

**REPORT TO:** Audit and Governance Committee

**MEETING DATE:** 13 November 2012

**BY:** Executive Director (Support Services)

**SUBJECT:** Internal Audit Report – Lothian Villa Residential Unit for Young People

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## **1 PURPOSE**

- 1.1 To inform the Audit and Governance Committee of the recently issued audit report on Lothian Villa Residential Unit for Young People.

## **2 RECOMMENDATION**

- 2.1 That the Audit and Governance Committee note the contents of the Executive Summary and Action Plan for Lothian Villa Residential Unit for Young People.

## **3 BACKGROUND**

- 3.1 A review of Lothian Villa Residential Unit for Young People was undertaken as part of the audit plan for 2012/13.
- 3.2 The objective of the audit was to ensure that the internal controls in place at Lothian Villa Residential Unit for Young People were operating effectively.
- 3.3 The main findings from our audit work are outlined in the attached report.

## **4 POLICY IMPLICATIONS**

- 4.1 None

## **5 EQUALITIES IMPACT ASSESSMENT**

- 5.1 This report is not applicable to the well being of equalities groups and Equality Impact Assessment is not required.

## **6 RESOURCE IMPLICATIONS**

- 6.1 Financial - None  
6.2 Personnel - None  
6.3 Other - None

## **7 BACKGROUND PAPERS**

- 7.1 None

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<b>DATE</b>	2 November 2012

**EAST LoTHIAN COUNCIL – INTERNAL AUDIT  
LoTHIAN VILLA RESIDENTIAL UNIT FOR YOUNG PEOPLE**

**1. EXECUTIVE SUMMARY**

**1.1 Introduction**

A review of the financial arrangements in place at Lothian Villa Residential Unit for Young People was undertaken as part of the Audit Plan for 2012/13. A summary of our main findings is outlined below.

**1.2 Areas where Expected Controls were Met**

- An up to date record of all petty cash transactions is maintained.

**1.3 Areas with Scope for Improvement**

- There was a lack of adequate monitoring arrangements in place to ensure that all purchase card transactions were valid. *Risk – inappropriate expenditure may occur.*
- Purchase cards were being used to purchase goods from other suppliers, although the Council had contracted suppliers in place. *Risk – failure to comply with purchase card procedures.*
- In a number of cases, breaches in purchase card security were found – passwords and pin numbers had not been held securely. *Risk – irregularities and misuse may occur.*
- There was a lack of an audit trail to support purchase card and petty cash transactions – in some instances no receipts had been provided for the purchases made. *Risk – errors or irregularities may occur.*
- There was a lack of adequate segregation of duties – the member of staff responsible for operating the petty cash imprest account was also a cheque signatory. *Risk – errors or irregularities may occur.*
- There was a failure to ensure that petty cash reconciliations were checked and signed by an independent member of staff. *Risk – errors and anomalies may occur and remain undetected.*
- An up to date asset register was not maintained – details of additions and disposals of assets were not being recorded. *Risk – assets may be misappropriated.*

**1.4 Summary**

Our review of Lothian Villa Residential Unit for Young People identified a number of areas with scope for improvement. Detailed recommendations and opportunities for improvement are contained in our main Audit Report.

**Mala Garden  
Internal Audit Manager**

**November 2012**

**ACTION PLAN**

<b>PARA REF</b>	<b>RECOMMENDATION</b>	<b>RESPONSIBLE OFFICER</b>	<b>AGREED ACTION</b>	<b>RISK ACCEPTED/ MANAGED</b>	<b>AGREED DATE OF COMPLETION</b>
3.1.1	Management should ensure that staff members are aware of the up to date purchase card procedures which can be found on the Council's intranet.	Residential Services Manager	Agreed		March 2013
3.1.2	Management should ensure that all cardholders receive appropriate training to enable them to properly fulfil their responsibilities as cardholders.	Residential Services Manager	Agreed		March 2013
3.1.3	Cardholders should ensure that purchase card procedures are followed and that effective card security is maintained – passwords, security codes and pin numbers should be held securely at all times.	Residential Services Manager	Agreed		November 2012

PARA REF	RECOMMENDATION	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.1.4	<p>Management should undertake regular reviews of purchase card holders to ensure that purchase cards are only held by appropriate members of staff.</p> <p>Management should ensure that the Council's Procurement team are informed immediately an employee has left the Unit, to enable their purchase card to be cancelled.</p>	Residential Services Manager	Agreed		<p>March 2013</p> <p>In Place</p>
3.1.5	<p>Cardholders should view and update their own monthly transactions to confirm the purchases made are legitimate.</p> <p>The Cardplus Supervisor should check all cardholders' transactions on the Cardplus system on a monthly basis to ensure that they are valid.</p> <p>The Residential Services Manager's purchase card transactions should be checked monthly by the Area Resources Manager.</p>	<p>Residential Services Manager</p> <p>Area Resources Manager</p>	<p>Agreed</p> <p>Agreed</p>		<p>March 2013</p> <p>March 2013</p>

