card assigned for the duration of the hire period. In addition, the Fuel Card Administrator will send a monthly reminder to the Business Support Operations Managers that it is an audit requirement to complete all transaction records.

- The Fuel Card User Reference Guide has been updated as agreed to include appropriate controls for the use of unassigned cards.

- The annual compliance checks have been undertaken as agreed and this requirement has been added to the Fuel Card User Reference Guide. A further review was also undertaken as part of the audit work. Both reviews showed that only 15% (6/40) of card holders checked were fully compliant with the requirements placed on card holders as set out in the Fuel Card User Reference Guide. There were issues with the transaction logs whereby a

number of those examined were incomplete or had been not reviewed and signed by the budget holder. In addition, transaction logs were not always maintained.

4.3.2 Minor differences were found between the information recorded on the fuel card master register maintained by the Stores Purchasing Controller and the fuel card system's list of active fuel cards.

4.4 Monitoring of Fuel Consumption

This objective was partially achieved as the high grade agreed action to undertake an option appraisal was completed in June 2013 and TEC Services confirmed that active fuel monitoring would be in place "by 1st November or earlier." However, the responsibility for fuel cards as a whole only passed to Community Services in April 2014. Prior to this, responsibility for the issue, control, and monitoring of Allstar fuel cards was the responsibility of the Corporate Procurement Unit.

4.4.1 Vehicle tracking was introduced in July 2015 which records accurate mpg data for 240 vehicles out of the 743 fleet vehicles. The 240 vehicles include all waste collection vehicles, all other vehicles over 7.5 tonnes and a small number of vans where lone working in remote areas was an issue.

The tracking web-based system provides details of every journey undertaken, time, location, speed, and fuel consumption. All historical data is retained. The system can notify by email Operational Managers of any vehicle speeding. In addition the system also records:

- The time a vehicle is driven, stationary, or idling. Idling costs the Council about £3,000 per week so any change in drivers behaviour to reduce this could generate a saving without any impact on service provision;

- How a vehicle is driven with any harsh acceleration, braking, and cornering, and over-revving of the engine recorded over a period of time to identify poor driving techniques; and

- For salt gritters the distribution of salt on a route.

Therefore the first 2 points will help identify arears of improvement in fuel usage.

However, for the remaining 503 vehicles the position is that the attempt to merge Vectec and Allstar data was unsuccessful due to the inconsistency of data between the systems. This means the only monitoring is on a manual ad hoc basis where there is a concern over fuel. Currently underway is a trial involving 12 light vehicles fitted with trackers, which, if is understood will be rolled out across all light vehicles.

4.4.2 The Council's ICT User and Network Access Control Policy requires each system owner to undertake a review of user access rights on an annual basis. This review should determine whether the system user is still an employee, whether they still require access to the system, and if the current access level is appropriate.

Responsibility for Allstar fuel cards passed to Community Services in April 2014, and no annual review had yet been undertaken. However, access was reviewed by Internal Audit which found only 6 of the 12 these were required as 1 officer was no longer employed by the Council and the other 5 were Procurement officers. This was rectified immediately.

Although access to the Vectec fuel management system is restricted to 4 terminals within the Community Services Warehouse office, there has been no review of access rights and the location of terminals as required by the ICT User and Network Access Control Policy. Access is by way of a single user account and shared password which is in contradiction of the Information Security Management System (section 13.2). In addition, failure to regularly change the system password, contravenes the ICT User and Network Access Control Policy.

The software supplier has confirmed changes can be made; password changes can be made mandatory and individual users/passwords allocated if required. It has been agreed that the Fuel Card Administrator will request access control reports when the annual licencing bill is due for payment.

4.4.3 The number of fuel tanks in use has been significantly reduced following a review by the Maintenance and Stores Manager. This resulted in 31 fuel tanks across 11 sites being closed leaving a network of 48 fuel tanks across 35 sites. This is understood to be necessary as most Council plant and HMRC excepted vehicles[1] use gasoil (red diesel) which is not available from commercial garages.

The systems for recording the drawing of fuel across these sites vary; 22 sites use the Vectec system, 24 record in "honesty books" (driver records manually in a book the amount of fuel drawn) and 2, used solely for plant operating at Seater landfill site, do not record fuel drawings.

4.4.4 From July 2014, Allstar started charging for fuel card transactions at non-Tesco garages. Whilst there are only 4 locations in the Highland which have Tesco garages; Dingwall, Inverness, Tain and Wick, these account for roughly half of the annual volume of fuel drawn. Email reminders have and will continue to be issued requesting that vehicles are refuelled at Tesco whenever possible. The Council is currently undertaking a re-tendering exercise for the provision of fuel cards, so this issue may only be short-term.

5. CONCLUSION

Although various management agreed actions from the previous audit report of March 2013 on the administration of fuel cards have been completed, the concern expressed then remains that "no assurance can be provided that all fuel purchased by the Council has been used for official purposes".

The 2 outstanding actions are the introduction of global monitoring of fuel consumption (high priority grade) and a further review of unassigned cards (medium priority grade). These actions were to be implemented by 01/11/13 and 30/05/13 respectively. The first action has partially been achieved insofar that the introduction of the tracking system on 240 heavy vehicles means that accurate mpg data and other factors influencing fuel consumption are available, making it possible to identify areas of improvement on fuel consumption. A trial on 12 light vehicles is also currently ongoing, with a view to rolling this out to all light vehicles. However, monitoring of fuel consumption of the entire fleet appears to be some way off. In view of this it is necessary to conclude, as per the previous report, that fuel purchased by the Council may not be used for official purposes."

It is acknowledged that progress has been made in strengthening the wider control environment around fuel management, bringing this under a single section's responsibility, ensuring all fuel cards are assigned, enhancing the exception reporting process, and reviewing the fuel tank network which has resulted in a significant reduction of fuel tank sites operating honesty books. Furthermore, the introduction of vehicle tracking has achieved capturing fuel consumption and other data which will reap benefits from the current time onwards.

A total of 7 recommendations have been made; 1 is classified high priority and 6 as medium priority. 3 of the recommendations have been completed and the remainder are due to be implemented by 01/09/16.

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[1] HMRC Excise Notice 75: Fuel for road vehicles (June 2014) section 8.

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 whilst the system is broadly reliable, areas of weakness have been identified which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

7. ACTION PLAN

The Action Plan contains **7** recommendations as follows:

Description	Priority	Number
Major issues that managers need to address as a matter of urgency.	High	1
Important issues that managers should address and will benefit the Council if implemented.	Medium	6
Minor issues that are not critical but managers should address.	Low	0
Total recommendations		**7**

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION RESPONSIBLE OFFICER	TARGET DATE
4.1.1	Medium	Whilst there is comprehensive guidance on the use of fuel cards there is little on the use of the key fobs. In addition, there is no guidance setting out when fuel should be obtained from commercial garages and when Council tanks should be used.	A user guide for fuel fob users should be produced which corresponds with the principles set out in the Fuel Card User Guide. This guidance should be distributed to all relevant officers. The present guidance should be revised to detail when fuel should be drawn from fuel tanks and when it is more appropriate to use commercial garages.	Fuel Card User Guide to be updated with bulk fuel, bulk fuel should only be used where out of hours or restricted retail access presents i.e. forecourt not suitable for HGV use.	Acting Fleet, Maintenance & Stores Manager	30/04/16
4.2.1	Medium	Request forms for fuel fobs did not require authorisation and were not being retained.	It should be ensured that all new fuel card fob request forms are retained in line with the Council's Retention Schedule and is consistent with the retention of the fuel card request forms.	A new form was implemented and is now in use in line with the fuel card request forms which are authorised by the budget holders.	Administrative Assistant, Community Services Warehouse	Completed
4.3.1 – 4.3.2	Medium	The previous agreed action to undertake a review of hire and unassigned cards was not performed.	(1) A review of the use of fuel cards in relation to hire cars and other unassigned (bearer) cards should be undertaken and documented by Community Services in conjunction with the Business Support Operations Managers. Where it is established that an assigned fuel card is more appropriate then this should be actioned with any unassigned fuel cards cancelled and replaced.	Fuel Card Transaction Logs for these cards should be completed by the card issuer as per the Fuel Card User Guide. No further review required as all cards WILL be embossed with either a driver name, vehicle registration or both.	Administrative & Clerical Assistants, Community Services Warehouse	30/04/16

