East Lothian
Council

REPORT TO: Audit and Governance Committee

MEETING DATE: 17 September 2019

BY: Depute Chief Executive (Resources & People Services)

SUBJECT: Internal Audit Report – September 2019

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1   PURPOSE

1.1   To inform the Audit and Governance Committee of Internal Audit reports issued, and follow-up work completed, since the last meeting of the Committee and to provide an update on progress made against the 2019/20 annual audit plan.

2   RECOMMENDATION

2.1   That the Audit and Governance Committee note:

   i.   the main findings and recommendations from Internal Audit reports issued during the period from July 2019 to September 2019 as contained in Appendix 1;

   ii.   the findings from Internal Audit's follow-up work;

   iii.   Internal Audit's progress against the annual audit plan for 2019/20 as set out in Appendix 3.

3   BACKGROUND

3.1   Since the last meeting of the Committee, final reports have been issued in respect of the following audits: Creditors (Duplicate Payments), Area Partnerships and Purchase Cards.

3.2   The main objective of the audits was to ensure that the internal controls in place were operating effectively. A summary of the main findings and recommendations from the audits is contained in Appendix 1.

3.3   For the audit reviews undertaken, Internal Audit has provided management with the following levels of assurance:

   ➤ Creditors (Duplicate Payments) – Moderate Assurance

   ➤ Area Partnerships – Moderate Assurance

   ➤ Purchase Cards – Moderate Assurance

3.4   Internal Audit follows-up on recommendations made in previously issued audit reports to ensure that they have been implemented as agreed by Management. Detailed spreadsheets are maintained to monitor progress being made and this report provides a summary of the current status for five audits that were reported in previous years. Our findings are detailed below.

Homelessness

3.5   Internal Audit's report on Homelessness was issued in November 2017. Our follow-up review has highlighted that all eleven recommendations made have been implemented.

Overtime

3.6   Internal Audit's report on Overtime was issued in February 2018. Our follow-up review has highlighted that all five recommendations made have been implemented.

Complaints Handling Procedure

3.7   Internal Audit's report on the Council's Complaints Handling Procedure was issued in February 2018. Our follow-up review has highlighted that all six recommendations made have been implemented.

Council Tax Liability

3.8   Internal Audit's report on Council Tax Liability was issued in February 2018. Our follow-up review has highlighted that of the six recommendations made, three have been implemented and three partly implemented. Details of the partly implemented recommendations and the revised dates of completion are shown in Appendix 2.

IT Access Controls

3.9   Internal Audit's report on IT Access Controls was issued in November 2018. Our follow-up review has highlighted that all four recommendations made have been implemented.

Progress Report 2019/20

3.10   The progress report attached as Appendix 3 is prepared to assist the Committee in their remit to evaluate Internal Audit's work and measure progress against the annual audit plan for 2019/20.

4   POLICY IMPLICATIONS

4.1   None

5   INTEGRATED IMPACT ASSESSMENT

5.1   The subject of this report does not affect the wellbeing of the community or have a significant impact on equality, the environment or economy.

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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DATE	5 September 2019

EAST LOTHIAN COUNCIL – INTERNAL AUDIT
CREDITORS – DUPLICATE PAYMENTS

1.   EXECUTIVE SUMMARY

1.1   Introduction

As part of the Audit Plan for 2018/19, a review was undertaken of Creditors – Duplicate Payments. A summary of our main findings is outlined below.

1.2   Areas where Expected Controls were Met

- Procedures are available for staff inputting invoices – procedures have been developed in individual service areas for each system involved in processing invoices.
- Invoice batches are authorised by staff with the appropriate financial authorisation limits prior to being passed for payment.

1.3   Areas with Scope for Improvement

- Evidence of the checks being undertaken prior to batch authorisation were not retained – in one case, a service area was producing an independent report for checking, however there was no evidence retained of these checks having been carried out. *Risk – duplicate payments may occur.*
- In some cases creditor references are not being confirmed prior to invoices being posted, Great Plains automatically retains the previous creditor reference. *Risk – the wrong supplier is paid.*
- Error messages are being overridden during the input process – invoices are in some cases input a second time by amending the invoice number. *Risk – duplicate payments may occur.*
- Action is not being taken timeously to seek recovery of duplicate payments – in some cases significant delays were identified in the recovery of the overpayment. *Risk – failure to recover amounts due to the Council.*
- Regular monitoring is not being undertaken to identify potential duplicate payments. *Risk – duplicate payments may be made and remain undetected.*

1.4   Summary

Based on our review of Creditors – Duplicate Payments, Internal Audit can provide moderate assurance on the adequacy and effectiveness of the systems of internal control. Detailed findings and recommendations are contained in our main audit report.

