

Agenda Item	4
Report No	AS/6/19

HIGHLAND COUNCIL

Committee: Audit & Scrutiny Committee

Date: 13th June 2019

Report Title: Internal Audit Reviews and Progress Report – 16/03/19 – 31/05/19

Report By: Corporate Audit Manager

1. Purpose/Executive Summary

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

2. Recommendations

- 2.1 The Committee is asked to:
- i. consider the Final Reports referred to in Section 3.1 of the report, and
 - ii. note the current work of the Internal Audit Section outlined at section 4 of the report and performance information provided at section 5.

3. Audit Reports

3.1 There have been 3 final reports issued in this period as referred to below:

Service	Subject	Opinion
Corporate Resources	Financial Assessments	Substantial Assurance
Care & Learning	Investigation into fraudulent expenditure claims in Social Work office – System Weaknesses	Limited Assurance
Corporate Resources	Continuous Auditing Exercises	Reasonable Assurance

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

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

4. Other Work

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

(i) Work for other Boards, Committees or Organisations

Audit work has been undertaken on behalf of the Valuation Joint Board, Pension Fund, Highlands and Islands Transport Partnership (Hitrans). This also includes providing the Annual Governance Statements required for the different sets of Annual Accounts that Council staff are responsible for preparing.

(ii) Certification of grant claims

Work was undertaken in respect of the Hitrans grant claims for the Smart Peripheral and Remote Airports (SPARA) 2020 project, and the Northern Periphery and Artic Programme (NPA) Lighthouse project during this period.

(iii) Corporate Fraud activity and investigations

As reported to the last Committee meeting, the system weaknesses relating to the theft of cash by way of expenditure claims has now been completed and this report is provided.

In addition, an investigation has been undertaken into a major payroll overpayment whereby a casual employee was wrongly set up as a full time permanent employee. This resulted in an overpayment of £28,300 during the period December 2016 – January 2019. This was only identified when the individual resigned from their casual post. Following an interview under caution they have agreed to repay the sums due by way of instalments. They were also informed that this matter will be reported to the Procurator Fiscal. A formal system weaknesses report will also be issued on this matter.

A bank mandate fraud occurred where fraudsters managed to “hack” the e-mail account of a supplier through the installation of malware and then inform the Council of a change to their bank account details. They were able to divert a payment of £4,000 before this was discovered. This matter was reported to relevant Police force which identified the individual and obtained a search warrant for their property. Details are awaited as to what action will now be taken. In addition, a fraud awareness session was organised in conjunction with Police Scotland on 22/05/19 for relevant officers who are involved in banking and payment systems.

3 other investigations are ongoing as previously reported to Committee but as they are subject to internal disciplinary investigations then no further information can be provided at this point in time.

(iv) National Fraud Initiative (NFI)

Progress with the 2018/19 NFI National Exercise is continuing with new housing data and additional matches for housing benefit, Council Tax discounts, payroll and pensions provided on 31st May.

5. Progress against the 2018/19 plan and performance information

5.1 The final position showing progress against the 2018/19 plan is provided at **Appendix 1**.

5.2 Performance information for quarters 1 – 4 for 2018/19 is provided below.

Category	Performance Indicator	Target	2018/19 Actuals			
			Q1	Q2	Q3	Q4
Quality						
Client Feedback	(i) % satisfaction from individual audit engagements expressed through Client Audit Questionnaires (CAQ)	75	91	80	93	77
	(ii) % of Client Audit Questionnaires returned	70	100	100	100	75
Business Processes						
Timeliness of Final Report	(iii) % of draft reports responded to by client within 20 days of issue	85	100	29	100	67
	(iv) % of final reports issued within 10 days of receipt of management response	90	100	86	100	100

6. Implications

- 6.1 Resources, Legal, Equality, Climate Change/Carbon Clever, Rurality and Gaelic – there are no further implications from this report. Any implications arising from audit reports are detailed within the individual reports.
- 6.2 Risk – the risks and any associated system or control weaknesses identified as a result of any corporate fraud investigations will be reviewed and recommendations made for improvement.

Designation: Corporate Audit Manager

Date: 4th June 2019

Author: Donna Sutherland

Background Papers:

Internal Audit – progress against 2018/19 audit plan

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

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

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

Key:

TOR – Terms of Reference

DR – Draft audit report

FR – Final audit report

Audit cxd – Audit to be cancelled

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

Internal Audit Final Report

Corporate Resources

Financial Assessments

Description	Priority	No.
Major issues that managers need to address as a matter of urgency.	High	0
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	1
Minor issues that are not critical but managers should address.	Low	2

Audit Opinion

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

Distribution:

Depute Chief Executive/ Director of Corporate Resources
Head of Revenues and Customer Services, Corporate Resources Service
Service Delivery Manager, Corporate Resources Service
Benefits and Welfare Manager, Corporate Resources Service

Report Ref: HDB10/001

Draft Date: 08/03/19

Final Date: 02/04/19

1. Introduction

1.1 Following a restructure the responsibility for delivering all council benefits and entitlements has moved to a single service delivery team (the team) within Revenues & Customer Services section of the Corporate Resources Service. The team comprises of revenues staff based at 8 administering offices in Wick, Golspie, Dingwall, Portree, Fort William, Inverness, Kingussie and Nairn. Also, in August 2016, an online 'Apply Once' benefit application was launched which captures all customer information once and calculates potential entitlement to all Highland Council administered benefits and entitlements. In 2017/18, the Council's Gross Welfare Budget spend was £59.616m.

