

Agenda Item	4
Report No	AS/8/17

HIGHLAND COUNCIL

Committee: Audit & Scrutiny Committee

Date: 26th June 2017

Report Title: **Internal Audit Reviews and Progress Report – 21/02/17 – 15/06/17**

Report By: Corporate Audit Manager

1. Purpose/Executive Summary

1.1 This report provides details of the final reports issued since the previous meeting of this Committee, work in progress and other information relevant to the operation of the Internal Audit section.

2. Recommendations

2.1 The Committee is invited to consider the Final Reports referred to in Section 3.1 to the report and note the current work of the Internal Audit Section.

3. Audit Reports

3.1 There have been 4 final reports issued in this period as referred to below:

Service	Subject	Opinion
Community Services	Review of the arrangements for the procurement and payment of homelessness services	Limited
Development and Infrastructure	Compliance with the Carbon Reduction Commitment Energy Efficiency Scheme 2015-16	Limited
Development and Infrastructure	Planning and Building Control Fees and Charges	Reasonable
Care and Learning	Review of Financial Procedures in Schools	Reasonable

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.

The format and content of audit reports has been reviewed following comments from Services and a more concise format is now in place from 01/04/17.

4. Other Work

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

(i) Work for other Boards, Committees or Organisations

Audit work has been undertaken on behalf of the Valuation Joint Board, the Pension Fund and HITRANS. In addition, ICT audit work has been undertaken for Orkney Islands Council.

(ii) Certification of grant claims

Work has been undertaken for HITRANS for the SPARA 2020 project and for the

Development & Infrastructure Service in respect of the Northern Periphery Arctic Programme e-Lighthouse project and the Wick Conservation Area Regeneration Scheme (CARS).

(iii) Corporate Fraud activity

The corporate fraud work includes the on-going commitment as the Single Point of Contact in liaising with the DWP's Single Fraud Investigation Service and dealing with requests for information under the Data Protection Act from other organisations such as Police Scotland. The main area of activity has been the investigation into the award of works for void properties and this will shortly be coming to a close. A disciplinary investigation was also instructed by the Service which has run in parallel. Consideration will also be given to whether any concerns should be reported to the Procurator Fiscal and/ or Police Scotland. In addition, other fraud and irregularity referrals have been made by Services and these will be subject to investigation.

5. Performance Information

Performance for 2016/17 Quarters 1 – 4 is provided in the tables below.

5.1 Internal Audit

Category	Performance Indicator	Target	2016/17 Actuals			
			Q1	Q2	Q3	Q4
Quality						
Client Feedback	(i) % satisfaction from individual audit engagements expressed through Client Audit Questionnaires (CAQ)	90	80	80	79	100
	(ii) % of Client Audit Questionnaires returned	70	86	100	80	100
Business Processes						
Timeliness of Final Report	(iii) % of draft reports responded to by client within 20 days of issue	85	38	50	80	0
	(iv) % of final reports issued within 10 days of receipt of management response	90	89	100	100	100

The above information shows that delays have still occurred in obtaining timely response to audit reports. One of the anticipated benefits of the new shorter report is that it should take less time for Services to respond.

5.2 Corporate Fraud:

The table overleaf gives details of the number and types of fraud which have been completed in each quarter. In considering this information, the following should be noted:

- Results mean that fraud was established and in the case of tenancy fraud, the property has been recovered.
- Closed cases are where no fraud was established which could be due to lack of evidence or in some cases, malicious allegations have been made.

Fraud Type	No. of results/ closed				Total results/ closed
	Q1	Q2	Q3	Q4	
Tenancy	9/14	7/11	4/7	2/5	22/37
Council Tax Reduction (CTR)	1/9	0/5	0/0	0/0	1/14
CTR & Tenancy	0/3	0/2	0/4	0/2	0/9
Total	13/26	7/18	4/11	2/7	23/62

As a result of the investigation referred to at 4.1(iii), there was less time available in the latter half of the year for these types of fraud. However, this will be picked up shortly and it should be noted that this Council is still one of the leading Scottish authorities for the number of properties recovered.

- 5.3 Consideration is being given to developing new performance indicators for 2017/18 and a new system of reporting progress with audits to both Senior Management and Committee. This will also be used to identify any delays in either obtaining information or responses to audit reports as highlighted at section 5.1 above, and it is hoped that this will lead to improvements thereby ensuring that the audit process is more efficient. Both the new performance and progress information will be reported to the next Committee meeting.

6. Implications

6.1 Resource – none

Legal – as detailed above, legal action could be taken as a result of one of the corporate fraud investigations.

Community (Equality, Poverty and Rural) – none

Climate Change/Carbon Clever – none

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

Gaelic – none

Designation: Corporate Audit Manager

Date: 15th June 2017

Author: Donna Sutherland

Background Papers:

Internal Audit Final Report

Community Services

Review of the arrangements for the procurement and payment
of Homeless services

Distribution:

Director of Community Services
Head of Housing and Building Maintenance, Community Services
Housing Policy and Investment Manager, Community Services
External Auditors, Grant Thornton

Report Ref: HCA03/002.bf
Draft Date: 26/04/17
Re-draft Date: 26/05/17
Re-draft Date v.2: 01/06/17
Final Date: 02/06/17

Review of the arrangements for the procurement and payment of Homeless services**1. Introduction**

- 1.1 The Council's Homelessness Strategy aims to reduce homelessness and provide responsive and effective services. The Council has a duty to accommodate people who are unintentionally homeless and as it does not have sufficient permanent housing available, temporary accommodation is sourced from private landlords.
- 1.2 The scope of the audit was to ensure there are arrangements in place for the procurement and subsequent payment to organisations which provide services for clients who are either homeless or have difficulties sustaining their tenancy. Management of void periods and tenant arrears was also examined.
- 1.3 The 2016/17 budget for homelessness was £1.9 Million. Services are procured using a framework agreement for temporary accommodation. In addition there are contracts in place for the provision of floating housing support, and supported accommodation where residents have additional support needs.