Peter Moore
Senior Auditor   **September 2019**

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.1.2	Management should ensure that regular training updates are provided to all staff with responsibility for processing creditor invoices. Management should ensure that training is provided by an appropriate member of staff.	Medium	Chief Operating Officer Finance	Training manuals are currently being updated for all relevant staff, with responsibility for both processing and authorising invoices. Training sessions are in the process of being developed for new and existing users who process invoices.		In progress – by December 2019
3.2.1	Management should ensure that all staff are aware of the procedures to be followed where error messages are displayed. Management should ensure that investigations are undertaken where an error message is displayed.	Medium High	Chief Operating Officer Finance	Clear reference will be included within training manuals. Reminder notification has been issued to all staff.		In progress – by December 2019 In place

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.2.1 (cont)	**Management should ensure that staff are aware of the need to change the creditor reference in Great Plains.**			**Discussions are ongoing with the software supplier as to whether the default code can be changed.**		**Ongoing**
	Management should consider putting a stop on further payments to a supplier where a duplicate payment has been identified.			**Option is currently being explored by management.**		**November 2019**
	Management should ensure that all details are correct before approving an invoice for payment.			**Reminder notification issued to all Managers.**		**In place**
3.3.1	**Management should ensure that checks are undertaken by a person independent of the processing before a batch is authorised for payment.**	**Medium**	**Chief Operating Officer Finance**	**Reminder notification issued to all Managers and independent check to be carried out where relevant in service areas.**		**In place**
	Management should consider the use of a standard batch header across all services.			**Consideration is being given to standardising batch headers across all services to enhance authorisation review.**		**October 2019**

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.4.1	Management should ensure that prompt action is taken to recover all duplicate payments made.	Medium	Chief Operating Officer Finance	Reminder notification issued to all Managers. Management are exploring options for enhanced identification and monitoring of duplicate payments.		In place In progress – by November 2019
3.5.1	Management should consider undertaking regular monitoring to identify potential duplicate payments.	Medium	Chief Operating Officer Finance	As above – options for additional monitoring are currently being explored, and will be implemented as a matter of priority.		In progress – by November 2019

Grading of Recommendations

In order to assist Management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
High	Recommendations which are fundamental to the system and upon which Management should take immediate action.
Medium	Recommendations which will improve the efficiency and effectiveness of the existing controls.
Low	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.

Levels of Assurance – Definitions

In order to provide management with an assessment of the adequacy and effectiveness of their systems of internal control, the following definitions are used.

Opinion	Definition
Substantial Assurance	There is a sound system of internal control designed and operating in a way that gives a reasonable likelihood that the objectives will be met.
Reasonable Assurance	Whilst there is a sound system of internal control, there are minor weaknesses, which may put some of the objectives at risk or there is evidence of non-compliance with some of the controls, which may put some of the objectives at risk.
Moderate Assurance	The system of internal control is broadly reliable, however there are a number of weaknesses, which put some of the objectives at risk or there is evidence that the level of non-compliance with controls put some of the objectives at risk.
Limited Assurance	Weaknesses in the system of internal control are such as to put the objectives at risk or the level of non-compliance puts the objectives at risk.
No Assurance	Control is generally weak leaving the system open to error or abuse, or there is significant non-compliance with basic controls, which leaves the system open to error or abuse.

EAST LOTHIAN COUNCIL – INTERNAL AUDIT
AREA PARTNERSHIPS

1. EXECUTIVE SUMMARY

1.1 Introduction

As part of the Audit Plan for 2018/19, a review was undertaken of Area Partnerships. The review focused on the decision making processes in place within Area Partnerships for the planning, allocation and spending of funds. A summary of our main findings is outlined below.

1.2 Areas where Expected Controls were Met

- Appropriate arrangements are in place to ensure compliance with relevant legislation, in particular the Local Government (Scotland) Act 2003 and the Community Empowerment (Scotland) Act 2015.
- The roles and responsibilities of Area Partnerships are clearly set out.
- An application process is in place for organisations seeking funding from Area Partnerships – all organisations are required to submit a Funding Proposal Form, together with supporting documentation.
- Appropriate arrangements are in place for making grant payments to organisations. For the sample tested, we found that the payments made agreed to the amounts approved by the Area Partnerships.
- Each Area Partnership maintains detailed budget monitoring spreadsheets which record all payments made and funding allocated. The spreadsheets are reconciled to the general ledger on a regular basis.