The audit examined the benefit and entitlements application process, taking into account the developments specified above, and assessed whether or not current processes are as efficient as possible for both the Council and the customer.

1.2 The audit also looked at whether or not current processes support maximising the legitimate take-up of benefits and entitlements and also the detection and deterrence of fraud. In particular the undernoted additional entitlements were examined:

- Free School Meals (FSM)
- School Clothing Grant (SCG)
- Education Maintenance Allowance (EMA)
- Inverness City Winter Payments

2. Main Findings

2.1 *Benefits and Entitlements Application Process*

This objective was substantially achieved. The 'Apply Once' online application process means that an applicant need only provide their details once in order for their potential entitlement to all Council benefits and entitlements to be determined, including those specifically mentioned above. The only further information required from the applicant would be the provision of the necessary evidence in order to verify the claim.

Where an individual chooses not to use the 'Apply Once' online application, core benefits (Housing Benefit, Council Tax Reduction and Second Adult Rebate) can be made by means of an individual paper application form which is only available on request. In these cases, eligibility for additional entitlements such as Free School Meals and School Clothing Grant cannot be assessed as there are specific eligibility criteria, and this is not captured on the paper form. However, data matching exercises are undertaken on a regular basis in order to identify those who may be entitled to one of the additional entitlements (see 2.2 for further information). Referrals are often made to the Welfare Support Team (WST) by the Revenues Assistant processing the application if they feel the applicant is suffering particular hardship or are potentially eligible for any of the additional entitlements. Although 'Apply Once' is promoted on the front page of the form, it is not made clear to the applicant that they could miss out on certain entitlements by not using it.

Use of 'Apply Once' is encouraged wherever possible and it is promoted widely via the Council website, social media and by the WST and through Service Points. Usage stats show that the use of online finance forms has increased from 35% in 2016/17 to 52% in 2017/18. However it is not possible to determine whether or not this upward trend is continuing as usage stats are currently not available for 2018/19 due to issues with receiving information from Digital Services. It is also not possible to determine the proportion of online forms submitted as part of the 'Apply Once' online process as some entitlement applications can also be submitted as standalone online forms.

A sample of 12 FSM/SCG applications was examined but none had been submitted via the 'Apply Once' online form. This was because all applicants were already in receipt of other Highland Council benefits and were applying for FSM/SCG specifically. However, 8 out of the 12 applications had been submitted online via the standalone FSM/SCG application form. All applications had been accurately assessed and processed in a timely manner.

All 8 of the administering teams process applications for core benefits and this is done in a consistent manner across all

teams. Some teams also have responsibility for one of the specialist additional entitlements.

2.2 *Maximisation of Take-up and Detection and Deterrence of Fraud*

This objective was substantially achieved. There are a number of ways in which the Council works to maximise the uptake of benefits and entitlements, the 'Apply Once' online application being one. The WST assist individuals in identifying which benefits and entitlements they may be entitled to, not just those administered by the Council. Contact details for the WST are widely publicised on the Council website, Social Media and through Service Points and referrals are received from a variety of sources. In 2017/18, the WST assisted clients with claiming just over £6m of benefits and entitlements.

Data matching exercises are carried out in order to identify those who may be eligible to apply for specific entitlements. Such an exercise carried out recently identified over 600 households which may be eligible for FSM/SCG and they will be contacted and invited to apply.

For FSM/SCG and Inverness Winter Payment, exercises are carried out each year to assess continued eligibility for the entitlement so that people do not have to reapply each year. For EMA, students must reapply each year as per Scottish Government Guidelines. However all young people currently in receipt of EMA are sent an invitation to reapply prior to the start of the new academic year. These exercises, which help to maximise take-up levels, have been introduced since the team took on responsibility for delivery of these entitlements.

The audit identified 2 specific examples of promotional work carried out in order to raise awareness of specific entitlements in order to maximise take up. For EMA, a mail shot is sent to all eligible young people attending schools in the Highland area to inform them about EMA and it is also advertised in schools. For the Inverness Winter Payment, a publicity campaign is run each year prior to its launch in December with the aim of encouraging those that are entitled to apply.

The experience that members of staff within the team have gained from dealing with benefit applications means that they are ideally placed to identify changes in an applicant's circumstances whilst processing applications for additional entitlements. An example of this was picked up during testing whereby information regarding earned income provided on one of the sampled FSM/SCG applications prompted an immediate reassessment of the applicants Council Tax Reduction entitlement. This demonstrates the effective way in which information flows within the team and the efficiency with which potential discrepancies and changes are dealt with. This benefits not just the Council but also the claimant as it prevents an overpayment having to be reclaimed at a later date or a more significant change to CTR entitlement in the next financial year.

