Notice of meeting and agenda

Midlothian

Audit Committee

Venue: **Council Chambers,**
Midlothian House, Dalkeith, EH22 1DN

Date: **Tuesday, 01 May 2018**

Time: **11:00**

John Blair
Director, Resources

Contact:
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Further Information:

This is a meeting which is open to members of the public.

Audio Recording Notice: Please note that this meeting will be recorded. The recording will be publicly available following the meeting, including publication via the internet. The Council will comply with its statutory obligations under the Data Protection Act 1998 and the Freedom of Information (Scotland) Act 2002.

1 Welcome, Introductions and Apologies

2 Order of Business

Including notice of new business submitted as urgent for consideration at the end of the meeting.

3 Declaration of Interest

Members should declare any financial and non-financial interests they have in the items of business for consideration, identifying the relevant agenda item and the nature of their interest.

4 Minutes of Previous Meeting

4.1	Minute of Meeting of 13 March 2018	3 - 8

5 Public Reports

5.1	Audit Scotland Report: Local Government in Scotland: Challenges and Performance 2018 - Report by Chief Executive	9 - 20
5.2	Climate Change Reporting - Internal Audit Report	21 - 36
5.3	Purchasing Cards - Internal Audit Report	37 - 54

6 Private Reports

No items for discussion

7 Date of Next Meeting

Minute of Meeting

Audit Committee
Tuesday 1 May 2018
Item No: 4.1

Midlothian

Audit Committee

Date	Time	Venue
Tuesday 13 March 2018	11.00 am	Council Chambers, Midlothian House, Dalkeith, EH22 1DN

Present:

Mike Ramsay (Chair)
Councillor Baird
Councillor Hardie
Councillor Milligan
Councillor Muirhead
Councillor Smaill
Peter de Vink (Independent Member)

In attendance:

Kenneth Lawrie	Chief Executive
John Blair	Director Resources
Gary Fairley	Head of Finance and Integrated Service Support
Stephen Reid	Ernst and Young
Alan Turpie	Monitoring Officer
Joan Tranent	Head of Children's Services
Chris Lawson	Risk Manager
Jill Stacey	Chief Internal Auditor
Elaine Greaves	Principal Auditor
James Polanski	Internal Auditor
Amber Ahmed	Internal Auditor
Janet Ritchie	Democratic Services Officer

1. Welcome and Apologies

Apologies were received from Councillor Parry.

2. Order of Business

The order of business was amended as agreed with the Chair to include an additional item in private under 6.1 Self-Assessment.

3. Declarations of interest

No declarations of interest were received.

4. Minutes of Previous Meetings

4.1 The minutes of the meeting of 12 December 2017 were submitted and approved as a correct record having been proposed by Councillor Hardie and seconded by Councillor Milligan.

4.2 Matters Arising:

Item 5.4 - The Chair asked for feedback regarding security policies and access levels of the RIVO system. The Risk Manager advised that the work was ongoing but confirmed that the provider's specifications would meet both Midlothian and East Lothian security policies.

Item 5.8 - The Chair raised a question with regards to the actions in the review of controls operating over pre-school provision partnership providers and who takes responsibility for this. The Director Resources agreed to report back at the next meeting.

5. Public Reports

Report No.	Report Title	Submitted by:
5.1	Financial Strategy 2018/19 to 2021/22 and Financial Monitoring 2017/18	Director Resources
Outline of report and summary of discussion		
There was a report submitted to the Audit Committee by the Director of Resources bringing the Committee's attention to the reports presented to Council on 13 February 2018 by the Head of Finance and Integrated Service Support, in relation to the Financial Strategy 2018/19 to 2021/22 and Financial Monitoring 2017/18. Also appended to this report was the motion that was approved by Council on 13 February 2018. Thereafter responses were provided on questions and comments raised by the Committee regarding the Financial Strategy; the Council Tax increase of 3% and Teacher/Pupil ratio.		

Also raised was the difference in the net expenditure figure detailed in the Revenue account (appendix 7) and the figure provided in the External Auditors report. The Head of Finance and Integrated Service Support explained the difference in these two figures and that a more detailed budget book would be published which will list the gross and net expenditure for each service and will give a much more detailed analysis of the budget service by service. It was agreed that this detailed budget book would be available to members of the Audit Committee.
Decision
The Audit Committee noted the content of the Report.
Action
Head of Finance and Integrated Service Support.

Report No.	Report Title	Submitted by:
5.2	Internal Audit Report Review of Controls Operating over Accounts Payable	Internal Audit
Outline of report and summary of discussion		
A report dated 21 February 2018 was presented by the Internal Auditor. The objective of the audit was to provide an opinion on the adequacy of controls over payments to suppliers through the Accounts payable (Integra) system. Thereafter the Head of Finance and Integrated Service Support responded to questions raised by the Committee explaining the implementation of the purchase to pay system and the move from paper to electronic systems which will limit the risk of payment errors, fraudulent payments and provide a more detailed level of committed expenditure. Also raised was the tightening up of the use of sundry suppliers and duplicate overpayments and how this is pursued.		
Decision		
The Audit Committee noted the content of the report.		

Report No.	Report Title	Submitted by:
5.3	Internal Audit Report Complaints	Internal Audit
Outline of report and summary of discussion		
A report dated 22 February 2018 was presented by the Internal Auditor. The Audit reviewed the Council's policies, procedures and systems in place to support the Council's complaints process. All local authorities are legally required to comply with the Scottish Public Services Ombudsman's (SPSO) Complaints Handling Procedure (CHP). Some weaknesses have been identified in the controls and improvements are possible.		

Thereafter a discussion took place regarding the number of complaints and complaint reporting should be put into context for staff and residents. It was highlighted that previously an analysis had been presented to Cabinet and Performance Review and Scrutiny Committee on complaints and it identified that a huge number of these complaints were due to missed bin collections. It was further reported the reason for the difference in some of the target dates was to reflect the new CRM system which will be in place by the end of the year.
Decision
The Audit Committee noted the content of the report.

Report No.	Report Title	Submitted by:
5.4	Risk Management Q3 Update for 1 October 2017 – 31 December 2017	Risk Manager

Outline of report and summary of discussion

There was a report submitted by the Risk Manager to provide the Audit Committee with the 2017/18 Quarter 3 strategic risk management update, covering the period 1 October 2017 – 30 December 2017. The Strategic Risk Profile seeks to provide a strategic look at the current issues, future risk and opportunities facing the Council.

Thereafter Officers responded to questions and comments raised by members which included:

- The review of pay and grading.
- The risk evaluation on 'Fastest Growing Council' rated critical as an opportunity and high as a threat and the reasons for this.
- The risk evaluation on balancing budgets in future years.
- The risk on the UK decision to leave the EU and the lack of clarity on the impact of this.

Decision

The Audit Committee otherwise noted the content of the report.

Report No.	Report Title	Submitted by:
5.5	Midlothian Council Annual Audit Plan 2017/18	Stephen Reid, EY, External Auditors

Outline of report and summary of discussion

There was submitted the Midlothian Council Annual External Audit Plan 2017/18. Stephen Reid, External Auditor presented the Plan to the Committee explaining this Annual Audit Plan is prepared for the benefit of the Council and Audit Committee and provides members with a summary and update on the planned audit approach for the audit of the financial year ending 31 March 2018. He went

on to explain that their responsibilities fall into two main areas, one in respect of the financial statements and the other in respect of their responsibility around the wider-scope public sector audit dimensions and highlighted some key sections from the Report. Thereafter the External Auditor and Head of Finance and Integrated Service Support responded to questions and comments raised by members of the Committee.
Decision
The Audit Committee noted the content of the report.

Report No.	Report Title	Submitted by:
5.6	Internal Audit Charter	Chief Internal Auditor
Outline of report and summary of discussion		
There was a reported submitted dated 21 February 2018 presented by the Chief Internal Auditor for consideration and approval. The report provides the Audit Committee with the updated internal Audit Charter for approval that defines the terms of reference for the Internal Audit function to carry out its role to enable the Chief Internal Auditor to prepare an annual opinion on the adequacy of the Council's overall control environment.		
Decision		
Having been proposed by Councillor Hardie and seconded by Councillor Baird the Audit Committee: • Noted the changes outlined in the report. • Approved the revised Internal Audit Charter shown at Appendix 1. • Noted that the Internal Audit Charter will be reviewed annually.		
Action		
Internal Audit Manager		

Report No.	Report Title	Submitted by:
5.7	Internal Audit Strategy and Annual Plan 2018/19	Chief Internal Auditor
Outline of report and summary of discussion		
There was a reported submitted dated 14 February 2018 presented by the Chief Internal Auditor for approval to the proposed Internal Audit Strategy and Annual Plan 2018/19 to enable the Chief Internal Auditor to prepare annual opinions on the adequacy of the overall control environment of Midlothian Council, and Midlothian Health and Social Care Integration Joint Board.		