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION RESPONSIBLE OFFICER	TARGET DATE
		Emails are not issued on a regular basis reminding fuel card users to complete a transaction log.	(2) The Fuel Card Administrator should email all responsible Business Support Operations Managers on a monthly basis with all unassigned (bearer) cards and hire card reports together with the reminder that it is an audit requirement for card holders to complete a transaction log.	Reminder to be added on monthly Allstar transaction email.	Clerical Assistant, Community Services Warehouse	30/04/16
		There were minor discrepancies between the number of active fuel cards as recorded on Allstar and the master register.	(3) The fuel card master register should be reconciled on a quarterly basis to the Allstar fuel card system list to ensure that both sets of records are in agreement and that all issued cards can be accounted for.	Reconciliation of Allstar cards to be reconciled on a quarterly basis. Fuel Card Administrator's Guide to be updated.	Clerical Assistant, Community Services Warehouse	30/04/16
4.4.1	High	Global fuel consumption monitoring of the fleet has not been introduced. The fleet is partially monitored with the introduction of tracking for heavy vehicles, with a trial underway on a small number of lighter vehicles. This was a previously high priority grade agreed management action.	Community Services should continue to work with the system providers in order to develop fuel consumption reporting for management information purposes. Once developed, this should be issued to budget holders on a monthly basis.	All future light fleet vehicles to be fitted with tracking devices. Policy on reporting procedures to be developed setting out frequency and distribution of reports, and actions required including escalation procedures for non-compliance.	Acting Fleet, Maintenance & Stores Manager	01/09/16
4.4.2	Medium	When responsibility for fuel cards passed to Community Services Warehouse a review should have occurred of access rights to the fuel card system. An Internal Audit review found 6 of the 12 current accesses were no longer required.	The Fuel Card Administrator should undertake an annual review at the financial year-end of accesses to both fuel card systems and make any amendments as necessary.	This is carried out annually. There are currently 7 users and all require access.	Clerical Assistant, Community Services Warehouse	Completed

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION RESPONSIBLE OFFICER	TARGET DATE
4.4.2 cont.		Vectec users currently access the system via a single account and password contrary to the ICT User and Network Access Control Policy.	A request should be made to the system supplier that individual user accounts and passwords are set up for Highland Council users and that password changes are made mandatory.	Contact has been made with Vectec and individual user accounts and passwords have now been set up. There is no facility for mandatory password changes; this requires a request to Vectec administration for password change.	Administrative Assistant, Community Services Warehouse	Completed
4.4.3	Medium	The fuel tank network inventory did not include all active tank sites.	(1) The fuel tank network inventory should be reviewed annually to ensure that the information maintained is complete and accurate. (2) The proposed new user guide for the Vectec system should include the requirement that any request for the purchase of new or replacement tanks or any works in relation to the fuel tank network must be referred to the Stores Purchasing Controller.	Review to be carried out annually. This statement to be added to the Fuel Card & Fob user guide.	Acting Fleet, Maintenance & Stores Manager	30/04/16
4.4.4	Medium	The fuel card supplier has started to charge for drawing fuel at a large number of garages.	All fuel card holders should be reminded that Tesco garages should be used for fuel purchases wherever possible in order to avoid additional charges. Where cards have incurred charges, these should be reviewed to establish if these could have been avoided and the relevant budget holder notified of this.	An email was circulated to all budget holders informing them of the additional charges and that Tesco Garages should be used when possible. Reminder to be added to monthly Allstar transaction reports.	Clerical Assistant, Community Services Warehouse	Completed

INTERNAL AUDIT

FINAL REPORT

COMMUNITY SERVICES

OUTSOURCED GRASS CUTTING CONTRACT -
MONITORING AND PAYMENT ARRANGEMENTS –
(FOLLOW UP) REPORT

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Contents

1.   **INTRODUCTION**

An audit report on Outsourced Grass Cutting Contract – Monitoring and Payment Arrangements was issued on 10/06/14 and contained the audit opinion of "Limited Assurance".   The report contained a total of 3 recommendations which were assessed as 1 high and 2 medium grade. Due to the audit opinion, it was agreed that a follow-up audit should be undertaken as part of the 2015/16 audit plan.

2.   **REVIEW OBJECTIVES**

The objectives of the review were to ensure that the recommendations made in the previous internal audit report "Outsourced Grass Cutting contract – monitoring and payment arrangements" have been implemented and the following objectives can be achieved:

(i)   There are appropriate in place for the monitoring of the performance of the grass cutting contract;

(ii)   There are appropriate controls in place for the payment to contractors for the grass cutting contract;

(iii)   Recharges to Council Services are processed promptly and are in accordance with the service provided.

3.   **SCOPE, METHOD & COVERAGE**

The scope of this audit included an examination of the grass cutting contract performance monitoring procedures, contractor payments and, service recharges during the period April 2015 to July 2015 inclusive.

4.   **MAIN FINDINGS**

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

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

4.1   **Monitoring of performance**

This objective was partially achieved as two out of the five agreed actions have been implemented.

> **Previous Audit Recommendation 3.1 (High grade)**
>
> (1) To ensure resources are appropriately targeted, an effective site inspection monitoring regime should be established which minimises the risk of unnecessary inspections but ensures that areas where there is poor performance is reviewed more frequently and any remedial action required is addressed promptly.
>
> (2) To ensure site inspections are consistently calculated in accordance with the score and grading criteria, guidance should be provided to all relevant officers. The officers involved in undertaking site inspections should then ensure that they consistently follow the guidance provided.
>
> (3) The guidance at (2) above should also ensure that the Breached Standards Log is completed at the correct time and that all required information is accurately recorded. Both the DLO and the contractor should be requested to provide documentary evidence which demonstrates that any breaches have been satisfactorily addressed within the required timescale.   This could be

done by providing digital photographs which also contain the date and time.

(4) Consideration should be given to removing the need to maintain the Work Programme, particularly where it is not necessary for sites maintained by the contractor.

(5) A more appropriate and effective method of reporting needs to be provided in order to enable effective scrutiny of performance.

Previous management agreed action:

(1) Finalise work schedule/planner with database to track work across all twenty two wards, split by work type and contractor/DLO whilst allowing for complaint based inspections. (31/07/14)

(2) Fortnightly section briefings supported by training sessions and 1-1 meetings. (Implemented from April 2014)

Reassessment of section staff structure to reduce dependency on temporary seasonal staff, proposals to be submitted to Head of Roads & Transportation. (31/08/14)

(3) Reviewed by section leader as part of fortnightly briefing. Reviewed at monthly contract progress meetings. (Implemented from April 2014)

Requirement for contractor/DLO to provide digital record of completed works to be included in specification of next contract. (31/03/15)

(4) Transfer of contract information into RCW asset management system (WDM) to allow Community Service areas to produce locally managed programmes. Resources will be subject to approval of review under 3.1.3(b) (31/03/15)

(5) Produce standardised report using factual data as per 3.1 (1). To include section for ACSM commentary. (31/08/14)

Monthly management reporting to ACSM's. (31/07/14)

Responsible Officer for all of the above actions: Roads & Community Works Manager.