In order to identify other entitlements which could potentially be delivered by the team, monitoring of the welfare budget is carried out and budget information reported to the various Strategic Committees is reviewed. There is also regular dialogue with Services and from conversations held potential opportunities such as Improvement Grants, an entitlement which is currently being explored, are identified. However a systematic approach is not taken to this.

3. Conclusion

- 3.1 Current benefit application processes are as efficient as possible for both the Council and the customer, especially if an application is made via 'Apply Once'. Support and advice is provided by the WST and improved processes have been introduced in order to maximise the legitimate take up of the additional entitlements. The delivery of all financial benefits and entitlements by a single service delivery team effectively supports the detection and deterrence of fraud as potential discrepancies can be identified and addressed more quickly thus minimising the impact of fraudulent claims.

4. Action Plan

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
Medium	<p>The use of online finance forms has increased from 35% in 2016/17 to 52% in 2017/18. However it is not possible to determine:</p> <p>(i) whether or not this upward trend is continuing as usage stats are currently not available for 2018/19 due to issues with receiving information from Digital Services</p> <p>(ii) the proportion of online forms submitted as part of the 'Apply Once' online process.</p>	<p>(i) Discussions should be held with Digital Services to establish the provision of usage stats for 2018/19. Stats should then be produced on a regular basis. Once usage is established, a target should be set and performance against target monitored accordingly.</p> <p>(ii) If possible, usage stats produced should identify the proportion of applications submitted via 'Apply Once'.</p>	<p>Agreed - Provision of a monthly report on the breakdown / comparison of Apply Once.</p> <p>Set target & monitor.</p> <p>Agreed - this will be put in place when the usage stats are available.</p>	Digital Service Manager	31/07/19
				Service Delivery Manager	31/08/19
				Business Development & Support Manager	30/09/19
Low	In order to identify other entitlements which could potentially be delivered by the team, monitoring of the welfare budget is carried out and budget information reported to the various Strategic Committees is reviewed. There is also regular dialogue with Services. However a systematic approach is not taken to this.	A systematic approach should be developed with the aim of identifying all additional entitlements and exploring the possibility of these being delivered by the single service delivery team.	Agreed - Contact from Depute Chief Executive & Director of Corporate Resources to all Directors to make them aware that any financial assessments undertaken / planned should be discussed with Revenues & Customer Services.	Depute Chief Executive & Director of Corporate Resource	30/04/19
Low	Although 'Apply Once' is promoted on the front page of the core benefit paper application form, it is not made clear to the applicant that they could miss out on certain entitlements by not using it.	The message regarding 'Apply Once' on the front page of the core benefit paper application form could be strengthened to include mention of the risk of not receiving all entitlements if not used.	Agreed - This will be included on next version of application form which is currently under review.	Client Manager	30/06/19

Internal Audit Final Report

Care & Learning Service

Investigation into fraudulent expenditure claims in Social Work office – System Weaknesses Report

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

Audit Opinion

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

Distribution:

Principal Officer, Care & Learning
Interim Director, Care & Learning
External Audit

Report Ref: HAC04/002

Draft Date: 12/04/19

Final Date: 08/05/19

1. Introduction

1.1 Internal Audit were notified of a potential fraud within a Social Work Office on 23/05/18 by the Principal Officer. The Director of Care & Learning and Human Resources were notified in the same e-mail.

The main concern related to a discrepancy in the imprest account which came to light on 22/05/18. Shortly after this was highlighted by Business Support staff within the team, an Officer handed over 3 blue Financial Assistance forms, each for a payment of £20, and asked if this was enough to cover the discrepancy. Business Support staff also told the Team Manager that the same Officer had borrowed £40 from the imprest during April 2018, however the exact date is not clear. No other staff have borrowed money from the imprest to the Team Manager's knowledge and staff are aware that money should not be borrowed from petty cash.

Financial Assistance forms should be completed by the Social Worker and authorised by the Team Manager. They should detail the reason for the payment to the client, and also be counter-signed by the client upon receipt of the money. A note of any payment made to clients should also be recorded as an observation in the Carefirst IT system. The majority of payments to clients are to cover transport fares, should be supported by a receipt, and are normally for less than £5. The Team Manager expected any other payments to be made in exceptional circumstances but stated that the spend against the miscellaneous and emergency payment budget headings looked higher than she would expect.

An audit report highlighting the findings of the investigation was issued to Service management on 05/07/18. This concluded that the minimum value of fraudulent transactions was £256.45, and highlighted instances where the Council's Financial Regulations had been breached. Due to these breaches, it was not possible to provide assurance that recorded expenditure in excess of £2,331 was legitimate. A disciplinary investigation was then instructed, and a hearing was scheduled for 17/01/19, however the Officer resigned with effect from 07/01/19.

This report highlights any system issues that allowed the fraud to take place.

