



Internal Audit Report
Review of Statutory Performance Indicators
Issued: March 2015

Level of Assurance	Average - The overall control framework is of an average standard. Some weaknesses have been identified in the controls and improvements are possible.
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Executive Summary

1.0 Introduction

The Local Government Act 1992 requires the Accounts Commission to direct Local Authorities to publish information relating to their activities in any financial year or other specified period as will, in the Commission's opinion:

- Facilitate the making of appropriate comparisons (by reference to the criteria of cost, economy, efficiency and effectiveness and of securing best value in accordance with section 1 of the Local Government in Scotland Act 2003) between:
 - I. The standards of performance achieved by different relevant bodies in that financial year or other period; and
 - II. The standards of performance achieved by such bodies in different financial years or, as the case may be, other periods.

The Accounts Commission published their 2012 Statutory Direction for 2013/14 indicators in December 2012. This Direction has retained previously reported statutory performance indicators (SPI) 1 (Corporate Management) and SPI 2 (Service Performance) indicators; however the 25 nationally prescribed indicators have been removed and have been replaced with SPI 3 (SOLACE benchmark frameworks). Each council is required to report all SPI 3 indicators in accordance with the requirements of the Society of Local Authority Chief Executive (SOLACE) – now referred to as the Local Government Benchmark Framework (LGBF). The LGBF includes many of the Account Commissions previous nationally prescribed performance indicators.

The LGBF has been developed over the last four years by all 32 Scottish Councils working with the Improvement Service, a COSLA/SOLACE partnership set up to support local government improvement across Scotland, to develop a common approach to benchmarking. This work has resulted in development of 55 indicators. These indicators have been grouped into seven main service areas:

1. Children's Services;
2. Corporate Services;
3. Adult Social Care;
4. Culture and Leisure Services;
5. Environmental Services;
6. Housing Services; and
7. Economic Development.

The aims of the LGBF project are to:

- help councils and their services better understand why they achieve their current performance levels;

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- build our understanding of where councils performance varies;
- build our understanding why performance variation occurs; and
- help to identify and share good practice across councils.

The Local Government Act 1992 lays a duty upon each council to ensure that it has in place such arrangements for collecting, recording, and publishing performance information that will allow it to comply with a Direction from the Commission. This means establishing systems and procedures to ensure the information gathered is accurate and complete, having working papers available to auditors which support the calculated figures, and all officers involved in the collection and reporting of information are aware of the duties of Best Value, Public Performance Reporting and the SPIs, and relevant guidance supporting each SPI.

The costs used to calculate the LGBF indicators use data from the Local Financial Returns (LFR) prepared by the Council. The LFRs are based on the figures included in Local Authorities audited accounts. The income and expenditure is then analysed and categorised under specific headings for the return. Guidance on the categorisation to be followed is issued by the Scottish Government and is based on CIPFA's Service Reporting Code of Practice (SeRCOP). This allows there to be a degree of comparability between data across Scottish local authorities. However, some inconsistencies can occur in the categorisation across local authorities as there can be a degree of judgement when identifying a relevant sub-service activity for a particular item of expenditure or due to the structural differences between Councils. The information submitted by Local Authorities in the LFRs is used by the Scottish Government to meet a range of policy needs. However, the data is also used by various external users, including the Improvement Service for the production of its suite of PIs.

Other information used in LGBF indicators originates from various other Council submissions such as Roads data submitted to Transport Scotland, The Social Care Survey and data submitted to Audit Scotland. Additionally, for some PIs such as sickness absence, the information is sent directly to the Improvement Service by individual Councils.