Actions (1) and (2) have been satisfactorily implemented:

(1) Procedures have been put in place and site inspections have been changed to a mainly complaint led process. Also, the monitoring database was modified to identify the team responsible for each site across all twenty-two wards, e.g. the external contractor, the Council's DLO or the community group.

At the start of the 2015 season, it was not possible to distinguish between complaint led inspections from sites chosen at random by a Council officer. However, due to database changes at the end of September 2015, this is now possible.

(2) A decision was made to remove the site grading methodology and instead, inspected sites are assessed as a PASS or a FAIL. A new simplified site inspection sheet was created which contains 10 questions concerning the appearance of the maintained site.

Following a Section re-structure, staffing was reduced to three full time officers: the Performance and Inspection Co-ordinator plus two contract supervisors. These officers are responsible for inspecting sites and noting the results on the new site inspection sheets. However, one of the contract supervisors stated that Council inspection sheets were not always completed due to lack of time.

Furthermore, from the 2015 season, an agreement was made with the contractor for their staff to self-assess their own performance. For this, the Council provided site inspection materials and training. However, the Roads and Community Works Manager stated that the volume of completed self-assessment forms impacted upon the Council's resources to manually record the forms on the Breached Standards Log (BSL) as these were submitted in paper form. Therefore, only inspections undertaken by the contract supervisors, which include areas maintained by the external contractors, were input into the BSL. The self-inspections were used to identify issues and trends. For the 2016 season, the main contractor has agreed to provide electronic self-inspection records from their own system.

Actions (3), (4) and (5) have not been fully implemented as agreed and details are provided in sections 4.1.1 – 4.1.3 below.

4.1.1 Completion of the Breached Standards Log

Unsatisfactory performance is recorded on the BSL following an inspection by a Council officer. However, not all site inspections sheets were recorded for the reasons detailed in (2) above.

It was recommended that digital photographic evidence should be provided by the contractor to demonstrate that any breaches have been satisfactorily addressed in a timely manner. As yet, it has not been possible to implement this action due to unforeseen internet connectivity issues. This matter is currently being investigated by the Service.

The grass cutting contract is presently being re-tendered for 2017 onwards and this will include the requirement for electronic self-inspections. Options are presently being examined in order that a technically feasible specification can be agreed. This is the most effective method of contract monitoring and will ensure that the available Council resources are targeted towards addressing any problems that arise.

4.1.2 WDM system

In response to the audit recommendation, action was taken to transfer the contract information into the asset management system (WDM). For this, work was undertaken to digitally map and catalogue all areas of land owned by the Council by the grounds maintenance location together with each type of amenity grass. Although the mapping process has been completed, only Lot 8 had been transferred onto the system. Once the remaining Lots have been input, this will allow Community Service areas to produced locally managed work programmes for the Council's DLO team in the future.

However, use of this system is reliant upon the web based section of WDM which has still to be implemented by Fujitsu which the Service is working to resolve. In the meantime, a workaround is in place using the GIS system which provides an accessible mapping facility and asset information for staff and Members.

4.1.3 Area Committee reports

A standard format has been introduced as agreed and quarterly Grounds Maintenance performance monitoring reports are now reported to the relevant Area Committee. The information provided is much improved as it shows the performance of both the Council's DLO team and the external contractors by detailing the number of inspections, number of breached standards and importantly, whether any defects identified were rectified within the specified timeframe.

However, it was noted that no distinction was made between random and complaint led inspections. As most inspections arise from complaints following reports of substandard work; these generally attract a low pass rate.

4.2   Contract Payments

This objective was fully achieved as the agreed management actions were implemented.

Previous Audit Recommendation: 3.2 (Medium grade)

(1)   Costs relating to substandard work should be recovered in a timely manner.

(2)   A more efficient recording system should be devised concerning Work Instruction records, such as creating a folder to hold all scanned instruction forms electronically. Consideration should be given to simplifying the information recorded on Work Instructions. Consideration should be given to removing the need to maintain the Work Programme, particularly where it is not necessary for sites maintained by the contractor.

Previous management agreed action:

(1)   Finalisation of discussions with contractor for 2013. (30/06/14)

(2)   Issue of bulk map update and variation order for 2012/2013. (30/04/14)

Monthly issue of contract variation orders by the procurement section. (31/07/15)

Responsible Officer: Roads & Community Works Manager.

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(1) It was explained by the Roads & Community Works Manager that following the mapping process it was established that the contractor was underpaid for the first two years of the contract (2012 and 2013) and as a result sub-standard performance penalties were not applied. For the 2014 season, rather than paying back penalties, it was agreed that the contractor would undertake additional vermin control work at Inverness Castle bank at no cost to the Council.

In accordance with the contract terms, the contractor is paid the annual contract sum. All breached standards are recorded throughout the season including those which result in defaults. The value of any defaults is calculated at the end of the season and must be agreed between the contractor and the Council. Where agreement is not reached, the contractor can elect to take this to arbitration; to date this has not occurred.

At the end of the 2015 season, a meeting was held with the main contractor to agree the calculated losses. As a result it was agreed that a part-payment would be made and the balance was addressed with additional works undertaken by the contractor. In addition, a one-off single tender for the 2016 season has been agreed.

(2) The agreed management action in regard to the issue of a variation order was implemented. A variation order was issued in April 2014 by the Procurement Section in conjunction with Community Services (CS). However, the Roads and Community Works Manager stated that consideration is being given for CS to issue their own variation orders in the future.

4.3   Service Recharges

The audit objective has been partially achieved as one of the three management agreed actions has been implemented.

With regard to action (1), as stated at section 4.1.2, the WDM system has still to be implemented but a workaround has been put in place. Action (3) has been satisfactorily implemented as a review of grounds maintenance service delivery was reported to Community Services Committee on 21/08/14. The report included a review of contract supervision and maintenance standards. A further report on grass cutting delivery, supervision and performance was presented to Committee on 20/08/15.

4.3.1 Basis of recharges

Action (2) is still in progress. The contractor is provided with an annually updated set of digitised grass cutting maps with accompanying schedules which confirms the areas of grass to be cut and the required standards. The contractor should then use this to programme their works accordingly.

In respect of recharges raised in connection with the provision of grass cutting, one Service Level Agreement (SLA) is in place with Highland Life Highland. The sum recharged is not based upon the work undertaken but on the basis of the annual agreed amount. The previous report recommended that recharges are raised on the assumption that the contractor had performed in a satisfactory manner and was based on the previous inspection policy. However, with the change to complaint led inspections and the failure to record the results of the contractor's self-assessment, it was not possible to evaluate the contractor's performance and whether the sums recharged were fair and reasonable. Furthermore, it was not possible to reasonably assess the amount recharged to the HRA account which is processed as an annual charge and is based upon the available budget amount rather than the work performed. The same approach is taken with the Care & Learning Service in that the annual budget sum is transferred to pay for the grass cutting.

This has recently been addressed with all housing areas, HRA and non-HRA, fully mapped with the asset information operational and available to all staff and Members. Meetings are on-going to review the standards and levels of service provision with a view to achieving financial savings. The same approach will then be taken with High Life Highland.

This approach will enable accurate costs to be established for all works undertaken including that recharged to the HRA, through SLAs and to any other parties.

5.   CONCLUSION

It is recognised that, in conjunction with Community Services' restructure, improvements were been made to establish a more effective grass monitoring and reporting systems. The original report made three overall recommendations which were split and each had a number of agreed actions against them. However, as detailed within section 4, five of the ten agreed management actions have not been fully addressed. As such, there are four medium grade recommendations in this report, all of which have been accepted by management with the agreed actions to be completed by 31/03/17.