The Internal Audit Strategy at Appendix 1 outlines the strategic direction for Internal Audit to provide independent and objective assurance on the systems of internal control, risk management, and governance to the relevant organisation's senior management and board/audit committee. The Internal Audit Annual Plan 2018/19 developed by the Shared Chief Internal Auditor is presented at Appendix 2. The proposed reviews have been grouped into key themes as set out in the Internal Audit Strategy at Appendix 1. Thereafter the Chief Internal Auditor and Chief Executive responded to questions raised by members of the Committee.
Decision
Having been proposed by Councillor Smaill and seconded by Councillor Baird the Audit Committee approved the Audit Strategy and Annual Plan 2018/19.

6. Private Reports

In view of the nature of the business to be transacted, the Committee agreed that the public be excluded from the meeting during discussion of the undernoted item, as contained in the Addendum hereto, as there might be disclosed information as defined in paragraph 8 and 14 of Part I of Schedule 7A to the Local Government (Scotland) Act 1973:-

Report No.	Report Title	Submitted by:
6.1	Self-Assessment	Chief Internal Auditor
Decision		
The Audit Committee noted the content of the report.		

The meeting terminated at 3.25 pm

Audit Scotland Report: Local Government in Scotland: Challenges and Performance 2018

Report by: Kenneth Lawrie, Chief Executive

1 Purpose of the Report

The purpose of this report is to provide Audit Committee with a summary of the Audit Scotland report, 'Local government in Scotland: Challenges and performance 2018' and the Council's position in relation to the report's findings. The following is a link to the full report:

http://www.audit-scotland.gov.uk/report/local-government-in-scotland-challenges-and-performance-2018

2 Background

2.1 Each year the Accounts Commission produces an overview of issues that have arisen from their local authority audits. In line with previous publications this encompasses two reports; Local government in Scotland: Financial Overview and Local government in Scotland: Challenges and performance. This report complements the Commission's Local government in Scotland: Financial Overview 2016/17 which was published in November 2017 and presented to Audit in December 2017.

2.2 Local government in Scotland: Challenges and performance 2018 was published by the Accounts Commission in April 2018. The report provides a high-level, independent view of the challenges facing councils in Scotland, how councils are responding to these challenges and how service performance has been affected. It is aimed primarily at Councillors and senior council officers as a source of information and to support them in their complex and demanding roles.

2.3 The report highlights key challenges councils face and looks at some of the main ways councils are responding to increasing demand and reduced funding. The report covers the following three areas:

- Part 1 - The current and future challenges facing councils.
- Part 2 – How Council are responding to these challenges.
- Part 3 – The impact on performance in key service areas and public satisfaction.

To help councillors who are new to the role, those who are re-elected, and council officers, the report includes additional supplements as follows:

- A scrutiny tool for councillors – this has example questions that councillors could ask to help them understand their council's position, scrutinise performance and assist in making difficult decisions. Councillors should feel they fully understand, and are satisfied with, the answers to the questions that are most relevant to them in their role within the council. (See Appendix 1)

- An interactive online tool which contains performance information for individual councils. It is designed to allow councillors, officers and members of the public to better understand how their council is performing compared to others and can be accessed via the following link:

  http://www.audit-scotland.gov.uk/local-government-in-scotland-challenges-and-performance-2018

2.4 The report draws on findings from local government audit work in 2017 (including annual audit reports, Best Value assurance reports and national performance audits) and published performance data. All audit reports are available on Audit Scotland's website which can be accessed via the following link (http://www.audit-scotland.gov.uk/about-us/audit-scotland).

3 Challenges and performance 2018 – Report findings

3.1 This section details the key messages from the report, the recommendations included and Midlothian's position in relation to the recommendations.

3.2 The key messages identified in the report include:

- Local government in Scotland continues to operate in a complex and changing environment that involves increasing levels of uncertainty. While details of the terms for the UK's withdrawal from the European Union are not yet clear, there will likely be significant and profound implications for our 32 councils. Meanwhile, the Scottish Government remains committed to a significant pace of public sector reform, with some major changes for local government at key stages of implementation. These events are taking place in the overall context of substantial reductions in public spending alongside increasing demand for many local public services.

- Developing new ways of working – or transformational change – is now an essential part of the agenda for councils as they respond to these challenges. Delivering savings is becoming increasingly critical, with forecast funding gaps higher than current levels of reserves for some councils. Where councils have properly scoped, resourced and managed their transformational work, they are more likely to successfully deliver sustainable service change. Cohesive, decisive leadership is required that brings officers, councillors and their communities together to address the major challenges councils face.

- Councils are engaging with the increasingly difficult task of managing the competing priorities of reducing costs and maintaining services for an ageing population. Under current arrangements, some councils can expect to see government funding fall further than others as their total population declines while their older population grows and demand for key services, such as social care, increases. Councils are also implementing significant policy and legislative changes, some of which increase expectations on, or the duties of, councils and many will have additional resource implications. The detail of what these changes will mean is not yet clear in some cases.

- Councils have done a considerable amount to manage the impact of continued budget reductions, and national indicators suggest they have maintained or improved performance in a number of areas. However, there is also evidence that budget cuts are having an impact on services, and customer satisfaction levels have fallen. Some services are not keeping up with demand and there is a risk that quality is being affected. Smaller services, which often include important regulatory functions, have borne the brunt of funding reductions although the impact of this on these services is not always made clear. In making difficult choices, councils need to continue to work with communities to understand the impact of reduced spending on services and communities and to clearly report this to the public.

3.3 The report notes that while councils have done much to reduce spend, deliver services differently and work with their communities, financial and population pressures are likely to continue. It further notes the importance of effective leadership and robust planning to ensure services remain sustainable.

3.4 The recommendations identified within the report state that Councils should ensure they are continuously improving their work in key areas by:

- looking to the future:

  - continuing to improve understanding on how the landscape within which their council operates may change, by considering its demographics, the public spending environment and policy changes
  - using this information to inform council priorities
  - developing long-term financial and scenario planning that takes these factors into account and considers the impact on all their services and their users
  - considering how to make the most of new technology, for example streamlining processes and communicating differently with service users

- working with communities - so that they are actively involved in decision-making, know the effect decisions are expected to have on services and communities and see the impact of community empowerment

- focusing on the delivery of priority outcomes through:
  - working with communities to understand their needs
  - establishing effective cross-party relationships to work together and make the sometimes difficult decisions needed to achieve the council's priorities
  - clearly linking budgets to plans and outcomes

- establishing robust change strategies and developing realistic plans for transforming services, which incorporate:
  - effective leadership and good governance arrangements
  - robust options appraisal
  - strong financial management
  - properly scoped and resourced plans

- ensuring change strategies are supported by:
  - realistic savings plans with long-term implications and mitigation against unintended impact on other services and communities
  - effective workforce planning to retain and recruit people with the right skills to deliver sustainable future services
  - income generation plans
  - workforce and member support, training and development

- evaluating and reporting:
  - the impact that significant budget reductions, savings, workforce changes and service redesign are expected to have and have had on service delivery and quality
  - using the data collected and monitored to report publicly on the quality of services, as well as user satisfaction with those services.

3.5 Midlothian's position in relation to the recommendations noted is as follows:

A clear set of priorities for the Council and its partners have been developed through the Single Midlothian Plan process, which is informed by an annual refresh of the Midlothian Profile which details county wide demographic data. The Midlothian Profile and the annual Citizens Panel survey is used to inform discussion and development of the SMP at the annual Community Planning Partnership development day which focuses on refreshing the plan to ensure that it remains focused on the needs of the county. Council service plans which flow from the SMP include performance indicators which focus on the key priority areas.

A key activity carried out as part of the Single Midlothian Plan annual review and identified as an expected delivery model to be considered as part of any service redesign is community engagement and consultation and, where possible, co-production is a targeted method of delivery. The 'Shaping Our Future' exercise carried out in 2016/17 demonstrates a clear focus on the need to encourage participation from communities, and this will be developed further in delivery of the Enterprising with Communities strand of transformation.

The Financial Strategy presented to Council in February 2018, and the earlier introduction of the 'Delivering Excellence' framework responds to the need to develop medium term plans. The Strategic Leadership Group, in finalising the 2018/19 budget have also initiated development of a five year financial plan linked to a clear vision for Midlothian through to 2021/22. This looks to articulate and provide further clarity regarding the direction of travel and the ambition for Midlothian longer term, together with the financial implications of that.

The budget exercise reflected in the Financial Strategy which was presented to Council in February 2018 was largely informed by the work of the Strategic Leadership Group and in particular followed a robust review and challenge exercise for each Head of Service from their peers and relevant support functions such as finance. This resulted in a more cohesive 'Delivering Excellence' programme and provided clarity of spend and savings projections going forward. The exercise also clarified the future focus for transformation activity which will be taken forward against the following strands:

- *Enterprising with Communities*
- *Digitally Led Customer Service*
- *Entrepreneurial Council*
- *Shared Services*

A key area of focus for the Enterprising with Communities transformation strand is to continue with the focus to transform the relationship with our communities, the intent is demonstrated further with the previous name change from a Services with Communities strand to Enterprising with Communities.