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2.0 Objectives of the Audit

The objective of the audit was to review a sample of five Statutory Performance Indicators (SPI) from SPI 3 to determine the adequacy of processes and controls to allow accurate reporting. The following SPIs were reviewed:

SPI	Category	2012/13 Midlothian Council	2012/13 Scottish Average	2012/13 Midlothian Council Ranking	2013/14 Midlothian Council	2013/14 Scottish Average	Midlothian Council 2013/14 Ranking
Older persons (over 65) home care costs per hour (SW1)	Adult and Social Care	£12.46	£21.33	3	£23.81	£20.66	27
SDS (Self-Directed Support) spend on adults 18+ as a % of total social work spend on adults 18+ (SW2)	Adult and Social Care	2.39%	2.90%	21	2.75%	3.42%	20
The total costs per attendance at sports facilities (C&L 1)	Culture and Leisure Services	£7.00	£4.21	28	£7.01	£4.16	27
The net cost of refuse collection per premises (ENV1 a)	Environmental Services	£76.47	£61.65	27	£60.56	£62.97	15

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SPI	Category	2012/13 Midlothian Council	2012/13 Scottish Average	2012/13 Midlothian Council Ranking	2013/14 Midlothian Council	2013/14 Scottish Average	Midlothian Council 2013/14 Ranking
The cost of maintenance per kilometre of roads (ENV4 a)	Environmental Services	£14,854.35	£8,957	27	£11,281.70	£8,267.05	25

A copy of the terms of reference for the review is attached on page 14.

3.0 Conclusion

Our Internal Audit has identified that:

- there is general compliance with the SPI definitions and guidance and systems and procedures are in place to produce SPI measures; and
- LGBF indicators are annually submitted to Performance Review and Scrutiny Committee for review by elected members and management. This report provides reasons for current performance and outlines management's plans to improve performance for indicators in the bottom quartile. This year's report on the LGBF measures was submitted to Cabinet on the 3rd March 2015.

However, during our audit we identified some weaknesses which are further explained in the Management Action Plan. These included:

- home care hours being calculated on an approximation rather than an actual basis effecting the accuracy of the older persons (over 65) home care costs per hour, performance indicator (SW1);
- home care costs in the LFR 03 (Local Financial Return) being calculated differently in 2012/13 to 2013/14 resulting in an issue with the year on year comparability of the older persons (over 65) home care costs per hour performance indicator (SW1);
- the total cost per attendance at sport facilities performance indicator (C&L 1) being overstated due to Midlothian Snowsports Centre not being included in the submitted usage statistics;
- an issue with the audit trail and record retention for the number of commercial premises used for the net cost of refuse collection performance indicator (ENV1 a);
- an error in the LFR return resulting in the financial figure for the cost of maintenance per kilometre of roads performance indicator (ENV4 a) numerator figure being overstated by £370,000; and
- minor updates to the workings templates for the LFRs.

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Resolving the identified issues will help improve the accuracy and reliability of the SPIs going forward.

The overall control framework is of an average standard. As above, some weaknesses have been identified in the controls and improvements are possible. Therefore, we have on this occasion rated the review as **Average** as per the definitions on page 12. We have raised a small number of recommendations which are detailed in the Management Action Plan to reduce risk further and these recommendations have been accepted by management.

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4.0 Audit Issues and Management Action Plan

4.1 Older Persons (Over 65) Home Care Costs Per Hour (SW1) and SDS (Self-Directed Support) Spend on Adults 18+ as a % of Total Social Work Spend on Adults 18+ (SW2)

Home Care Hours

Home care hours are recorded in the Council's workflow and case management system, Frameworki. This system is used by various services across the Council including Adult and Social Care and Children's Services.

An issue noted with the way the Home Care hour's data was being calculated was that a week's Home Care timetable was extracted from the system and this was extrapolated to provide an estimation of the year's Home Care hours.

This is not necessary given that the software can produce an extract of a full year's data. The current method of calculation means that home care hours included in that week will not align exactly with the cost figure as the cost is taken from the Council's full financial year while the hours are an extrapolation which only uses one week of data from March each year. Additionally, the current method gives little opportunity for analytical review of hours provided and their respective rates in terms of management information.

No	Recommendation	Priority	Manager	Target Date
1	Reports should be run from Frameworki to extract the actual home care hours provided for future SPI submissions instead of extrapolating on a week's data. Analysis should be carried out to determine how this change in reporting would have impacted prior year's SPI results for 2013/14 and 2012/13, especially as the reported number of hours in 2012/13 was noted as unusually high.	High	Performance & Information Systems Manager	30/06/2015

Local Financial Return 03 – Social Work

Only one minor issue was noted with the preparation of LFR 03 for 2013/14. The percentage basis for some of the management, central costs and training costs which feed into the older persons (over 65) home care costs should be updated given changes in the Council structure for next year. It is noted plans are in place for this for 2014/15.