2. Main Findings

- 2.1 *Appropriate Council procedure for the procurement of temporary accommodation for homeless clients which provides Best Value*

The first audit objective was partially achieved; the present framework agreement for the provision of temporary homeless accommodation was for the period 01/10/12 to 30/09/15. However, this has been extended twice; to 30/09/16 and then 31/03/18. The framework contract did not contain any extension period but extensions have been agreed with the providers. However, as this has been extended twice this is pushing the boundaries of transparency and it is questioned whether it can be evidenced that these arrangements

continue to provide Best Value. In response the Service stated that in 2015 the Council agreed a new approach for the provision of temporary accommodation involving a clear strategy to reduce the volume of accommodation purchased from the private sector. It was not considered to be in the best interests of the Council to re-procure a new framework agreement until there was clarity on the likely volume of accommodation required.

The framework agreement contains "Core Contracted Services" (pre-arranged number of room nights for an agreed time period at an agreed purchase rate) and "Non-Core Contracted Services" purchased on as needed basis. Over time a number of providers have withdrawn from the framework and have not been replaced, reducing the pre-arranged accommodation available.

Out with the framework, temporary accommodation is provided using existing Council properties and leasing properties from other landlords. When all other options are exhausted, ad-hoc purchases of Bed and Breakfast rooms occur but premium rates may be paid during periods of high demand.

Floating housing support was originally funded through Interim Contracts developed through the "Supporting People" regulations applying at the time. These had been in place for several years without being subject to tendering. This changed when this was tendered in July 2016 and the new contracts commenced on 01/04/17. This was to include supported accommodation but due to the different issues involved with this type of accommodation it was decided by the Service to tender this separately. The Council's Shared Procurement service is working with colleagues in Community Services on a new tender for people with short term housing support needs with the intent that the contract commences in Spring 2018. Meantime there is evidence

Review of the arrangements for the procurement and payment of Homeless services

that the Service has been working with the current provider to move some residents into a more appropriate setting to free up this accommodation for clients who require higher levels of support.

2.2 *Robust processes in place for payments to organisations for services to Homeless clients*

This objective was partially achieved as the contracts for floating housing support and supported accommodation were managed and monitored by the Social Work Service prior to Integration then moved to NHS Highland. In April 2015, the contracts returned to the Council with the same terms and conditions. This meant that providers were paid up front and limited information on the services to clients was provided. In addition, there was no financial clawback for services not provided or where the agreed outcomes were not achieved.

A new officer commenced in November 2015 and since taking up post, introduced a number of policy and procedural changes to housing support, including more robust monitoring of the services provided.

It was intended to examine the new contracts for floating support which were due to commence on 01/10/16. However, this was delayed and these did not start until 01/04/17. The contracts contain retrospective payments to suppliers and the supported accommodation contracts have also been changed to the same basis. As a result of this delay, it was not possible to examine the new contact arrangements and so no assurance can be given that the new processes are operating in a robust manner.

2.3 *Arrangements in place to minimise void periods for temporary accommodation*

This audit objective was fully achieved as clear arrangements are in place to minimise the void periods for temporary accommodation. 71% of properties were

re-let within 2 weeks, of which 251 properties were re-let within 1 day or less. Longer term voids were due to properties requiring maintenance, sometimes by the landlord; in areas with less demand; or properties used for decant purposes.

2.4 *Effective plan in place to recover rent arrears from current and former tenants*

This objective was not achieved. Homeless clients provided with temporary accommodation are responsible for the payment of their rent and service charges. However, many of these costs are not paid and eventually written off. The reported arrears for Homeless Accommodation to 30/11/16 were £421,956 with 77.59% in the North and 84.70% in the South Operation Areas.

An escalation process is in place for dealing with arrears but examination of a sample of arrears showed that the first few stages were followed but then stalled with actions repeated with little effect, rather than being escalated further.

Once a temporary tenancy has ceased, outstanding sums are recorded as former tenant arrears. It was identified that the former arrears figures recorded was overstated as this included which had already been written off in accordance with Council policy and debts recorded in the Housing system as not being pursued.

3. **Audit Opinion**

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

puts the system objectives at risk. This is mainly due to the fact that the delay in implementing the new contracts meant that it was not possible to examine this process. However, it is intended that this will be examined when a follow-up audit is undertaken during 2018/19.