The activity undertaken to produce both the Financial Strategy and Delivering Excellence Change and Transformation Strategy ensures a clear link between priorities and budgets with the governance for the agreed change programme being provided via the Business Transformation Board and Business Transformation Steering Group. The proposal development and early initiation stage of the programme is also subject to an Internal Audit review.

Planned, ongoing activity to support the programme of change includes a new workforce strategy approved in December 2017 and the associated workforce plans for each service area which are also used to inform service and workforce planning decisions. As part of these plans each Head of service completes projections of future workforce requirements and an associated action plan which supports their programme of change and transformation. .

The wider service review and continuous improvement agenda is supported by the Delivering Excellence Framework, which includes the need to gather and analyse data robustly, carry out a self-evaluation exercise and present proposals and changes which have considered a range of service delivery models to peers and the senior management group as appropriate.

Midlothian's public performance reporting activities meet current national standards and over the last few years has received a largely positive report when externally assessed. Areas previously noted for improvement have been addressed such as clear links to all SPIs (Statutory Performance Indicators) categories.

Midlothian participates fully in Local Government Benchmarking and family groups and ensures an active internal focus on the agreed LGBF indicators by incorporating them within the ongoing planning and performance management reporting.

4 Report Implications

4.1 Resource

There are no direct resource implications as a result of this report.

4.2 Risk

Whilst there are no additional direct risks associated with this report, the Audit Scotland Report – Local government in Scotland: Challenges and performance 2018 does ask members to consider the wider scrutiny and performance management and risk elements associated with their role.

4.3 Single Midlothian Plan

Themes addressed in this report:

- ☐ Community safety
- ☐ Adult health, care and housing
- ☐ Getting it right for every Midlothian child
- ☐ Improving opportunities in Midlothian
- ☐ Sustainable growth
- ☒ Business transformation and Best Value
- ☐ None of the above

4.4 Key Priorities within Single Midlothian Plan

Midlothian Council and its Community Planning Partners have made a commitment to treat the following areas as key priorities under the Single Midlothian Plan:-

- Reducing the gap in learning outcomes
- Reducing the gap in health outcomes
- Reducing the gap in economic circumstances

This report does not directly impact Midlothian Council's key priorities but a key message within the Audit Scotland Report does make reference to the need for clear priorities.

4.5 Impact on Performance and Outcomes

The report does not directly impact Midlothian Council's and wider partners performance and outcomes but it does stress the need to ensure consideration is given to the wider strategic planning and objectives as part of the council's response to Audit Scotland's findings noted in their report.

4.6 Adopting a Preventative Approach

This report supports current actions and plans in place to adopt preventative approaches.

4.7 Involving Communities and Other Stakeholders

This report supports involving communities and the Audit Scotland Report references the need to ensure that communities see the impact of community empowerment.

4.8 Ensuring Equalities

This report does not recommend any change to policy or practice and therefore does not require and Equalities Impact Assessment.

4.9 Supporting Sustainable Development

The recommendations in this report support Midlothian Council's position in relation to Audit Scotland's findings for Local government in Scotland: Challenges and performance 2018 and supports ongoing sustainable development.

4.10 IT Issues

There are no direct IT issues arising from this report at this time.

5 Recommendations

The Committee is asked to note the Audit Scotland report and the position of Midlothian Council in relation to the report's recommendations.

Appendix 1: Local government in Scotland: Challenges and performance 2018 – Supplement 1: Scrutiny tool checklist for councillors

Date: 12 April 2018

Report Contact: Myra Forsyth Tel No: 0131 271 3445
myra.forsyth@midlothian.gov.uk

Background Papers:

- Accounts Commission - Local government in Scotland: Challenges and performance 2018 (April 2018)
- Accounts Commission – Local government in Scotland: Financial overview 2016/17 (November 2017)

Appendix 1 - Supplement Local Government in Scotland: Challenges and performance 2018 - Scrutiny tool checklist for Councillors

Scrutiny tool checklist for councillors

This scrutiny tool captures a number of potential questions for councillors and relates to our report *Local government in Scotland: Challenges and performance 2018*. It is designed to provide councillors with examples of questions they may wish to consider to help them better understand their council's position and to scrutinise performance.

	How well informed am I?	
Questions for councillors to consider	**What do I know?**	**Do I need to ask any further questions?**
Community empowerment (paragraphs 7 to 12)		
How are you involving local communities and empowering them to design and deliver services that suit local need?		
Does your council have regular discussions with communities about service priorities and what level of service the council can afford to provide in the future? What is your role as a councillor in this?		
Training for councillors (paragraphs 13 to 16)		
Do you know what training is available to help you fulfil your duties?		
Does the training meet your needs? If not, do you know who to speak to?		
Factors affecting demand for services and council funding (Exhibit 1 and paragraphs 24 to 33)		
Have you considered how policy and legislative change will affect how your council operates?		
Have you considered the demographics of your council and how this will impact on service delivery and funding in the future?		

	How well informed am I?	
Questions for councillors to consider	**What do I know?**	**Do I need to ask any further questions?**
Financial planning (paragraphs 34 to 38)		
Does your council have medium and long-term financial plans in place?		
Does your council link budgets to plans and outcomes and report on these?		
Making savings and generating income (paragraphs 39 to 51)		
Does your council have the right structures in place to ensure that all your efficiency, improvement and transformational approaches are working together to maximise savings?		
How is your council looking to maximise income?		
Does your council compare its policies and priorities to raise income with other councils?		
Does your council have an organisation-wide workforce plan? Does it contain information about the numbers, costs, and skills of the actual and desired workforce?		

	How well informed am I?	
Questions for councillors to consider	**What do I know?**	**Do I need to ask any further questions?**
Transformation (paragraphs 52 to 65)		
Does your transformation strategy contain plans for truly transformational change? Will it improve services and save money?		
Have you invested in the right resources for your transformation strategy to achieve its planned savings?		
Does your council have the necessary governance structures to effectively oversee and monitor its transformation activity?		
What is your council's risk appetite for transformational change? Are risks properly monitored?		
What will the financial repercussions be for your council if your transformation strategy fails to meet its savings targets?		
Does your council follow the core principals for successfully planning digital projects outlined in our *Principles for a digital future* published in May 2017?		

	How well informed am I?	
Questions for councillors to consider	What do I know?	Do I need to ask any further questions?
Service performance and performance reporting (paragraphs 66 to 95)		
How well does your council report performance to local communities? Is there a link to priorities and budgets in your performance reporting?		
Have you considered what lessons you can learn from other councils who are delivering services well?		
Do you know the impact of spending reductions on the services your council provides?		
How can you better engage with local communities to understand why public satisfaction is declining?		
How are your council and IJB managing demand for social care services? What preventative measures are available in your council?		
Do you know how budget cuts have affected your smaller services?		

AUDIT SCOTLAND

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Audit Committee
Tuesday 1 May 2018
Item No: 5.2

Midlothian

Internal Audit Report

Climate Change Reporting

Final

11 April 2018

Level of Assurance	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 Climate Change (Scotland) Act 2009 defines public bodies' climate change duties. Targets for reducing Scotland's greenhouse gas emissions are set out in the Act: 42% by 2020 and 80% by 2050 (against a 1990 baseline). The Act places duties on public bodies relating to climate change which requires them to: contribute to carbon reduction targets; contribute to climate change adaptation; and to act sustainably. Midlothian Council has a duty to contribute to this target.

The Climate Change (Duties of Public Bodies: Reporting Requirements) (Scotland) Order 2015 requires public bodies to annually report on compliance with the climate change duties. The reporting is intended to help with public bodies' compliance, engage leaders and encourage continuous improvement. A standardised reporting framework has been established by the Scottish Government to assist in providing accurate and consistent performance information to inform direction and decision making. Public bodies are required to prepare reports on compliance with climate change duties, showing their plans and programmes and providing statistics on operational greenhouse gas emissions.

The Council's Corporate Climate Change Strategy sets out the governance arrangements in the Council relating to climate change. Political leadership and responsibility for Council climate change activity lies with the Cabinet. CMT is responsible for the strategy, action planning and performance monitoring and Planning Services takes the lead on Climate Change reporting and collates information from relevant services such as the Energy team who provide greenhouse gas emissions data in respect of the Council's estates and operations. The Council commenced voluntarily public reporting of its climate change activity for 2008/09, as a signatory to Scotland's Climate Change Declaration. The first full mandatory Public Bodies Climate Change Duties report was submitted on 30 November 2016 and the second mandatory report was submitted on 28 November 2017. The Climate Change 2017 report reflects the Council's climate change activities undertaken in the financial year 2016/17. The report includes six compulsory sections, and one recommended section (relating to community emissions within Council influence) which the Council has voluntarily completed. The Council agreed to the Minister's request to complete a pilot report in respect of 2014/15, for submission by 30 November 2015 when the Climate Change (Duties of Public Bodies: Reporting Requirements) (Scotland) Order 2015 was still in draft.

The Sustainable Scotland Network (SSN) is funded by the Scottish Government and acts as the focal point for reports to be submitted, published and analysed. SSN provides operational support for the reporting process and has provided guidance which covers the completion of the online reporting form and how to enter the information in the correct format. The guidance also covers validation of information and the importance of introducing internal and/or external arrangements to help ensure the quality of figures and information contained in the Climate Change report.