1.3 Areas with Scope for Improvement

- In some cases, there was a lack of evidence of checks being carried out to ensure that organisations had disclosed details of all other funding they were receiving, either externally or from other areas within the Council. *Risk – lack of awareness of total funding being received by organisations.*
- A consistent approach was not being adopted across all Area Partnerships for declaring and recording potential conflicts of interest. *Risk – failure to ensure that all potential conflicts of interest are identified and the risks mitigated.*
- In some cases, funding decisions were not being made at Area Partnership meetings, but were made following email correspondence. *Risk – lack of effective scrutiny and poor decision making.*
- There was a lack of evidence of a consistent approach being taken to the assessment of applications for funding – clear assessment criteria were not always in place, nor was there a scoring system to assist in assessing how applications meet local priorities. *Risk – failure to make best use of the funds available.*
- The operation of the Amenity Services budget allocated to Area Partnerships requires review. *Risk – funding may not be spent in line with agreed priorities.*

1.4 Summary

Based on our review of Area Partnerships, Internal Audit can provide moderate assurance on the adequacy and effectiveness of the systems of internal control. Detailed findings and recommendations are contained in our main audit report.

Stuart Allan
Senior Auditor   **September 2019**

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.2.1	Management should ensure that the updated Area Plans are finalised and formally approved by the relevant Area Partnership.	Medium	Service Manager – Connected Communities	Agreed – all Area Plans produced and approved by both the Area Partnership and East Lothian Partnership, and published on website.		October 2019
3.3.1	Consideration should be given to a clear record being maintained of all organisations approaching Area Partnerships for funding and of those that are then sent a Funding Proposal Form.	Medium	Service Manager – Connected Communities	Log of all applicants to be established.		October 2019
3.3.2	Management should ensure that all Funding Proposal Forms are signed and dated by the organisation's representative. Management should ensure that a fully completed application form is received prior to any decision being made to award funding.	Medium	Service Manager – Connected Communities	Application forms will be reviewed and amended.		October 2019

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.3.4	**Management should ensure that all Funding Proposal Forms received are date stamped to confirm the date of receipt by the Council.** **Management should ensure that the official section on the Funding Proposal Form is fully completed to record both the date received and if the form is complete or incomplete. The forms should be signed by the member of staff undertaking the checks.**	**Medium**	**Service Manager – Connected Communities**	**Agreed**		**October 2019**
3.3.5	**Adequate checks should be carried out to ensure that all other funding received by organisations is being disclosed in their application for funding.** **Management should ensure that a reporting mechanism is in place to provide a record of all Area Partnership funding awarded.** **Consideration should be given to preparing an annual report summarising the amounts awarded by each of the Area Partnerships.**	**Medium**	**Service Manager – Connected Communities**	**Agreed** **Agreed** **In preparing the Annual Area Plan for an Area Partnership, the Area Partnership Chair and Area Manager will append to that report an overview of the funding decisions approved and progressed in the previous financial year.**		**October 2019** **October 2019** **Production of annual report by June each year.**

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.4.1	Consideration should be given to adopting a structured approach for the receipt and assessment of funding applications, including establishing an annual timetable outlining key dates for the submission of applications and for making funding decisions. Management should ensure that a consistent approach is taken when assessing applications for funding – clear assessment criteria should be in place and consideration should be given to introducing a scoring system to assist in assessing how applications meet local priorities.	Medium	Service Manager – Connected Communities	Agreed – will review assessment process, in consultation with Area Partnerships.		December 2019
3.5.1	Management should seek to ensure that key funding decisions are made in formal Area Partnership meetings and that Partnerships can demonstrate the effective scrutiny of all funding applications received. In exceptional circumstances, where decisions are made outwith the normal meeting structure, Management should ensure that clear procedures are in place to provide guidance on decision making, including where voting is undertaken by email.	Medium	Service Manager – Connected Communities	Agreed		December 2019

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.5.1 (cont)	For all projects funded from the Education Attainment Fund, Management should ensure that clear evidence is retained of the feedback received from Education.	Medium	Service Manager – Connected Communities	Agreed		September 2019
3.5.2	Management should ensure that the minutes of Area Partnership meetings provide a clear record of all decisions made, including details of amounts awarded and how the decisions were reached.	Medium	Service Manager – Connected Communities	Agreed – review of minute taking and standard template to be adopted, to capture key decisions.		December 2019
3.5.3	Management should ensure that Decision Notices are sent to all organisations who are awarded Area Partnership funding – the declaration of acceptance should be signed by the organisation's representative and countersigned by the Area Manager.	Medium	Service Manager – Connected Communities	Agreed		October 2019
3.7.1	Management should ensure that a consistent approach is adopted by Area Partnerships for declaring and recording potential conflicts of interest – appropriate guidance should be provided on the actions to be taken to mitigate the risks.	Medium	Service Manager – Connected Communities	Agreed – guidance will be produced.		October 2019

