



**Chief Internal Auditor
Jill Stacey**

Audit Committee
Tuesday 28 May 2019
Item No: 5.2

Auditor: Amber Ahmed

Final Internal Audit Report

to

**Chief Executive
All Directors
All Heads of Service
Policy and Scrutiny Manager
Policy and Scrutiny Officer
Financial Services Manager
All Lead Performance and Improvement Officers**

on

Performance Management: Local Government Benchmarking Framework (LGBF)

11 April 2019

1 Introduction

1.1 The purpose of the review was to validate the Council's Performance Indicators which are reported on an annual basis to the Improvement Service as part of the Local Government Benchmarking Framework (LGBF).

2 Audit Scope

2.1 The scope of this audit was to examine and evaluate the following areas:

- Validate the figures reported, together with the collection, performance and reporting methods, for a sample of LGBF specific indicators requested by the Improvement Service as part of the 2017/18 return, to determine the adequacy of processes and controls to allow accurate reporting;
- Review the processes to allow the timely submission of figures by the end of August 2018; and
- Review any analysis undertaken to explain variances between current and previous years.

3 Management Summary

3.1 The LGBF brings together a wide range of information about how all Scottish Councils perform in delivering better services to local communities, including the cost of services and how satisfied citizens are with them. The data is from all Scottish Councils which represent very diverse communities in terms of geography, population, deprivation levels and community needs. This information is collated by the Improvement Service which works with local authorities to improve the framework and to offer support to Councils enabling them to drive improvements forward.

3.2 Performance Indicators (PIs), including statutory returns, are required to be submitted to various bodies e.g. Scottish Government, Scottish Environment Protection Agency (SEPA), Skills Development Scotland (SDS) and the Scottish Housing Regulators (SHR). Local Finance Returns (LFRs), providing data on service costs, are submitted to the Improvement Service. The data from the statutory returns and the LFRs are used by the Improvement Service to calculate the PIs.

3.3 PIs and any variances are recorded on the Council's performance management system (Pentana Performance). An overview of the Council's performance against the LGBF indicators is submitted annually to Cabinet and the Performance Review and Scrutiny Committee (PRSC). This includes Management's plans to improve performance for indicators in the bottom quartile. PRSC and Cabinet also receives quarterly updates on the Council's performance indicators.

3.4 The Improvement Service is planning to publish the validated data for the 2017/18 LGBF indicators by 10 April 2019. The Council's performance against the LGBF indicators for 2017/18 was submitted to Cabinet in February 2019 and to the PRSC in March 2019 and an updated performance against the LGBF indicators is expected to be presented to Cabinet and PRSC after the data is published by the Improvement Service.

3.5 It has been advised that all 6 LGBF Health and Social Care Indicators are under review by the Improvement Service centre which will improve the data collection methods.

- 3.6 A sample of 6 (out of 79) Performance Indicators were reviewed and Internal Audit considers that the level of assurance we are able to give is **Substantial Assurance**. The Council's LGBF return and LFR were both submitted to the Improvement Service by the deadline and reasons for change since 2016/17 were noted in the returns and on Pentana Performance system.
- 3.7 Internal Audit considers that from the sample tested, the figures provided and reported in the LGBF for 2017/18 to be reasonable and accurate. The individual data collection methods applied by the Services are suitable and appropriate for the majority of Services. However, some improvements over the production of the figures can be made such as: retaining an audit trail of source documentation, creating procedure notes to enable the PIs to be reproduced in the absence of key individuals, reviewing the methodology for calculating pre-school costs, and ensuring Council reports accurately reflect the LGBF performance indicators. We have made recommendations accordingly.
- 3.8 The Internal Audit function conforms with the professional standards as set out in the Public Sector Internal Audit Standards (2017), including the production of this report to communicate the results of the review.
- 3.9 We would like to thank those officers who assisted us during our review.