The Central Energy Fund (CEEF) was launched in 2004 by the Scottish Government to support the delivery of energy efficiency and renewable energy measure to reduce carbon emissions in the public sector. The fund expired on 31 March 2016 and the Scottish Government confirmed that after this date there will be no reporting obligations placed on the public sector and that they would be permitted to retain the funding. Salix is an independent, publicly funded company providing the public sector with loans for energy efficiency projects. They are working closely with the Scottish Government to support continued investment of CEEF funds and have confirmed that they would match Council funds to create a larger ring fenced recycling fund. The Salix funding is in the form of a Conditional Grant, repayable only when the Council has exhausted all possible qualifying projects. Utilising the balance on the CEEF fund to create a Midlothian Energy Efficiency Fund allowed the Council to attract a Conditional Grant of £167K from Salix.

The Midlothian Integration Joint Board (MIJB) was also required to submit its first climate change annual report by 30 November 2017. The Head of Adult Services submitted the report to the SSN and also reported it to the MIJB in December 2017. As the MIJB has no responsibility for buildings, fleet cars or staff, etc, the report did not contain much detail as these aspects are contained within the partners' Climate Change reports.

2.0 Objectives of the Audit

The scope of the audit was to provide assurance that information in the Midlothian Council Climate Change Duties 2017 report is accurate, compliant with the reporting requirements and reflects current practice. The scope of the audit also incorporated a review of the Midlothian Integration Joint Board (MIJB) Climate Change 2017 report. A copy of the terms of reference for the review is attached at Appendix 2.

3.0 Conclusion

Guidance notes provided to public bodies by SSN were used by Internal Audit to ensure data, both qualitative and quantitative, was accurate and complied with the reporting requirements. The MIJB Climate Change 2017 report did not contain any emission figures and the audit has not addressed any specific recommendations to the MIJB. Figures in the Council's Climate Change 2017 report were checked to ensure they were accurately calculated and supported by working documentation. A small number of errors and inaccurate information was identified during the review and it was advised that these will be taken into account in the 2018 Climate Change report.

A number of key controls were seen to be operating and these include:

- the Council used the reporting template framework established by the SSN and complied with the reporting deadline of 30 November 2017;
- guidance notes available from the SSN have been used by Midlothian Council;
- Planning Services in Midlothian Council take responsibility for collating the information from relevant services;
- a recommended section relating to the Council's wider influence (ie beyond estate and operations and associated with the community, etc) has been completed in the Climate Change 2017 report;
- the Central Energy Efficiency Fund (CEEF) was awarded to the Council for investment in carbon reduction measures. The Midlothian CEEF fund financed a number of energy saving projects and these are monitored on the Salix database;
- feedback for the Climate Change 2016 was received from the SSN and a number of suggestions were incorporated into the Climate Change 2017 report; and
- a Property and Facilities Management PIan on carbon emissions is reported quarterly to the Council's Performance Review and Scrutiny Committee (PRSC).

We have made recommendations where control issues were identified and these are also noted within the Audit Issues and Management Action Plan but briefly relate to:

- there is no Carbon Management Plan for the report year. It was advised that a new Carbon Management Plan should be in place however there is no direction from management as to which service should be leading on this. Local Authorities are expected to develop and produce a plan detailing how they plan to reduce their carbon emissions and energy usage from building use, waste management, street lighting and from running campaigns to change staff behaviour;
- minor discrepancies were found in the figures reported in "estimated decrease in emissions". To ensure a like for like comparison, the reporting for the Climate Change 2017 report adopted the previous (2013) Carbon Management Plan as a basis for recording which excluded emissions arising from PPP schools. It was advised the data for PPP schools will be included in next year's report when we have a new Carbon Management Plan and a new baseline to take account of the changes in the Council's Estate, growth in new development (buildings, streets, waste provision, etc);
- the Council's agreed governance arrangements were reported however these are not being put into practice. For example, a Carbon Management Board was established in 2013 but the board only met a few times and there is currently no Climate Change & Sustainable Development Group;
- the Climate Change 2017 report states that "a Carbon Management Plan progress report is reported to Senior Management and to the Cabinet annually and that there is a Carbon Management team and they report to a Carbon Management Project Board" but both of

these statements are incorrect. There is no Carbon Management team. The Carbon Management Plan (2013-16) was not formally updated on an annual basis and in 2016/17, there was no regular monitoring to CMT or to the Business Transformation Board. Historically, the progress made on the individual energy reduction projects from the Carbon Management Plan (2013-16) were reported to the Business Transformation Board. The outcome of the Carbon Management Plan (2013-16) was reported to Cabinet in October 2016 to advise that the Council has exceeded its target and achieved a CO^2e tonnage of 11,035 but no financial savings were reported;

- the Climate Change 2017 report was not approved by Cabinet. Historically, the Climate Change report was submitted to Cabinet for approval prior to the end November submission date and also submitted to the Performance Review and Scrutiny Committee for information;
- minor errors were found in the figures reported for street lighting;
- minor discrepancies were found in the estimated annual savings for 1 of the 10 carbon projects reported. This information was obtained from the Salix system used in the Energy team and the incorrect figure was stated in the report due to a typographical error;
- manual calculations undertaken to estimate commuting mileage were not supported by adequate documentation;
- data obtained from the Council's annual performance reporting and waste information reported under "Wider Influence" was not validated by the Planning Officer. It was advised by the Planning Officer that the waste information for the report year is not validated by the Scottish Environmental Protection Agency (SEPA) until after the submission date and this was not available during audit testing;
- although guidance is provided by the Sustainable Scotland Network (SSN), local procedures should be in place to ensure there is consistency in recording information particularly when manual calculations are undertaken, or where information is obtained from Council systems; and
- there is no independent quality checking or benchmarking undertaken before the final Climate Change report is submitted to the SSN.

As noted 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 2 High, and 7 Medium rated recommendations which are detailed in the Audit Issues and Management Action Plan to reduce risk further and these recommendations have been agreed by management.

4.0 Audit Issues and Management Action Plan

4.1 Carbon Management Plan

There is an expectation that each public body will set its own targets for reducing greenhouse gas emissions from its estate and operations, and report on this through a Carbon Management Plan. Local Authorities are expected to develop and produce a plan detailing how they plan to reduce their carbon emissions and energy usage from building use, waste management, street lighting and by running campaigns to change staff behaviour. This is monitored through the Climate Change reporting as the Council is required to report on their carbon reductions and emissions. It is essential to have a Carbon Management Plan in place as the Council has a public commitment (Scotland's Climate Change Declaration) to declare a plan, with targets and time-scales, to achieve a significant reduction in carbon emissions. It is also essential for the Council to have monitoring arrangements in place involving key managers in charge of Council properties and street lighting, to drive these carbon reductions.

Systemlinks is the Council's energy management and performance software system which is used to record the Council's non housing property and street lighting energy carbon emissions and this is managed by the Energy team. SSN now takes responsibility for both Carbon Management Reporting and Climate Change reporting and have developed a Carbon Management Toolkit and a Climate Change Report Template which assists public sector bodies to align their energy carbon emissions reporting. The information recorded through the Carbon Management Toolkit should be aligned with the Climate Change reporting process. The Carbon Footprint and Project Register Tool (CFPR) has been developed by SSN to assist Public Sector organisations to form and plan a Carbon Management strategy.

The following issues were noted:

- Midlothian Council has implemented projects which have reduced carbon emissions and 10 of these carbon reduction projects are recorded in the Climate Change 2017 report. However, there is currently no Carbon Management Plan or Carbon Management Board. The new revised format required by SSN results in changes in the basis of carbon reduction emissions from that which was originally approved (these included inclusion of PPP properties, changes to ways in which water is dealt with, etc.) It was advised that a new Carbon Management Plan is due to be in place however there is no direction from management as to which service should be leading on this. The previous Carbon Management Plan was led by a Senior Engineer in Property and Facilities management, however following restructuring, the post no longer exists and the functions of the role have been split within Property and Facilities Management services;
- the Climate Change 2017 report states that "a Carbon Management Plan progress report is reported to Senior Management and to the Cabinet annually and that there is a Carbon Management team and they report to a Carbon Management Project Board" but both of

these statements are incorrect. There is no Carbon Management team. The Carbon Management Plan (2013-16) was not formally updated on an annual basis and in 2016/17, there was no regular monitoring to CMT or to the Business Transformation Board. Historically, the progress made on the individual energy reduction projects from the Carbon Management Plan (2013-16) were reported to the Business Transformation Board; and

- the previous Carbon Management Plan (2013-16) was not formally updated and reported to Cabinet on an annual basis. The Carbon Management Plan (2013-16) was initiated with the target of achieving a 25% reduction in Carbon emissions based on the 2006/7 Carbon output tonnage of 27,237 CO^2e which equated to a target tonnage of 8,800 tonnes CO^2e. However, the outcome of the Carbon Management Plan (2013-16) was reported to Cabinet in October 2016 to advise that the Council has exceeded its target and achieved a CO^2e tonnage of 11,035 but no financial savings were reported. The Energy team advised that this was not a requirement of the original Carbon Management Plan, and financial reporting is not considered appropriate as energy costs fluctuate/inflationary market demand pressures etc.