2. Main Findings

2.1 Claim process

The investigation reviewed claims dating from 12/01/17 – 22/05/18. 14 claims were paid, with a total value of £5,075.14. However, transactions totalling £2,331.03 (46% of the total value paid) were not supported by receipts or Financial Assistance Forms. Therefore, no assurance can be provided that these transactions were legitimate.

It is understood that there have been issues previously within this office where Social Workers failed to provide supporting documentation for payments from the imprest. There have also been instances where clients have made repayments of financial assistance, and this has been returned to the imprest cash box without documentation. It is therefore likely that some of the unsubstantiated transactions are legitimate. Unfortunately, without supporting documentation the value of legitimate transactions cannot be quantified.

In addition to the unsupported transactions, the investigation also identified the undernoted issues around the claim process. Further investigation confirmed that these were legitimate transactions, but the issues identified increase the risk of fraudulent transactions being processed:

- 25 Financial Assistance forms totalling £403.82 were authorised by the person who submitted the form. These figures do not include forms where the amount is verified by a separate receipt (e.g. bus or train ticket).
- 7 Financial Assistance forms totalling £50 had blank sections for who submitted the form and were not authorised.
- 15 Financial Assistance forms totalling £177.40 were not authorised. This includes 1 request for £10 that was also not signed by the client to evidence receipt of money from petty cash.

The Financial Regulations Guidance Note on Petty Cash and Cash Floats states that "claims should be recorded on an approved

Imprest Claim Form pad". This was not used within the office, the file containing the imprest claims had a print from Integra along with any supporting documentation that had been retained (i.e. receipts and Financial Assistance forms). The Integra print does not show the claim total, only which supplier number was used. A Spreadsheet is maintained on a shared drive but this only details the total cost against each subjective code, and does not provide a breakdown of the individual transactions recorded against each subjective code – this information would be recorded on the imprest claim pad if this had been used. In addition, the spreadsheet could be subsequently altered whereas this would be easier to identify on the imprest pad.

2.2 *Authorisation of claims*

The total of unreceipted expenditure referred to in section 2.1 includes imprest claim 0030323276 for £234.00, submitted on 16/02/18. No receipts were retained for this imprest claim, however the imprest reimbursement was still approved in Integra by the Team Manager. 11 of the 13 remaining reimbursements referred to in section 2.1 were also authorised in Integra by the Team Manager.

Section 6 of the Financial Regulations Guidance Note on Petty Cash and Cash Floats requires that the following checks should be made when processing a claim for payment:

- (i) The claim form is arithmetically correct;
- (ii) The claim reconciles with the imprest account;
- (iii) Receipts are attached and any VAT is accounted for; and
- (iv) That the claim is signed by the imprest holder.

Clearly, these checks were not carried out as part of the authorisation process. Had these checks been carried out the unsupported transactions and incomplete and/or unauthorised Financial Assistance forms referred to in section 2.1 would have been identified at an early stage and the financial loss from the fraud would have been minimised.

3. **Conclusion**

- 3.1 The investigation found that adequate controls were not in place for the imprest account both in terms of recording and substantiating transactions, and in scrutinising those transactions at the authorisation stage as a result of policies and procedures within the Council's Financial Regulations not being followed. The recommendations within this report will ensure a robust process is in place, and should be shared with other similar Social Work offices to minimise the possibility of a similar situation happening elsewhere, and to increase awareness of the relevant policies and procedures.

4. Action Plan

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
High	<p>Failure to follow the policies and procedures outlined in the Council's Financial Regulations increased the risk of fraud, in particular in the undernoted areas:</p> <ul style="list-style-type: none"> (i) Imprest transactions were often not supported by a receipt or Financial Assistance form; (ii) Financial Assistance forms were not always fully completed, and were often authorised by the person completing the form, or not authorised at all; (iii) The imprest claim pad recommended in the Financial Regulations Guidance Note was not being used. (iv) Money from clients repaying financial assistance is understood to have been held with the imprest funds. 	<ul style="list-style-type: none"> (i) A receipt or Financial Assistance form must be held for each transaction funded through the imprest account as required by the Financial Regulations Guidance Note. (ii) Financial Assistance forms must be authorised by an appropriate manager, and must not be authorised by the person completing the form. (iii) The imprest claim pad should be used, and transactions should be recorded on the pad individually to enable verification that receipts are held for all transactions. (iv) As stated in Section 4.2 of the Financial Regulations Guidance Note, "Any other monies which the imprest holder may handle in the course of his/her duties should be kept separate from the imprest monies". 	<p>The findings and recommendations in this report, whilst relating specifically to weaknesses in the office, nonetheless are relevant to all teams within this function and as such the plan is to ensure consistency across all of them. The Responsible Officers listed cover all the teams.</p> <ul style="list-style-type: none"> (i) If not already doing so, Managers have been instructed on 18 April to comply with this with immediate effect. (ii) Ditto (iii) Ditto (iv) Ditto 	<p>Recommendations (i) – (iv) apply to all teams. The Principal Officer will issue a written instruction to all team managers responsible for managing petty cash.</p>	31/05/19
High	<p>Imprest claims were authorised in Integra, despite the claim not being fully supported by receipts, and in one case no receipts being held for the claim.</p>	<p>As part of the authorisation process, the checks outlined in the Financial Regulations Guidance Note must be carried out by the budget holder before the transaction is approved in Integra.</p>	<p>As above.</p> <p>In order to ensure compliance, the Principal Officer will conduct unannounced audits to verify that (i) – (iv) have been fully implemented.</p>	Principal Officer	30/09/19

