Securing the future… • *Improving services • Enhancing quality of life • Making the best use of public resources*

Council Building
2 High Street
Perth
PH1 5PH

11 November 2019

A Meeting of the **Audit Committee** will be held in **the Council Chamber, 2 High Street, Perth, PH1 5PH** on **Wednesday, 20 November 2019** at **13:00**
If you have any queries please contact Committee Services on (01738) 475000 or email Committee@pkc.gov.uk.

KAREN REID
Chief Executive

Those attending the meeting are requested to ensure that all electronic equipment is in silent mode.

Please note that the meeting will be recorded and will be publicly available on the Council's website following the meeting.

Members:
Councillor Eric Drysdale (Convener)
Councillor Stewart Donaldson (Vice-Convener)
Councillor Harry Coates
Councillor David Illingworth
Councillor Roz McCall
Councillor Xander McDade
Councillor Mike Williamson

Audit Committee

Wednesday, 20 November 2019

AGENDA

MEMBERS ARE REMINDED OF THEIR OBLIGATION TO DECLARE ANY FINANCIAL OR NON-FINANCIAL INTEREST WHICH THEY MAY HAVE IN ANY ITEM ON THIS AGENDA IN ACCORDANCE WITH THE COUNCILLORS' CODE OF CONDUCT.

1	**WELCOME AND APOLOGIES**	
2	**DECLARATIONS OF INTEREST**	
3	**MINUTE OF MEETING OF THE AUDIT COMMITTEE OF 18 SEPTEMBER FOR APPROVAL AND SIGNATURE** (copy herewith)	**5 - 8**
4	**INTERNAL AUDIT FOLLOW UP** Report by Chief Internal Auditor (copy herewith 19/336)	**9 - 16**
5	**INTERNAL AUDIT UPDATE** Report by Chief Internal Auditor (copy herewith 19/337)	**17 - 22**
6(i)	**CORPORATE AND DEMOCRATIC SERVICES AND EDUCATION AND CHILDREN'S SERVICES**	
6(i)(a)	**19-01 - LIVE ACTIVE LEISURE INCOME COLLECTION AND REIMBURSEMENT AT CAMPUS SITES** (copy herewith 19/338)	**23 - 46**
6(ii)	**EDUCATION AND CHILDREN'S SERVICES**	
6(ii)(a)	**19-03 - ORDERING AND CERTIFICATION AND STOCK CONTROL** (copy herewith 19/339)	**47 - 60**

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PERTH AND KINROSS COUNCIL
AUDIT COMMITTEE
18 SEPTEMBER 2019

AUDIT COMMITTEE

Minute of meeting of the Audit Committee held in the Council Chamber, 2 High Street, Perth on Wednesday 18 September 2019 at 10.15am.

Present: Councillors E Drysdale, S Donaldson, D Illingworth, A Jarvis, S McCole (substituting for X McDade), M Williamson and W Wilson.

In Attendance: J Clark, L Harris, C Irons, S Mackenzie, A O'Brien, L Simpson and S Walker (all Corporate and Democratic Services); J Cockburn (Education and Children's Services) and L Brady, F Crofts and N Sutherland (Housing and Environment).

Also in Attendance: A Kolodziej, M Wilkie and C Windeatt, KPMG

Apology: Councillor X McDade

Councillor Drysdale, Convener, Presiding.

. WELCOME AND APOLOGIES/SUBSTITUTIONS

The Convener welcomed everyone to the meeting. An apology and substitution was noted as above.

. DECLARATIONS OF INTEREST

There were no declarations of interest in terms of the Councillors' Code of Conduct.

. MINUTE

The minute of meeting of the Audit Committee of 26 June 2019 (Items 1 - 7) was submitted and approved as a correct record and authorised for signature.

. WELFARE REFORM – EMERGING ISSUES

L Brady, Revenue and Benefits Service Manager and N Sutherland, Team Leader (Welfare Rights) gave a presentation to members on Welfare Reform emerging issues.

The presentation covered the following aspects:

- Background – Audit report submitted to Audit Committee on 22 May 2019
- Update – Welfare Reform changes including two-child limit affecting families; lower benefit cap; deductions from universal credit for historic benefit overpayments; childcare costs being paid retrospectively
- Emerging Issues – Increased demand and spend in terms of Crisis Grants and Discretionary Housing Payments
- Impacts – Less disposable income; higher risk of debt and child poverty; more demands on services and pressure on budgets

- Challenges – complexity of advice and administration; fulfilling statutory duties including a new duty to reduce child poverty
- Mitigating Impacts – working with COSLA, partners and communities; early intervention and prevention approach; enhanced welfare rights service for families with low incomes; delivering services from health settings; ensuring voices are heard in all relevant consultations
- Outcome – Welfare Rights Team accredited to Scottish National Standards for information and advice providers; assisted over 5000 households with benefit-related issues; appeals success rate of 75%;£6m additional income in pockets of people in local communities; best council tax collection in mainland Scotland

The Convener thanked L Brady and N Sutherland for the presentation.

In response to members' questions the following information was provided:

- Council staff and stakeholders were working together, however, it was more challenging to provide advice
- The Welfare Rights Team comprised 8 fte staff
- Welfare Rights Team have good working relations with the Citizens Advice Bureau
- Referrals were made to local foodbanks and Council staff train Kinross foodbank staff to assist people to complete the application for a crisis grant
- Holistic approach taken to applications for crisis grant and checks made to ensure applicants get all benefits entitled to
- It was noted that those applying for a Personal Independence Payment (PIP) may have health or mental health issues and therefore have difficulty completing the application and require assistance
- A lessons learned approach was taken for the appeal process and changes made to ensure the best use of resources
- Demand had exceeded the crisis grant funding

L BRADY AND N SUTHERLAND LEFT THE MEETING AT THIS POINT.

. DRAFT AUDITED ANNUAL ACCOUNTS 2018/19 AND DRAFT ANNUAL AUDIT REPORT TO THE MEMBERS OF PERTH AND KINROSS COUNCIL AND THE CONTROLLER OF AUDIT FOR THE YEAR ENDED 31 MARCH 2019

There was submitted a report by the Head of Finance (19/251) presenting the Council's Draft Audited Annual Accounts for financial year 2018/19 in accordance with the Local Authority Accounts (Scotland) Regulations 2014 including the Draft Annual Audit Report to the members of Perth and Kinross Council and the Controller of Audit for the year ended 31 March 2019 by the external auditors, KPMG and the Letter of Representation to the External Auditors from the Head of Finance.

S Mackenzie referred to KPMG's annual report to 31 March 2019 and advised that minor adjustments had no impact on the resources available to the Council.

S Mackenzie thanked Finance staff, relevant staff in each service and KPMG for their support in the completion of the annual report and accounts.

M Wilkie, KPMG, referred to the Executive Summary and the audit conclusions of their unqualified Audit Report.

The Convener thanked KPMG and the Finance Team.

Resolved:

(i) KPMG's Draft Annual Audit Report to the members of Perth and Kinross Council and the Controller of Audit for the year ended 31 March 2019, attached as Appendix C to Report 19/251, be noted.

(ii) The 2018/19 Audited Annual Accounts, be approved and the Leader of the Council, the Chief Executive and the Head of Finance be authorised to sign them.

(iii) The Letter of Representation be approved and the Head of Finance be authorised to sign the Letter.

S WALKER AND A O'BRIEN LEFT THE MEETING AT THIS POINT.

. INTERNAL AUDIT FOLLOW UP

There was submitted a report by the Chief Internal Auditor (19/252) presenting a summary of Internal Audit's follow up work relating to actions due for completion in May and June 2019.

Resolved:

(i) The current position in respect of the agreed actions arising from the internal audit work, be noted.

(ii) The action plans be progressed, taking into account the recorded audit opinions.