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

Description	Priority	No.
Major issues that managers need to address as a matter of urgency.	High	3
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	0
Minor issues that are not critical but managers should address.	Low	0

4. Action Plan

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
High	The current Temporary Homeless Accommodation framework has been extended twice to March 2018. These extensions and the fact that a number of providers have withdrawn from the framework over the years leaves the current arrangements open to challenge on transparency and the provision of Best Value for the Council.	<p>The Service should establish the volume of accommodation required across the Highlands taking account of anticipated future needs/ changes in service provision and the Council's strategy for temporary accommodation. This should inform the Council's requirements as part of the new tender.</p> <p>The Service should ensure that there are no further delays to the tendering process so that new contract(s) are in place for April 2018 when the current extension ends.</p>	<p>The Council agreed a new approach for the provision of temporary accommodation in 2015 involving a clear strategy to reduce the volume of accommodation purchased from the private sector. In view of this it was known that we would not be retendering for the same service. It was not considered to be in the best interests of the Council to re-procure a new framework until there was clarity on the likely volume and type of accommodation required and the nature of the framework that would best deliver our policy objectives.</p> <p>We are now actively working on retendering with a view to a new framework being in place for April 2018.</p>	Housing Policy and Investment Manager	30/04/18

Review of the arrangements for the procurement and payment of Homeless services

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
High	The provision of supported accommodation has never been subject to tendering and is currently delivered by a single provider at a cost of £471,380 per year. Payments are made in advance with no clawback for services which have not been provided or where the agreed outcomes for individual clients were not achieved. Although retrospective payments have been introduced from 01/04/17, it cannot be demonstrated that this service is providing best value and meeting the needs of clients.	The contract(s) for providing Supported Accommodation must be tendered as soon as possible to ensure the Council is meeting the procurement requirements and achieving Best Value. In addition, it is important that it can be demonstrated that the services paid for are being provided and that these meet the client needs and accord with the relevant Council strategies.	<p>Housing Support Contracts were retendered during 2016 with the contracts starting in April 2017.</p> <p>We are confident that the processes currently in place are robust and that the new contract arrangements will provide better value for the Council.</p> <p>A framework for supported accommodation is being developed within the tender for temporary accommodation referred to in the previous finding (above) with a target date of April 2018.</p>	Housing Policy and Investment Manager	30/04/18
High	A very high percentage of tenants have arrears for their Homeless Accommodation. Whilst an escalation policy is in place for dealing with arrears, this is not followed through but stops and is then started from the beginning again. As a result arrears continue to increase and are not being addressed effectively.	It is important that the escalation process is followed strictly by staff in order to take early action when arrears accrue with a view to minimising the sums owed and the risk that these will be not be paid by the tenant and are eventually written off.	<p>There are clear procedures for managing rent arrears in temporary accommodation.</p> <p>We will review practice and staff training requirements and introduce improved performance monitoring information for managers and principal housing officers involved in this area of work.</p>	Housing Policy and Investment Manager	30/09/17

Internal Audit Final Report

Development & Infrastructure Service

Compliance with the Carbon Reduction Commitment Energy
Efficiency Scheme 2015-16

Distribution:

Director of Development and Infrastructure
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Senior Sustainability Officer - CRC, Development & Infrastructure Service
Grant Thornton

Report Ref: HED02/003

Draft Date: 27/03/17

Final Date: 31/05/17

Compliance with the Carbon Reduction Commitment Energy Efficiency Scheme 2015-16

1. Introduction

- 1.1 The Carbon Reduction Commitment Energy Efficiency Scheme (CRCEES) is a mandatory UK wide policy aimed at reducing the level of CO₂ (carbon dioxide) emissions in large commercial and public sector organisations. CRCEES will be abolished at the end of the 2018/19 and move to a single business energy tax, the existing Climate Change Levy.
- 1.2 Carbon use must be reported and internally audited annually for the period 1 April to 31 March (current scheme phase 2014/15 to 2018/19 inclusive). This audit covers the reporting year, April 2015 to March 2016 inclusive. The Council reported on 1,218 qualifying energy supply points using a total of 45,022 tCO₂ (CO₂ tonnes) within the current compliance reporting period.

2. Main Findings2.1 *Recording, measuring and reporting of CO₂ emission output*

This objective was partially achieved as there are adequate processes and procedures in place to record, measure, and report CO₂ emission output within the Council's responsibility. However, the following issues were identified:

A review of the data underpinning the Carbon Reduction Commitment (CRC) Annual Return identified that 3 gas and 4 electricity sites which had 2 or more meters, each meter at the site showed the same amount of consumption in the TEAM CRC records but the recorded "Bill Entry" in the same system showed significantly different consumption values for each meter. The difference between the actual and reported consumption was 6,549,144 kilo watt hours (kWh) for the gas sites and 28,462 kWh for the electricity sites; 6% of the total consumption reported for 2015/16. As the gas sites

accounted for the greatest value of this difference, it was confirmed with the supplier, Total Gas, that the "Bill Entry" values were correct. Neither TEAM nor manual checking of the annual return highlighted the duplication.

This error has the following consequences:

- (1) The CRC annual report has overstated the CO₂ emissions by 1,219.63 tonnes meaning too many CRC allowances were purchased by the amount of £19,636 (£16.10 per tonne); and
- (2) The overstated amount must be declared to the administering body, Scottish Environment Protection Agency (SEPA), as it exceeds 5% of total consumption reported, which will decide whether penalties should be imposed. If so the potential fine is £48,785 (£40 per tonne). This sum could be reduced if SEPA agree that the overstated allowances could offset this, leaving a potential net cost to the Council of £29,149.

A sample of 21 supply sites was reviewed to ensure that:

- they covered the whole reporting year;
- they were correctly classified as actual or estimated supply, and
- the reported consumption figures agreed to the underlying billing data.

As reported in previous years, the loss of some functionality on TEAM following a software upgrade has meant the exact breakdown of the final consumption figure could not be determined. This affected 9 of the 21 sites reviewed as a result, it cannot be ascertained that the period 1 April to 31 March was covered by the annual report for all supply points. The classification of consumption as actual or estimated was found to be correct in line with the CRCEES Phase 2 definition.