No	Recommendation	Priority	Manager	Target Date
1.	A new Carbon Management Plan should be in place with a new baseline and this should be reported on an annual basis to CMT or to another appropriate board which will allow the Council to monitor carbon reductions. **Management Comment:** A discussion at Corporate Management Team/Strategic Leadership Group held in April 2018 made a commitment to progress this.	High	Chief Executive	30/10/2018

4.2 Approval of the Climate Change Report before submission

Historically, the Climate Change report was submitted to Cabinet for approval prior to the end of the November submission date and also submitted to the Performance Review and Scrutiny Committee (PRSC) to allow Members to scrutinise the report. There is a section in the Climate Change 2017 report that states “approval of this report by the Council's Cabinet evidences that the top 5 priorities for climate change governance, management and strategy for the year ahead have been agreed”, however the Climate Change 2017 report was not approved by Cabinet due to the reporting timescales.

No	Recommendation	Priority	Manager	Target Date
2.	Future Climate Change reports should be approved by Cabinet before the report is submitted to the SSN. This should be undertaken to allow time for any amendments to be made before the submission date. **Management Comment:** We will ensure the reports are submitted to Cabinet before the submission date.	High	Planning Manager	30/10/2018

4.3 Errors and Inaccuracies

The following errors and issues were found in section 3 (Emissions, Targets and Projects) of the Climate Change 2017 report:

- the number of street lights replaced was incorrectly reported. The figure was obtained from the Commercial Operations Service Plan 2016/17 annual performance report which stated that the number of street lights replaced was 386. Internal Audit testing found that the correct figure was 410. The Lighting Manager advised the figure in the annual report was an error as it was incorrectly counted. The Planning Officer advised that data obtained from the Council's annual performance reporting is not confirmed with the service;
- the Lighting Manager advised that street lighting now have the light-emitting diode (LED) which has a carbon emission reduction but this is not noted in the Climate Change 2017 report;
- minor discrepancies were found in the figures reported in "estimated decrease in emissions". To ensure a like for like comparison, the reporting for the Climate Change 2017 report adopted the previous (2013) Carbon Management Plan as a basis for recording which excluded emissions arising from PPP schools. It was advised the data for PPP schools will be included in next year's reporting when we have a new Carbon Management Plan and a new baseline to take account of the changes in the Council's Estate, growth in new development (buildings, streets, waste provision, etc);
- an estimated annual saving for one of the carbon projects was reported as £2,635 per annum instead of £2,365 (overstated by £270). This information was obtained from the Salix system used in the Energy team and the incorrect figure was stated in the report due to a typographical error. Independent checking of the energy figures obtained from the system can prevent human errors reported in the Climate Change return however it was advised that there will be a reduction in the Energy team in the next financial year;
- there was a lack of audit trail to verify the number of operational buildings reported. An estimated figure of 232 operational buildings was reported. It was advised that the number of buildings can fluctuate as a small number of buildings come in and out of use; and
- manual calculations undertaken by the Planning Officer to calculate estimated commuting mileage were not supported by adequate documentation.

The following points were noted in section 2 (Governance, Management and Strategy) of the Climate Change 2017 Report:

- the Council is required to set out its system of governance and management in relation to climate change and report how this is managed and embedded. The reported governance arrangements are not being put into practice. For example, a Carbon Management Board was established in 2013 but the board only met a few times and there is currently no Climate Change & Sustainable Development Group in place;
- the Council is required to report on specific climate change mitigations and adaptation objectives. A risk control measure 'a Corporate Climate Change and Sustainable Development Action Plan 2016/17' was recorded, however this was not in place. It was noted that a 'Corporate Climate Change and Sustainable Development Action Plan 2017/18' is in draft and was reported as a future climate change strategy priority;
- the Council is required to report any relevant climate change plans or strategies that they have in place. Internal Audit noted that reference was made to a 'Commercial Operations Service 2016/17 service plan" covering Water and Sewerage but this was not strictly the case as the service plan had only reported completed infrastructure works in 2015/16 for the Millerhill Zero Waste Parc which included Portable Water, foul and surface water; and
- Internal Audit noted that the listed Zero Waste Plan was not in place. It was advised that the Council is currently drafting a local 'Zero Waste Plan' but the report did not state that the Zero Waste Plan is in draft.

No	Recommendation	Priority	Manager	Target Date
3.	Errors identified in the Climate Change 2017 report should be taken into account when producing next year's report. **Management Comment:** Corrections will be reported in the 2018 Climate Change report.	Medium	Planning Manager	30/11/2018
4.	Information reported in the Climate Change report should be validated and confirmed with the service. Documentation supporting figures, plans and strategies should be obtained and checked. **Management Comment:** Management will update procedures which will allow relevant services to declare the evidence provided for Climate Change reporting is accurate.	Medium	Planning Manager	30/11/2018

No	Recommendation	Priority	Manager	Target Date
5.	An audit trail is required in recording the data and information reported in the Climate Change report. **Management Comment:** An evidence file will be available in Planning.	Medium	Planning Manager	30/11/2018

4.4 Local Procedures

Although guidance is provided by the Sustainable Scotland Network (SSN), local procedures should be in place to ensure there is consistency in recording information, particularly when manual calculations are undertaken, or where information is obtained from Council systems. As noted above, it was found that manual calculations were not supported by adequate documentation and errors were identified by Internal Audit in the Climate Change 2017 report. There will be a staff reduction in the Energy team which may increase the risk of errors arising in the Climate Change report.

No	Recommendation	Priority	Manager	Target Date
6.	Local procedures should be developed detailing how to collate, record and calculate information required for the Climate Change Report. Procedures should also document the governance process required (ie approval by Cabinet prior to submission of the return), the lead officer responsible for the report and any validation and checking required. **Management Comment:** Procedure notes will be developed when the SSN provides guidance notes for the Climate Change 2018 report.	Medium	Planning Manager	30/09/2018

4.5 Quality Assurance checks, Benchmarking and Validation

The SSN guidance states that whilst is it not a compulsory requirement of the reporting process to have reports internally or externally verified, it is good practice to have reports validated to provide credibility and assurance. The following issues were noted:

- there is no independent quality checking or benchmarking undertaken on the final Climate Change report submitted to the SSN. However, it was stated that the Planning Officer does compare data from the previous year and queries anything unusual. It was advised that the Council did approach a neighbouring Council to undertake a peer review but this was not undertaken due to a lack of resource in the neighbouring council;
- Internal Audit testing identified the internal validation processes reported in the Climate Change 2017 report were inaccurate ("performance in meeting Carbon Management Plan targets is reported quarterly to senior management, Cabinet and PRSC; and a Carbon Management Plan progress report is reported to senior management and Cabinet annually"); and
- the Climate Change 2017 report states that part of the data presented has been validated externally through the Carbon Reduction Commitment process and Waste Data has been validated externally by SEPA. However, there was no audit trail to show confirmation of this and the last audit undertaken by the Carbon Reduction Commitment was in 2015. It was advised that the carbon data is validated through the Carbon Reduction Commitment reporting on Systemslinks which is an approved reporting tool by SEPA. The tonnages collected for end disposal / recycling is verified through the Waste Data Flow but there was no audit trail of this.

No	Recommendation	Priority	Manager	Target Date
7.	Independent quality checking or benchmarking of the Climate Change report should be undertaken prior to submission of the report to SSN. **Management Comment:** Waste Data is validated by SEPA after the Climate Change reporting submission data but we will incorporate the validation outcome of 2016/17 into the Climate Change 2018 reporting.	Medium	Planning Manager	30/11/2018

4.6 Future Climate actions

The following points were noted:

- the Climate Change 2017 report states that climate risk assessment is not done. This refers to progressing management of climate risks in accordance with "Adaptation Scotland's 5 Steps to Managing your climate risks" being lead by the Head of Service for Communities & Economy. This is noted in the report as a future action;
- the Climate Change Assessment Tool (CCAT) has been specially devised to assist public sector organisations comply with the Climate Change (Scotland) Act 2009, both in terms of meeting carbon emissions reductions targets and reporting to the SSN. Due to restricted resource, Midlothian Council has not used the Change Assessment Tool to self-assess its capability / performance; and
- the Corporate Climate Change Strategy requires to be reviewed as it has not been updated since 2014.

No	Recommendation	Priority	Manager	Target Date
8.	Management should: • ensure the Climate Change risk assessment is undertaken; and • consider using the Climate Change Assessment Tool.	Medium	Planning Manager	30/11/2018
9.	The Corporate Climate Change Strategy should be reviewed and updated.	Medium	Planning Manager	31/03/2019

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 overall control framework is of an average standard. Some weaknesses have been identified in the controls and improvements are possible.
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

Priority	Risk Definition
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.