Internal Audit Final Report

Corporate Resources Service

Continuous Auditing Exercises

Description	Priority	No.
Major issues that managers need to address as a matter of urgency.	High	1
Important issues that managers should address and will benefit the Organisation if implemented.	Medium	6
Minor issues that are not critical but managers should address.	Low	2

Audit Opinion

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

Distribution:

Depute Chief Executive/Director of Corporate Resources
 Head of Corporate Finance & Commercialism
 Finance Manager (Corporate Budgeting, Treasury & Taxation)
 Head of Revenues and Business Support
 Payroll and Pensions Manager
 Head of Commercial and Procurement Shared Service
 Revenues Manager

Report Ref: HDC04/003.bf
Draft Date: 07/05/19
Final Date: 04/06/19

1. Introduction

- 1.1 The 2016/17 and 2017/18 audit plans allocated time to review debtor and creditor systems. Samples of the following transactions were examined to assess whether Financial Regulations and Contract Standing Orders were adhered to.
- 1.2 Debtor systems (number examined across both years is shown in brackets): Debtor Invoices (60), Credit Notes (60), Adjustments (20), Write offs (20).
- 1.3 Creditor systems: Creditor Invoices (60), Payments to Staff (60), Credit Notes (60), Payments to suppliers whose contact details are PO Boxes or mobile numbers (60) and payments to suppliers who have the same bank account number (13). Also payments to suppliers of over £50,000 were examined to see if they had been correctly tendered for and listed on the Corporate Contracts Register and Directory (this covered both £50,000 in a single transaction or £50,000 in aggregate across multiple transactions).
- 1.4 Transactions were examined for Highland Council (including Harbours), Pension Fund, HITRANS and Highlife Highland (HLH).

2. Main Findings

- 2.1 *Debtors - Income is properly captured for all chargeable goods and services and recorded in the Sales Ledger in a consistent and timely manner and is complete, accurate and valid. Bad debt write-offs are properly controlled.*

This objective was partially achieved as the Debtor invoices sampled were raised by appropriate officers, posted to the correct customer and income was correctly coded in the General Ledger. VAT was treated correctly and only 0.16% of non-direct debit invoices raised in 2017/18 were for values less than £10. However, testing for both years found very similar findings, as summarised in the main issues identified below:

Review of all debtor invoices in both financial years showed gaps in the invoice number sequence. These gaps were infrequent and are understood to be as a result of users experiencing

network issues and input errors while creating the debtors invoice in Integra. There is a risk that gaps in reference numbers could result from the fraudulent deletion of debtor invoices following the receipt of a cash payment.

No assurance can be given that all credit checks are being undertaken where required. A previous debtor audit highlighted that for amounts over £10,000 Finance Teams have never undertaken such a check, which ties in with recent findings from the report to the Redesign Board on the review of service income. The requirement for credit checks was included in guidance issued to Integra users by the Income & Recovery Team on 28/03/19.

Where applicable, invoices had the correct fee or charge on them. Locating information on fees and charges was difficult. There are plans to create a corporate fees and charges database but these are currently on hold.

Only 44 of the 60 invoices (73%) reviewed had been raised within the prescribed time limit of 14 days from the date when the goods/service was provided.

For the period April 2017 to March 2018 inclusive 35,285 debtors invoices were raised, of which 6,830 (19%) were multiple invoices raised for a customer by the same person on the same date and in many cases the invoice references ran sequentially. A sample of these was examined, the reasons for issuing multiple invoices varied but this practice is less efficient than raising a single invoice for the full amount owed.

Credit notes: For all transactions the amount of credit per the general ledger matched that per the source documents, all transactions had been correctly coded in the general ledger and to the correct customer, all credit note transactions had been cross-referenced to the original invoice being cancelled.

35 of the 60 transactions reviewed required the corresponding invoice to be cancelled. Forms showing authorisation of cancellation should be held for each transaction. Of the 35, 11 had no cancellation form in support and 3 had forms but these were not signed by the authoriser. As with creditor invoices,

Integra is not being used consistently to attach either cancellation forms or details of the incident that prompted the raising of the credit note.

VAT was treated correctly in all but 4 of 60 transactions examined. These were errors where the wrong category of VAT was selected, rather than the wrong amount of VAT being recorded.

The reasons for the credit notes being created were appropriate in all but 1 case, the exception was where a credit note had been used to cancel former Tenant Arrears invoices. Subsequent examination showed this had occurred 13 times. Credit notes should not be used to write off debt as there is a separate process to identify and approve amounts written off in order to comply with the Council's Scheme of Delegation.