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** in that whilst the system is broadly reliable, areas of weakness have been identified which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

7. ACTION PLAN

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

Description	Priority	Number
Major issues that managers need to address as a matter of urgency.	High	0
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	4
Minor issues that are not critical but managers should address.	Low	0
Total recommendations		**4**

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.1.1	Medium	Due to reduced Council resources and the volume of paper based self-inspections submitted by the contractor, it has not been possible to record any breaches on the Breached Standards Log (BSL). Therefore, only inspections undertaken by Council staff have been recorded. It should be noted that these include inspections of areas maintained by external contractors and the Council's DLO. For the 2016 season, the main contractor is providing self-inspection reports from their own system.	The Service is developing an electronic monitoring process and this will be a requirement in the new contract. This should identify a suitable digital solution whereby the contractor can provide effective monitoring reports to the Council including evidence of remedial works undertaken. The Service should ensure that the solution identified provides an effective method of contract monitoring in that it provides the necessary information and makes best use of the available staff resources.	To introduce a digital contract validation and monitoring system. Retender specification to include requirement for contractors to self-monitor and report using a secure approved compactible digital system which is compatible with Highland Council systems.	Head of Environment & Amenity Services	31/03/17

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION	
					RESPONSIBLE OFFICER	TARGET DATE
4.1.2& 4.3.1	Medium	The WDM asset management system cannot be used as the web based section, which allows the information to be viewed by staff, Members and other relevant users, has not been implemented. However, a workaround is currently in place using the GIS system.	Action should be taken with the Council's ICT provider to address the system issues in order to ensure that the WDM system is fully operational.	Complete work with ICT provider and WDM provider.	Roads & Community Works Manager	30/09/16
4.1.3	Medium	The area reporting has been greatly improved with a standard format introduced which clearly shows the performance of the external contractors and the DLO. However, these do not show whether the inspections were undertaken at random or as a result of a complaint.	The format of the area reports should be amended to split the inspection results to show which were undertaken random and those which arose from complaints.	Amend performance repots to Area Committees.	Amenity Service Mangers	31/08/16
4.3.1	Medium	Recharges are processed upon agreed sums rather on the basis of the actual work undertaken.	Further work should be undertaken to ensure the cost and quality of work recharged to the HRA, High Life Highland and other bodies for which CS deliver a grounds maintenance service can be separately identified and evaluated. This is essential for the HRA in order to comply with current Scottish Government Guidance on Housing Revenue Accounts.	Review asset information with client services to agree value of work.	Amenity Service Managers	31/03/17

The Highland Council
Comhairle na Gàidhealtachd

INTERNAL AUDIT
FINAL REPORT

CORPORATE DEVELOPMENT/ FINANCE SERVICE

VERIFICATION OF 2014/15 PERFORMANCE INDICATORS

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Environmental Manager, Development & Infrastructure

DRAFT DATE: 15/04/16
REF: HBB02/002   **FINAL DATE: 20/05/16**

Contents

1. INTRODUCTION

The purpose of the audit was to carry out an annual review of Performance Indicators as part of the 2015/16 Audit Plan. This audit verified the indicators produced for 2014/15.

2. REVIEW OBJECTIVES

The objectives of the review were to ensure that:

(i)   There are appropriate systems in place to ensure that the Council's performance data published is complete and accurate. This includes Statutory Performance Indicators (SPI's), Local Performance Indicators (LPI's) and SOLACE data.

(ii)   The systems for the collection recording and publication of performance data are in accordance with the Council's Internal Guide to Statutory Performance Indicators, which also incorporates the Local Performance Indicator (LPI) requirements.

3. SCOPE, METHOD & COVERAGE

Council guidance on Statutory Performance Indicators was referred to during the audit process to ensure that this was complied with by the various Services who calculate the indicators. This Internal Guide sets out the Council's approach to meeting the Accounts Commission's Direction and the requirements of the Local Government Act 1992 which requires Councils to publish performance information. The Direction requires Council's to publish information on SPI 1 (Corporate Management), SPI 2 (Provision of Council Services) and SPI 3 (SOLACE data) which relates to the Local Government Benchmarking Framework (LGBF).

At the request of the Corporate Development Service the audit was undertaken in two stages.

Stage 1

A review of the Statutory and Local Performance Indicators (SPIs 1 and 2) was completed in September 2015. A total of 9 Performance Indicators, listed below, were selected for testing on the basis of any considerable variation in positive or negative movement from the previous year.

1b – Rangers cost per participant for guided walks

1b – Cost/ Planning Application determined

1b – Creditors – unit cost/ creditors invoice issued

1c – Pensions – cost per member

1d – Asset Management – Satisfactory Condition

2e – Business supported to Start Up through Business Gateway

2h – Properties requiring gas safety record

2h – Percentage of approved applications for medical adaptations

2j – Percentage of traffic light failures completed in 3 hours.

Stage 2

The review of the SOLACE indicators was completed in February 2016 as this information is not published until January 2016. 6 SOLACE indicators were selected for testing on the basis of any considerable variation positive or negative in the Scottish Council quartile rankings from the previous year.

SOLACE indicators examined:

ENV1a – Net cost of Waste Collection per premise

ECON1 – Percentage of Unemployed People Assisted into work

C&L5d – Percentage of adults satisfied with leisure facilities

CORP4 – Council Tax – Collection Costs

CORP1 – Central Support Service as a proportion of running costs

CHN11 – Pupils entering positive destinations.

4. MAIN FINDINGS

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

4.1 Complete and Accurate Performance Data

This objective was partially achieved with the majority of indicators found to be complete and accurate when recalculated using the information provided by the Services.

4.1.1 Primarily where issues were identified with the indicators listed below, part or all of the required documentation had not been retained or was not provided for audit examination in accordance with the requirements of the Council's Internal Guide.

1b - Rangers cost per participant for guided walks

When the original calculation for this indicator was requested, it was reported that this had been misplaced and could not be found. As a result this could not be checked.

1b - Cost / Planning application determined

The information provided for checking differed from the information originally submitted, as the live system information showed 4 less applications than previously reported. No screen shots of the information used to calculate the LPI had been retained and this could not be re-produced as the system contains real time data. However, it is acknowledged that the difference was minor in nature.

2e – Business supported to start up through Business Gateway

This information is produced on a quarterly basis and reported to the Planning, Development and Infrastructure Committee. The 2014/15 volume business starts figure of 253 was reported to the Committee in June 2015, however the figure recorded in the SPI was 424. The Service could not identify where this discrepancy had originated and could not explain the reason for the difference.

All of the above indicators are the responsibility of the Development & Infrastructure Service.

2j – Percentage of traffic lights failures completed in 3 hours

Despite three email requests to the PMRS Data Inputter, no documentation was provided. The Service SPI Co-ordinator was also made aware of the lack of response to no avail, therefore no audit checking of the indicator could be undertaken. The Service has since confirmed that this documentation is held. However, this was provided too late for the purpose of this audit.

4.1.2 The recalculation of the SOLACE indicators also identified a number of issues. This benchmark data is published each year in the Scottish Household Survey (SHS) by the Improvement Service. The Improvement Service supports Councils in gathering and publishing the data, with the Council required to use the

published results. The draft figures are sent to Services for verification before being published. The information published in the SHS varied from the information provided by Services in 2 out of 5 recalculations, the 6th recalculation could not be undertaken due to a lack of working papers. Details are provided below:

ENV1a – Net cost of Waste Collection per premise

The working papers provided by the Service showed a significantly different cost to the figure in the Scottish Household Survey. The Service calculated a cost of £75 per premise while the SHS published a cost of £97.95. The Service was unable to explain the reason for this discrepancy.

ECON1 – Percentage of Unemployed People Assisted into work

The Council Officer who had prepared the working papers for the indicator had left the Council and no-one in the Service could locate this. As a result, this data could not be checked.

CORP1 – Central Support Service as a proportion of running costs

The information provided by the Finance Service did not match the information published in the SHS. The Service provided a calculation of 5.790% for 2013/14 and 5.630% for 2014/15 while the published figures were 6.97% and 7.56% respectively. The Service calculation showed that the 2013/14 information had been revised but this still did not fully explain the difference. Furthermore, no reason could be provided for the discrepancy in the 2014/15 calculations.