A more effective process has been introduced to ensure all relevant sites have been identified and their supplies accurately recorded within TEAM and the CRCEES report.

Quarterly Supply Detail List reports are produced from TEAM which identifies any additions and deletions which are then checked to the CRC information. This process should also be undertaken before submitting the CRC Annual Report and the supporting information held within the Evidence Pack.

2.2 *Production of Carbon Reduction Commitment reports*

This objective was partially achieved as there are appropriate arrangements in place to ensure timely CRC monitoring and evaluation reports are produced. The annual report was submitted by the deadline of 31/07/16. However, as detailed at section 2.1, it has not been possible to provide assurance of the completeness and accuracy of the data submitted.

2.3 *CRCEES allowances*

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

3. Audit Opinion

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

This includes the significant concern that the CO₂ emissions reported were overstated by 6% which means that the Council faces a potential fine from SEPA of

£48,785. In addition, unnecessary CRC allowances of £19,636 have also been purchased by the Council for 2015/16. As this is the sixth compliance year and established processes are in place, it would not be expected that such a mistake would be made at this time.

An action plan is provided at section 4 detailing the recommendations for improvement together with the management response. It is of concern that 2 previous audit recommendations comprising of 1 high and 1 medium priority grades have not been implemented as previously agreed, these have been restated in the action plan which contains a total of **5** recommendations comprising of the following:

Description	Priority	No.
Major issues that managers need to address as a matter of urgency.	High	3
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	2
Minor issues that are not critical but managers should address.	Low	0

4. Action Plan

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
High	There is a recurring nature to audit findings in relation to process failures and these have potential financial penalties.	The Director of Development & Infrastructure should: (i) Instigate a LEAN or other process review to identify areas of weakness in the process and take corrective action to mitigate the financial risks identified. (ii) Enter CRCEES on the Service Risk register and entry the audit recommendations as risk actions to monitor progress.	(i) A LEAN review will be undertaken to address the risks identified and consider the best way to implement process improvements. (ii) CRCEES will be entered onto the service risk register.	Director of Development & Infrastructure Director of Development & Infrastructure	30/09/17 30/06/17
High	For 3 gas and 4 electricity sites with multiple meters, the same amount of consumption was recorded against each meter resulting in an overstatement of consumption of 6,577,606 kWh (6% of total kWh claimed in 2015/16).	The Energy and Sustainability Team should: (i) Review the information in TEAM to ensure that each supply point has the correct associated meter number and that these are not recorded more than once. (ii) Liaise with TEAM to establish why the CRC and bill entry modules of the system contain different information with regard to the meter reading, and ensure that the necessary system corrections are made. (iii) Undertake appropriate checks to ensure that the consumption data appears reasonable and there are no obvious anomalies.	Issue has been logged with TEAM. It will be a manual task to go through a report and ensure meter numbers are not reported on more than once. Issue logged with TEAM Sigma. Response below: The best way to identify Meters which are connected to Supply Points would be to run the 'Supply Details List' report as this will show you the contents of each Supply Point for the dates selected. There isn't currently a way this can be identified or flagged in the CRC module itself.	Energy & Sustainability Manager	31/07/17

**Development & Infrastructure Service
Compliance with the Carbon Reduction Commitment Energy Efficiency Scheme 2015-16**

HED02/003

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
High	9 out of 21 sites reviewed had periods where TEAM had calculated an estimated amount using direct comparison or pro-rata annual average methodologies. The basis of these calculations could not be determined. This was also reported last year and it was agreed that this would be addressed by 31/05/16. However, this still remains unresolved.	As previously recommended, the Energy and Sustainability Team should obtain an explanation from the software supplier to evidence how TEAM calculates the consumption figures.	Issue logged with TEAM.	Energy & Sustainability Manager	31/07/17
Medium	The year-end report detailing the number of qualifying sites does not agree with the number listed in the annual report. A difference of 18 sites was identified due to timing differences in when the two reports were produced. This point was also made in last year's audit report when another document was omitted. In response it was agreed that a checklist and model evidence pack would be prepared and retained for the 2015/16 data.	The Energy and Sustainability Team should ensure that year-end checks and any reports are produced once all required amendments have been processed and that the annual report information agrees to all supporting documentation. Introduction of the checklist which was agreed last year should ensure that the information held is complete.	A site record is to be established and maintained for each period of the scheme.	Energy & Sustainability Manager	31/07/17
Medium	Not all the evidence required to verify CRC allowances ordered, acquired, and surrendered had been retained in the Evidence Pack.	As previously recommended, the Energy and Sustainability Team should ensure that appropriate records are held within the evidence pack to support the annual CRCEES report.	All documents are retained in the evidence pack, in line with the requirements of the scheme. A list can be provided for audit purposes.	Energy & Sustainability Manager	31/07/17

Internal Audit Final Report

Development & Infrastructure Service

Planning and Building Control Fees and Charges

Distribution:

Director of Development & Infrastructure
Director of Finance
Depute Chief Executive/ Director of Corporate Development
Head of Planning & Environment, Development & Infrastructure Service
Head of Revenues & Business Support, Finance Service
Digital Services Manager, Corporate Development

Report Ref: HEA01/001
Draft Date: 30/03/17
Final Date: 27/04/17

1. Introduction

- 1.1 Payments for planning and building control fees can be made on the Council's website, by phone via the Service Centre, in person at a Service Point or by BACS. Planning and building warrant application fees can also be submitted along with the application on the national eDevelopment.scot portal (the portal). Payments are updated on the Uniform case management system by the Business Support eProcessing Centre (EPC). The budgeted income for 2016/17 is £4.479m comprising of Planning Fees £2.564m and Building Warrant Fees £1.915m.
- 1.2 The audit examined the Council's charging arrangements for all planning and building control related services to ensure that the correct fees are charged and processed in a timely manner. This involved sampling 30 payments, across all payment methods, processed by the EPC during November 2016. The audit also considered whether or not users of the service are encouraged to make payment online.