It was noted however, that the prior year's LFR (2012/13) has calculated Home Care costs on a different basis to the current year. Midlothian's reported figure for Home Care costs in the 2012/13 LFR 03 is £6,334,000, however when the 2012/13 Home Care costs are calculated on the

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same basis as the current year's LFR the Home Care costs are £7,911,000. This aligns much more closely with 2013/14s reported Home Care costs of £8,185,000. The difference is due to an update and improvement in the methodology used to calculate Home Care costs.

No	Recommendation	Priority	Manager	Target Date
2	Accountants preparing LFRs should review the LGBF indicators making use of LFR data. This will help when considering the appropriate treatment year on year so there is comparability.	Medium	Financial Services Manager	30/06/2015
3	Percentage allocations in LFR 03 should be reviewed and updated in line with changes to the Council's structure and the service with explanation for their rationale. Management Comment: This work is planned as part of the 2014/15 Final Accounts Project Plan.	Low	Financial Services Manager	30/06/2015

Self Directed Support 2

No issues were noted with the SPI SW2. However, it is noted that from 1st April 2014 there will be SDS 2 payments (managed personal budgets) as well as SDS 1 (Direct Payments) and the LFR pro-forma requires these to be reported separately. It is noted that the ledger detail for 2014/15 does not distinguish between SDS 1 and SDS 2 payments.

No	Recommendation	Priority	Manager	Target Date
4	For the 2014/15 LFR 03, liaise with contacts in Adult and Social Care to obtain a breakdown of the total SDS 1 and SDS 2 payments. Management Comment: Liaison with contacts in Adult and Social Care is planned for the preparation of the 2014/15 LFR.	Medium	Financial Services Manager	30/06/2015

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4.2 The Total Costs Per Attendance at Sports Facilities (C&L 1)

Sport Facilities Attendances

It was noted that the (C&L 1) performance indicator is taking the gross cost of sports facilities including swimming pools and the Midlothian Snowsports Centre but is excluding Midlothian Snowsports Centre when measuring the total number of attendances at all sport and leisure facilities. This therefore impacts on cost per attendance. Including the usage of the snow sport centre would reduce the 'Total Cost Per Attendance at Sport Facilities' PI for 2013/14 from £7.01 to £6.16. For 2012/13 inclusion of the Midlothian Snowsports Centre in the usage statistics would have moved Midlothian from position 28 to 27 and for 2013/14 it would improve Midlothian's ranking from 27 to 26.

The total number attendances calculation historically used guidance from the December 2011 SPI Directive, SPI 10. SPI 10 records the number of attendances per 1,000 population for pools and other indoor sports and leisure facilities excluding pools in a combined complex. The data source for attendance is based on usage statistics from the tills. Midlothian Snowsports Centre has in the past been excluded from the other usage statistics as there had been problems in the past with usage data not being received timeously, the fact the centre uses a different information system for the tills than the other leisure centres and there being some ambiguity as to whether to include based on the previous SPI 10 definition.

A number of Scottish council's have chosen to have their Sport and Leisure facilities managed by an ALEO (arm's length organisation), such as a limited company or trust under the full ownership of the respective Council. Midlothian Council is not one of these councils. As the comparative data for this PI includes Council's using ALEOs and not using ALEOs there is a risk that cost information extracted for these two situations are not fully comparable. It is noted however, that the Council is in discussion with Improvement Service and going forward the PIs may change through further discussion and feedback. Additionally, Midlothian's position reflects the high number of sport and leisure facilities Midlothian Council has compared to the area's total population.

No	Recommendation	Priority	Manager	Target Date
5	Obtain clarification from the Improvement Service on the treatment of usage for the Midlothian Snowsports Centre for the performance indicator C&L 1 and if necessary adjust the reported SPI for future submissions of usage statistics by the Sports and Leisure service to include Midlothian Snowsports Centre.	Medium	Healthy Living Manager	31/05/2015

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Local Financial Return 02 – Culture and Related Services

Local Financial Return 02s workings include a reconciliation where some staff, premises and other expenditure are allocated between the LFR headings on a percentage basis, including the split between Library Service Costs and Other Tourism. Many of these allocations would benefit from being refreshed. Best practice would be to review and update the basis of these percentages in line with changes to the Council's structure and the service. The overall effect of updating this section of the reconciliation would have negligible impact on the 'Total Cost Per Attendance at Sports Facilities' PI.