4.2 Guidance

4.2.1 This objective was mainly achieved with the majority of participants selected for testing in Stage 1 being fully aware of the Council's Internal Guide to Statutory Performance Indicators issued annually by the Corporate Performance Team. The PRMS Data Inputter for the indictor 1b - Rangers cost per participant for guided walks was not aware of the guidance, or roles and responsibilities; this was further evidenced through the lack of supporting documentation available for testing in Stage One of the audit.

4.2.2 Of the 9 Performance Indicators selected for checking, 8 required a variance form. This should be completed for a variance +/- 5% from that reported for the previous year, and this requirement is set out in the Council's Internal Guide. Out of the 8 forms required, 5 had been submitted with the variance form for 1b - Rangers cost per participant for guided walks and 2j - percentage of traffic light failures completed in 3 hours, not submitted at the time of the internal audit review. For 2e – Business supported to Start Up through Business Gateway, based on the original figures provided a variance form should have been submitted, however, during the audit checking the figures were queried and subsequently revised. This revised figure does not require a variance form to be completed.

4.2.3 As detailed at 4.1.1 above, there was an issue where a screen shot had not been taken or retained showing data from the live system. Currently the Council's guidance does not request Services to keep and retain screen shots of data from live systems.

5. CONCLUSION

The main issues identified during the audit relate to the failure by Development & Infrastructure Service and Community Services to comply with the Council's Internal Guidance and to check the draft SOLACE benchmark indicators before publication in the Scottish Household Survey. There are 3 recommendations as a

result of this audit, all medium grade priority. All of these have been accepted by management and are due to be completed by the end of May.

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 **3** 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	0
Total recommendations		**3**

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION RESPONSIBLE OFFICER	TARGET DATE
4.1.1	Medium	2 Services (Development & Infrastructure and Community Services) had not retained or provided the required documentation as required by the Council's Guidance on Statutory Performance Indicators.	The Directors of Development and Infrastructure and Community Services should ensure that all relevant officers are aware of the requirements of the Internal Guide and the need to ensure compliance with Council Guidance.	Relevant officers to be made aware of the guidance, regarding SPI's and need to keep calculation and supporting documentation.	Environment Manager and Economy Regeneration Manager, Development and Infrastructure. Head of Performance and Resources, Community Services.	31/05/16
4.1.2	Medium	No response was provided by Services to the draft data figures provided by the Improvement Service. This information is circulated by the Corporate Performance Manager to allow Services to verify and if necessary, correct this, before the final information is published.

Despite this verification process, differences were found in 2 out of 6 indicators between the published data and the information provided by the Service. In both cases the Services | All Service Directors should ensure that the information provided by the Improvement Service is verified and any issues identified and addressed with the Improvement Service prior to publication. | Ensure that the information provided by the Improvement Service is verified and any issues identified and addressed with the Improvement Service prior to publication. | Directors of Service and Heads of Service | 31/05/16 |

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION RESPONSIBLE OFFICER	TARGET DATE
		were unable to explain the reason for the differences and it could not be established which set of data was correct. In addition, 1 indicator could not be checked as the officer who prepared the data had left and the supporting calculations could not be located.				
4.2.1	Medium	Where information was taken from live data systems screen shots had not been taken and retained. However, the present guidance does not require this information to be retained.	The Council's Guidance should be amended to advise Services to take and retain screen shots of live systems used for calculations of performance indicators for audit purposes.	Amend SPI guidance to require Services using live systems to provide SPIs data for Performance and Risk System (PRMS) to take screenshots from their system where appropriate to maintain a full record of SPI calculations and any changes.	Corporate Performance Manager	Complete
				Ensure screen shots pf the information used to calculate the SPI have been retained.	Head of Planning & Environment	31/05/16

The Highland Council
Comhairle na Gàidhealtachd

INTERNAL AUDIT

FINAL REPORT

DEVELOPMENT & INFRASTRUCTURE SERVICE

COMPLIANCE WITH THE CARBON REDUCTION COMMITMENT ENERGY EFFICIENCY SCHEME 2014-15

Contents

1. **INTRODUCTION**

   This audit was undertaken as part of the 2015/16 audit plan and records the findings of a recently completed audit in respect of compliance with the Carbon Reduction Commitment Energy Efficiency Scheme (CRCEES) for 2014/15. The Scheme requires an internal audit to be conducted annually.

   The Carbon Reduction Commitment Energy Efficiency Scheme (CRCEES) is a mandatory UK wide policy aimed at reducing the level of CO_2 (carbon dioxide) emissions in large commercial and public sector organisations. The Scheme commenced in April 2010 following the implementation of the CRCEES Order 2010, which was replaced by the CRCEES Order 2013. This was further amended by the Carbon Reduction Commitment (CRC) Amendment Order 2014.

   Carbon use must be reported annually for the period 1 April to 31 March and the current reporting period is the first for Phase 2 which spans 2014/15 to 2018/19 inclusive. This audit report covers the reporting year, April 2014 to March 2015 inclusive.

   The Council reported on 1,323 qualifying energy supply points using a total of 45,274 t CO_2 (CO_2 tonnes) within the current compliance reporting period.

2. **REVIEW OBJECTIVES**

   The objectives of the review were to ensure that:
   (i)   There are adequate processes and procedures in place to record, measure and report CO_2 emission output within the Council's responsibility.
   (ii)   There are appropriate arrangements in place to produce accurate and timely Carbon Reduction Commitment monitoring and evaluation reports.
   (iii)   There are adequate processes and procedures in place to forecast, measure and record anticipated CO_2 emission output. The appropriate carbon cost allowances were obtained by the required date.
   (iv)   The management agreed actions arising from the previous audit report have been satisfactorily implemented.

3. **SCOPE, METHOD AND COVERAGE**

   The audit reviewed the CRCEES Annual summary and Evidence Pack, together with all supporting documents, applicable records and monitoring reports relevant to the administration of Carbon Reduction within the scope of the Council.

   At the outset of the audit, the Principal Engineer highlighted that there had been a change of officer in the post of Senior Sustainability Officer. The bulk of the work compiling the CRCEES return for 2014/15 had been undertaken by the previous post holder.

4. **MAIN FINDINGS**

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

4.1 **Recording, measuring and reporting of CO_2 emission output**

   This objective was not achieved for the reasons outlined below:

4.1.1 Completeness of CRCESS report

   The CRCEES report was submitted on 23/07/15, before the deadline of 31/07/15, and covered the reporting year 01/04/14 to 31/03/15. This reported the following:

Fuel Source	Actual supply (kWh)	Estimated supply (kWh)	Calculated emissions (tCO$_2$)
Electricity	67,637,468	6,665,789	39,965
Gas	27,766,018	314,353	5,187
On-site generated Electricity	250,529	0	122
Total CRC Emissions (tCO$_2$)			**45,274**

To meet CRC reporting obligations, evidence should be retained containing the prescribed information. However, it was established that there were issues with the information held as:

- An evidence pack should be held which contains the data which supports the electricity and gas figures submitted on the CRCEES report. There was no summary documentation in the evidence pack to support the submitted figures.
- A sample of 19 electricity sites and 5 gas sites was reviewed to ensure that the CRCEES report was complete and accurate. Due to a loss of functionality, highlighted in the previous year's audit report, it is not possible to verify that each site covered the compliance year. However, comparisons undertaken between the consumption data with supply bills loaded on TEAM showed that 23 of the 24 site bills sampled covered the reporting year. The remaining site (2 supplies) had missing periods of consumption covering 1 and 61 days respectively. The Senior Sustainability Officer has since provided information to show that these missing periods were addressed by TEAM as follows: the first supply was pro-rated and the second one used a direct comparison estimate, which is based upon a similar period of consumption. However, TEAM does not show the comparison period used and 1 day had no consumption recorded. Therefore, it could not be established if this was reasonable method to use.
- For on-site generated electricity, the supporting documentation was not sufficiently detailed to confirm the period that the consumption covered. The reading headings on this documentation stated "APR-14 to APR-15" and within this, some sites contained additional dates out-with the compliance year.