. INTERNAL AUDIT UPDATE

There was submitted a report by the Chief Internal Auditor (19/253) presenting a summary of Internal Audit's work.

In response to a question from Councillor E Drysdale, J Clark advised that the Council was as prepared as they could be for the Withdrawal from the European Union (A19-08) and it was planned that the Audit report would be submitted to this Committee in February 2020.

Councillor S Donaldson asked if the Audit report on Horsecross (A19-12) would be available prior to the Council making a decision on the Cultural Trusts Transformation Project.

J Clark advised that the audit work would feed into the overall Transformation project process but could not confirm the timescale.

Resolved:
The completion of assignments since the last Audit Committee on 26 June 2019, be noted.

The Committee considered the following final report:-

(i) Corporate and Democratic Services

(a) Digital Strategy

There was submitted a report by the Chief Internal Auditor (19/254) on an audit to ensure that (1) the Council was progressing the Digital Strategy in alignment with Corporate strategic objectives; and (2) the Council's Digital Strategy takes into account current digital risks.

It was noted that the Council has a strong relationship with NHS Tayside at a strategic and operational level and a modular approach was being taken to joining the relevant IT systems although there were some constraints to that.

Resolved:
Internal Audit's findings, as detailed in Report 19/254, be noted.

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PERTH AND KINROSS COUNCIL

Audit Committee

20 November 2019

INTERNAL AUDIT FOLLOW UP

Report by Chief Internal Auditor (Report No. 19/336)

PURPOSE OF REPORT

This report presents a current summary of Internal Audit's 'follow up' work relating to actions due for completion in July and August 2019.

1. BACKGROUND AND MAIN ISSUES

1.1 The Public Sector Internal Audit Standards (PSIAS) require the Chief Internal Auditor to establish a follow-up process to monitor and ensure that management actions have been effectively implemented. Internal Audit request evidence from Services which confirms that actions have been implemented and, therefore, controls have been improved.

1.2 There were 31 actions arising from Internal Audit reports. Of these, 5 had a completion date of July and August 2019. 2 of these actions have been completed and details of the 3 actions which have yet to be completed are included within Appendix 1.

2. PROPOSALS

2.1 It is recommended that the Committee seeks assurance that there are clear and achievable action plans for completing the agreed actions noted above.

3 CONCLUSION AND RECOMMENDATIONS

3.1 The Audit Committee is asked to consider the most appropriate action to be taken to progress the agreed Action Plans.

3.2 It is recommended that the Audit Committee:

- (i) Note the current position in respect of the agreed actions arising from internal audit work; and
- (ii) Consider the most appropriate action to be taken to progress the agreed action plans, taking into account the recorded audit opinions.

Author

Name	Designation	Contact Details
Jackie Clark	Chief Internal Auditor	InternalAudit@pkc.gov.uk

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ANNEX

1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

Strategic Implications	**Yes / None**
Community Plan / Single Outcome Agreement	None
Corporate Plan	Yes
Resource Implications	
Financial	None
Workforce	None
Asset Management (land, property, IST)	None
Assessments	
Equality Impact Assessment	Yes
Strategic Environmental Assessment	None
Sustainability (community, economic, environmental)	None
Legal and Governance	None
Risk	Yes
Consultation	
Internal	Yes
External	None
Communication	
Communications Plan	None

1. Strategic Implications

Corporate Plan

1.1 The Council's Corporate Plan 2018– 2022 lays out five outcome focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:

(i) Giving every child the best start in life;
(ii) Developing educated, responsible and informed citizens;
(iii) Promoting a prosperous, inclusive and sustainable economy;
(iv) Supporting people to lead independent, healthy and active lives; and
(v) Creating a safe and sustainable place for future generations.

1.2 This report relates to all of these objectives.

2. Assessments

Equality Impact Assessment

2.1 Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.

2.2 The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

Risk

2.3 There is a risk to the strength of the control environment if the agreed action plans are not carried out in a timely manner.

3. Consultation

Internal

3.1 The Depute Chief Executive and the Executive Directors have been consulted in the preparation of this report.

2. BACKGROUND PAPERS

No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above report.

3. APPENDICES

Appendix 1 – Actions with a completion date up to August 2019 which have yet to be completed

Appendix 1

Actions with a completion date up to August 2019 which have yet to be completed

Finding	**Action**	**Action owner & Service**	**Date(s)**	**Current status**	**Internal Audit Opinion**
17-03 - Capital Programme Action Point : 4 - Project Assurance Importance: Low Audit Committee Date: June 2017 There is evidence of project assurance being trialled for newer projects and programmes. However, the scope and format of key stage evaluation has yet to be fully determined.	The Capital Programme Office has been consulting with relevant Heads of Service and Senior Managers to identify the most appropriate form of key stage evaluation. Once an appropriate format has been determined this will be incorporated into the project management toolkit and procedures for the Capital Programme Office.	N Ballantine, Capital Programme Manager	Dec 2017 Dec 2018 Aug 2019 Jan 2020	A draft Capital Programme Gateway Review Process has been considered by the Strategic Investment and Improvement Board in October 2019. This will be reviewed by the Executive Officer Team prior to submission to the relevant Council Committee for approval.	Accepted
18-11 - School Estate Strategy Action Point : 1 - School Estate Strategy Update Importance: Medium Audit Committee Date: January 2019	The Service will review the School Estate Strategy (2012-2017) document to ensure that strategic developments, governance arrangements and relevant influential factors and challenges are documented and align with the vision for	C Taylor, Service Manager (Resource Management)	Aug 2019 Mar 2020	The national strategy was launched on 9 September and a Perth & Kinross Council strategy which takes account of all aspects of the national strategy is being drafted.	Satisfactory

A draft School Estate Strategy was approved in 2012 to cover arrangements from 2012-2017, with a requirement that a finalised version be submitted to Committee. The Strategy review frequency was also noted as annual. The draft strategy document has not been updated since 2012. In subsequent years there have been a number of changes to the governance arrangements, forward planning processes and influencing factors. This document may therefore benefit from review to provide clarity and formalise the current arrangements and to establish an appropriate review frequency for the future.	managing the School Estate. This will include liaison with appropriate Council Services regarding any legislative changes. A finalised document will be submitted for approval by the Lifelong Learning Committee.				
18-12 - Management of Contracts Action Point : 3b - Authorised Signatory Database Update Importance: Low Audit Committee Date: November 2018	The Financial Systems Team is currently reviewing all fields and information captured within the authorised signatory database. Further to this, action will be taken to capture all	L Law, Financial Systems Team Leader	Dec 2018 Jul 2019 Aug 2019 Dec 2019	The Financial Systems Team have experienced some issues with rolling this out and are in the process of testing prior to going live. Further delays have arisen as a	Accepted

Authority for entering into the contract was based upon an Officers revenue and capital spending limits. It is recognised, however, that further work is required to capture information and formally record contract authority as a separate field within the authorised signatory database.	appropriate information from Services.			consequence of structure changes required across the organisation The current ‘going live’ date is expected to be in December 2019.	

PERTH AND KINROSS COUNCIL

Audit Committee

20 November 2019

INTERNAL AUDIT UPDATE

Report by Chief Internal Auditor (Report No. 19/337)

PURPOSE OF REPORT

This report presents a summary of Internal Audit's work.

1. BACKGROUND / MAIN ISSUES

1.1 The Public Sector Internal Audit Standards (PSIAS) require that the Chief Internal Auditor reports periodically to the Audit Committee on internal audit activity and on performance relative to the approved plan.

1.2 Since April 2019, Internal Audit has been contacted 16 times for advice/ guidance. Internal Audit will follow up on these areas during the year, where necessary. Where control issues arise as a result of this work, Internal Audit will provide the Audit Committee with a report.