PARA REF	RECOMMENDATION	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.1.6	<p>Management should ensure that all purchase card transactions are supported by a valid VAT receipt.</p> <p>Management should ensure that purchase cards are not used to pay supplier invoices or for large items of expenditure which should be purchased via the Council's normal procurement processes.</p> <p>The existing practice whereby sections of till receipts are being deliberately cut off should cease with immediate effect.</p> <p>Management should ensure that only loyalty cards registered to Lothian Villa are used for purchases. All loyalty vouchers received by the Unit should be used for the Unit and not for staff members' personal benefit.</p> <p>The existing practice of making online purchases using staff members' personal computers should cease with immediate effect.</p>	Residential Services Manager	Agreed		November 2012

PARA REF	RECOMMENDATION	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.1.7	<p>Under no circumstances should Council purchase cards be used for personal purchases.</p> <p>Appropriate action should be taken to ensure that any costs incurred for personal purchases are reimbursed to the Council with immediate effect.</p>	Residential Services Manager	Agreed		November 2012
3.1.8	<p>Where an existing contract is in place the Council's contracted suppliers should be used – purchase cards should only be used for one off or emergency purchases.</p> <p>A clear audit trail should be in place for all purchases made by the Unit – there should be evidence of orders being completed and authorised and of all goods being properly receipted on delivery.</p> <p>Management should consider whether the Council's Facilities Management Services should be used for the supply of food and catering services for the Unit.</p> <p>Management should review the current arrangements in place for the purchase, recording, monitoring and issuing of bus passes.</p>	Residential Services Manager	<p>Agreed – if available and cost effective.</p> <p>Agreed</p> <p>Not agreed – this has been reviewed and considered in the past.</p> <p>Agreed</p>	Yes	<p>November 2012</p> <p>November 2012</p> <p>November 2012</p>

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3.2.1	<p>Management should ensure that effective budget monitoring procedures are in place and that reasons for any overspends are clearly documented.</p> <p>Management should ensure that all expenditure is coded to the correct ledger codes.</p>	Residential Services Manager	Agreed		March 2013
3.3.1	All petty cash should be held securely in the safe.	Residential Services Manager	Agreed		November 2012
3.3.2	<p>For all petty cash purchases, appropriate receipts should be retained on file.</p> <p>The individual personal allowances sheet recording residents' pocket money should be retained by the Unit.</p> <p>Adequate arrangements should be in place to replenish the petty cash float timeously to avoid the need to borrow petty cash from other Units.</p>	Residential Services Manager	Agreed		November 2012
3.3.3	All petty cash reconciliations should be checked and signed by an independent member of staff.	Residential Services Manager	Agreed		November 2012



PARA REF	RECOMMENDATION	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.3.4	<p>Cheque signatories should be independent of the day to day operation of the petty cash imprest.</p> <p>All petty cash reimbursement claims should be authorised by an independent senior member of staff.</p> <p>Management should carry out a review of bank signatories to ensure that only current employees are authorised signatories.</p>	Residential Services Manager	Agreed		<p>November 2012</p> <p>March 2013</p>
3.5.1	A clear audit trail should be maintained for all assets purchased – all items damaged, obsolete, stolen or disposed of should be clearly recorded in the asset inventory.	Residential Services Manager	Agreed		March 2013
3.6.1	<p>An up to date inventory of assets held in the Unit should be maintained.</p> <p>The inventory should be updated to record details of all new assets purchased including the date of purchase, cost, description, make or model, serial number and location.</p>	Residential Services Manager	Agreed		March 2013

PARA REF	RECOMMENDATION	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.6.1 (cont)	For items disposed of, the inventory should clearly record the date of disposal, the reasons for items being disposed of and evidence of authorisation by the Residential Services Manager.		Agreed		March 2013
3.6.2	<p>Regular asset verification checks should be carried out between the physical items held in the Unit and the inventory.</p> <p>Any differences identified during the verification checks should be highlighted to Management and the reasons for the discrepancies investigated.</p> <p>The inventory should be signed and dated as evidence of the check being carried out.</p>	Residential Services Manager	Agreed		March 2013