4.1.2 Accuracy of the CRCEES report

The appropriate electricity and gas supplies were included within the CRCEES report. In addition, on-site generated electricity supplies from wind sites and solar sites are included from this year. The consumption data provided matched to the reported totals. However, the accuracy of the reported data is questioned as errors were found in the calculations reviewed:

- The supporting documentation showed a final consumption figure of 250,259 kWh but this was transposed and the reported figure was 250,529 kWh.
- For Bower Primary School wind site, the calculation included an opening reading, but the closing reading was recorded as zero, with the effect of understating the total supply by 14,543 kWh. The Renewables Engineer later confirmed that there was no output for this site and the consumption, rather than the closing reading, should have been recorded as zero. As a result of this, the final consumption figure should have been 264,802 kWh.
- The supporting documentation implies that some of the readings taken were out-with the compliance year. It would be expected that an adjustment would have been made to calculate the 2014/15 figures e.g. to pro-rata these for the year. However, this was not done and the resulting final consumption figure cannot be calculated as it the date when the readings were taken is not known.

4.1.3 Comparison with Supplier statements

The recorded consumption on supplier statements did not agree to that recorded on TEAM for 12 of the 35 energy supplies. For these 12 supplies, the supplier statement did not cover the full compliance year and after adjusting these accordingly 10 supplies were within a 5% tolerance. The remaining 2 supplies are for minor consumption amounts (16 kWh and 31 kWh). For the first one the supplier provided a "bill from" date and did not include a "bill to" date to evidence the period of the consumption whilst the other adjusted supply differed by -5.11% which is beyond the allowed tolerance. The Principal Engineer advised that the supplier comparison is an additional check undertaken by the Energy and Sustainability Team, with the aim of reducing the number of estimated bills used within the CRC return. He also confirmed that for the first one, the supplier should have provided the "bill to" date.

As detailed at section 4.4, a process for checking the annual supplier statements against Excel extracts is in place. The "Supplier statement comparing process" document states that the threshold for reviewing differences in consumption is +/- 1,000 kWh. These 2 supplies would not have been reviewed under this threshold. However, this threshold does not accord with the CRCEES definition of "Inaccurate" which applies where any supplies or emissions differ by more than 5% from the reported figures. The Principal Engineer advised that the 1,000 kWh threshold was determined in a period where the checking was time critical and may be revised for future checking. The Team are working towards increasing the amount of monthly invoicing which will reduce the volume of checks required at the year-end.

4.1.4 Calculation of estimated supplies

The sample of 24 sites referred to at section 4.1.1 above, was also used to check whether estimated supplies were correctly accounted for within the CRCEES report. The bills for the sampled 24 sites were reviewed for the recorded consumption, nature of the reading ("actual" or "estimated") and the period covered by the bills. There were a number of issues found:

(1) Some of the site bill accounts recorded on TEAM had multiple "amending" bills listed. It was expected where an "amending" bill had been issued the "original" bill would be credited with a "withdrawn" bill. This did not happen in all cases. In addition, there were cases where multiple bills were received covering similar time periods therefore it was unclear which was the correct bill. The Principal Engineer advised that these bills correspond to the same time period when the electricity supplier changed their accounting process and that billing accounts are currently checked by the electricity supplier and the Energy and Sustainability Team to ensure that they are correct.

(2) There were differences in consumption affecting 9 sites (11 supplies). The Energy and Sustainability Team provided additional account information but this did not explain these as TEAM used estimated bills as part of its "Account Actual" calculation and, does not show the time period used for the "Direct comparison". Furthermore, where TEAM estimated bills this process was inconsistent in the daily rates used and did not always equate to the most recent bill which would have been expected.

(3) In some circumstances, TEAM recorded bills as an "actual" reading, where upon viewing the bill, the "read type" showed that it was actually a "computer estimate" reading. This issue affects 11 sites (16 supplies) in total. The Senior Sustainability Officer has advised that this is a software issue which lies with the electricity supplier and will be pursed with the supplier.

(4) There were 6 sites (affecting 8 supplies) where the "emission status" (classifying the supply as "actual" or "estimated") was incorrect. The definition of "CRC estimated supply" changed for the start of Phase 2 and the Principal

Engineer confirmed that TEAM was still working to the previous definition. As a consequence, the TEAM system has applied the incorrect definition when classifying the supplies, leading to the mis-statement of the CRCEES emissions. It was subsequently established that 3 supplies had the final consumption figures input from the annual supplier statement, following the checking process referred to at section 4.4. This provided consumption figures for 105 supplies (3.72% of the total annual consumption submitted) and recorded these as actual supplies. 59 of the 105 supplies were originally classed on TEAM as estimated before this checking process which then resulted in them being recorded as actuals within the figures provided for the audit. The Principal Engineer was unable to provide a definitive response as to why these supplies were input as actual, due to the change of officer in the post of Senior Sustainability Officer.

As a result of (4) above, more supplies should have been classed as estimated. The sampled sites (6 sites with 8 supplies) accounted for 5.23% of the total consumption recorded and when the 10% uplift for estimated supplies is applied, the total emissions increased by 1.39% (2,058 t CO_2 from 2,030 t CO_2). Applying this uplift to the figures reported at section 4.1.1, the calculated emissions from electricity and gas supplies would increase from 45,152 t CO2, to 45,780 t CO_2. Therefore, this questions the accuracy of the figures submitted, and whether more CRC allowances should have been purchased.

4.1.5 Site additions/ deletions

To ensure all relevant sites have been identified and their supplies accurately recorded within TEAM and the CRCEES report, a comparison was made between the supply points recorded for this year and the previous year. This information was then used to identify any site changes which should have been recorded on the "*Additions.Deletions – Master*" spreadsheet, as detailed in the procedures held within the evidence pack. This showed differences in the number of recorded additions and deletions.

The Senior Sustainability Officer advised that where a site is not closed in time, it still appears as open in the CRC module. It was confirmed that a check of sites is being undertaken to ensure that this is accurate.

4.2   Production of Carbon Reduction Commitment reports

This objective was partially achieved as there are appropriate arrangements in place to ensure timely Carbon Reduction Commitment monitoring and evaluation reports are produced. However, as detailed at section 4.1 above, it has not been possible to provide assurance of the completeness and accuracy of the underlying data contained within the submitted reports.

4.3   CRCEES allowances

This objective was partially achieved as it was confirmed that records were held to support the CRC allowances of 45,274 acquired during 2014/15 and these were purchased by the deadline date. Again, as a result of the audit concerns outlined at section 4.1, it is difficult to establish if the correct CRCEES allowances were actually purchased.

4.4   Follow-up of management agreed actions

This objective was not achieved as the previous audit report contained 2 medium and 1 low grade recommendations, and only 1 of the medium grade actions has been implemented as agreed.

Previous Audit Recommendation 3.2.2 (Medium grade)

Consideration should be given to abandoning the process of inputting supplier statement data onto TEAM as this is now an ineffective use of resources. Instead, the efforts should be concentrated upon checking the annual supplier's statements to the consumption data produced by TEAM with all significant variances investigated and resolved.

Previous Management Agreed Action

We will implement a revised process of checking the annual supplier statement against our excel extracts for all sites.

Responsible officer: Principal Engineer, Energy and Engineering, Development & Infrastructure Service (30/06/15)

This action has been implemented as agreed with the process for checking of the annual supplier statements against excel extracts in place and this is detailed within the procedures.