Adjustments: (credit/debit transfers and adjustments) were in almost all cases adequately explained but 2 sampled transactions had no narrative. None of the adjustments had attachments in Integra showing the reason for the adjustment.

All **write-offs** of Council debt reviewed had appropriate reasons to be written-off. All had been approved by an appropriately senior officer in accordance with the Council's Scheme of Delegation.

Comparing 2016/17 to 2017/18 there has been a significant increase in the total number (1,087 to 3,787) and amount (£577,212.51 to £1,074,440.48) of write offs. The Principal Revenues Officer explained that a more pro-active approach was now being taken to write off old debt which was 100% provided for under the Council's provision for bad debts.

2.2 *Creditors - Expenditure is properly authorised and recorded in the Purchase Ledger in a consistent and timely manner and is complete, accurate and valid. Payments are made only to valid suppliers.*

This objective was partially achieved. As with Debtors the main findings are summarised below.

PO Box/Mobile: Where supplier set up forms could be located it was found these agreed with the details held on Integra. However only commercial supplier set up forms are retained.

Duplicate bank accounts: For 2016/17 - 6 were found to be correct as: 4 companies had changed name and 2 suppliers had decided to factor their invoices with a bank.

For 2 cases both suppliers were non-commercial so forms were not held on Share Point. One had the same surname and address and the other case was referred back to Creditors as two different suppliers at two different addresses had the same sort code and bank account number. The Payments Officer confirmed they have de-activated both suppliers until both account numbers can be clarified. Forms were located on 05/06 and 14/06 - two different suppliers both bank at the same Building Society (hence the same sort code and account no) but have different roll numbers.

Creditor Invoices:

The Guidance Note on *Receipt of Goods and Services and Payment of Creditor invoices* is out of date and does not reflect the switch to Integra.

For 26 of the 60 transactions an approved contract supplier should have been used, but 9 of these used non-contract suppliers instead.

1 invoice was paid to a supplier who is a member of staff who purchased work related materials. They were set up as a supplier and have been effectively refunded for purchase of the materials. This is considered an irregular practice.

17 transactions had no narrative where one was expected.

14 transactions came from feeder systems so it would not be expected the invoice or supporting documentation to be attached to Integra. However 25 of the 46 other transactions had no attachment.

Staff payments: 38 of 60 payments reviewed were not payments to "Council Staff" and should have been classified as "Other payee".

Only a third of transactions reviewed had relevant attachments in Integra in support of the payment. Although details of payments were provided on request in all but 1 case, the lack of attachments makes analysis inefficient and can reduce accountability and transparency.

In each year an example was found of a payment to a supplier who was a member of staff who had authorised a payment to themselves on Integra. The cheque request forms had been authorised by another officer. This is in contradiction of Financial Regulation 17.2.8. Both of these examples were payments from HLH, the Finance Manager there has confirmed they have reviewed their practices to prevent this from occurring again.

Credit Notes were all satisfactorily authorised. 14 out of the 60 credit notes made reference to the Purchase Order (PO) and hence could be traced against the original invoice. The other 46 did not have any narrative cross referencing but 30 could be matched manually (after considerable time) from details provided on the credit note. The Guidance Note on Payment of Creditor Invoices says that "Credit notes should include the reference to the corresponding invoice and should contain the same information as the debit invoice".

Full use of the systems capability to attach original documents is not fully utilised with only 16 out of the 60 transactions reviewed having the credit note attached - the rest had to be requested from the inputter.

Adherence to Contract Standing Orders:

Testing was done to see if larger suppliers are on the contracts register and/or national frameworks and followed proper tender procedures. This covered: 1. All suppliers where single payments of £50,000 or more had been paid (215 suppliers in each year). 2. Where all payments to a supplier totalled more than £50,000 (17/18 only the top 173 of 649 suppliers were examined, in 16/17 161 of 519 suppliers were examined).

Whilst the majority of suppliers examined in both years were on a contract register and/or framework (or had a valid exemption) several concerns were identified:

- On occasion Services have not been completing Public Contracts Scotland (PCS) Contract Award Notices for completed procurements; the PCS portal updates the Spikes Observatory from which the Commercial & Procurement Shared Services (C&PSS) generate the Council's Contracts Register. When PCS Contract Award Notices are not actioned, systems are not updated and the Contracts Register is not fully up to date;
- Services purchasing from an expired framework agreement;
- Tender documentation was not always completed by Services (e.g. Contract Information Notices and Contract Award Notices);
- Use of non-contract suppliers;
- Failure to seek Committee approval for exemptions/exceptions from Contract Standing Orders.

2 minor issues were noted. Firstly, occasionally the name of a supplier differs on Integra and the Contracts Register making it hard to ascertain if a supplier is on the Register/Directory. Secondly the Directory is organised by type of materials required, rather than by supplier, making it time consuming to check if a supplier is on the Directory.

3. Conclusion

- 3.1 The audit has found examples of Services failing to comply with Financial Regulations. Financial Regulations also require updating to reflect the move to Integra. There is a lack of corporate instruction on how to use Integra effectively, notably on what should be attached. There is a risk that Services develop individual approaches to using systems and holding information which leads to inconsistency and reduced accountability. Although these issues can be addressed,

alternative methods of charging and payment including e-invoicing, would reduce the number of invoices.