No	Recommendation	Priority	Manager	Target Date
6	Percentage allocations in LFR 02 should be reviewed and updated in line with changes to the Council's structure and the service with explanation for their rationale. Management Comment: This work is planned as part of the 2014/15 Final Accounts Project Plan.	Low	Financial Services Manager	30/06/2015

4.3 The Net Cost of Refuse Collection Per Premises (ENV1 a)

Audit trail and record retention in relation to the number of Commercial Premises

The number of premises from this SPI is made up of residential and commercial premises. The number of residential premises is reconciled to data provided by the Lothian Valuation Joint Board and this was matched to information held by Customer and Housings Services from within Midlothian Council. No issues were noted therefore with the number of residential premises included within the SPI.

Information on the commercial premises Midlothian collects from is held in the Total Repairs system used by various teams within the Property and Facilities Management service and Commercial Operations. An issue identified was that a download from the Total Repairs system was not available which agreed to the figure used for the commercial premises SPI. The total number of clients is taken from the system on the 31st March each year, but no system extract supporting the figure for 2013/14 or 2012/13 was available for audit to review.

No	Recommendation	Priority	Manager	Target Date
7	A system extract of the commercial premises Midlothian collects from should be taken each year on the 31 st of March each year and stored so there is an adequate audit trail to support the figures included in the SPI. Alternatively it should be clarified if it is possible to review the number of clients held in the system at a specific date in the past.	Medium	Waste Services Manager	31/03/2015

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Local Financial Return 06 – Environmental Services – Adequacy of Working Papers

The submitted SPI is in part made up of information extracted from Local Financial Returns which are produced by Midlothian Council's Finance Services and submitted to the Scottish Government. It was noted that the Local Financial Return (LFR) working papers (Local Financial Return 06) includes workings for Private Sector Housing Renewal (PSHR) of £160,223. This is a step in reconciling the Comprehensive Statement of Income and Expenditure to the LFR. It was noted that these workings are based on budgeted staffing levels as at 2006/07. Although this adjustment would not have a material impact on the 'Net Cost of Refuse Collection Per Premises' PI; best practice would be to refresh the details of the employees budgeted to work on the PSHR to help ensure the workings are as accurate as possible.

No	Recommendation	Priority	Manager	Target Date
8	<p>Given council structures and staffing levels have changed the PSHR adjustment in LFR 06 should be reviewed and updated for the next year's LFR submission.</p> <p>Management Comment: Updates to the methodology for 2014/15 are included in the Final Accounts Project Plan.</p>	Low	Financial Services Manager	30/06/2015

4.4 The Cost of Maintenance Per Kilometre of Roads (ENV4 a)

This PI measures the investment by Midlothian Council in the roads infrastructure per kilometre. The ranking of 25 out of the 32 Scottish Councils therefore reflects the high level of investment in Midlothian's roads by the Council.

Road Length

It was noted that although Midlothian Council had supplied the Improvement Service with the correct figure for Midlothian Road Length there was an error within the draft return. The Improvement Service has been advised of this error by Internal Audit (658km when the correct figure is 670km). This would improve the SPI from £11,281.70 to £11,068.02 although this would not impact on Midlothian Council's current ranking which would remain at 25.

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Local Financial Return 05 – Roads and Transport

The submitted SPI for the cost of maintenance includes information submitted through the LFR. Testing by Internal Audit identified an error in the final submitted LFR in the split between ‘Lighting’ costs and ‘Structural, Environmental and Safety and Maintenance and Routine Repairs’ costs.