1.3 Internal Audit has continued to work with Council Services to ensure that matches arising from the National Fraud Initiative are being investigated appropriately and in a timely manner. This exercise is now close to conclusion and a report on the outcomes for Perth & Kinross Council will be brought to a future meeting of the Audit Committee.

1.4 In addition, the Chief Internal Auditor has continued to undertake work in connection with the Integration Joint Board, including developing an Internal Audit Plan for 2019/20 and overseeing the completion of assignments from previous years' plans.

1.5 Appendix 1 shows the areas of work which have been undertaken since the last Audit Committee.

2. CONCLUSION AND RECOMMENDATIONS

2.1 This report presents a summary of Internal Audit's work.

2.2 It is recommended that the Committee notes the assignments undertaken by Internal Audit since the last meeting of the Audit Committee.

Author(s)

Name	Designation	Contact Details
Jackie Clark	Chief Internal Auditor	Internal Audit@pkc.gov.uk

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Strategic Plan	Yes
Resource Implications	
Financial	None
Workforce	None
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Assessments	
Equality Impact Assessment	Yes
Strategic Environmental Assessment	None
Sustainability (community, economic, environmental)	None
Legal and Governance	None
Risk	Yes
Consultation	
Internal	Yes
External	None
Communication	
Communications Plan	None

1. Strategic Implications

Community Plan/Single Outcome Agreement

Corporate Plan

1.1 The Council's Corporate Plan 2018 – 2022 lays out five outcome focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:

(i) Giving every child the best start in life;
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(iv) Supporting people to lead independent, healthy and active lives; and
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1.2 This report relates to all of these objectives.

2. Assessments

Equality Impact Assessment

2.1 Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.

2.2 The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

Risk

2.3 The risks are associated with the level of assurance provided on the control environment in the event that Internal Audit's planned work is not completed on time.

3. Consultation

Internal

3.1 The Chief Executive and Head of Legal and Governance have been consulted in the preparation of this report.

2. BACKGROUND PAPERS

No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above report.

3. APPENDICES

Appendix 1 – Internal Audit Activity

Appendix 1

INTERNAL AUDIT UPDATE

Internal Audit Activity 2019/20

Audit No.	Title	Service(s)	Status as at August 2019	Audit Committee
A19-01	ALEOs: Community Campus Income	Corporate & Democratic Services Education & Children's Services	Complete	November 2019
A19-02	Digital Strategy	Corporate & Democratic Services	Complete	September 2019
A19-03	Early Years Ordering & Stock Controls	Education & Children's Services	Complete	November 2019
A19-04	Transformation	All Services	Findings in discussion	February 2020
A19-05	LEADER	Housing & Environment	Scheduled per grant conditions	February 2020
A19-06	Contracting	All Services	Not yet commenced	February 2020
A19-07	Workforce Planning	Corporate & Democratic Services	Not yet commenced	February 2020
A19-08	Withdrawal from the European Union	Corporate	In progress	February 2020
A19-09	Recycling Centre	Housing & Environment	In progress	February 2020
A19-10	Cash	All Services	In progress	February 2020
A19-11	Tay Cities Deal	Corporate	Not yet commenced	April 2020
A19-12	ALEOs: Horsecross	Corporate & Democratic Services	In progress	April 2020
C19-30	Inclusion Services	Education & Children's Services	In progress	February 2020
C19-31	Risk Management	All Services	In progress	April 2020
C19-32	IDEA	All Services	In progress	April 2020
C19-33	ALEOs: Culture Perth & Kinross	Corporate & Democratic Services	Complete	Not Required
G19-40	Bus Service Operators Grant	Housing & Environment	Complete	Not Required
I19-50	Payment of Duplicate Invoices	Corporate & Democratic Services	Complete	Not Required

Internal Audit Report
Education & Children's Services: Business & Resources
Corporate & Democratic Services: Finance
Live Active Leisure Income Collection and Reimbursement at Campus Sites

Assignment No.19-01
October 2019

(Report No. 19/338)

Final Report

Legal and Governance
Corporate and Democratic Services
Perth & Kinross Council
Council Offices
2 High Street
Perth
PH1 5PH

Internal Audit

“Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”. Public Sector Internal Auditing Standards (PSIAS)

The Council’s Audit Committee approved the PSIAS as the relevant standard for its Internal Audit activity.

Background and Introduction

This audit was carried out as part of the audit plan for 2019/20, which was approved by the Audit Committee on 26 June 2019. Audit testing was carried out in May 2019.

In February 2009, the Council signed a 30 year contract with Live Active Leisure (LAL, formerly Perth & Kinross Leisure) to provide Sports and Leisure services at their Investment in Learning Community Campuses. Through this, it was agreed that the Council would provide reception staff and cash handling facilities, and that further financial management arrangements would be defined.

The Investment in Learning Community Campuses (otherwise referred to as Community Campuses) subject to this arrangement are Breadalbane (Aberfeldy), Strathearn (Crieff), Loch Leven (Kinross) and North Inch (Perth).

Separate arrangements have been agreed for Glenearn (Perth) and Blairgowrie Community Campuses.

Campus Management Assistants, employed by the Council, are the first point of contact at Community Campus locations. Their role is to record bookings and usage of Community Campus facilities and ensure appropriate payment is taken, either at the point of sale or through invoicing, for both LAL and the Council. In addition to this, they provide advice and assistance regarding LAL memberships, Community Campus facilities and complete end of day cashing up processes.

The LAL software package, MRM, is used for recording bookings, attendance, payments and invoice generation. As the Council provide banking and reconciliation facilities, however, information processed through MRM requires to be duplicated into the Councils income recording system, PAYE.net, on a daily basis also.

Scope and Limitations

The audit considered the adequacy of arrangements to ensure that money is collected and recorded accurately at the Community Campus sites and is reimbursed to LAL in a complete and timely manner.

The review consisted of examination of documentation, systems, processes and interviews with Officers, both within Community Campus locations and central Finance teams.

The audit did not consider arrangements in place at Glenearn and Blairgowrie Community Campuses, where LAL is directly responsible for their own income collection and recording.

Control Objectives and Opinions

This section describes the purpose of the audit and summarises the results. A 'control objective' is a management objective that requires the maintenance of adequate and effective internal controls to ensure that it is achieved. Each control objective has been given a rating describing, on the basis of the audit work done, the actual strength of the internal controls found to be in place. Areas of good or poor practice are described where appropriate.

Control Objective 1: To ensure that income due to Live Active Leisure (LAL) is accurately collected and recorded at Community Campus Sites

Internal Audit Comments:

The Auditor observed income being collected and recorded, and advice being given as appropriate at each location. Owing to weaknesses and uncertainties in the control environment, assurances cannot be given that all LAL income is collected and recorded accurately on a daily basis.

Induction training is completed through side by side shadowing activity, and it was noted that each site has designed localised procedure documents. However, the centralised Campus Reception Finance Procedures Manual, which was approved as a set of operating procedures to be employed by all of the campuses, is out-of-date; does not form part of training processes observed; and the existence and location of this and other financial procedure documents were unknown to staff interviewed. This document also refers to a now-deleted Supervisory/oversight role and there is a lack of evidence to support the re-allocation of all tasks at each location. Similar issues were noted with regards to procedure documents available to, and known by, staff for using the LAL system, MRM. Owing to these findings, some key processes and controls were not operating.

In addition to the above, the Auditor identified areas where procedures and controls could be enhanced, some in conjunction with LAL, to provide assurance that income is being collected and recorded as appropriate. These are in respect of invoicing and remittance notification, debt recovery, booking forms and cancellation processes, end of day variance investigations/reconciliations, system input, fraud/usage controls and Community Campus let income reconciliations.

For arrangements to operate effectively, risks, controls, roles and responsibilities should be clearly defined and understood. Both parties may benefit from working together to ensure that there is clarity as to what checks are being undertaken and by whom, that any reports and guidance are available as required, that they are receiving appropriate information, and that communication is effective.

