Midlothian

Internal Audit Report

Follow-up Review of Audit Recommendations

Issued: June 2016

Level of Assurance	N/A – Follow-up reviews are not rated.

<table>
<tr><td colspan="2">Table of Contents</td></tr>
<tr><td>Page 1</td><td>Executive Summary</td></tr>
<tr><td>Page 3</td><td>Recommendations identified as not being fully completed (Appendix 1)</td></tr>
<tr><td>Page 8</td><td>Further recommendations arising from this review (Appendix 2)</td></tr>
<tr><td>Page 10</td><td>Distribution List (Appendix 3)</td></tr>
</table>

Executive Summary

1.0 Introduction

Internal Audit Reports include a section with management actions where recommendations are made to improve upon the existing internal controls and assist the Council achieve best value. These recommendations, following agreement with management, are endorsed by the Audit Committee and are then updated by Internal Audit to the Council's performance management system (Covalent) with a target completion date set.

Management are responsible for acting on the recommendations by the agreed due date and when complete, closing the issue on Covalent. The Internal Audit plan includes a budget for two follow up reviews in relation to recommendations made. The first reviews management's reported performance in closing issues raised by Internal Audit by the agreed due date (reported in December of each year) while the second looks at a sample of recommendations flagged as closed by management and reviews for the adequacy of the actions taken against each issue. This report addresses the second area.

A sample of **40** audit recommendations were judgmentally selected from the Covalent system which were shown at the 'completed' status and evidence obtained to support the satisfactory completion of each recommendation sampled. This included **13** high priority recommendations, **23** medium priority recommendations, and **4** low priority recommendations.

A sample of recommendations from the following Internal Audits were selected for this review:

Audit Report	Number of Recommendations Included in this Review	High Priority	Medium Priority	Low Priority
Following the Public Pound	7	5	2	0
Payroll	6	1	5	0
Commercial Lets	6	0	6	0
House Rents	7	0	4	3
Cashless Catering	6	2	3	1
Construction Industry Scheme	2	0	2	0
Developer Contributions	6	5	1	0
Total	**40**	**13**	**23**	**4**

2.0 Objectives of the Audit

The objective of this follow-up audit was to review a sample of recommendations that have been signed off as complete in 2014/15 to determine whether they had been implemented satisfactorily and thus give assurance over the ongoing improvement of internal control.

3.0 Conclusion

We have identified that the majority of audit actions have been completed satisfactorily. However, we have identified that 1 action had not been adequately completed, and some actions were reported as complete but testing revealed that these are only partially complete.

From the **40** recommendations tested, **26** (65**%**) were found to have been completed satisfactorily, **1** (2.5%) was found to be unsatisfactory and **13** (32.5%) were partially completed (full details of these can be found in **Appendix 1**).

As is standard Internal Audit practice, we have not rated this review since it is a follow-up of previously raised audit recommendations. We have however noted **14** recommendations where we have agreed with management that further improvements can be made.

Appendix 1 - This explains the **14** recommendations identified as not being fully completed.

Appendix 2 - This outlines the further recommendations arising from this review with revised completion dates.

Appendix 1 – **Recommendations identified as not being fully completed**

No	Audit	Original Recommendation	Priority	Testing Results and Auditor's Comments
1	Following the Public Pound (FTPP)	Within the FTPP Corporate Register, relevant employees should be required to review the list of organisations and disclose on the Register any relevant interests or relationships they have with the ALEOs. This should be a requirement of the FTPP policy.	Medium	On application there is a disclosure of vested interests by those reviewing grant applications. However, at the time of the review there was no separate disclosure form in place for monitoring officers (ie those reviewing submitted performance information by grant funded organisations).
2	Following the Public Pound	Link officers should sign off annually whether they have received adequate explanation and information on the performance of the SLA. Issues with the SLA should be recorded during the sign-off and forwarded on to senior management for appropriate action.	High	Monitoring officers are receiving and reviewing performance information as required from grant funded organisations. However, the audit trail of this monitoring could be improved. There is no formal physical or electronic sign off by the monitoring officer of submitted performance information. After discussing this issue with the relevant officer, steps were taken immediately to improve the audit trail of the sign-off of monitoring information.
3	Payroll	It is recommended a report be generated highlighting new start information and changes to hours/grading which should be checked by an independent officer on a monthly basis.	High	The report has been developed but is currently being checked by management to ensure it meets all the requirements and is picking up all the required information. Internal Audit has flagged this recommendation as partly Satisfactory as the report is not yet being checked on a monthly basis.