Distribution

- Kenneth Lawrie, Chief Executive
- John Blair, Director of Resources
- Mary Smith, Director of Education Communities and Economy
- Ian Johnson, Head of Communities and Economy
- Ricky Moffat, Head of Commercial Operations
- Garry Sheret, Head of Property Facilities and Management
- Peter Arnsdorf, Planning Manager
- Gareth Davies, Property Manager
- Ernst and Young, External Audit

Audit Team

Author: Amber Ahmed (Auditor)
Reviewer: Elaine Greaves (Principal Auditor)

APPENDIX 2

TERMS OF REFERENCE

Audit Objective and Scope

Audit Objective

To provide assurance that information in the Midlothian Council Climate Change Duties 2017 report is accurate, compliant with the reporting requirements and reflects current practice. The scope of the audit also incorporated a review of the Midlothian Integration Joint Board (MIJB) Climate Change 2017 report.

Scope of Audit

The audit will focus on the key processes and controls to ensure:

- compliance with the Climate Change reporting requirement;
- there is an adequate process in place to collate the information required in the Climate Change reporting;
- information and data in the report is accurate and has been validated; and
- benchmarking and validation of data with other local authorities has been undertaken.

Exclusions and Limitations

The following will be excluded from the scope of this review:

- other environment legislations that are currently in place.

Potential Risks

The main potential risks are:

- the climate change annual summary report does not contain the information specified by the Scottish Government which can result in the

statutory climate change duties not being fulfilled;

- climate change figures are inaccurate, are not compliant with the reporting requirements and do not reflect current practice; and
- reputational damage or legal challenge if the Council is not compliant with the public bodies' climate change duties.

Audit Approach

The audit approach consists of:

- 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;
- 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

The audit will commence in November 2017 and will 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.

Information Requirements

Access to all relevant systems, documentation and employees.

Audit Resource

Auditor: Amber Ahmed – 0131 271 3280
Reviewer: Elaine Greaves – 0131 271 3285

Audit Committee
Tuesday 1 May 2018
Item No: 5.3

Midlothian

Internal Audit Report

Purchasing Cards

Issued: 17 April 2018

Final

Level of Assurance	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.

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Executive Summary

1.0 Introduction

Midlothian Council's purchasing cards are Mastercard charge cards supplied by the Royal Bank of Scotland. They are used typically for the purchase of high volume, low value goods and services. The use of purchasing cards is administered and monitored by the Finance and Integrated Service Support Service within Resources. Purchasing cards were first introduced in March 2015, replacing previous corporate credit cards and also facilitating significantly less reliance on petty cash transactions and reimbursements. They have been rolled out to all areas of the Council within the Purchase to Pay project plan other than Children's Services, with the intention to introduce to this area in 2018/19.

The Council's procurement procedures apply as normal for purchases made via purchasing cards and they should not be used to circumvent approved procurement methods, especially where contracts are in place.

Purchasing cards have the benefit of providing a stronger audit trail and authorisation record through integration with the Council's finance system, Integra, especially when compared with other less secure means of payment such as Petty Cash. The roll-out of purchasing cards was part of the Council's plan in reducing Petty Cash spend. Accordingly, a noticeable reduction in the Council's Petty Cash spend has been demonstrated since the introduction of purchasing cards as detailed below:

Financial Year	Total Petty Cash Spend inc. VAT (£)	Total Purchasing Card Spend inc. VAT (£)
2015/16	138,089	122,714
2016/17	99,754	604,060
2017/18 (up to 31st January 2018)	92,806	631,390

Transactions made via purchasing cards are imported into the Council's finance system, Integra, on a weekly basis. The statements download is taken by the Business Applications Team (within Business Services) and the file is checked for any obvious anomalies, prior to being imported into Integra. Once imported, the transactions are distributed to cardholders via automatic workflow within the Integra system and cardholders receive an email advising that they have Purchasing Card transactions requiring their verification.

Proof of purchase documentation must be provided for every transaction. As part of verifying purchase card transactions, cardholders must scan and save their proof of purchase documentation (eg invoice, purchase order or receipt) and attach to the relevant purchase card payment within Integra. The cardholder must then, within Integra, submit the details of the purchase card payment, along with the relevant proof of purchase documentation, to their manager for authorisation. This authorisation request submission is part of Integra's authorisation workflow and will generate an email to the appropriate manager advising that they have purchasing card transactions requiring their authorisation.

Financial Services separately download the relevant statement reports from the Royal Bank of Scotland system to complete the Council's main bank reconciliation, which includes reconciling the payments made using purchasing cards via a control account.

Training on the use of purchasing cards, guidance, and Council procedures, are provided by the Business Applications team. Cardholders (and Authorisers) must attend a training course on card spend, authorisation process, VAT reclaims etc. prior to receiving their card. All Cardholder and Authorisers are issued with a copy of the Purchase Card User Guide on attendance at a training course.

A Personal Information Disclaimer form must be completed by cardholders in order to comply with the bank's anti-money laundering regulations and this should be authorised by the relevant line manager who will also detail the credit limit for the card.

Once the employee has received the purchasing card, they must sign a Declaration & Receipt of Purchase Card form. This form outlines the cardholder's responsibilities and security requirements (eg to keep card safe, to ensure VAT is reclaimed whenever possible, to ensure transactions are authorised in good time, procedures to apply if card is suspected to be lost or stolen, etc.)

As at 15 February 2018, 263 purchasing cards have been issued to Council employees and as at 31 January 2018, 14,160 transactions have been made totalling £1.359 million using the cards since their introduction.

2.0 Objectives of the Audit

The audit objective is to provide assurance on the adequacy of the internal controls in place for the Council's use of purchasing cards. A copy of the terms of reference for the review is attached at Appendix 2**.**

3.0 Conclusion

Our audit identified that management have implemented a number of systems, internal controls, and procedures for purchasing cards. During the course of the audit we noted the following strengths:

- policies and procedures outlining how purchasing cards should be controlled have been created by management and distributed to the appropriate employees;
- training on the use of purchasing cards and application of Council procedures is in place for purchase card users;
- support on the use of purchasing cards is available through a 'helpdesk' provided by the Business Applications team;
- an audit trail of the approval of the issue of purchasing cards is in place through the Personal Information Disclaimer form which is retained by the Creditors team;
- an audit trail of the cardholder's agreement to comply with Council procedures is in place through the Declaration & Receipt of Purchase Card Form and retained by the Creditors team;
- a strong audit trail of the payment and authorisation record is in place through the Integra financial system;
- segregation of duties is enforced for this system through purchase of goods and upload of proof of purchase by the cardholder, authorisation by their manager, upload of card statements by the Business Applications team, and bank reconciliations by Financial Services. Issuing of cards and amendments to card permissions is separately managed by the Council's Creditors team, and any changes to card permissions require authorisation by the cardholder's line manager;
- standards of evidence for the reclaim of VAT is monitored by Business Applications to ensure VAT is only reclaimed when a valid VAT invoice has been uploaded by the Cardholder; thus maintaining compliance with HMRC regulations;
- appropriate restrictions are in place on all purchasing cards preventing these being used for withdrawal of cash or purchase of fuel without specific authorisation for this being granted;
- processes are in place to review for leavers and ensure leavers' cards are returned to the Council's Creditors team; and
- quarterly review of spend with each line manager's assigned accountant within Financial Services.

Some areas were identified with scope for improvement. These are as follows:

- some cardholders are late in uploading evidence of payment, verifying, and sending the payment for authorisation to their manager. Late authorisation of payment results in the Council's financial commitments and budgets not being fully up to date, as the posting is not credited from the Purchase Card control account until approved by the authoriser. Additionally, a great deal of time has to be spent by Business Applications reporting and chasing up employees failing to verify transactions;
- in the audit sample reviewed, some off-contract spend was noted, particularly for Education's (schools) use of purchasing cards. This issue has been highlighted to the Council's Procurement team;
- Procurement have not recently carried out reviews focussing on procurement compliance for purchasing cards;
- as part of the audit sample reviewed, it was noted that some employees had failed to select within Integra to reclaim VAT when verifying their transaction despite uploading a VAT invoice. These errors were not subsequently identified by the manager during authorisation of the transaction resulting in VAT not being reclaimed;

- the audit identified some purchasing cards that have been issued to the Cardholder but have never been used;
- some examples were noted where the documentation outlining the initial approval of the card (the Personal Information Disclaimer form) was missing, had errors, or were not adequately authorised. Also, some instances were noted where the acceptance of responsibility of the card by the cardholder (the Declaration & Receipt of Purchase Card form) could not be located, and it was not possible to establish the date training was received for most of the audit sample;
- it was noted that whilst a robust audit trail of credit card limit amendments is in place via an e-form within Integra (an electronic form request submitted by the relevant manager within the Integra system), at the time of the review there was no record in place for requests by managers to change the category permissions for cards (eg to temporarily allow the card to be used for fuel or cash); and
- some areas have been identified where further guidance and procedures could be provided to employees.

As noted above, the most significant issues relating to purchasing cards is user compliance with the Council's procedures rather than issues with Integra purchase card controls and Business Applications procedures. These controls and procedures were evidenced as being fit for purpose during the review.