Strength of Internal Controls:	Weak

Control Objective 2: To ensure that all income belonging to Live Active Leisure (LAL) is reimbursed in a complete and timely manner

Internal Audit Comments:

As part of the agreed contract set up, the Council provide banking and reconciliation facilities. It is the responsibility of the Incomes Team, within the Corporate Finance Division, to reconcile records and identify all income which belongs to LAL to ensure that this is reimbursed in a complete and timely manner.

The following controls were observed:

- Payments made to the Council via bank transfer (BACS) are monitored and notified to Community Campuses on a daily basis by an Incomes Officer.
- A weekly reconciliation of Community Campus income, and money due to be reimbursed to LAL, is completed by the Incomes Team. Any discrepancies between totals input on Council and LAL records are identified and reported to each Community Campus location for further investigation and rectification.
- On a monthly basis the Incomes Team complete a reconciliation to ensure that income taken and declared at each of the Community Campus locations is correct against the records of monies received into the Council bank account.

Control weaknesses were noted, however, with regards to the processes above and Internal Audit is unable to provide assurance that all income belonging to LAL has been reimbursed in a complete and timely manner. Issues noted are in respect of a lack of appropriate control in place to ensure that all BACS payments notified to the Community Campuses are processed through the relevant reporting systems; gaps in information and process in relation to weekly reconciliations; and weaknesses in reporting and monitoring any identified discrepancies at both weekly and monthly reconciliations.

Controls are in place to ensure that payments are made to LAL weekly, one week in arrears, based upon income which has been identified at the weekly reconciliation. Audit is satisfied that these are operating effectively.

Strength of Internal Controls:	Moderately Weak

Management Action and Follow-Up

Responsibility for the maintenance of adequate and effective internal controls rests with management.

Where the audit has identified areas where a response by management is required, these are listed in Appendix 1, along with an indication of the importance of each ‘action point’. Appendix 2 describes these action points in more detail, and records the action plan that has been developed by management in response to each point.

It is management‘s responsibility to ensure that the action plan presented in this report is achievable and appropriate to the circumstances. Where a decision is taken not to act in response to this report, it is the responsibility of management to assess and accept the risks arising from non-implementation.

Achievement of the action plan is monitored through Internal Audit's 'follow up' arrangements.

Management should ensure that the relevant risk profiles are reviewed and updated where necessary to take account of the contents of Internal Audit reports. The completeness of risk profiles will be examined as part of Internal Audit's normal planned work.

Acknowledgements

Internal Audit acknowledges with thanks the co-operation of all those involved during this Audit. This includes, but is not limited to, Campus Management Assistants and Officers within Incomes and Education & Children's Services Finance.

Feedback

Internal Audit welcomes feedback, in connection with this audit or with the Internal Audit service in general.

Distribution

This report has been distributed to:

K Reid, Chief Executive

J Valentine, Depute Chief Executive (Chief Operating Officer)

S Devlin, Executive Director (Education & Children's Services)

F Robertson, Head of Public Service Reform, Culture & Community Development

G Boland, Senior Business and Resources Manager

S Mackenzie, Head of Finance

L Simpson, Head of Legal & Governance

J Cockburn, Finance & Governance Manager

A Cook, Service Manager – Contracts & Facilities

S Walker, Chief Accountant, as Interim Contract Manager

C Robertson, Central Services Manager

Committee Services

External Audit

Authorisation

The auditor for this assignment was L Ferguson. The supervising auditor was J Clark.

This report is authorised for issue:

J Clark
Chief Internal Auditor
Date: 28 October 2019

Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1	Training, Financial Procedures and Oversight	High
2	MRM System Procedures	High
3	Booking Form Reconciliations	Medium
4	Debt Recovery Processes	High
5	Cancellation Charges and Notifications	High
6	End of Day Variances	Medium
7	End of Day Totals Recording	High
8	Notification of Anticipated Payments	High
9	Community Campus Let Income Reconciliation	Medium
10	BACS Income Process Controls	High
11	Weekly Reconciliations Process & Information	High
12	Discrepancy Corrections	High
13	Assurance & Relationship Arrangements	High

Appendix 2: Action Plan

Action Point 1 - Training, Financial Procedures and Oversight

There is a centralised Community Campus Reception Finance Procedures Manual, which was approved as a set of operating procedures to be employed by all of the Community Campuses, ensuring consistent and detailed guidance. However, this is out-of-date; referring to the role and tasks completed by the now-deleted role of Campus Supervisor, and not including reference to new processes and systems, such as payments taken through Call Secure and introduction of PDQ terminals within the Community Campuses.

Whilst the Auditor was advised that induction training was completed through side by side shadowing activity through to reasonable competence, staff were unclear as to whether they had seen the manual; it did not form part of training processes/documents observed; and were unaware of the location of this and of general financial procedures within the Council intranet.

As mentioned above, the manual refers to tasks undertaken by the Campus Supervisor role. This role provided oversight of work undertaken by the Campus Management Assistants. There is a lack of evidence to support the consistent re-allocation of all tasks, and of appropriate oversight controls being in operation at all locations, further to the deletion of this post in 2017.

Owing to the issues noted above, agreed financial processes are not being followed as anticipated at all locations. This could ultimately lead to income not being collected, identified and allocated to LAL as appropriate, and are reflected in further findings throughout this report.

It may be beneficial for the Service to ensure that any update of this guidance incorporates involvement from relevant stakeholders (such as Community Campus staff, Campus Business Managers, Live Active Leisure and IT personnel), and take into consideration any audit findings, to ensure that processes, roles and tasks best reflect business need, efficiency and control. Similarly, consideration should be given to evidencing training and ensuring that induction processes are robust and cover relevant key guidance.

Management Action Plan

1. The Finance and Governance Manager will establish and lead a working group to be established to review all procedures, process and reports and update as required. The working group will consist of the Assistant Finance Manager (Education & Children’s Services), a Campus Business Manager and Assistant, MIS Coordinator and a LAL Finance representative.

LAL have indicated that they will be able to support this process through comparison of LAL venue operation and review of reporting availability.

2. Once the working group has undertaken its review and procedures have been updated, a series of training events will be scheduled for all relevant personnel involved in the process. In addition, a formal induction checklist will be developed for new employees.

Risk/Importance:	High
Responsible Officers:	J Cockburn, Finance & Governance Manager
Lead Service:	Education & Children’s Services
Date for Completion (Month / Year):	1. November 2019 2. February 2020
Required Evidence of Completion:	1. Establishment of working group 2. Revised procedures; evidence of training being delivered; and induction checklist

Auditor’s Comments

Satisfactory

Action Point 2 - MRM System Procedures

There is a lack of clarity regarding guidance on general usage and capabilities of the LAL booking/payments system, MRM.

Each Community Campus has a 'Receptionist Handbook' dated July 17, which details how to process LAL memberships. However, less consistency was observed for procedures relating to how to use the system for entering, amending, cancelling bookings, processing payments and general usage. Local procedures have been produced to a greater or lesser extent surrounding some of these matters, but the Auditor was not provided with any central guidance, supplied by the Council or LAL on system usage as described above. This creates a lack of clarity as to whether processes are being followed correctly or whether guidance directs staff as to inappropriate systems usage.

Audit identified that there was a team site on the Council intranet, available to each of the Community Campuses, entitled 'MRM'. This contains a number of procedure documents, including an MRM Users Manual, however, this was not referred to by any of the Campus Management Assistants, who were unaware of its existence. It is also unclear if this site is being kept up-to-date.

It may be beneficial to seek clarity around what procedures have been provided by LAL in the use of MRM and whether these are being kept up-to-date within the Council intranet site also.