No	Audit	Original Recommendation	Priority	Testing Results and Auditor's Comments
4	Payroll	In order to establish segregation a different employee should carry out the match of original form to Business Object reports for mileage and other expenses after it has been input.	Medium	A sample month was reviewed and it was noted that whilst two people were inputting the data, one of the same individuals was carrying out all of the checking. This is an improvement as two individuals are involved in the process, but full segregation of duties has not yet been implemented. It was noted there was difficulty in implementing full segregation due to availability of staff and there only being a small window of time during the payroll closeout to get all of the required checking completed. It was clarified during the follow-up review with management that the audit recommendation was to have full segregation with one person inputting and another checking to prevent against the risk of an employee amending a claim without adequate authorisation.
5	Payroll	More targeted reports be developed, eg a report for checking compliance with the working time directive including overtime and for the exception reporting on employee numbers to be included with the rest of the payroll closedown file.	Medium	The working time directive report has been developed, but is still receiving final updates to meet the service's requirements and pick up all required data. It is not yet being run on a monthly basis. Therefore, as this action is not fully complete it should not be marked as complete until the report is finalised.
6	House Rents	Management need to review current letting strategies over garages and garage sites with the aim of improving upon the number that are let.	Medium	A review is underway and a member of staff has visited the sites to inspect their condition. The information from this review will be used to inform the future strategy as per the audit recommendation. However, the review is not yet complete (new due date is now end of July 2016), and Internal Audit's opinion is that this action should not have been closed until completion of the review.

No	Audit	Original Recommendation	Priority	Testing Results and Auditor's Comments
7	House Rents	A review of rent charged for garage sites should be undertaken on a regular basis.	Medium	The Housing Services Manager has reviewed the level of rent charged and will increase the rates following approval from the Head of Customer and Housing Services subject to full Council approval and it will be included with the annual rent increase proposal. However, as bills were already issued in April 2016, the rates will be increased and issued for April 2017.
8	House Rents	Rent charges on the Council's website should be updated on an annual basis.	Low	This was updated for the year 2015/16, however there was a delay in updating the 2016/17 rates. The website has now been updated with the new rates.
9	House Rents	Accurate records should be maintained of the number of garage sites under Council ownership.	Low	A review of the records for garages is underway and a member of staff is transferring the hard copy information into an excel spreadsheet.

As noted above, this action is not yet complete (new due date is now end of July 2016), and Internal Audit's opinion is that this action should not have been closed until completion of the task. |
| 10 | Cashless Catering | For any future contracts either a scanned copy of the signed agreement should be taken and retained electronically or a physical copy taken and retained at a different location to the original. | High | It is noted that for the existing provider a detailed breakdown has been received of all chargeable and non-chargeable costs as part of the current maintenance contract and a signed copy of the current service level agreement is on file.

However, this recommendation related to the retendering of the Cashless Catering System. This retendering exercise is not anticipated to be completed until later in 2017 due to prioritising implementing an Epayment system first.

Internal Audit view it as prudent to keep this recommendation open with a revised due date of Q3 2017. |

No	Audit	Original Recommendation	Priority	Testing Results and Auditor's Comments
11	Cashless Catering	Management should undertake periodic reconciliations between the SEEMIS and the Cashless Catering Systems to confirm that the numbers eligible for free school meals matches between the two systems.	Medium	It was identified that the reconciliation is being undertaken adequately. However, it was noted during the review that the audit trail of this could be improved.
12	Cashless Catering	Procedures should be developed / expanded to reflect the issues noted above and staff reminded of the need to follow these in full (last three bullets).	Medium	A risk assessment relating to cashing up tills has been advised to staff and managers are periodically monitoring compliance with this. However, procedures for weekly reconciliations undertaken by the Catering Services Manager have not been developed yet and there is no cheque return procedure. Management reported that two catering managers have been trained to undertake the weekly reconciliations.
13	Cashless Catering	The variations identified between Catering Services price lists and prices hard coded into tills and the Cashless Catering system need to be brought into line and meals no longer offered should be deleted from the Cashless Catering system.	Low	Some duplicate products were identified in the follow-up review. Therefore, we recommend a further review should be undertaken by management to remove any other obsolete or duplicate products.