4.4.1 Agreed actions not implemented

The following two agreed actions have not been implemented:

Previous Audit Recommendation 3.2.3 (Medium grade)

The new K2 asset management system should also record leased properties for the purposes of identifying properties where Highland Council is liable for reporting energy consumption. Any changes should be timeously notified to the CRC Team or the appropriate system access provided in order that this can be obtained.

Previous Management Agreed Action

We will implement a process within the K2 system to manage property changes.

Responsible officer: Principal Engineer, Energy and Engineering, Development & Infrastructure Service (30/06/15)

The Energy and Sustainability Team acknowledged that this action has not been completed. The Principal Engineer advised that discussions surrounding a process to manage property changes were on-going with the Property Systems Administrator. The Principal Engineer highlighted that it was hoped that there would have been more progress on the implementation of K2 by this time.

Previous Audit Recommendation 3.3 (Low grade)

The Checking Process Instructions document should be reviewed to take account of changes arising from the software upgrade and the start of Phase 2 of the scheme.

Previous Management Agreed Action

The Process Instructions will be amended on receipt of instructions from the software suppliers TEAM Sigma.

Responsible officer: Principal Engineer, Energy and Engineering, Development & Infrastructure Service (30/06/15)

It could not be confirmed that the Process Instructions had been updated to reflect the start of Phase 2 of the scheme. Within the evidence pack, these Instructions still referred to the Phase 1 definition of "CRC estimated supply". In response, the Principal Engineer stated that the updates had been received and the instructions updated and would provide evidence of this. However, to date this has not been provided.

As Phase 2 is now in operation it is imperative that the TEAM system and all procedures are in alignment with its requirements. Given the potential financial penalties for inaccurate reporting, the new audit recommendation is shown as a medium grade.

5.   CONCLUSION

Whilst records are held to support the purchase of emission allowances and production of the annual report was undertaken within the required timeframe, the accuracy and completeness of the underlying data could not be established. Therefore, no assurance can be given that that the reported information is correct and that the correct emission allowances were purchased.

During the audit there were delays in obtaining responses to audit queries. This was partially due to delays in the Energy and Sustainability Team obtaining responses from suppliers but also due to the change of post holder referred to at section 3 and no proper handover process being undertaken.

As a result, 2 audit recommendations have been made comprising of 1 high and 1 medium grade. These recommendations have multiple actions and all of these are due to be completed by 31/07/16.

6.   AUDIT OPINION

The opinion is based upon, and limited to, the work performed in respect of the subject under review. Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist. It is the opinion that **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. The levels of assurance and their definitions can be found at Appendix 1.

7. ACTION PLAN

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

Description	Priority	Number
Major issues that managers need to address as a matter of urgency.	High	1
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	1
Minor issues that are not critical but managers should address.	Low	0
Total recommendations		**2**

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION RESPONSIBLE OFFICER	TARGET DATE
4.1.1 – 4.1.5	High	A number of issues were found in the underlying data which supported the information contained within the CRCEES report and it cannot be established that this is correct. In particular: (1) There are problems with the documentation held to support the information reported: • There was no summary documentation in the evidence pack to support the reported figures. • 1 site (2 supplies) had missing periods of consumption (covering 1 and 61 days). The Senior Sustainability Officer provided information to show that these missing periods were addressed by TEAM. However, it could not be established if this was reasonable method to use.	(1) The Energy and Sustainability Team should ensure that: • Appropriate records are held within the evidence pack to support the annual CRCEES report. • Bills are obtained for missing periods of consumption in order that this can be evidenced.	A checklist and model evidence pack is to be prepared for each year and retained with all supporting information. Bill records to be verified as complete in the evidence pack with records of queries and adjustments made.	Senior Sustainability Officer Senior Sustainability Officer	31/07/16 31/07/16

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION RESPONSIBLE OFFICER	TARGET DATE
		• For on-site generated electricity, the supporting documentation was not sufficiently detailed to confirm the period that the consumption covers.	• Documentation to support on-site generated electricity is sufficiently detailed to evidence consumption periods.	A separate format for recoding this to be prepared.	Renewables Engineer	02/05/16
		(2) The accuracy of the reported data for on-site generated electricity could not be established as there were errors in the calculations and the actual consumption figure was transposed when reported: • Consumption was calculated as 250,259 but reported as 250,529 kWh. • For Bower Primary School, the calculation was understated by 14,543 kWh. • The supporting documentation implies that some of the readings used were outwith the compliance year.	(2) The process for calculating and evidencing on-site generated electricity needs to be reviewed to ensure that the current and future calculations are performed accurately and that the correct data is reported.	As above.	Renewables Engineer	02/05/16
		(3) The threshold for reviewing differences in consumption is not in accordance with phase 2 guidance.	(3) The Energy and Sustainability Team should update the Supplier Statement checking process document to accord with the requirements of the Phase 2 guidance.	Process to be reviewed and updated.	Senior Sustainability Engineer	30/04/16

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| | | | | | IMPLEMENTATION | |
REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	RESPONSIBLE OFFICER	TARGET DATE
		(4) The accuracy of the calculation of the estimated supplies cannot be established as: (i) Some sites had multiple bills with amendments but it could not be established that all credits had been received where necessary. Furthermore, multiple bills were received covering similar time periods and it was unclear which bill was correct.	(4) The Energy and Sustainability Team should ensure that: (i) Procedures surrounding amending bills are reviewed to ensure that bills are accurate and any credits due are received.	The Energy and Sustainability Team are to review in-house procedures to ensure amended bills are followed-up.	Principal Engineer	31/07/16
		(ii) 9 sites (11 supplies) had differences between TEAM and recorded bill consumption. The method used by TEAM to calculate the consumption figures was viewed, however there are concerns in how TEAM does the calculation.	(ii) An explanation is sought from the TEAM suppliers to evidence how TEAM calculates its consumption figures.	See (iii) below.	N/A	N/A
		(iii) A software issue has meant that some bills on TEAM have been wrongly recorded as actual readings when in fact these were computer estimates.	(iii) Prompt resolution to the software issue should be sought.	Discussions with TEAM on software performance issues to be undertaken and on a regular basis.	Principal Engineer	31/05/16
		(iv) TEAM is working to the Phase 1 definition of "estimated supply" which differs from the Phase 2 requirement.	(iv) Action should be taken to ensure that the TEAM sigma system is updated to reflect the requirements of Phase 2.	Team are updating.	N/A	N/A

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REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION RESPONSIBLE OFFICER	IMPLEMENTATION TARGET DATE
		(v) Consumption data from the annual supplier statement was wrongly input into TEAM as actual rather than estimated readings.	(v) The Energy and Sustainability Team should review the process of inputting data from the annual supplier statement to ensure data is accurately input into TEAM.	See (i) above.		
		(5) There were differences between TEAM and the "Additions.Deletions – Master" spreadsheet due to an issue with closing supply points on TEAM.	(5) The Energy and Sustainability Team should complete a check of site additions and deletions, to ensure that the correct information is recorded.	Regular updates are being sought from Property.	Senior Sustainability Officer	31/07/16
4.4.1	Medium	2 out of the 3 previous management agreed actions have not been implemented. These related to: Using the information in the K2 asset management system to identify all properties that the Council is responsible for reporting energy consumption. A process to manage property changes were on-going surrounding the K2 system.	The previous audit recommendation is reiterated: The new K2 asset management system should also record leased properties for the purposes of identifying properties where Highland Council is liable for reporting energy consumption. Any changes should be timeously notified to the CRC Team or the appropriate system access provided in order that this can be obtained.	Process to be agreed with the Property systems administrator.	Senior Sustainability Officer	31/07/16
		The absence of any supporting evidence to demonstrate that the Process Instructions have been updated to reflect the changes arising from Phase 2 of the scheme.	The Process Instructions should be provided as evidence that the agreed action has been completed. If not, then the process instructions should be updated to take account of changes arising from the start of Phase 2.	Processes are to be reviewed and refreshed with Phase 2 changes.	Principal Engineer	31/07/16

Internal Audit Opinion

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

The Highland Council
Comhairle na
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INTERNAL AUDIT

FINAL REPORT

FINANCE SERVICE

PROCUREMENT - REVIEW OF THE TAXI AND PRIVATE HIRE VEHICLE INSPECTIONS CONTRACT

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Contents

1. INTRODUCTION

An audit was undertaken to review the tendering and subsequent award of the Taxi and Private Hire Vehicle Inspections contract, HC/CEX/TPHV1/2012.