Management Action Plan

The Finance and Governance Manager, in conjunction with the working group outlined in Action Point 1, will work together with LAL to ensure that appropriate procedures relating to MRM are in place, understood and are accessible to all staff. This will include ensuring that a process is in place for any notification of procedural updates and removal of the Council intranet site if this is not the appropriate mechanism.

LAL have confirmed that they are currently updating MRM procedures and will assist in training nominated personnel within Community Campus locations further to completion of this.

Risk/Importance:	High
Responsible Officers:	J Cockburn, Finance & Governance Manager
Lead Service:	Education & Children's Services
Date for Completion (Month / Year):	February 2020

Required Evidence of Completion:	Updated MRM Procedures Guidance on update notifications and storage arrangements Evidence of training being delivered

Auditor’s Comments

Satisfactory

Action Point 3 - Booking Form Reconciliations

All Community Campus locations advised that a Manager from LAL would provide pricing and coding information for booking requests. In most cases, forms are then passed back to the Campus Management Assistant for input into the LAL booking system, MRM.

All sites keep the booking forms and have processes in place to track which invoices have been paid from the point of the billing run.

Currently, however, not all locations ensure that invoices are reconciled to the original booking forms. This could lead to errors not being picked up timeously, prior to invoices being sent.

There is, therefore, potential to enhance control through reconciliation of invoices to the original booking forms, to ensure that the amount, creditor and VAT details are correct. Ideally this task should be completed by an independent third party/supervisor as part of a verification of invoices, prior to these being sent.

Management Action Plan

The working group referred to in Action Point 1 will review and enhance the controls for this process. This includes reviewing the relevant forms in use for bookings.

Risk/Importance:	Medium
Responsible Officers:	J Cockburn, Finance & Governance Manager
Lead Service:	Education & Children’s Services
Date for Completion (Month / Year):	February 2020
Required Evidence of Completion:	Revised booking forms and reconciliation procedures

Auditor’s Comments

Satisfactory

Action Point 4 - Debt Recovery Processes

Prior to Audit commencement, the Auditor was advised of control issues in respect of debt recovery processes, which were being dealt with by the Service. These control issues meant that debt chasing/recovery was not happening timeously at all locations, and in accordance with LAL records. This was caused by a change in personnel within Education & Children’s Services (ECS) Finance Support Team and deletion/non-re-allocation of tasks of the Campus Supervisor role.

An ECS Finance Officer is currently liaising with IT and LAL colleagues to set up a report which will extract appropriate information from MRM regarding Aged Debt. Progress has been made in this respect, although work has still to be concluded with full implementation. This includes allocation of tasks previously completed by Campus Supervisors.

Through review and discussion, additional areas have been identified where further controls may be appropriate. These are:

- Confirmation from LAL, prior to invoices being issued, that all bookings went ahead as planned/stated and are still chargeable at the same rate.
- Introduction of debt recovery as a standing item on contract monitoring/Campus Business Manager/LAL Manager agendas to ensure that any issues are dealt with timeously.

Furthermore, Audit testing revealed that at some Community Campus locations there are debts listed for amounts which are under the de-minimis for raising invoices, as well as debts dating back to 2011. It is also understood that records held by LAL and the Council do not always reconcile.

The Council may wish to undertake a one-off exercise, encompassing all Community Campuses and liaise with LAL, as part of contract monitoring, as to their approach regarding any historic debts. A finalised list of debt for each location could then be agreed and records reconciled on MRM.

Management Action Plan

1. ECS and LAL will agree the current Aged Debt as a starting point.

2. The working group will review and enhance the processes for the identification and management of debt and will work with IT and LAL to ensure the consistency of reports.

Risk/Importance:	High
Responsible Officer:	J Cockburn, Finance & Governance Manager
Lead Service:	Education & Children’s Services
Date for Completion (Month / Year):	February 2020

Required Evidence of Completion:	1. Evidence of identification of current position and treatment of Aged Debt 2. Revised debt recovery process

Auditor’s Comments

Satisfactory

Action Point 5 - Cancellation Charges and Notifications

Information regarding Community Campus booking and cancellation procedures is available on the LAL website. One Community Campus provided the Terms and Conditions attached to the LAL booking forms which states the cancellation terms. However, this information does not form part of any induction/procedures or training/guidance notes observed at each site. In addition, inconsistencies were noted in regards to booking forms in use.

Through interview at each Community Campus location the Auditor noted this as being an area where there is potential for income to be lost. This could be through non-application of fees due to a lack of understanding of cancellation charges/policy for each type of booking by staff, or through clients not being informed if correct booking forms and terms are not sent in all instances.

It is not clear if any reports are currently run by either the Council or LAL to check regarding cancelled bookings/bookings removed from the system and the application of charges.

Furthermore, there was a lack of guidance for staff regarding refund processes due to cancellations enacted by the Community Campus/LAL in respect of swimming lessons booked through a block booking system introduced last year. This issue was first raised in September 2018 and requires discussion with LAL as to how this can be completed.

Management Action Plan

The Finance and Governance Manager will liaise with LAL to ensure that the cancellation policy is clear for all activities.

Booking forms will also be reviewed in line with Action Point 3.

Controls in relation to the oversight of cancellations will be considered as part of the review of procedures in Action Point 1.

Risk/Importance:	High
Responsible Officer:	J Cockburn, Finance & Governance Manager
Lead Service:	Education & Children’s Services
Date for Completion (Month / Year):	February 2020
Required Evidence of Completion:	Revised policy, procedures and booking form

Auditor’s Comments

Satisfactory

Action Point 6 - End of Day Variances

There is currently no consistent approach across the Community Campuses to identify variances between income taken and system records.

Information is available on end of day terminal readings run from MRM regarding income taken by product code. This information could be matched against receipts held using booking codes/activities to assist in identification of any variance. However, not all sites were aware that this information was available.

Whilst centralised guidance does mention end of day variance, there may be benefit to developing these processes to enhance control.

To assist in this, it may also be useful to consult with LAL to identify if a report can be run from MRM at the end of each day which shows any unpaid bookings/ bookings marked as attended where payment has not been made. Such a report would not only assist in identification of variances but could also prove helpful for oversight and identification of any training issues.

Management Action Plan

The working group will review and enhance the controls for the end of day process and ensure consistency across Campuses.

This will include liaising with LAL to understand MRM's reporting capacity for end of day variances and how LAL operates this in their own establishments.

Risk/Importance:	Medium
Responsible Officer:	J Cockburn, Finance & Governance Manager
Lead Service:	Education & Children's Services
Date for Completion (Month / Year):	February 2020
Required Evidence of Completion:	Revised procedures

Auditor's Comments

Satisfactory

Action Point 7 - End of Day Totals Recording

The Live Active Leisure software package, MRM, is used for recording bookings, attendance, payments and invoice generation. As the Council provide banking and reconciliation facilities, the information processed through MRM requires to be duplicated into the Council's income recording system, PAYE.net, on a daily basis. When completing this input, income must be differentiated between the Council and LAL to ensure that appropriate reconciliation and payment of income can take place.

As this is an important step in ensuring that income is allocated correctly, most Community Campuses have some form of secondary check of information input to PAYE.net. This is normally carried out through peer review.

Despite this, discrepancies are still being observed by the Incomes Team when they are carrying out weekly reconciliations of income logged within MRM and PAYE.net.

Audit noted some facts which are impacting upon this, namely:

- In some locations the secondary checks are being completed as a weekly task and therefore are not rectified prior to the Incomes Team reconciliation.
- Income breakdown figures by product type can be stated on the end of day MRM terminal receipts, dependent on options selected. However, this was not widely known, and is not utilised as a double check of input at present at all Community Campus sites.
- A project was undertaken whereby an MRM report was designed to give information on the previous day's takings. This could be used to facilitate secondary verification, however, this project was not concluded as the report was never implemented.

Based on the above, the Service may benefit from: concluding the project; formalising a secondary checking process of information input into PAYE.net as a daily task; and including this within any revised procedures documents.