No	Audit	Original Recommendation	Priority	Testing Results and Auditor's Comments
14	Construction Industry Scheme (CIS)	Training should be delivered annually to ensure managers understand the scheme and are aware of the importance of classifying construction suppliers as subcontractors and checking the materials and labour split on the subcontractors' invoices.	Medium	Unsatisfactory. It was identified that the further training on the CIS has not yet been delivered to staff. Management have noted there have been few staff changes since the 2014 training session and felt employees in the sections were up to date on the CIS scheme and did not currently need further training. However, they agreed that if new staff were employed further training would be necessary. Internal Audit's view is that there is a risk that staff may not be up to date with the scheme. Therefore we recommend that training should be held later in the year.

Appendix 2 – Further recommendations arising from this review

No	Recommendation	Priority	Manager	Target Date
1	An annual vested interest declaration form should be created for monitoring officers involved in the grant monitoring process (one form for each of the three monitoring officers with the one form covering all grants in the year). Relevant employees should be required to complete this and relevant disclosures should be reviewed by management.	Medium	Communities and Performance Manager	30/09/2016
2	The audit trail of the grant performance information monitoring process should be improved. This should include a formal sign off by the monitoring officer to assess whether all relevant documents have been received from the organisation and whether the organisation is meeting all of the grant's stipulated requirements.	High	Communities and Performance Manager	Complete
3	The report highlighting new start information and changes to hours/grading should be reviewed by management to ensure it meets all the requirements, and once complete it should be checked by an independent officer on a monthly basis.	High	Employment and Reward Manager	30/09/2016
4	In order to establish segregation, a different employee should carry out the reconciliation of the original form to the Business Object reports for mileage and other expenses after it has been input.	Medium	Employment and Reward Manager	30/09/2016
5	More targeted reports should be developed (eg a report for checking compliance with the working time directive including overtime and for the exception reporting on employee numbers) and included with the payroll closedown file.	Medium	Employment and Reward Manager	30/09/2016
6	Management need to review current letting strategies over garages and garage sites with the aim of improving upon the number that are let.	Medium	Housing Services Manager	31/07/2016
7	A review of rent charged for garage sites should be undertaken on a regular basis.	Medium	Housing Services Manager	31/03/2017
8	Rent charges on the Council's website should be updated on an annual basis.	Low	Housing Services Manager	Complete
9	Accurate records should be maintained of the number of garage sites under Council ownership.	Low	Housing Services Manager	31/07/2016
10	Once the cashless catering system has been retendered, a scanned copy of the contract should be retained by management.	High	Catering Services Manager	31/12/2017

No	Recommendation	Priority	Manager	Target Date
11	It is noted that management undertake periodic reconciliations between the SEEMIS and the Cashless Catering Systems. We recommend that the audit trail of this process should be improved.	Medium	Catering Services Manager	30/11/2016
12	Procedures should be developed for the weekly reconciliation undertaken by the Catering Services Manager between cash collected through the system and deductions made for meals provided. Procedures should also be developed for dealing with returned cheques.	Medium	Catering Services Manager	30/09/2016
13	The variations identified between Catering Services price lists and prices hard coded into tills and the Cashless Catering system need to be brought into line and meals no longer offered should be deleted from the Cashless Catering system.	Low	Catering Services Manager	30/09/2016
14	Training on the Construction Industry Scheme should be delivered annually to ensure managers understand the scheme and are aware of the importance of classifying construction suppliers as subcontractors and checking the materials and labour split on the subcontractors' invoices.	Medium	Head of Property and Facilities Management and Head of Commercial Operations	31/03/2017

Appendix 3 - Distribution List

- Members of the Audit Committee
- Kenneth Lawrie, Chief Executive
- John Blair, Director, Resources
- Eibhlin McHugh, Joint Director Health and Social Care
- Mary Smith, Director, Education, Communities and Economy
- Ian Johnson, Head of Communities and Economy
- Alasdair Mathers, Communities and Performance Manager
- Gary Fairley, Head of Finance and Integrated Service Support (s95 officer)
- Janice Kali, Employment and Reward Manager
- Garry Sheret, Head of Property and Facilities Management
- Margaret Mckenzie, Catering Services Manager
- Kevin Anderson, Head of Customer and Housing Services
- Simon Bain, Housing Services Manager
- Ricky Moffat, Head of Commercial Operations
- Other members of the Corporate Management Team
- Grant Thornton, External Audit

Audit Team

Author:	James Polanski	Auditor
Additional Fieldwork:	Amber Ahmed	Auditor
	Heather Mohieddeen	Senior Internal Auditor
Reviewer:	Elaine Greaves	Audit Manager