- 3.2 A further concern arising from this audit is the lack of communication between Services and Procurement for some contract and tendering details. Off Contract spend without valid exemptions persists. It is essential that all Services follow the Council's Contract Standing Orders and Procurement Manual instructions to ensure that the Council complies with the requirements of Procurement legislation. Failure to do so results in the risk of procurement exercises being delayed or overturned if challenged, resulting in increased costs for the Council.

4. Action Plan

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
High	<p>Several issues were identified when matching suppliers to the Corporate Contracts Register or the Contract Information Notices on the Council's Intranet site:</p> <ul style="list-style-type: none"> • Services not publishing Award notices on Public Contracts Scotland or adding notices there retrospectively. • Services purchasing items off contract. • Incorrect use of contracts/framework agreements by Services 	<p>All tenders, mini-competitions and quotations should be undertaken through either Public Contracts Scotland or Public Contracts Scotland Tender and call off notices from frameworks should be created in the PCS website, as per requirements of Contract Standing Orders and the Procurement Manual. Any planned exceptions to this must be approved at a Senior level within the Service and discussed with Procurement. Where Procurement identify examples where Services have not followed Contract Standing Orders and/or the Procurement Manual, this should be escalated to the Service Director and the Director of Corporate Resources/Depute Chief Executive.</p> <p>Services need to ensure that they publish Award Notices within 30 days of completing a procurement - contract/framework agreement/quotations (above £10k) and mini-competitions (above £10k). This will enable the Contracts Register to be automatically populated. User guides for completing Contract Notices are available on the Procurement Intranet pages and</p>	<p>C&PSS will issue a reminder to all registered PCS users and Devolved Procurement Authority officers referring them to the PCS guide, Procurement Manual and the need/importance in actioning Contract Award Notices.</p> <p>In addition, as outlined in a subsequent action below, Executive Leadership Team (ELT) will continue to be provided with details of off contract spend with a clear instruction on how that information should be reviewed and actioned accordingly.</p> <p>Directors to issue a reminder to Heads of Service of the need to follow the instructions above.</p>	Strategic Procurement Analyst	31/7/19
				All Directors	07/08/19

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
	<p>The Register and the Contract Information Notices are time consuming to search;</p> <p>The supplier name on Integra can differ from that on the Register/Contract Information Notice.</p>	<p>should be accessed and followed.</p> <p>C&PSS to remove all expired Contract Information Notices.</p> <p>A process for identifying and de-activating/removing non-contracted suppliers from Integra should be investigated between C&PSS and Creditors.</p> <p>C&PSS to produce a simplified directory of available contracts and framework agreements and add to the Procurement Intranet pages – also including a link in the Procurement Manual.</p> <p>C&PSS to review suppliers to ensure consistency of naming convention.</p>	<p>C&PSS to identify a resource to action this.</p> <p>C&PSS and Creditors to action.</p> <p>A-Z on the Intranet was created by ICT/Webteam when the latest version of the Intranet went live. It is not a comprehensive list of all 'Live' contracts in place, instead it is organised by contract title. The Current Contract Register should be the definitive reference point for all users. C&PSS can ask the webteam if possible to get a list on one page rather than an A-Z.</p> <p>Naming conventions in contract register are dictated by the name the supplier has registered within PCS, it is out-with procurement's control. In the master contract register (not the one that goes on the intranet)</p>	<p>C&PSS – Senior Procurement Analysts</p> <p>Creditors/ C&PSS</p> <p>C&PSS</p>	<p>31/7/19</p> <p>31/10/19</p> <p>31/10/19</p>

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
			C&PSS were reviewing the suppliers and adding in the Integra supplier number and Integra supplier name where resources allow. In theory the supplier name should be the same on payment system as their registered PCS name.		
Medium	No assurance can be given that credit checks occur as required.	Income & Recovery should update Financial Regulations and issue instructions to ensure Services undertake credit checks where necessary. Income & Recovery should establish a process for Services to notify them that credit checks have been carried out, and monitor compliance of the process.	This was undertaken as part of the Service Income Review. Financial Regulations have been updated reiterating the need for credit checks. Income & Recovery teams will be issuing invoices for late payment and will be able to monitor regular offenders and as such discuss with the appropriate service.	Revenues Manager	Complete, but monitoring will be ongoing
Medium	Credit note issues: Accounts Receivable (AR) cancellation forms (or clear evidence of Budget Holder approval) not attached to transactions.	The Corporate Manual referred to above should include instructions on the need to attach AR cancellation forms (or equivalent supporting evidence) in Integra.	Email has been issued to Finance Officers reminding them to attach AR forms and use VAT Team to ensure VAT treated correctly. Both the issue of debtors document and SLS user guide require updating to ensure compliance as well as adding to the Credit Note pro forma.	Finance Manager (Corporate Budgeting, Treasury & Taxation) Principal Revenues Officer	Complete 30/06/19