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
3.8.1	Management should review the operation of the Amenity Services budget to ensure that the principles of devolved budgeting can be clearly demonstrated. Regular meetings should be held between Area Managers and Amenity Services to ensure that the funding is being spent in line with the priorities agreed by the Area Partnerships.	Medium	Service Manager – Connected Communities	Agreed – already under review in conjunction with Head of Communities & Partnerships and Head of Infrastructure.		Ongoing

Grading of Recommendations

In order to assist Management in using our reports, we categorise our recommendations according to their level of priority as follows:

Level	Definition
High	Recommendations which are fundamental to the system and upon which Management should take immediate action.
Medium	Recommendations which will improve the efficiency and effectiveness of the existing controls.
Low	Recommendations concerning minor issues that are not critical, but which may prevent attainment of best practice and/or operational efficiency.

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EAST LOTHIAN COUNCIL – INTERNAL AUDIT
PURCHASE CARDS

1. EXECUTIVE SUMMARY

1.1 Introduction

As part of the Audit Plan for 2019/20, a review of purchase cards was undertaken. Our review focused on a sample of 20 high value purchase card users from service areas across the Council.

1.2 Areas where Expected Controls were Met

- The Council has appropriate procedures in place for the use of purchase cards, including a list of purchase card do's and don'ts – all cardholders receive a copy of the procedures when they are issued with their purchase card and are required to sign an acknowledgement confirming that they have received instructions on how to use the purchase card and agree to adhere to the procedures. In addition, the responsibilities of Cardplus Supervisors are clearly outlined.

1.3 Areas with Scope for Improvement

- In a number of cases, there was a failure by cardholders to follow the most appropriate procurement route – purchase cards were being used to pay supplier invoices, to purchase goods for which the Council has contracted suppliers in place or to pay for goods and services, which should have been purchased through the PECOS system. *Risk – inappropriate expenditure may occur.*
- An inconsistent approach was being adopted within service areas for the storage and retention of purchase card statements and supporting invoices/receipts – in some cases, difficulties were encountered in obtaining key documentation. *Risk – errors or irregularities may occur and remain undetected.*
- In a number of cases, VAT was not being properly accounted for, including a failure by cardholders to reclaim VAT on purchases made, even though a valid VAT invoice or receipt was held. *Risk – loss of income to the Council.*
- There was a failure by some Cardplus Supervisors to review purchase card transactions, to ensure that all purchases made related to genuine Council expenditure. *Risk – inappropriate expenditure may occur.*
- In some cases, there was a failure to maintain effective purchase card security – cardholders were allowing other members of staff to use their cards. *Risk – irregularities and misuse may occur.*

1.4 Summary

Based on our review of Purchase Cards, Internal Audit can provide moderate assurance on the adequacy and effectiveness of the systems of internal control. Detailed findings and recommendations are contained in our main audit report.

Stuart Allan
Senior Auditor   **September 2019**

ACTION PLAN

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
5.1	The purchase card procedures in place should be fully complied with – purchase cards should only be used where alternative procurement routes are not available.	Medium	All Cardholders	Updated communication has been issued to all cardholders from Finance and procedures re-issued to all cardholders.		September 2019
	Management should review the use of purchase cards within their service area to ensure that the purchase card procedures are being properly adhered to by all cardholders.	Medium	Service Managers	Cardholder user lists to be issued to all Managers for review and monitoring.		October 2019
5.2	Management should ensure that Cardplus Supervisors review cardholders' transactions on the Cardplus system on a monthly basis to ensure that they relate to valid expenditure.	Medium	Service Managers	Agreed – new review process will make it mandatory for Card Supervisors to review all transactions.		October 2019
5.3	Management should ensure that all key documentation relating to purchase card transactions is easily accessible – a consistent approach should be adopted across service areas for the storage of purchase card statements and supporting invoices/receipts.	Medium	Service Managers	Procedures include the requirement to ensure statements and receipts are stored securely in line with information retention policy. Procedures have been re-issued to all cardholders.		September 2019
				Options are being explored with current card provider to store electronic scanned receipts.		Ongoing

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	RISK ACCEPTED/ MANAGED	AGREED DATE OF COMPLETION
5.4	Cardholders should identify all purchase card transactions with VAT and update the Cardplus system to properly reclaim the VAT. A valid VAT invoice/receipt should be retained for all VAT reclaimed on purchases.	Medium	All Cardholders / Service Managers	Reclaiming VAT is already reflected in the procedures. This section has been enhanced and re-issued to all cardholders.		September 2019