2. Main Findings

- 2.1 *Fees in line with regulatory requirements*
- This objective was fully achieved as Highland Council planning and building warrant application fees are in line with regulations set by Scottish Ministers. Discretionary fees were reviewed as part of the budget setting process for 2016/17 as per the Council's Corporate Charging Policy.
- 2.2 *Documented standard procedures*
- This objective was partially achieved as there are documented procedures for the processing of payments by the EPC and also Uniform user manuals and these are

available to all relevant staff. The manuals contain some information relating to the checking of payments and what action should be taken if the required payment is not received, however this could be more clearly stated.

2.3 *Correct fee paid and processed in a timely manner*

This objective was partially achieved as 5 of the sampled payments related to chargeable services which cannot be recorded on Uniform and therefore the system does not hold a complete record of payments received. However, all other sampled payments had been recorded on Uniform by the EPC in a timely manner. The EPC Team Leader stated that there are can be delays in processing BACS payments due to the provision of insufficient information along with the payment.

The procedures state that checks are carried out as part of the application validation/ assessment process to ensure that the correct fee has been submitted and appropriate remedial action taken. However, these checks had not been carried out for 2 of the cases sampled and remedial action had not taken place.

There are system controls in place within the Uniform Development Management module to ensure that a decision notice cannot be issued if there is an outstanding fee on the record but there is no such system control in place within the Building Standards module.

If a building warrant application is received prior to payment, a dummy payment is entered on the record in order to allow the application to be assigned. Therefore, the recorded balance is inaccurate. In one of the cases sampled, the dummy payment had not been deleted following receipt of the actual payment. Although marked as 'UNPAID' and would therefore not be refunded to the applicant, there is the risk that if appropriate checks were not carried out, that a refund could be issued.

Although all sampled payments had been entered onto Uniform by a member of the EPC team, all system users, including those responsible for authorising refunds, have access rights to amend or enter payment details. With rights to enter a payment and also authorise the refund, a fraudulent claim could be made.

2.4 Online payment encouraged

This objective was not achieved as, although all planning and building control services can be paid for online this is not actively encouraged and several alternative payment methods are available. Of the 844 payments processed by the EPC in November 2016, 44% were made online, 23% via the portal and 21% the Council's website. 36% were made over the phone via the Service Centre, 16% by BACS and 4% in person at a Service Point.

14 out of the 15 planning and building warrant applications sampled had been submitted online via the portal. Although payment can also be submitted on the portal, this had only been done for 6 of these applications. Payment for the remainder had been made over the phone (4), at a Service Point (2), on the Council's website (1) or by BACS (1). 10 of the sampled payments related to services outwith the scope of the portal. All of these could have been paid online via the Council's website but this was only done on 5 occasions.

6 out of 12 sampled payments taken by the Service Centre or a Service Point had either been miscoded or inadequate supporting information provided. This means that these payments can be more time consuming for the EPC to reconcile than those submitted online.

3. Audit Opinion

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

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

There are sound processes in place to ensure that payments are reconciled by the EPC in a timely manner. However, further development of the Uniform case management system is required so that assurance can be given that it provides an accurate and complete record of all planning and building control payments received.

The cost to the Council of processing an electronic transaction is £0.08 as opposed to £10.53 for a face-to-face transaction and £3.39 for a telephone transaction. A lot of work has been carried out to move to a system of electronic submission and management of applications which is more efficient and less resource intensive. However, the process of paying for applications has not followed suit.

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

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

4. Action Plan

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
High	(i) All system users, including those responsible for authorising refunds, have permission to enter payment details on Uniform and not just those tasked with doing so (the EPC) (ii) Payment information on Uniform is not an accurate record of actual payments received where a dummy payment has been entered to allow a building warrant application to be assigned.	In order to reduce the risk of fraud occurring the following system changes should be implemented: (i) Access to add or edit payment information on Uniform is restricted to EPC staff only with read only rights for all other staff (ii) The requirement to enter dummy payments should be removed.	An analysis of the system capabilities will be undertaken and the relevant changes made if technically possible.	Head of Planning & Environment	31/08/17
High	Although all planning and building control services can be paid for online, several alternative payment methods are provided and therefore users of the service are not encouraged to pay online wherever possible. Payments taken over the phone or in person can be more time consuming for the EPC to process.	The Service should move at the earliest opportunity to maximising use of on-line payments and eliminating the use of other more costly approaches other than by exception. In the interim this should be communicated as the preferred method of payment with services sign posted as follows: <ul style="list-style-type: none"> • Planning and building warrant applications – portal or Council website • All other chargeable services – Council website only. 	The Services involved will discuss the practicalities and potential efficiencies associated with this approach and implement if appropriate.	Head of Revenues and Business Support/ Customer Services Delivery Manager/ Head of Planning & Environment	31/10/17