This has resulted in the LFR expenditure for Structural being overstated in the return by £370,000 and Lighting being understated by £370,000. Similarly Structural income has been overstated by £311,000 and Lighting income has been understated by £311,000. This leaves a net error of £59,000. The underlying workings prepared by Financial Services are correct, but the error occurred when the workings were transposed into the final LFR return. Correcting this error would result in the PI for ‘The Cost of Maintenance Per Kilometre of Roads’ improving from £11,068.02 to £10,516.11. However, correcting for this error would not improve Midlothian’s ranking for 2013/14 and would remain at position 25. The same type of error in the split between ‘Lighting Costs’ and ‘Structural, Environmental and Safety and Maintenance Costs’ is in place in the final submitted 2012/13 LFR.

NB - This is only an error in the final submitted LFR; not an error in the Financial Statements, the Management Accounts or the LFR workings.

No	Recommendation	Priority	Manager	Target Date
9	Although it is appreciated human error will sometimes occur, Financial Services should review if it is possible to further improve the final sign off and reconciliation process of LFRs.	Medium	Financial Services Manager	30/06/2015

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APPENDIX 1

Definitions of Ratings

Audit Opinion

Level of Control	Reason for the level of Assurance given
Excellent	The control framework is of a high standard with no unacceptable risks identified.
Good	The control framework is of a good standard with only minor elements of risk identified which are either accepted or being dealt with by management.
Average	The control framework is of average standard and improvements are possible. These improvements are not currently being dealt with by management and have not been accepted to be within the risk appetite of the Council.
Weak	The control framework is weak and requires improvement as significant issues exist with the adequacy and effectiveness of the Internal Control arrangements. These control deficiencies could result in delivery of poor service or disruption to service to the residents of Midlothian, financial loss or reputational damage to the Council.
Poor	The control framework is inadequate or ineffective and the issues identified require immediate attention to prevent the delivery of poor service or disruption to service to the residents of Midlothian, financial loss or reputational damage to the Council.

Recommendation Rating

High	Legal / regulatory issues would normally be regarded as high risks. Strategic risks would normally be regarded as high risks. Financial impact - £50K plus and / or national press interest
Medium	£5K - £49K and / or local press interest
Low	Under £5K and / or no press interest.

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Distribution

- Members of the Audit Committee
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- John Blair, Director, Resources
- Eibhlin McHugh, Joint Director Health and Social Care
- Gary Fairley, Head of Finance and Integrated Service Support (s95 officer)
- Ricky Moffat, Head of Commercial Operations
- Garry Sheret, Head of Property and Facilities Manager
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- Tony Malone, Healthy Living Manager
- Phil Riddell, Waste Services Manager
- Neil Dougall, Strategic Transportation Manager
- Rebecca Fairnie, Performance & Information Systems Manager
- Other members of the Corporate Management Team
- Grant Thornton, External Auditors

Audit Team

Author: James Polanski, Auditor
Reviewer: Graham Herbert, Audit Manager

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APPENDIX 2

TERMS OF REFERENCE:

Audit Objective and Scope

Audit Objective

The objective of the audit is to review a sample of statutory performance indicators (SPI) to determine the adequacy of processes and controls to allow accurate reporting.

Scope of Audit

The audit will focus on the following areas:

- the level of compliance with SPI definitions and guidance;
- the adequacy of the systems and procedures to produce accurate SPI results;
- the adequacy of the audit trail and working papers to evidence the satisfactory calculation of SPIs; and
- whether the Council takes active steps to improve on poor performance.

The SPIs included in the review are as follows:

- the net cost of refuse collection per premises;
- the cost of maintenance per kilometre of roads;
- the total costs per attendance at sports facilities;
- Older Persons (Over 65) Home Care Costs per Hour; and
- SDS (Self-Directed Support) spend on adults 18+ as a % of total social work spend on adults 18+.

Excluded from the Scope of the Audit

The following areas are excluded from this review:

- other SPI not noted above; and
- year-on-year trends and analysis.