Grading of Recommendations

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OUTSTANDING RECOMMENDATIONS
COUNCIL TAX – LIABILITY

PARA REF	RECOMMENDATION	GRADE	RESPONSIBLE OFFICER	AGREED ACTION	AGREED DATE OF COMPLETION	REVISED DATE OF COMPLETION
3.4.1	**Partly Implemented** Management should ensure that disability band reductions are only applied to eligible applicants – eligibility should be confirmed via a visit to the property to establish if the relevant criteria are being met.	Medium	Council Tax Team Leader	Agreed – visits to be carried out where possible, however the application form will be updated to request additional information.	April 2018	October 2019
3.4.2	**Partly Implemented** Management should ensure that adequate evidence is held to support all backdated awards of disability band reduction.	Medium	Council Tax Team Leader	Agreed – additional information will be requested on the application form and evidence will be retained or cross-referenced where applicable.	April 2018	October 2019
3.6.2	**Partly Implemented** Management should ensure that appropriate arrangements are in place for visiting empty properties – an assessment should be carried out to identify specific categories of empty properties that should be inspected.	Medium	Council Tax Team Leader	Agreed – new Senior Officer's role will include carrying out quality checks and to establish if visits are required.	April 2018	December 2019

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Purchase Cards	We will review the internal controls in place for the use of purchase cards, including the arrangements for monitoring expenditure.	September 2019	Completed
Payroll Deductions	We will review the procedures in place for ensuring the accuracy and completeness of payroll deductions, including Tax, NI and pension contributions.	November 2019	
Domiciliary Care	We will review the in-house delivery of domiciliary care services to Adult Services clients.	November 2019	
IR35	We will check to confirm that adequate arrangements are in place for ensuring compliance with IR35 regulations, in respect of workers who supply their services through an intermediary body.	November 2019	
Schools	We will review the financial arrangements operating within one secondary school to ensure compliance with the financial procedures in place.	November 2019	
Risk Management	We will select a sample of High risks from both the Council's Corporate Risk Register and service area Risk Registers and will review the adequacy and effectiveness of the risk control measures in place.	November 2019	
Non-Domestic Rates (NDR)	We will continue our audit work on Non-Domestic Rates (NDR) – in 2019/20, we will review the arrangements in place for the recovery of NDR arrears.	February 2020	

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Direct Payments	We will review the arrangements in place for the administration and monitoring of direct payments made to Children's Services and Adult Services clients.	February 2020	
Records Management	We will review the arrangements operating within service areas for records management including the storage, retention and disposal of records.	February 2020	
Roads Contracts	We will examine the arrangements in place for the procurement, tendering and monitoring of work awarded by Road Services.	February 2020	
Procurement	As part of our annual review of procurement, we will examine work being awarded to suppliers to ensure compliance with the Council's Corporate Procurement Procedures.	February 2020	
Property Maintenance Stores	We will review the arrangements operating at the Property Maintenance stores.	February 2020	
Review of Performance Indicators	Internal Audit will continue to review the systems in place for the preparation and reporting of Performance Indicators.	February 2020	
National Fraud Initiative	Time has been allocated for reviewing data matches identified by the 2018/19 National Fraud Initiative (NFI) exercise.	February 2020	
Online Payments	We will review the internal controls surrounding the online payments system (SchoolPay), which was recently introduced in East Lothian schools.	June 2020	

AUDIT REPORTS	SCOPE OF THE AUDIT	TARGET COMPLETION DATE	STATUS
Council Tax	We will continue our audit work on Council Tax – for 2019/20, our review will focus on the procedures in place for Council Tax collection and refunds.	June 2020	
Transformation Programme	We will examine the implementation of the Council's Transformation Programme to ensure that the financial savings identified have been achieved.	June 2020	
Treasury Management	We will review the Council's approach to Treasury Management to ensure compliance with the CIPFA Code of Practice on Treasury Management.	June 2020	
Fostering and Kinship Care Allowances	We will review payments made to foster and kinship carers to ensure compliance with Council policies and procedures.	June 2020	
General Data Protection Regulations (GDPR)	We will review the arrangements in place within the Council for ensuring compliance with the provisions of GDPR.	June 2020	
Fleet Management	We will review the arrangements in place for the replacement, purchase and disposal of vehicles to ensure compliance with existing policies and procedures.	June 2020	
Following the Public Pound	As part of our rolling programme of work on Following the Public Pound, in 2019/20 we will review the monitoring arrangements in place for a sample of organisations receiving Council funding.	June 2020	