4 Findings on sample of LGBF Indicators 2017/18

CHN 3: Cost per pre-school education registration

The pre-school education cost per pupil was reported as £4,296 in 2017/18 which is £167 better than the Scottish average. 26 primary schools within Midlothian have a nursery (pre-school). We noted that the methodology used to calculate the PI is to allocate 4% of the premises costs to pre-schools and 96% of the premises costs to primary schools. However, other expense types such as employer's costs, supplies and services etc. are fully allocated to primary schools with none being allocated to pre-schools which indicates an understatement of costs for this PI.

CHN11: Percentage of pupils entering positive destinations

This PI is obtained from the Insight website (Scottish Government Data portal) which is updated twice a year. At the time of Internal Audit testing, the figure on the Insider website was still showing the PI for 2016/17 as 94.66% and this was found to be accurate. It has been advised that the data for the Positive Destination indicator will be revised and published by the Improvement Service and the updated indicator will be presented to Cabinet and the PRSC.

ENV6: Percentage of total household waste arising that is recycled

There has been a slight decrease in the total household waste that is recycled this year which went down from 53.49% to 51.61%. This PI is complex to produce and relies on the expertise of a key individual in the Waste team. The PI was difficult to verify due to the complexities and the fact that the split between household and trade waste was not always detailed on invoices. An understanding of the methodology used to produce the PI and the fact that the PI is validated by SEPA gives us assurance over the accuracy of the calculation for 2017/18. Due to the complexity of the calculation and the reliance on key personnel, it would be beneficial to ensure that guidance notes are produced.

HSN1b: Gross rent arrears (all tenants) as at 31 March each year as a percentage of rent due

This PI is submitted as part of the Scottish Housing Regulator (SHR) return. The purpose of this indicator is to minimise the rent arrears and for this year there was an increase in arrears to 6.92% from 6.39% the previous year. It has been advised that this is mainly due to the impact of Universal Credit. Internal Audit were able to verify the figures used in the calculation for this indicator to the supporting documentation. The Business Application team are planning to implement an automated process for generating the reports required for compiling the PI.

SW5: Net cost of residential care services per older adult (over 65) per week

The net cost of residential care per adult (over 65) per week was reported in 2017/18 as £412 and in 2016/17 it was reported as £363. Midlothian Council currently only purchase residential care at the approved National Care Home Contract rate, and the reported figure is higher than the national average. Testing of the PI highlighted that although the figure reported could be validated to source documentation, the Improvement Service did not use the correct data from the LFR spreadsheet which has been highlighted and will be rectified when the validated data for the 2017/18 LGBF indicators are published in April 2019.

SW1: Older persons (over 65) home care costs per hour

The indicator is calculated by using the data from the LFR and the social care data return. Home care costs per hour for older people (over 65) was reported in 2017/18 as £36.88 and in 2016/17 it was reported as £24.65. Testing of the indicator noted that the definition in the social care data return was not clear (as mentioned above Health and Social Care indicators are under review by the Improvement Service). However we were able to verify the figure reported for this indicator to the supporting documentation although the source documentation for calculating the indicator could not be easily obtained from the Service. The Performance Officer for Health and Social care has agreed to keep an audit trail of the figures submitted in the ISD Source data return and to produce a procedural note for the reports used to generate the figures for the return.

Reporting of LGBF Performance Indicators

It was noted that for 1 of the above PIs (household waste recycled) reported to Cabinet in February 2019 and the PRSC in March 2019, there was a slight difference between the figure reported by the Improvement Service and the Council reports. An explanation for this variance has been sought from the Service area.

It was advised that all 6 LGBF Social Care indicators are currently under review by the Improvement Service as there is an ongoing issue in relation to the criteria that is asked for in the Information Services Division (ISD) Source data return which is used to obtain Social Care data. The ISD Source data return slightly changed from the previous Scottish Government social care data return. The cost of the 2 PIs sampled increased in 2017/18. It has been advised that this was due to an increase in staffing numbers due to rising dependency levels.