**Development & Infrastructure
Planning and Building Control Fees and Charges**

HEA01/001

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
Medium	<p>Procedures relating to the payment of fees should be more clearly stated within the Development Management and Building Standards Uniform manuals.</p> <p>Payment checks, as stated in procedural manuals, had not been carried out as part of the application validation/assessment process for all of the sampled cases.</p>	<p>(i) The manuals should be reviewed to ensure that the following is clearly stated:</p> <ul style="list-style-type: none"> • at what stage of the application process payment checks should be carried out and by whom • remedial action to be taken if the required fee is not paid. <p>(ii) The updated manuals should be distributed to all relevant staff and attention drawn to the areas mentioned above.</p>	Manuals will be updated and distributed to all relevant staff.	Head of Planning & Environment	31/08/17
Medium	<p>The Uniform system does not operate as efficiently as possible as:</p> <p>(i) Not all chargeable services can be recorded on Uniform which means that the system does not hold a complete record of payments received</p> <p>(ii) There are no system controls in place within the Uniform Building Standards module to prevent a Building Warrant being issued prior to payment of the appropriate fee.</p>	<p>The following system changes should be implemented:</p> <p>(i) The facility to record payments for all chargeable planning and building control services on Uniform (apart from CAG fees as this is not possible on the current Uniform module used)</p> <p>(ii) A system control within the Building Standards Uniform module to prevent the issue of a building warrant prior to payment.</p>	<p>(i) A process review will be undertaken for the additional chargeable services and the relevant changes put in place.</p> <p>(ii) An analysis of the system capabilities will be undertaken and the relevant changes made if technically possible.</p>	Head of Planning & Environment	31/10/17
Low	<p>The EPC Team Leader stated that there are often delays in processing BACS payments due to the provision of insufficient information along with the payment.</p>	<p>A communication should be issued to those developers whose preferred method of payment is BACS to remind them of the correct procedure to follow.</p>	An update e-mail to all customers who have used BACS will be sent reminding them of payment options and procedures.	Head of Planning & Environment	31/08/17

Internal Audit Final Report

Care and Learning Service

Review of Financial Procedures in Schools

Distribution:

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Principal Accountant, Care and Learning Finance Team, Finance Service
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Report Ref: HAB01/008
Draft Date: 11/05/17
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1. Introduction

- 1.1 Visits were made to 3 primary schools; Ardersier, Duncan Forbes and Inverlochty to assess compliance with financial procedures outlined in the Council's Financial Regulations and Devolved Schools Management (DSM) Manual. The audit also examined the ordering system used by 108 small primary schools, by visiting the office in Fort William where orders are processed.
- 1.2 School Fund accounts must be submitted annually to the Service Finance Team for review. The audit examined a sample of 21 submitted School Fund accounts. This larger sample was examined as previous audit reports (HAB01/001 and HC13/012) highlighted several concerns with the operation of School Funds.

2. Main Findings

- 2.1 *Appropriate arrangements for the control and monitoring of the school's budget*

This objective was substantially achieved as there are processes in place to monitor and control budgets and regular contact with the School Financial Support Officers to discuss budgets and any areas of concern.

At the start of 2016/17 deficits were set to zero for all schools and a more robust process (Red, Amber, Green ratings) exists to monitor and assist those schools experiencing deficit problems. At the end of this year, 14 (7%) of schools had an amber rating (budget deficit not exceeding 3%; it should be noted no school actually exceeded 2% deficit).

At the time of the audit out of the 3 schools visited only Ardersier was forecast for significant overspend in 2016/17. This is partially due to high spend, in excess of the budget, on transport costs to take pupils to swimming classes. This is at odds with other schools which either request parental contributions or meet these costs from

the School Fund. However Ardersier have subsequently achieved an underspend for 2016/17.

- 2.2 *Established procedures complied with for the purchase and payment of goods and services*

This objective was partially achieved. There was adequate segregation of duties at all visited schools and the majority of spending was appropriate with invoices being paid timeously in almost all cases. A walk through test of the ordering process at the small schools ordering office showed this process was operating satisfactorily and allows for an efficient ordering process.

However at the visited schools, contrary to Financial Regulations, a large number of invoices had been paid which had no supporting purchase orders. Ardersier also used its DSM budget to pay for an extra-curricular class rather than the School Fund.

Only Duncan Forbes used a purchase card. Spending was appropriate and receipts held for expenditure although the transaction logs were not always completed.

- 2.3 *All non-School Fund income promptly receipted and banked in full*

No such income was received in the Schools and so this was not examined any further.

- 2.4 *Appropriate controls in place for the use and administration of imprests*

This objective was partially achieved as the imprest system was operating satisfactorily at Duncan Forbes and Inverlochty. Inverlochty's security arrangements for the imprest and school fund money do not comply with Financial Regulations, as some cash was held in unlocked plastic containers and the key to the locked cash tin is not secure.

Whilst Ardersier holds an imprest, it is not used. Instead petty cash expenditure has been wrongly paid from School Fund income (see 2.6).

2.5 *Accurate and complete inventories maintained*

This objective was not achieved as Ardersier and Duncan Forbes had no inventory and Inverlochty has a very limited Information Technology inventory. Schools continue not to comply with requirements of Financial Regulations, despite this having been previously reported and management agreeing that the appropriate actions would be undertaken. Furthermore, without comprehensive asset records there can be no guarantee that all equipment within schools has been identified then inspected and tested as required to ensure that it remains safe for use.

2.6 *Appropriate controls in place for the administration of the School Fund*

This objective was partially achieved as the visited schools were able to account for all income and expenditure which in the majority of cases was appropriate and 99% of schools did submit their 2015/16 Accounts to the Service Finance Team for review.