Management Action Plan

The working group will review and enhance the controls for this process and provide new procedures in line with the above.

Risk/Importance:	High
Responsible Officer:	J Cockburn, Finance & Governance Manager
Lead Service:	Education & Children's Services
Date for Completion (Month / Year):	February 2020
Required Evidence of Completion:	Revised procedures

Auditor's Comments

Satisfactory

Action Point 8 - Notification of Anticipated Payments

There may be benefit to reviewing invoicing and remittance arrangements, to enable the Incomes Team to easily identify Community Campus payments made into Council bank accounts by bank transfer (BACS).

Current processes state that remittance advice is to be sent to the Community Campus, who in turn advises the Incomes Team regarding anticipated payments. Through observation and discussion it was noted that this does not always happen.

The Auditor has been advised that at one Community Campus location, creditors are being advised to use an alternate reference to the invoice number.

As the Incomes Team do not have oversight of invoices raised at the Community Campuses and dates anticipated to be paid, it is difficult to verify that all income which has been received into Council bank accounts, and therefore LAL income, has been identified.

This is compounded by current issues surrounding debt chasing.

Management Action Plan

The working group will liaise with the Incomes Team to review and enhance the controls for this process and provide new procedures.

Risk/Importance:	High
Responsible Officer:	J Cockburn, Finance & Governance Manager
Lead Service:	Education & Children’s Services
Date for Completion (Month / Year):	February 2020
Required Evidence of Completion:	Revised procedures

Auditor’s Comments

Satisfactory

Action Point 9 - Community Campus Let Income Reconciliation

The Community Campus Reception Finance Procedures Manual does not contain any guidance regarding reconciliation of Community Campus Let Income.

There is no evidence that reconciliations are being completed to verify that Community Campus Let income anticipated is received at all Community Campus locations.

Introduction of a reconciliation control would assist in identifying any revenue which may have been allocated incorrectly and provide assurance that income is being received as appropriate.

Management Action Plan

The working group will consider what action can be taken to strengthen control in this area and will liaise with LAL to ascertain what reports could be run from MRM to support the process.

Risk/Importance:	Medium
Responsible Officer:	Finance & Governance Manager
Lead Service:	Education & Children’s Services
Date for Completion (Month / Year):	February 2020
Required Evidence of Completion:	Outcome of review

Auditor’s Comments

Satisfactory

Action Point 10 - BACS Income Process Controls

The Incomes Team notify Campuses on a daily basis, via their generic email account, of any BACS payments received into the Council bank account which have been identified as payments for their location. Community Campus staff allocate the payment to the appropriate creditor (either LAL or the Council) by processing this through MRM and PAYE.net.

Currently, there is a lack of control in place to ensure that any action is taken by the Community Campus in a timely manner (i.e. confirmation to Incomes Team or weekly check that all payments notified have been processed).

Whilst any BACS payments not processed by the Community Campus would be identified at the month end reconciliation completed by the Incomes Team, this could lead to delay in payment to LAL of income due.

Furthermore, due to a secondary control issue in the way that discrepancies are dealt with at month end reconciliations, the Auditor observed instances whereby BACS payments remain on the ledger and have not been allocated to either the Council or LAL after a number of months.

Management Action Plan

1. Incomes Team will copy Campus Business Managers into any BACS payment notification emails.

2. The working group will liaise with the Incomes Team to consider revised processes to ensure that any BACS payments notified have been processed as part of an oversight control.

Risk/Importance:	High
Responsible Officer:	1. C Robertson, Central Services Manager, Corporate & Democratic Services 2. J Cockburn, Finance & Governance Manager, Education & Children’s Services
Lead Service:	1. Corporate & Democratic Services 2. Education & Children’s Services
Date for Completion (Month / Year):	1. November 2019 2. February 2020
Required Evidence of Completion:	1. Evidence of communication with Campus Business Managers 2. Updated procedure and evidence of control operating effectively

Auditor’s Comments

Satisfactory

Action Point 11 - Weekly Reconciliations Process & Information

The Incomes Team complete a weekly reconciliation for all sites to ensure that the 2 payment systems (MRM and PAYE.net) are matching in terms of totals processed through each one. Revenue is reimbursed to LAL based on figures calculated as part of this reconciliation.

The Auditor noted some limitations in this process, which would make it difficult to verify whether all income belonging to LAL has been identified and allocated as appropriate. Namely:

- Current reconciliation processes do not consider the underlying detail of where income has been allocated through MRM in comparison to PAYE.net.
- There is no category within MRM weekly reconciliation reports to detail any non-invoiced Council income. This currently shows as LAL Pay & Play income.

Both of these factors may lead to a lack of clarity for LAL as to anticipated income, and the second would hinder completion of a full reconciliation between the 2 systems.

From review of information at Community Campus sites, Audit notes that the income can be identified as either LAL or Council, including non-invoiced Council income, through booking codes input within MRM. However, this information is not currently available at weekly reconciliation and review of MRM reporting availability may be useful to enable a more efficient reconciliation process.

Management Action Plan

The Central Services Manager will meet with LAL to review the processes in place for reconciliations and identify how MRM can support this. This may also include liaising with IT to ensure that an appropriate report can be provided for reconciliation purposes.

Risk/Importance:	High
Responsible Officer:	C Robertson, Central Services Manager
Lead Service:	Corporate & Democratic Services
Date for Completion (Month / Year):	June 2020
Required Evidence of Completion:	Revised procedure and report

Auditor’s Comments

Satisfactory

Action Point 12 - Discrepancy Corrections

Where any discrepancies are identified within the weekly reconciliations, the Incomes Team report these to each Community Campus location for further investigation and rectification.

Currently, there is a lack of control to ensure that these discrepancies have been rectified, nor is there an easily identifiable way of tracking these within subsequent reconciliations. This may in turn lead to delayed payments to LAL or additional work as error corrections may be reported to Community Campuses as further discrepancies.

On a monthly basis the Incomes Team completes a reconciliation to ensure that income taken and declared at each of the Campuses is correct against the records of monies received into the Council bank account.

At this point, the Incomes Team notes any discrepancies, which may include unresolved issues reported to Community Campuses at the weekly reconciliation stage. However**,** no further action or escalation takes place to ensure that all discrepancies are fully resolved.

This means that money may not be paid across to the appropriate account and records will not be matching between the LAL and Council systems.

Management Action Plan

1. The Incomes Team will include Campus Business Managers within their communications with Community Campuses regarding discrepancies.

2. The working group will engage with the Incomes Team to enhance current processes surrounding discrepancy notification and recording.

Risk/Importance:	High
Responsible Officer:	1. C Robertson, Central Services Manager 2. J Cockburn, Finance & Governance Manager
Lead Service:	1. Corporate & Democratic Services 2. Education & Children’s Services
Date for Completion (Month / Year):	1. November 2019 2. February 2020
Required Evidence of Completion:	1. Evidence of communications with Business Managers 2. Revised procedures

Auditor’s Comments

Satisfactory

Action Point 13 - Assurance & Relationship Arrangements

As has been reflected throughout this report, for arrangements to operate effectively, risks, controls, roles and responsibilities of both the Council and LAL staff, at all levels, should be clearly defined and understood.

Alongside actions noted within this report, a number of areas were identified where it was deemed that controls could be strengthened to provide assurance, specifically in relation to physical income collection. These have been advised to the Service and will be considered as part of a further Internal Audit included within the Internal Audit Plan for 2019/20 which will look at cash controls and risk mitigation.

Owing to contract set up and operational arrangements, some controls require input and support from LAL. It may, therefore, be pertinent for the Service to discuss matters arising from the audit review with LAL and communicate to staff any resultant outcomes. This would assist in establishing clarity on arrangements and ensuring that these are adequate and operationally appropriate for both parties.