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
	VAT treated incorrectly for some transactions.	Reminder should be issued to relevant officers on treatment of VAT. This should also be included in the Corporate Manual referred to above.	As above	As Above	Complete
	Credit Notes used to cancel debt.	Instructions on the correct and incorrect use of credit notes should be included in the Corporate Manual. Budget Holders should undertake analysis of reasons for credit notes to ensure they are appropriate.	An instruction will be issued to highlight to Service Finance Teams and all other users that they should only accept cancellations detailed on the new pro forma and that this should be attached to the credit note.	Revenues Manager for issuing instruction. Budget Holders for ongoing checks	30/06/19 Ongoing
Medium	2 issues were identified when reviewing creditor invoices: For only 17 of the 26 transactions where an approved contract supplier should have been used, had one been used. 1 invoice was paid to a supplier who is a member of staff who purchased work related materials. They were set up as a supplier and been effectively refunded for purchase of materials. This is considered an irregular practice.	Services must use contract suppliers wherever possible. Analysis of non-contract use by Services is currently provided by Procurement to the Executive Leadership Team (ELT). This must be used by the ELT and Service Directors to ensure goods and services are procured legitimately. If the report does not provide sufficient information to enable this, the format and content of the report should be reviewed. The Corporate Manual referred to above should include an instruction that this is not an acceptable practice.	ELT will continue to be provided with details of off contract spend with a clear instruction on how that information should be reviewed and actioned accordingly. Will be considered as part of action in relation to Corporate Manual	Head of Corporate Finance and Commercialism/C&PSS Head of Corporate Finance and Commercialism	30/09/19 and ongoing 31/07/19

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
Medium	<p>38 of 60 payments reviewed were not payments to "Council Staff" and should have been classified as "Other payee".</p> <p>Staff members were able to authorise payments to themselves on Integra.</p>	<p>Creditors should review all payees classified as staff to ensure list is correct. Guidance on what is and is not acceptable payments to staff should be issued to all Budget Holders.</p> <p>HLH confirmed they had reviewed their practices to ensure this can no longer happen. Creditors should include checking for this as part of the review of staff payments referred to above.</p>	<p>A one off exercise can be undertaken to verify historic payees. Guidance will be reviewed to ensure that new payees are correctly classified</p> <p>The security on invoice approval is based on cost centres and budget holders having responsibility for the cost centres as opposed to which suppliers a budget holder can approve. The system does however require that each invoice processed is input and approved by a different person so at least 2 people are involved in the transaction.</p>	Payroll & Pensions Manager	31/10/19
Medium	<p>14 out of the 60 credit notes made reference to the PO and hence could be traced against the original invoice. The other 46 did not have any narrative cross referencing but 30 could be matched from details provided on the credit note.</p>	<p>The Service Finance Team should investigate to see if Integra can be adapted to make cross referencing a mandatory field.</p>	<p>Would not be possible to make this a mandatory field as many invoices do not relate to purchase orders. However agree that a Corporate Manual could be used to ensure consistency and adherence to Financial Regulations.</p> <p>Reminder email to be issued to Integra users on processing of credit</p>	<p>See below for Corporate Manual</p> <p>Finance Manager (Corporate)</p>	30/06/19

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
	The Guidance Note on Receipt of Goods and Services and Payment of Creditor invoices is out of date and does not reflect the switch to Integra.	The Guidance Note should be updated by the Service Finance Team.	notes in PRL Guidance Note to be updated.	Budgeting, Treasury & Taxation) Finance Manager (Corporate Budgeting, Treasury & Taxation)	31/08/19
Medium	Review of all debtor invoices in both financial years showed gaps in the invoice number sequence.	Review/analysis should be regularly undertaken by Income & Recovery to ensure that gaps in invoice number sequencing are not as a result of transactions being fraudulently deleted on Integra.	This is already reported via Finance Systems Administration/ Systems and Change Team. Credit note gaps are also covered by this analysis.	Finance Systems Administration/ Systems and Change Team.	Complete but monitoring ongoing
Low	Integra is not used to its full ability; There is inconsistency in what documents are attached (specifically, Credit notes, reasons for adjustments and any relevant supporting information for transactions). There was a lack of narrative for some adjustments.	A Corporate Manual should be developed by the Corporate Resources Service to instruct all Integra users (including Business Support Officers) on what documents should be attached. This should include instructions on the narrative convention for each type of transaction. All adjustments should have an adequate narrative.	A group of relevant parties will be convened to identify the potential contents of a Corporate Manual and investigate the resource requirement in providing such a document.	Head of Corporate Finance and Commercialism	31/07/19

Priority	Finding	Recommendation	Management Response	Implementation	
				Responsible Officer	Target Date
Low	Information on fees and charges is hard to locate and not available corporately.	The Executive Leadership Team should look into whether the proposed fees and charges database project should be restarted.	This is not seen as a corporate priority at the moment and staff resources are being directed to other priority activity. The database project will be considered for progressions as resource becomes available.	Head of Corporate Finance and Commercialism	31/3/20