However, the following practices, contrary to Financial Regulations, were identified at visited schools and for those Accounts submitted to the Service Finance Team:

- paying out expenditure from the income,
- the Clerical Assistant at Duncan Forbes was also a cheque signatory,
- inappropriate spending on items that should come out of the DSM budget at Ardersier,
- 10 of the sampled School Fund Accounts did not have "The Highland Council" in their bank account name,
- failure within Ardersier to bank income frequently,
- failure to retain all receipts from banking at Inverlochty,

- categorising large amounts of expenditure as "miscellaneous".

These findings are of concern, especially given that the Guidance Note on School Funds was issued to all schools last year by the Service Finance Team. It was also noted that some schools incurred bank charges due to the type of account held and paid for the auditing of their Accounts where this could have been avoided.

3. **Audit Opinion**

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

The visited schools had diligent administrative staff who ensured most financial procedures operated as expected. However, the audit identified a number of instances of non-compliance with Financial Regulations. This is a concern because schools should be aware of this and have recently been issued the guidance note on school funds. Furthermore 2 previous audits have reported similar findings with recommendations to address these so it is evident that the previously agreed management actions have not been fully implemented.

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An action plan is provided at section 4 detailing the recommendations for improvement together with the management response. This contains a total of **7** recommendations comprising of the following:

Description	Priority	No.
Major issues that managers need to address as a matter of urgency.	High	4
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	2
Minor issues that are not critical but managers should address.	Low	1

4. Action Plan

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
High	The overall findings of the audit report highlight continuing concerns over compliance with the Financial Regulations within financial administration processes in schools which require a strategic review.	In addition to area of immediate action identified, the findings of the audit are drawn into the planned Administration in Schools Redesign Project.	The Administration of Schools (Re-design) project is already looking at working practices, processes and task mapping as part of its scope, and as an extension of that will be considered any training and guidance that may be required for staff arising from any changes the review may recommend. That scope will be revised to ensure that compliance with Financial Regulations, and the findings of this audit report, are also embedded.	Head of Resources/ Business Manager	Ongoing

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
High	<p>Whilst Ardersier has an imprest, this was not used and instead expenditure was incurred using School Fund income.</p> <p>Inverlochys security arrangements for holding cash for both imprest and school fund are unsatisfactory as some cash was left in unlocked containers and the key for the lockable filing cabinet not held securely.</p>	<p>Ardersier should use the imprest system for minor purchases in accordance with Financial Regulations.</p> <p>In accordance with Financial Regulations Inverlochys should ensure all cash is held in lockable cash tins, which are held in a lockable cupboard with only the Head Teacher and Clerical Assistant having access to the keys.</p>	<p>Inverlochys - We no longer have an imprest account and now operate a purchase card which has negated the need for cash.</p> <p>Cash is now always kept in a locked tin.</p> <p>The key for the filing cabinet is now stored in a locked key box.</p> <p>Ardersier - Our previous Finance Officer had been consulted regarding this and he advised that, as long as accurate records were kept and expenditure properly recorded, there was no reason that this was not acceptable. Accurate records are kept and income/expenditure is recorded properly. From August, we will use the imprest system. However, as this has never been used in this school, training/guidance is required.</p>	<p>Complete</p> <p>Complete</p> <p>Complete</p> <p>Principal Accounting Technician</p>	<p>30/08/17</p>

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Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
High	None of the visited schools contained an accurate and complete inventory. This shows that management agreed actions from previous audits have not been implemented.	Schools should create and maintain inventories in accordance with the requirements of Financial Regulations.	<p>Inverlochty - Since the audit we have started inventories as new goods/equipment has been purchased.</p> <p>Ardersier - We cannot see how this is manageable. Please could we have guidance over what is required and see an example/template of what you expect the inventory to look like/include.</p> <p>Care and Learning Actions: this matter will be picked up as part of the Administration in Schools review. A process for establishing and maintaining inventories will be developed, and consideration of any training and support needs within schools. Sufficient time/resources will also be a key factor, and hence the need for this to be considered as part of this wider review.</p>	<p>Complete</p> <p>Principal Accounting Technician</p> <p>Head of Resources/ Business Manager</p>	<p>30/08/17</p> <p>Ongoing</p>

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Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
High	A number of issues were identified with School Funds. Overall: Despite the Guidance Note on School Funds being issued to all schools in 2016, they were not aware of this and submitted accounts did not always comply with Financial Regulations.	All schools should ensure they comply with the Guidance Note on School Funds set out in Financial Regulations. Furthermore, schools should be reminded of this by providing an e-mail link to Financial Regulations when the request for the 2016/17 School Fund accounts is sent by the Service Finance Team.	Service Finance Team will incorporate link to Financial Regulations into email requesting submission of 16/17 School Fund Accounts.	Principal Accountant	30/08/17
	Examples of inadvisable practices occur specifically: <ul style="list-style-type: none"> • incurring bank charges due to the terms of the account • paying for accounts to be audited without establishing if there are viable alternatives. 	The Service Finance Team should also ask that schools examine their Funds to see if they can avoid unnecessary charges.	Service Finance Team will include a reminder re bank charges & and information on who can carry out an audit in the guidance note issued to schools.	Principal Accountant	30/08/17
	10 of 21 sampled schools did not have "the Highland Council" in their School Fund account name.	All schools should ensure their School Fund account name contains "The Highland Council".	Service Finance Team will incorporate a reminder on bank account names in the request for 16/17 accounts.	Principal Accountant	30/08/17