We have therefore on this occasion rated this audit as **good** in accordance with the Definitions of Ratings included on page **13**. We have raised 10 Medium and 3 Low rated recommendations which are detailed in the Audit Issues and Management Action Plan to reduce risk further and these recommendations have been agreed by Management.

4.0 Audit Issues and Management Action Plan

4.1 Late Authorisation of Purchase Card Payments and Compliance with Purchase Card Guidance

Late Authorisation

Business Applications recommend that authorisations should be done within 7 days to ensure that financial monitoring remains robust. At the time of the audit review (extract of purchase card data on 23 October 2017) there was a total of 615 separate payments with a total financial value of £46,491 that had not yet been authorised by management.

125 of these payments, with a total value of £10,126, had been rejected due to the manager not accepting the level of evidence provided at the time by the purchase cardholder. A system issue that emerged in November 2016 was not allowing some of these rejected transactions to be resubmitted for approval by the manager, but this issue has since been resolved (in November 2017).

Excluding the rejected transactions, 133 of these payments with a total value of £12,086 were made before 24 September 2017 (ie 1 month old) and had never been submitted to management for authorisation. 52 of these payments with a total value of £2,564 were made before 24 August 2017 (ie 2 months old) and had never been submitted to management for authorisation.

It was noted during the review that significant staff time is spent ‘chasing’ certain employees to ensure they uploaded proof of payment and submitted the payment for authorisation to management. This involves a significant number of calls, emails, and tracking of previous contact with the cardholders. Additional support has been provided from Business Applications for employees not authorising transactions promptly, but the problem has still persisted.

Business Applications have advised that while they have not yet suspended or cancelled a card due to continued non-compliance with the Purchasing Card procedures, they have escalated the issues to the relevant managers and if the situation does not improve they do intend to suspend or cancel cards as a last resort.

If purchases are not authorised promptly and adequate evidence is not uploaded, this increases the risk that cards could be used inappropriately and the inappropriate use not being identified by management. Additionally, late authorisation of payment results in the Council’s financial commitments and budgets not being fully up to date, as the posting is not credited from the Purchase Card control account until approved by the authoriser.

Use of Card by Employees other than the Cardholder

Business Applications Management advised that they had identified that purchases were being made by a cardholder that was on long term absence. Discussion with the members of staff in the cardholder's team identified that the purchases were being made through an Amazon account the employees had shared access to. Shared access to online accounts is disallowed in the Purchase Card Procedures and the card was subsequently cancelled. As the other members of staff did not have access to the Cardholder's Integra account, it was not possible for the other employees to submit purchases for authorisation and upload relevant evidence to Integra. No disallowable expenditure was noted**.**

Failure to Upload Proof of Purchase

In one example from the sample of 30 payments reviewed, it was noted that no proof of purchase was uploaded however the payment was authorised by the manager.

No	Recommendation	Priority	Manager	Target Date
1	If a purchase cardholder routinely fails to upload proof of purchase and submit payments to their line manager to review in good time, as required by the Purchase Card Procedures, the purchase card should be suspended or cancelled. Similarly, this approach should be taken if the cardholder regularly fails to comply with any other aspects of the purchase card guidance (e.g. failing to claim for VAT).	Medium	Business Applications Manager	30/06/2018
2	Heads of Service should remind cardholders of the importance of complying with the purchase card guidance. This includes ensuring all relevant VAT is reclaimed, adequate proof of purchase is attached, and ensuring transactions are authorised promptly.	Medium	Heads of Service supported by the Business Applications Manager	30/06/2018

4.2 Compliance with Procurement Procedures

A sample of 30 Purchase Card transactions were reviewed in detail as part of the audit. It was identified in the sample that Education (schools) were making purchases for educational supplies and music equipment using suppliers outside the Council's framework agreements. This issue has been highlighted to the Council's Procurement team. Off-contract spend may not represent best value for the Council and may result in the potential loss of rebate from particular contract frameworks.

There is a risk that purchasing cards could be used to bypass existing controls for the use of approved Council suppliers. Although the Procurement team periodically carry out analysis on the Council's spend for compliance with Procurement Procedures, it was noted that there had not been recent analysis on procurement compliance specifically for purchase card spend.

No	Recommendation	Priority	Manager	Target Date
3	Procurement should review Schools' Purchase Card spend to establish the reasons for the off-contract spend and provide further guidance and support to staff. **Management Comment:** Updated schools procurement guidance is in development (refreshed 'crib sheet'). Once updated, this will be posted to the schools intranet pages to provide further support to schools staff. Potential procurement issues were discussed at a recent head teachers meeting on 29 March 2018, and further support will be provided through regular meetings with the schools admins to discuss contracts.	Medium	Procurement Manager	31/07/2018
4	Procurement should periodically carry out specific analysis on Purchase Card spend for compliance with Procurement Procedures.	Medium	Procurement Manager	31/08/2018

4.3 Reclaim of VAT

Cardholders' Failing to Input VAT

From the sample of 30 Purchase Card transactions reviewed, it was noted that 3 had VAT on the proof of purchase provided by the cardholder, but the cardholders had not separately input the VAT in Integra when verifying the transaction to enable the VAT to be reclaimed by the Council.

The purchasing card payment record was reviewed by Internal Audit for other transactions where VAT may have been missed; a sample of transactions over £500 were reviewed to identify if there were cardholders who repeatedly do not claim for VAT. £2.6k of unclaimed VAT was identified from this review. This VAT can still be reclaimed as it is allowable to reclaim missed VAT going back over 4 years provided the evidence to support the claim is available.

Rejected VAT Invoices

When VAT is claimed by the cardholder every VAT invoice is checked by Business Applications to ensure that a valid VAT invoice has been stored in Integra to ensure the reclaim is valid. This control ensures that the Council will not inappropriately over-claim VAT it is not eligible to receive.

The simplified invoicing rules published by HMRC state that for purchases less than £250, a full VAT invoice is not required for the reclaim of VAT. For example, the purchase of goods valued at more than £250 requires the customer's name (eg Midlothian Council) to be detailed on the invoice for it to be valid for the reclaim of VAT, but this is not a requirement for purchases valued at less than £250. 1 month of rejected VAT from Purchasing Card transactions was reviewed as part of the Audit (rejected due to low quality of evidence provided by the Purchase Cardholder). It was noted that for purchases of less than £250, sometimes VAT was being rejected on the basis of the receipt or invoice provided by the cardholder, but examples were noted where the proof of purchase attached were valid for VAT reclaim.

Similarly, 2 examples were noted where a less detailed sales invoice had been provided by the supplier which had been adapted into a sales voucher/receipt and the VAT was rejected on the basis of the evidence provided. On discussion with the Senior Accountant Projects and Treasury, these examples provided sufficient evidence to allow for reclaim of VAT.

Lack of or invalid VAT Invoices

For some suppliers it may not be possible or be very difficult to get a VAT invoice, particularly when purchase can only be made online via card. However, some examples were noted in the review where payment confirmation or the purchase order was uploaded as evidence, where it should have been possible for the Cardholder to receive a full invoice (eg for a payment made to a Council supplier). VAT can normally only be reclaimed with a valid VAT invoice.

Additionally, in the audit sample reviewed, 2 examples were noted where the invoice was not addressed to Midlothian Council as the Cardholder's online account had not been set up properly (VAT cannot be reclaimed if the invoice is not addressed to the Council). The VAT had not been claimed for these purchases.

No	Recommendation	Priority	Manager	Target Date
5	Unclaimed VAT identified during the audit review should be reclaimed.	Low	Business Applications Manager	31/07/2018

No	Recommendation	Priority	Manager	Target Date
6	Management should familiarise employees carrying out the Purchase Card VAT checking with the HMRC guidance on simplified invoicing to ensure that valid VAT on low value (<£250) invoices is not incorrectly rejected. Likewise, management should familiarise employees carrying out the Purchase Card VAT checks on the requirements for accepting evidence for VAT where the invoice has been adapted into a sales voucher/receipt for online transactions. **Management Comment:** This will be addressed through upskilling staff carrying out the checks.	Medium	Business Applications Manager	31/07/2018
7	As part of the VAT check, employees regularly failing to upload satisfactory proof of payment should be highlighted so appropriate action can be taken by the service to address the issues.	Medium	Business Applications Manager	31/07/2018

4.4 Audit Trail of Card Issue, Cardholder Declaration, and Training

The audit trail of cardholder declarations, personal information disclaimers, and cardholder training records was reviewed as part of the audit. The records for a sample of 20 cardholders were checked. It was noted that:

- 4 Personal Information Disclaimer forms had not been signed by an authoriser and they did not detail the card's credit limit;
- 3 Cardholders did not have a Personal Information Disclaimer form saved in the directory, therefore preventing confirmation that the Card was correctly authorised as well as the card limit being authorised;
- 3 Cardholders did not have a signed Declaration & Receipt of Purchase Card form; and
- 2 out of the 13 cardholders' limits authorised on the Personal Information Disclaimer forms did not match the limits included within the data provided by the Payments Team for the test and the differences could not be matched to an e-form credit limit change request.