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Potential Risks		
<p>Potential risks include:</p> <ul style="list-style-type: none"> • failure to identify or respond to poor performance in the provision of Council services; • reputation damage as a result of inaccurate SPI results. This could be through failure to comply with SPI definitions or failures in the processes; and • inefficiencies in the process resulting in a resource intensive task consuming significant officer time. 		
Audit Approach		
<p>The audit approach consists of:</p> <ul style="list-style-type: none"> • fact finding interviews with key employees; • review of appropriate documentation which includes any risk reviews that have been conducted and risk registers that are in place; • access to and interrogation of any relevant systems and sample testing as required; • closure meeting with local management to discuss the findings and any recommendations from the review; • draft and final reporting; and • presentation of the final report to the Audit Committee. 		
Timescales & Reporting		
<p>The audit will commence in November and is expected to be reported to the next available Audit Committee. Any issues arising will be communicated directly to local management as they are identified. A formal audit report will be produced summarising the findings and any recommendations identified during the review.</p>		
Information Requirements		
<p>Access to all relevant systems, documentation and employees.</p>		
Audit Resource		
Lead Auditor	James Polanski	Ext. 5646
Reviewer:	Graham Herbert	Ext. 3517

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Appendix 3

Extracts from the 2012/13 Local Government Benchmarking Framework Results Report (actions arising out of analysis of 2012/13 results in the lower quartile)

Indicators in the Bottom Quartile						
Indicator	11/12 Data	11/12 Position	12/13 Data	12/13 Position	Scottish Average	Improvement Action
The Net cost of refuse collection per premise	No data available	-	£76.47	29	£61.65	This was a considerable improvement to the cost of waste collection in 2012-13. The future development of Waste Management services includes <ul style="list-style-type: none"> • Continuing the development of the educational awareness programme within schools in relation to recycling • The provision of a new recycling facility in Penicuik • Maintenance of stakeholder interest and commitment to recycling • Increasing the volume of waste recycled and diverted from landfill
The Gross cost of Waste collection per premise	£96.03	26	£95.18	27	£83.46	
The cost of maintenance per kilometre of roads	£6,487	14	£14,854	27	£8,956	This indicator is included in the LGBF family group pilot to drill into the information presented to understand the variances across Scotland.
The cost per attendance at Sports facilities	£5.47	25	£7.00	28	£4.21	Efficiencies have been made in staff costs and increased users and also worked on retention of customers as part of our Tonezone marketing plan to try and improve this year's figure

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Extracts from the 2013/14 Local Government Benchmarking Framework Results Report (actions arising out of analysis of 2013/14 results in the lower quartile)

Indicators in the Bottom Quartile						
Indicator	12/13 Data	12/13 Position	13/14 Data	13/14 Position	Scottish Average	Improvement Action
Home care costs for people aged 65 or over per hour £	£12.46	3	£23.81	27	£20.66	Home care hours are recorded in the Council's workflow and case management system, Frameworki. This system is used by various services across the Council including Adult and Social Care and Children's Services. An issue noted with the way the Home Care hour's data was being calculated was that a week's Home Care timetable was extracted from the system and this was extrapolated to provide an estimation of the year's Home Care hours. The current method of calculation means that home care hours included in that week will not align exactly with the cost figure as the cost is taken from the Council's full financial year while the hours are an extrapolation which only uses one week of data from March each year. This will be changed for future years analysis.
Cost per attendance at sports facilities £	£7.00	28	£7.01	27	£4.16	This indicator does not compare equitably with other local authorities who have their portfolio managed by Trust or arms length operators. It is also difficult to compare performance without understanding exactly what subsidies have been factored in by other organisations in comparison to our costs. Midlothian also has considerable more facilities per capita available to their residents, which comes at a greater cost. As Hillend Snowports Centre is the only one of its kind in Scotland it is excluded from the comparison, however if it is added to the performance indicator the cost per attendance would reduce to £6.16.

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Indicators in the Bottom Quartile						
Indicator	12/13 Data	12/13 Position	13/14 Data	13/14 Position	Scottish Average	Improvement Action
Road cost per kilometre £	£14,854	27	£11,281	25	£8,267.05	<p>Calculated by the actual money spent on the road network divided by the road length. It will therefore change as the network increases due to additional roads e.g. from housing estates etc being added and the money allocated from the revenue and capital budgets. Revenue funding is largely the same but capital can fluctuate, therefore there may be significant differences due to the level of capital investment.</p> <p>The recent Family Group Benchmarking exercise for this indicator identified a range of operational models but also significant differences in accounting, which undermine the comparability of the data. The cost indicator takes account of revenue expenditure, however many councils appear to account for a large proportion of expenditure on road maintenance as capital.</p>