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
	<p>At the schools visited:</p> <ul style="list-style-type: none"> Ardersier and Duncan Forbes made petty cash (imprest) payments out of income. 	<ul style="list-style-type: none"> This should cease immediately and all income must be banked intact. Any expenditure from the School Fund must come from money already in the School Fund account and be supported by invoices/receipts as outlined in the Guidance Note. 	<p>Ardersier - Our previous Finance Officer had been consulted regarding this and he advised that, as long as accurate records were kept and expenditure properly recorded, there was no reason that this was not acceptable. Accurate records are kept and income/expenditure is recorded properly. From August, we will use the imprest system. However, as this has never been used in this school, training/guidance is required.</p>	Principal Accounting Technician	30/08/17
	<ul style="list-style-type: none"> At Duncan Forbes the Clerical Assistant who administers the School Fund is also a cheque signatory. 	<ul style="list-style-type: none"> The Clerical Assistant should not be a cheque signatory 	<p>The Clerical Assistant has not acted as a cheque signatory since this was highlighted as part of the audit. The process is currently underway to establish the Principal Teacher as a cheque signatory going forward.</p>	Head Teacher (Duncan Forbes)	30/07/17

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
	<ul style="list-style-type: none"> Ardersier used the School Fund for items that should have come from their DSM budget. 	<ul style="list-style-type: none"> Ardersier should repay the School Fund this expenditure. To prevent this occurring again the Head Teacher should ensure the school is aware of what items cannot be purchased through the School Fund, seeking clarification from the School Support Officers where necessary. 	<p>This was one cheque raised for outstanding invoices from the Care Commission. These were invoices we had not received so they were overdue. They were received at the end of term and in order to pay these quickly, we wrote a cheque rather than putting through Integra and risk payment held up by holds whilst we were on holidays. Invoice will be raised to pay this back from DSM budget into school fund.</p>	Clerical Assistant	30/06/17
	<ul style="list-style-type: none"> Banking of School Fund income at Ardersier is infrequent and receipts from banking were not held in all cases at Inverlochty. 	<ul style="list-style-type: none"> Banking should be undertaken in accordance with guidance outlined in Financial Regulations, with receipts held for all pay ins. 	<p>The reasons for this have been extensively explained. This is discussed frequently at the Head Teacher Reps meetings as it is an ongoing problem. The situation has improved slightly as we are now able to bank at the Post Office. We will endeavour to bank as often as we can.</p> <p>Inverlochty - We staple all bank receipts onto accompanying paperwork.</p>	Head Teacher (Ardersier)	Ongoing
				Complete	

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Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
Medium	<p>Part of the reason for the overspend within Ardersier Primary was the high spend on transport to swimming lessons. The view expressed by the Head Teacher was that this was part of the curriculum but further enquiries during the audit would dispute this.</p> <p>It was established that the normal practice in other schools is for transport costs to be funded through parental contributions or the School Fund.</p>	<p>Ardersier should fund swimming trips via parental contribution or through the School Fund. All schools should pay for extra-curricular activities in one of these 2 ways.</p>	<p>The Central School Transport budget provides for home to school transport and would not cover activities such as school swimming. Typically transport costs to swimming are therefore met from the school fund, parent council or parental contributions. This point will be reinforced to schools.</p>	Head of Resources	30/07/17

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Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
Medium	<p>Contrary to Financial Regulations, a large number of invoices had been paid which did not have a supporting purchase order.</p> <p>Ardersier paid for an extra-curricular item from its DSM budget when it should have used the School Fund.</p> <p>At Duncan Forbes the official transaction logs were not used to record the purchase card expenditure. However, since the introduction of Integra, Purchase Card Officers have a report sent to them to approve transactions, reducing the need for using official logs for purchase cards with low numbers of transactions each month.</p>	<p>In accordance with the requirements of Financial Regulations official order systems (electronic purchase orders or purchase cards) should be used.</p> <p>Extra-curricular activities should be funded through the School Fund and not DSM budgets.</p> <p>Official transaction logs should be completed in accordance with the Purchase Card guidance. This guidance should also be updated to reflect the change in practice.</p>	<p>Ardersier N/A - All invoices which should have had electronic purchase orders did have.</p> <p>Care and Learning response: all schools will be again reminded of the need to comply with Financial Regulations regarding placing of purchase orders.</p> <p>This invoice was NOT for an extra-curricular item. It was for an external provider doing a class in school as part of our Health and wellbeing programme which forms part of the curriculum. That is the reason this one invoice was paid through DSM budget.</p> <p>Purchase Card user guidelines to be amended to state that transaction logs are optional, and highlight in which situations the completion of a transaction log is recommended. Integra guidance notes to be amended to include detailed instructions on how to download a transaction report from Integra.</p>	<p>Complete</p> <p>Head of Resources</p> <p>Complete</p> <p>Procurement Officer</p>	<p>30/09/17</p> <p>31/05/17</p>

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
Low	The ordering process for small schools is an efficient use of resources. However there may be scope for expanding its use.	This process should be assessed to see if it can be expanded to include more schools to make ordering processes more efficient and alleviate the administrative burden on those schools with less clerical hours.	The Administration of Schools Re-design project is considering as part of its scope the most appropriate way to deal with transactional processes within schools. That may include considering whether a 'hub' approach within clusters or ASGs is appropriate, to centralise expertise within particular schools for these tasks, to ensure the task is delivered most efficiently, and also to release office staff in other schools to deal with other local tasks.	Head of Resources/ Business Manager	Ongoing