5 Recommendations

Rec. Ref No	Recommendation	Rating	Management Response	Responsibility and Timescale
5.1	The methodology used for preparing the PI for 'Cost per pre-school education registration' should be reviewed to ensure accurate information is reported for the 2018/19 return.	Medium	The methodology of preparing LFR 01 has been applied for a number of years and ensures LFR's and LGBF cost-base indicators are prepared on a consistent basis. Due to the increase in the number of free early learning and childcare hours, the methodology applied in LFR 01 will be reviewed for 2018/19 to ensure it is still appropriate. Nurseries that are attached to primary schools will have separate general ledger codes so all costs in the LFR can be 100% allocated to pre-schools.	Financial Services Manager 30/09/2019
5.2	Local procedures should be available for the preparation of the LGBF Performance Indicators.	Low	A process will be implemented whereby LGBF Methodology Checklist sheet which will be issued to service areas to ensure the source data and procedures are available.	Policy and Scrutiny Officer 30/09/2019
5.3	The household waste recycled PI reported in the LGBF 2017/18 submission should be reflected in the Council reports.	Low	An updated report will be sent to Cabinet and PRSC when the refreshed data from the Improvement Service is available. The PI from SEPA is reported on a calendar year basis which resulted in the slight difference as Council reports are reported on a financial year basis.	Policy & Scrutiny Officer 30/06/2019

Overall Audit Opinion level and definition

Comprehensive Assurance	Sound risk, control, and governance systems are in place. These should be effective in mitigating risks to the achievement of objectives. Some improvements in a few, relatively minor, areas might be required.
Substantial Assurance	Largely satisfactory risk, control, and governance systems are in place. There is, however, some scope for improvement as current arrangements could undermine the achievement of objectives or leave them vulnerable to error or misuse.
Limited Assurance	Risk, control, and governance systems have some satisfactory aspects. There are, however, some significant weaknesses likely to undermine the achievement of objectives and leave them vulnerable to an unacceptable risk of error or misuse.
No Assurance	The systems for risk, control, and governance are ineffectively designed and operated. Objectives are not being achieved and the risk of serious error or misuse is unacceptable. Significant improvements are required.

Recommendation Ratings

Recommendations in Internal Audit Reports are suggested changes to existing procedures or processes, to improve the controls or to introduce controls where none exist. The rating of each recommendation reflects our risk assessment of non-implementation, being the product of the likelihood of the risk materialising and its impact. The ratings are:

- High – Significant weaknesses in existing controls, leaving the Council or Service open to error, fraud, financial loss or reputational damage, where the risk is sufficiently high to require immediate action within one month of formally raising the issue. The risk should be added by Management to the relevant Risk Register for control and monitoring purposes and included in the relevant Head of Service Annual Assurance Statement.
- Medium – Substantial weaknesses in existing controls, leaving the Council or Service open to medium risk of error, fraud, financial loss or reputational damage requiring reasonably urgent action within three months of formally raising the issue.
- Low – Moderate weaknesses in existing controls, leaving the Council or Service open to low risk of error, fraud, financial loss or reputational damage requiring action within six months of formally raising the issue to improve efficiency, effectiveness and economy of operations or which otherwise require to be brought to the attention of Senior Management.
- Other - Minor administrative weaknesses posing little risk of error, fraud, financial loss or reputational damage.

The Action Plans in Internal Audit Reports address only Recommendations rated High, Medium or Low. Outwith the Internal Audit Report, we inform Service Management about Other Minor matters to improve internal control and governance.

The recommendations have been input to Pentana performance system to assist with Management tracking of implementation. If responsible owners are unable to achieve the agreed timescales for actions please notify the Chief Internal Auditor with the reason for the delay in implementation and the revised timescales to assist with the implementation and follow-up of these recommendations to improve internal control and governance.

Jill Stacey
Chief Internal Auditor