This matter was referred to the Head of Audit & Risk Management by a Member who had been contacted by the unsuccessful tenderer for this contract. The tender submitted was rejected as it was deemed to be non-compliant as it did not price for the services specified but, instead, was priced on an alternative basis. The tenderer alleged that there was a lack of clarity surrounding the required tender information including that relating to the submission of an alternative bid.

These initial complaints were examined and it was agreed that there was merit in reviewing this contract as part of the planned audit work of procurement.

The scope of this audit included a review of the communication and administration procedures followed in the tendering, evaluation, and subsequent award of the contract.

2. REVIEW OBJECTIVES

The objective of this audit was to review the tendering of, and subsequent award of the Taxi and Private Hire Vehicle Inspections contract, HC/CEX/TPHV1/2012 and to ensure that this was undertaken in accordance with the requirements of the Council's Contract Standing Orders (August 2010) which were in place at the time and the Public Contracts (Scotland) Regulations.

3. SCOPE, METHOD AND COVERAGE

Copies of the contract documentation issued to potential tenderers was obtained from Procurement and reviewed as part of this audit.

4. MAIN FINDINGS

4.1 The audit objective was substantially achieved as there were satisfactory arrangements in place with regard to the actual tendering and award of the contract. However, the communication process was poor and caused confusion for the unsuccessful tenderer.

4.1.1 Contract advertisement
The contract was advertised in accordance with the procedures set out in the Council's Contract Standing Orders. However, it is considered that the instructions set out in the Invitation to Tender (ITT) and the subsequent contradictory instructions from Procurement officers caused confusion for the unsuccessful tenderer with regard to the requirement to complete a sub-contractor Supplier Appraisal Questionnaire (SAQ). In addition to the SAQ, a completed Method Statement Questionnaire and a Schedule of Prices and Rates were required. The ITT instructions stated that *"Tenders may be rejected if the complete information called for is not given at the time of tendering"* and *"Please read the instructions on the tendering procedures carefully since failure to comply with them may invalidate your tender"*.

4.1.2 Sub-contractor details
The SAQ requested financial details of each proposed sub-contractor. The unsuccessful tenderer contacted the Procurement Section with tender queries on 10/02/12. In response a Procurement Officer stated by email *"I submitted the following additional information for all on PCS [Public Contracts Scotland] for all tenderers on 10/02/12*:

- *"Tenderers have been asked to provide information relating to their proposed sub-contractors in order for them to be assessed on their financial, legal and technical standing. This information must be provided in order for sub-contractors to be approved."*
- *"Sub-Contractors can send the completed questionnaire direct to Procurement should they not wish to provide this information to the Tenderer.""*

On 04/04/12, the unsuccessful tenderer lodged an appeal on the basis that *"we were unable to obtain details from the sub-contractors since they didn't have to supply them"* [for another competitive tenderer]. *"This led to HC [Highland Council] saying that if we submitted our tender it would be considered to be non-compliant."* This appeal was not upheld.

In view of the above it is clear that sub-contractor's financial information was requested as part of the tender assessment requirements. Also, given the ITT tender instructions, tenders would be rejected without this information. However, these instructions were misleading. No details were provided in the SAQ to advise that this information would be requested after the tender had been awarded, and, importantly, did not state that a tender without this information would not be set aside as non-compliant at this stage. The latter point was later stated in a response to the unsuccessful tenderer's appeal.

4.1.2 Method Statement Questionnaire (MSQ)

The ITT also stated *"You must submit a MSQ as part of your tender: this is intended to give you an opportunity to show how you will provide the goods, works or services and enable the Council to evaluate the specific means by which your proposal will meet the Council's requirements."*

The contract evaluation criterion was based upon a combination of the details from the Method Statement Questionnaire (70%) and the Schedule of Prices and Rates *(30%). The MSQ stated that "if answers do not demonstrate compliance with the specified requirements, then your proposal may be deemed as non-compliant and will not be assessed any further."* In this case, as detailed below the unsuccessful tenderer only provided details of his alternative proposal.

4.1.3 Schedule of Prices and Rates
The Schedule of Prices and Rates contained four different inspection items and tenderers were required to provide the gross cost per inspection item. However, the unsuccessful tenderer only provided costs for two of the items and an alternative tender proposal was submitted. This did not comply with the ITT instructions which stated that *"subject to the submission of a compliant tender, you may also submit an alternative* [variant] *price and method."* Therefore, the tender was correctly deemed as non-compliant.

Whilst the ITT allows for the submission of alternatives, no tender forms were provided for the completion of this information and there were no prescribed evaluation criteria for assessing these. In this case, the Head of Procurement stated that the same criteria applied to compliant and alternative tenders. However, it is considered that this point could have been made clearer within the ITT.

5. CONCLUSION

There are adequate procedures in place to ensure contract tendering, evaluation and subsequent tender award was undertaken in accordance with Contract Standing Orders and the Public Contracts Scotland Regulations.

However, for this particular contract the sub-contractor requirements were not clearly explained and the unsuccessful tenderer's confusion is justified. Despite this, the correct decision was made by Procurement staff that the tender

submitted was non-compliant. There are 2 medium grade recommendations in this report. Both recommendations have been accepted by management, with the agreed actions to be completed by 31/01/16.

6.   **AUDIT OPINION**

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

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

7.   ACTION PLAN

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

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

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION RESPONSIBLE OFFICER	TARGET DATE
4.1.1	Medium	The ITT caused confusion for the unsuccessful tenderer in that it requested that the financial details of potential sub-contractors were submitted as part of the tender. It did not clearly state that this information would be requested following award of the tender. Furthermore, the ITT stated that any incomplete tenders could be rejected.	Where potential tenderers may use sub-contractors, the tender documents should clearly state what information is required at the time of submitting the tender and what information will be required at a later date.	Wording of the ITT to be checked and clarified as appropriate.	Head of Procurement	31/01/16

REPORT REF.	GRADE	FINDING	RECOMMENDATION	MANAGEMENT AGREED ACTION	IMPLEMENTATION RESPONSIBLE OFFICER	TARGET DATE
4.1.2 – 4.1.3	Medium	The ITT stated that following the submission of a compliant tender, an alternative price and method could be provided. In this case, a compliant tender was not provided, only an alternative tender was submitted. Therefore, Procurement officers correctly decided that this was non-compliant. However, the ITT did not provide clear guidance on the expected format of alternative tenders. In particular, it did not state that the Method Statement Questionnaire and Schedule of Prices and Rates should be completed for compliant and alternative tenders. In addition, it was not clearly stated that alternative tenders would be assessed and evaluated on the same basis as the compliant tender.	The ITT is tailored for individual tenders by Procurement officers using template documents. These officers should ensure when using the templates that where alternative tenders are not permitted then any such references are removed. Where alternative tenders are allowed, the ITT should clearly state if the same documentation and criteria applies for both compliant and alternative tenders or detail any differences.	Wording of the ITT to be checked and clarified as appropriate.	Head of Procurement	31/01/16

Internal Audit Opinion

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