Areas that any discussions may wish to consider include, but are not limited to:

- MRM system controls
- MRM reporting capabilities and development of this/agreed workarounds where reports do not meet need
- access to MRM reporting and guidance for Council staff
- any reconciliation and monitoring checks undertaken by LAL management
- income collection risk appetite, including physical access controls
- development of appropriate standing agendas for business meetings held at each level to ensure communication and expedient resolution of any matters arising

Management Action Plan

1. As reflected in earlier action points, meetings have been held between key personnel within the Council and LAL representatives and there is an appetite for ensuring that the issues raised are addressed with appropriate support.

2. The Chief Accountant, in his new role as Interim Contract Manager, will have oversight of the outcomes from the working group and provide support as necessary to ensure that the above issues are considered as part of their review.

3. The Chief Accountant will ensure that a review of the effectiveness and consistency of the new processes is undertaken at an appropriate interval following the conclusion of the working group.

Risk/Importance:	High
Responsible Officer:	S Walker, Chief Accountant as Interim Contract Manager

Lead Service:	Corporate & Democratic Services
Date for Completion (Month / Year):	1. Ongoing 2. June 2020 3. December 2020
Required Evidence of Completion:	1. & 2. Confirmation that all items have been addressed 3. Evidence of review

Auditor's Comments

Satisfactory

Internal Audit Report
Education & Children's Services
Early Years & Childcare Strategy teams
Ordering & Certification and Stock Control

Assignment No.19-03
October 2019

(Report No. 19/339)

Final Report

Legal and Governance
Corporate and Democratic Services
Perth & Kinross Council
Council Offices
2 High Street
Perth
PH1 5PH

Internal Audit

“Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”. Public Sector Internal Auditing Standards (PSIAS)

The Council’s Audit Committee approved the PSIAS as the relevant standard for its Internal Audit activity.

Background and Introduction

This audit was carried out as part of the audit plan for 2019/20 approved by the Audit Committee on 26 June 2019. Audit testing was carried out in April and May 2019.

Scope and Limitations

The audit was designed to establish whether expected controls over the ordering, receipting of, delivery and safeguarding of supplies are in place and are operating satisfactorily within the Early Years and Childcare Strategy teams, located at Perth Grammar School’s Community Wing.

The review consisted of an analysis of procedural documentation, interviews with relevant officers and team members and testing.

The audit was limited to the operations of the Early Years and Childcare Strategy teams. It did not consider the operations of the Early Years Inclusion Team, other teams within Education and Children’s Services (ECS) or other Council services. It considered the use of PECOS by officers and team members in the Early Years & Childcare Strategy team, but did not evaluate controls within and over this financial system.

The audit was limited to the ordering, receipting of delivery and safeguarding of supplies, it was not a wholescale review of the Early Years and Childcare Strategy teams.

Control Objectives and Opinions

This section describes the purpose of the audit and summarises the results. A ‘control objective’ is a management objective that requires the maintenance of adequate and effective internal controls to ensure that it is achieved. Each control objective has been given a rating describing, on the basis of the audit work done, the actual strength of the internal controls found to be in place. Areas of good or poor practice are described where appropriate.

Control Objective 1: To ensure that controls over the ordering of goods are adequate
Internal Audit Comments: Early Years & Childcare Strategy have informed Internal Audit that the vast majority of purchases of goods by the teams are via PECOS (Professional Electronic Commerce Online System). This is in line with Council policy and procedures.

In some cases an order is requested informally, e.g. by Post-It Notes stuck to catalogues or on pieces of paper that are not retained. Admin Support at Perth Grammar School Community Wing raises the requisition in the system, PECOS, and the officer requesting the order to be raised approves the order. The informal nature of the request means that the Admin Support officer has no evidence that they were asked to raise the order and could be vulnerable should the order be questioned at a later date.	
Strength of Internal Controls:	Moderate

Control Objective 2: To ensure that controls over the receipting of delivery of goods are adequate	
Internal Audit Comments: There is scope to improve controls for receipting the delivery of goods in that: delivery notes are not annotated to verify that goods have been received by the Service; the team member checking the receipt of the goods could be the person who raised the order; and delivery notes are not being held in the order prescribed by ECS Financial Policies and Procedures. Furthermore, from the 11 transactions tested, 2 purchase orders were found where the despatch date on a delivery note is subsequent to the fully received date recorded in PECOS. In one case there is a discrepancy with the receipting of the whole order and in the other case the discrepancy is with part of the order. The dates in PECOS for both are in March 2019 which indicates that the goods were receipted in PECOS prior to delivery to ensure the expenditure was posted to the 2018/19 financial year and not 2019/20. Testing showed four instances out of seven in the 2018/19 financial year where the Admin Support had updated PECOS for the receipt of goods from Argos on the instruction of another non- Admin Support Officer, without seeing either the goods or a receipt. In two of these four instances, goods had been receipted in PECOS by an Admin Support Officer when a non- Admin Support Officer said they would pick the goods up from Argos and subsequently didn’t. Internal Audit were informed that no payment has been made for these orders.	
Strength of Internal Controls:	Moderately Weak

Control Objective 3: To ensure that controls over the safeguarding of resources are adequate
Internal Audit Comments: Internal Audit found that: • Goods are ordered by the two different teams and by different sub-teams within the teams separately;

- Goods are retained as inventory by that team or sub-team and stored separately;
- There may be times when sharing of inventory by one team or sub-team may negate the need to purchase goods by another team or sub-team; and
- There may be times when the same or similar goods required by different teams or sub-teams may be ordered together, which may lead to cost savings to the Service in the way of discount.

There is scope to streamline the ordering and inventory control processes, which could result in the potential for better use of resources within the Service as a whole.

Prior to the commencement of the assignment the Service Manager instigated the preparation of inventory control in six large containers in the grounds of Perth Grammar School and in ‘Play Pods’ at various schools and other premises. The Service Manager informed Internal Audit that she sees this as the starting point to introducing an inventory system whereby goods will be signed out for use and then signed back in again when finished with. The Service Manager also highlighted that she will instigate a periodic inventory check.

The six large containers are padlocked; however Internal Audit were informed that the same key opens all 6 padlocks, as well as the school gate. Although the key is retained in a key safe in the Community Wing office key safe, there is a high likelihood that there are ‘unofficial’ copies. In order to ensure that these goods are held securely and accessed only by authorised personnel, consideration should be given to changing the locks and controlling where keys are held.

Strength of Internal Controls:	Moderately Weak

Management Action and Follow-Up

Responsibility for the maintenance of adequate and effective internal controls rests with management.

Where the audit has identified areas where a response by management is required, these are listed in Appendix 1, along with an indication of the importance of each ‘action point’. Appendix 2 describes these action points in more detail, and records the action plan that has been developed by management in response to each point.

It is management‘s responsibility to ensure that the action plan presented in this report is achievable and appropriate to the circumstances. Where a decision is taken not to act in response to this report, it is the responsibility of management to assess and accept the risks arising from non-implementation.

Achievement of the action plan is monitored through Internal Audit’s ‘follow up’ arrangements.

Management should ensure that the relevant risk profiles are reviewed and updated where necessary to take account of the contents of Internal Audit reports. The completeness of risk profiles will be examined as part of Internal Audit's normal planned work.

Acknowledgements

Internal Audit acknowledges with thanks the co-operation of the Service Manager, Team Leader, Admin Support Management Assistant & Business Assistants and the CDS Financial Systems Officer during this audit.

Feedback

Internal Audit welcomes feedback, in connection with this audit or with the Internal Audit service in general.