Also, it was noted that there was no separate record saved of when training was attended for cardholders who received their card prior to October 2016. However, it can be assumed that if the Declaration & Receipt of Purchase Card form has been signed then training had been attended, and this was confirmed via discussion with Purchase Card users.

On discussion with the Lead Applications Officer, it was thought the errors above were due to steps being missed when a large purchasing card roll-out was taking place. For these card implementations, there was continual discussion with management on requirements, and clarity on the users receiving the card and the limits they should have.

No	Recommendation	Priority	Manager	Target Date
8	Management should ensure that for all cardholders there is a Personal Information Disclaimer, a signed Declaration & Receipt of Purchase Card form, and a record of the date training was attended. This review should include ensuring that any differences between the credit limit on the card and limit in the PID are supported by an authorised e-form request.	Medium	Business Applications Manager	31/07/2018

4.5 Cardholder Guidance

All employees who attend the purchasing card training are provided with a copy of the Purchase to Pay Purchasing Card User Manual which is also accessible from the Procurement section on the Council's Intranet. The guide provides clear instructions on the use, security and administration processes involved in using a Purchasing card. There is also a varied selection of 'how-to' guides within the Procurement section of the intranet which will assist cardholders and Authorisers.

A review of procedures identified the following:

- the procedure does not explicitly state that cards should not be used for personal purchases and does not outline the type of expenditure that is allowable/disallowable;
- the Management Arrangements procedure document is not on the intranet. It is understood this is mainly for management and Business Applications rather than general purchase card holders, however some sections are still relevant for purchase card holders;
- the procedures do not explicitly dissuade cardholders from purchasing from second-hand goods sellers (Health & Safety risks, unvetted supplier, potential for stolen goods, lack of warranty, risk of substandard product etc.);
- the procedures do not advise of the risks of paying directly to a website of an unvetted supplier and things to watch out for dubious websites (eg to look for the security padlock mark for secure websites, dubious Terms and Conditions etc.);
- guidance on the risks of signing up to automatic renewals when paying with a credit card online;
- the steps to take if it is suspected there are fraudulent payments on an employee's purchasing card.

No	Recommendation	Priority	Manager	Target Date
9	The procedures should be updated to address the issues noted above and a guidance update should be provided to Purchase Cardholders.	Medium	Business Applications Manager	30/09/2018

4.6 Leavers and Use of Cards in Issue

Leavers Process
A process is in place to check for leavers. Business Applications is part of the starter and leavers' workgroup and obtains on a monthly basis a list of leavers from the system. However, 1 leaver was missed as the leaver had been updated late in iTrent. This resulted in the leaver being missed from the parameters of the Leaver's Report. This card was then found in a locked drawer within the service. The card had not been used since the employee had left.

Cards Not in Use
It was identified during the review that there were 15 cards from current employees who had not used their card for over 6 months. 10 of these had not used their card in a year. There is currently no process in place to request the return of unused cards.

No	Recommendation	Priority	Manager	Target Date
10	Business Applications should review the parameters of the Leavers report to compensate for HR being informed late of leavers by services. **Management Comment:** A report has been developed that reports on the modified date of the leaver's date to address this issue. This report is now in place for purchasing cards, but requires further testing before it is rolled out to the rest of the Council.	Medium	Business Applications Manager	31/07/2018
11	A process should be established for the return of purchasing cards no longer required by the service.	Medium	Business Applications Manager	31/07/2018

4.7 Amendments to Cardholder Permissions

The process for requesting an amendment to a card's credit limit is controlled via an E-Form request within Integra. The system can provide a full audit trail of all past changes to credit limits for every card holder, and the employee who authorised the request. The process of changing the credit limit is limited to the Creditors team. This is segregated from the Business Applications Team.

It was noted that the process for changing permissions to cards for other aspects (eg temporary permission to withdraw cash for school trips) is not driven by an E-Form. There is still a segregation in place as access to change permissions with the bank is limited to the Creditors team, however at the time of the review, there was not a full audit trail in place of past changes to card permissions and who these were authorised by. It has been advised that there are very few changes to card permissions in the year, and these are always temporary.

No	Recommendation	Priority	Manager	Target Date
12	A record should be maintained of changes to card permissions. Consideration should be given to developing an E-Form for card permission changes.	Low	Business Applications Manager	31/07/2018

4.8 Central Monitoring and Posting to Cost Centres

Reporting on Proof of Purchase Upload
It was noted that it is currently not possible to report on the number of cardholders who have failed to upload proof of purchase. This information would allow monitoring at a high level of general cardholder compliance with the procedures.

Risk of Mis-postings
It is possible for purchase cardholders to post to any cost centre. However, there are mitigating controls in place to prevent and detect mis-postings. All purchases must be authorised by the cardholder's manager and this includes a review of the cost code. Additionally, Integra will default to the user's primary cost centre for all purchase card transaction verifications meaning it's most likely for the cardholder to always post to their primary cost centre. Also, there is quarterly review of cost centres by Financial Services with their line manager.

Business Applications have advised that at the moment it is not feasible to set specific user profiles for each cardholder limiting their ability to post to all cost centres. This is because each cardholder would require a unique profile and managing this would be a significant undertaking. However, a project is underway that is looking at cost centre access in general (Integrated Service Support Transactions Project) which will further address this risk.

No	Recommendation	Priority	Manager	Target Date
13	Management should review with the software supplier if it would be possible to report on the total number of transactions that do not have proof of purchase attached.	Low	Business Applications Manager	31/12/2018

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 overall control framework is of an average standard. Some weaknesses have been identified in the controls and improvements are possible.
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

Priority	Risk Definition
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.

Distribution

- Members of the Audit Committee
- Kenneth Lawrie, Chief Executive
- John Blair, Director, Resources
- Mary Smith, Director, Education, Communities and Economy
- Allister Short, Joint Director of Midlothian Health and Social Care Partnership
- Gary Fairley, Head of Finance and Integrated Service Support
- Garry Sheret, Head of Property and Facilities Management
- Ricky Moffat, Head of Commercial Operations
- Grace Vickers, Head of Education
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- Kevin Anderson, Head of Customer and Housing Services
- David Gladwin, Financial Services Manager
- Jacqui Dougall, Business Services Manager
- Mike O'Rourke, Business Applications Manager
- Iain Johnston, Procurement Manager
- Gary Thomson, Senior Accountant Projects and Treasury

Audit Team

Author:	James Polanski	Auditor
Reviewer:	Elaine Greaves	Principal Internal Auditor
	Jill Stacey	Chief Auditor

APPENDIX 2

TERMS OF REFERENCE:
PURCHASING CARDS

Audit Objective and Scope

Audit Background:
To review the Council's arrangements for purchasing cards and the controls surrounding their use.

Audit Objective:
The audit will focus on the key processes and controls designed by management to ensure that purchasing cards are adequately controlled to prevent fraudulent /inappropriate use. The audit will review the adequacy of the internal controls to ensure that:

- adequate policies, procedures, and training is in place and has been provided to all purchase card users;
- purchasing cards are appropriately issued ie: credit limits set in line with Council procedures, limitations on the type of expenditure allowable (eg no fuel or cash withdrawals unless specifically authorised), cancelled without delay when no longer required, and promptly cancelled if reported lost/stolen;
- transactions are promptly verified on the system by the user with associated proof of purchase documentation correctly attached;
- transactions are authorised on a timely basis and expenditure made using purchasing cards is adequately monitored to ensure that inappropriate expenditure is not incurred and that expenditure is compliant with the Council's policies and procedures, Standing Orders, and tax requirements (eg Value Added Tax); and
- appropriate processes and controls are in place over the monthly payment of the Council's purchasing card bill and centrally adequate monitoring is in place over the Council's purchase card spend.

Exclusions and Limitations
Fuel Cards are excluded from the scope of this audit review. Accounts Payable reconciliations and BACS payment procedures and controls are excluded from this review as this is covered separately in our audit review of Accounts Payable.

Potential Risks
Potential risks include:

- financial loss due to:
  - Fraudulent purchases – the use of a purchase card to acquire goods or services for personal use or gain.
  - Inappropriate purchases – purchases that are intended for use by Midlothian Council, but are not permitted Midlothian Council's internal policies, eg Circumventing existing and approved procurement methods and guidelines, particularly where contracts are in place.
  - Abusive purchases – purchases of goods or services at terms (eg price, quantity) that are excessive, or are for questionable need.
  - inability to reclaim VAT due to invoices not being addressed to the Council, failure to record Value Added Tax details on purchases and a lack of a valid VAT invoice / receipt);
- inadequate management information or monitoring of card usage resulting in budget overspends;
- errors in management information through either system issues or user error;
- reputational damage through reported misuse.

Audit Approach

The audit approach consists of:

- 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;
- 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;
- presentation of the final report to Midlothian Council's Audit Committee.

Timescales & Reporting

The Audit will commence in October 2017 and is anticipated to be reported to the next available Audit Committee.

Information Requirements

Access to all relevant systems, documentation and employees.

Audit Resource

Auditor:	**James Polanski**	**0131 270 5646**
Reviewer:	**Elaine Greaves**	**0131 271 3285**