Distribution

This report has been distributed to:

K Reid, Chief Executive

J Valentine, Depute Chief Executive & Chief Operating Officer

S Devlin, Executive Director. ECS

J Pepper, Depute Director, ECS

S Johnston, Head of Education

B Martin-Scott, Service Manager: Early Years, ECS

G Boland, Senior Business & Resources Manager, ECS

J Cockburn, Finance & Governance Manager, ECS

L Simpson, Head of Legal & Governance

S Mackenzie, Head of Finance

Committee Services

External Audit

Authorisation

The auditor for this assignment was M Stewart. The supervising auditor was J Clark.

This report is authorised for issue:

J Clark
Chief Internal Auditor
Date: 28 October 2019

Appendix 1: Summary of Action Points

No.	Action Point	Risk/Importance
1	Compliance with ECS Financial Policies & Procedures	Medium
2	Segregation of duties	Medium
3	Argos orders	Medium
4	Inventory control – Key to containers in Perth Grammar School grounds and school gate	High
5	Inventory control – Maintenance of inventory lists	High
6	Inventory control – Periodic Inventory checks	High
7	Receipting delivery in PECOS prior to physical receipt	Medium

Appendix 2: Action Plan

Action Point 1 - Compliance with ECS Financial Policies & Procedures

Team members did not demonstrate an awareness of the ECS Financial Policies and Procedures on ERIC. These Procedures place requirements on officers for the ordering, the receipting of delivery of goods and the payment of invoices. No site-specific procedures were in use to ensure the consistency of treatment of these functions.

Had these been in place, some of the control issues highlighted by this review may have been avoided.

Management Action Plan

1. Team members have been signposted to the ECS Financial Policies and Procedures on ERIC.
2. Furthermore, the Service Manager held a Development Day with her teams in October 2019. The outcomes from this review were included within the development day in order to raise awareness and ensure clarity for all staff in undertaking these functions. Support and guidance was provided by ECS' Finance Support Team in this regard.

Risk/Importance:	Medium
Responsible Officer:	B Martin Scott, Service Manager (Early Years & Primary)
Lead Service:	Education & Children's Services
Date for Completion (Month / Year):	1. Complete 2. Complete
Required Evidence of Completion:	Agenda and notes from the Development Day.

Auditor's Comments

Satisfactory

Action Point 2 - Segregation of duties

ECS' Financial Policies and Procedures require that there is adequate segregation of duties.

There may be a lack of segregation of duties in the end-to-end process of ordering, approving, receiving goods and authorising payments.

Segregation of duties protects officers by ensuring that there is at least one more person involved in key processes. These segregations also ensure that goods ordered are appropriate and within budget and are received by the Council.

Management Action Plan

Processes have been clarified within the team regarding roles and responsibilities. Local procedures will be updated to include reference to segregation of duties and this was included within the Development Day referred to in Action Point 1.

Risk/Importance:	Medium
Responsible Officer:	B Martin Scott, Service Manager (Early Years & Primary)
Lead Service:	Education & Children's Services
Date for Completion (Month / Year):	Complete
Required Evidence of Completion:	Local procedures Agenda and notes from the Development Day

Auditor's Comments

Satisfactory

Action Point 3 - Argos orders

A sample of 4 of the 7 orders placed at Argos were reviewed. It was noted that, where goods are ordered from Argos, these are collected from the store rather than being delivered to Council premises. Whilst this practice does not incur delivery costs, there are additional resources used for driving, collecting and delivering the goods to the relevant Council establishment. It was noted that there were occasions where such collections have taken place on a non-working day. Furthermore, this increases the possibility of one team member being responsible for requesting the order to be raised, authorising the order and receiving the goods without an independent person being involved in the process.

Goods should only be receipted in PECOS by Admin Support where s/he has seen the goods, or the Argos receipt with received goods, stamped by an Argos employee, signed by team member receiving the goods. It was noted that this was not always the case.

Management Action Plan

The Service Manager has instructed that all orders are to be delivered directly to the relevant establishment, thus there will be no requirement for team members to collect items from shops.

The issues raised by this finding were included within the Development Day as detailed in Action Point 1.

Risk/Importance:	Medium
Responsible Officer:	B Martin Scott, Service Manager (Early Years & Primary)
Lead Service:	Education & Children’s Services
Date for Completion (Month / Year):	Complete
Required Evidence of Completion:	Agenda and notes from the Development Day

Auditor’s Comments

Satisfactory

Action Point 4 - Inventory control – Key to containers in Perth Grammar School Grounds and school gate

The containers which hold the equipment for the team are secured by padlocks. The keys for the padlocks are the same as those for the school gate, keys for which are also held by non-team members. Furthermore, it is unclear how many keys are in existence; who holds the keys; and where they are located.

Management Action Plan

New padlocks have been fitted on each of the containers. The keys are retained in a central location under the control of a limited number of team members (key-holders). The key-holder will be present when any inventory items are removed or returned so that the inventory list can be updated appropriately at the time.

Risk/Importance:	High
Responsible Officer:	B Martin Scott, Service Manager (Early Years & Primary)
Lead Service:	Education & Children’s Services
Date for Completion (Month / Year):	Complete
Required Evidence of Completion:	Written assurance from the Service Manager that the locks have been replaced.

Auditor’s Comments

Satisfactory

Action Point 5 - Inventory control – Maintenance of inventory lists

The inventory has now been prepared to record resources entering and leaving the containers and these should be kept up-to-date. In order to ensure that the records are up to date and accurate, goods should be signed out of inventory for use and then signed back in again upon return. Site-specific procedures should be developed to ensure that this is clearly recorded and all team members should be made aware of the processes to be followed. A template inventory in and inventory out document should be prepared to facilitate this.

Failure to do this opens up the risk of items being removed from the containers without authority and/or recording of its movement.

The inventory lists should be updated by a person independent of the key-holder from the document and the next blank document numbered consecutively.

Failure to do this opens up the risk that the inventory list will become incorrect.

Management Action Plan

A process has been developed for updating records of the contents of the containers and this process was included in the development day referred to in Action Point 1.

Local procedures regarding the maintenance of the inventory list will be documented.

Risk/Importance:	High
Responsible Officer:	B Martin Scott, Service Manager (Early Years & Primary)
Lead Service:	Education & Children’s Services
Date for Completion (Month / Year):	Complete
Required Evidence of Completion:	Updated inventory list Agenda and notes from the Development Day

uditor’s Comments

Satisfactory

Action Point 6 - Inventory control – Periodic inventory checks

A periodic inventory should be undertaken by two team members who are not key-holders to ensure that each inventory agrees with the physical inventory. Any discrepancies should be investigated and resolved. The inventory should be recorded along with any investigative action and resolution. The inventory document(s) should be signed or initialled and dated by both team members.

Failure to do this opens up the risk that unauthorised removal of inventory items may not be discovered and certainly not in time to allow easy investigation.

Management Action Plan

1. Local procedures will be developed for quarterly inventory checks to be undertaken to verify the contents of the containers.

2. The first inventory check will be undertaken by 15 November 2019.

Risk/Importance:	High
Responsible Officer:	B Martin Scott, Service Manager (Early Years & Primary)
Lead Service:	Education & Children’s Services
Date for Completion (Month / Year):	1. October 2019 2. November 2019
Required Evidence of Completion:	Sight of document(s) recording the inventory check along with any investigative action and resolution, signed or initialled and dated by both team members.

Auditor’s Comments

Satisfactory

Action Point 7 - Receipting delivery in PECOS prior to physical receipt

All team members should be reminded that goods should not be receipted in PECOS until they have physically been delivered.

By receipting before delivery there is a risk that an invoice would be paid through the PECOS/Integra matching progress for goods never received.

Management Action Plan

The Service Manager re-iterated this requirement as part of the development day.

Risk/Importance:	Medium
Responsible Officer:	B Martin Scott, Service Manager (Early Years & Primary)
Lead Service:	Education & Children’s Services
Date for Completion (Month / Year):	Complete
Required Evidence of Completion:	Agenda and notes from the Development Day

Auditor’s Comments

Satisfactory