

**REPORT TO SOCIAL WORK AND HOUSING COMMITTEE
1 SEPTEMBER 2016**

INTERNAL AUDIT REPORTS

1. Recommendation

1.1 The Committee is requested to discuss and comment on the issues raised within this report and the attached appendix.

2. Discussion

2.1 This report advises the Committee of the results of completed audits (paragraphs 2.4 and 2.5), and of progress with implementing agreed recommendations (paragraph 2.6 and Appendix A).

2.2 Appropriate officers agreed the factual accuracy of the Internal Audit report prior to issue and action has been agreed to address the issues identified. Assurances have been sought from officers regarding the implementation of agreed recommendations.

2.3 The Head of Finance and the Monitoring Officer within Business Services have been consulted and any comments made have been incorporated into this report.

2.4 Housing Capital Contracts (Internal Audit Report 1632 – August 2016)

2.4.1 The Housing Service has a 30 year rolling Business Plan in place for Housing Revenue Account (HRA) capital projects. Included in this are shorter term projects such as improvements to the housing stock to ensure that it meets the Scottish Housing Quality Standard (SHQS) and the Energy Efficiency Standard for Social Housing (ESSH).

2.4.2 The capital plan is informed by data held in the Housing Stock Database regarding components due to reach the end of their predicted lifespan supplemented by inspections. Budgeted expenditure for 2015/16 was £33 million with an outturn of £23.717 million, an underspend of £9.283 million.

2.4.3 The objective of this audit was to ensure that appropriate arrangements are in place regarding the letting and monitoring of capital contracts. Procedures for developing the plan and letting of contracts are, based on the testing undertaken, working well.

2.4.4 The main issue identified, as suggested by the budget outturn, is that there is significant slippage in completing the planned work. This means that items are going beyond their industry standard lifespan and replacement timescale. Items are repaired until they can be replaced, causing an increase in repairs expenditure.

2.4.5 To help achieve future budgeted capital expenditure levels, the Services are working in conjunction with consultants to develop a new delivery

model, which is being piloted in summer 2016. The tender will cover the entire HRA Capital Programme for 2017 to 2021 thereby saving time on the annual procurement process. It will be formed on the basis of four to six large scale contractors delivering initially an equal proportion of the programme, their success in delivery, cost, quality and tenant satisfaction will determine their scale of work in future years. The Service has advised that this approach has been successful in other local authorities and it believes this will encourage competition, achieve value for money and ensure delivery of what it considers an ambitious stock improvement programme which is required to catch up on the previous two year slippage and the legislative requirement to meet the EESSH by December 2020.

2.5 Following the Public Pound (Internal Audit Report 1636 – May 2016)

- 2.5.1 In order to fulfil the requirements of Accounts Commission, COSLA and Scottish Government guidance, the Council's Following the Public Pound Procedures detail the process to be adopted to ensure clear accountability for public funds provided to third sector and other parties other than under a commercial contract. The Procedures are risk based and proportional to the value of funding provided.
- 2.5.2 Organisations wishing to apply for Third Sector funding are invited to submit an application annually. They must demonstrate how they will contribute to the Council's strategic priorities and Single Outcome Agreement.
- 2.5.3 Applications to Social Work are first considered by officers, and thereafter a report of recommended awards is submitted for discussion and approval by the Social Work and Housing Committee. Future grant funding decisions in this area will be taken by the Integration Joint Board, however while Council officers continue to facilitate the application and payment processes there remains a requirement for them to adhere to the internal controls put in place by the Council to demonstrate stewardship over and accountability for the use of these funds. On 26 February 2015, the Social Work and Housing Committee approved awards to 24 organisations for 2015/16 with a total value of £495,876 from a budget of £506,000.
- 2.5.4 The objective of this audit was to consider whether the Procedures are being applied correctly, that sufficient risk analyses have been performed and that the organisation receiving funding has a satisfactory governance structure in place. Whilst in general the Procedures are being applied, improvements have been recommended and actions agreed with the Service in respect of the following areas.
- 2.5.5 Historically the majority of funding arrangements have been recurring rather than new competitive awards. The Service recognises that most of the applications are recurring and do not necessarily fit with the priorities in the Health and Social Care Partnership Strategic Plan, and intends to submit recommendations for changes to the process to the IJB in June 2016.
- 2.5.6 A lack of consistency in obtaining financial and performance updates in respect of the use of funds was identified. In order to address this, the Service intends to develop its structure and procedures to promote compliance with grant conditions.

- 2.5.7 Improvements to the Procedures have also been recommended to Finance including developing the basis for securing assurance over funded organisations' governance arrangements, and ensuring the requirement to record specific details is consistent between the Procedures the associated Grants Database and input forms. These will be considered as part of a planned review of the Procedures during 2016.
- 2.5.8 Councillor representation on funded organisations' Boards increases public perception of the association between the two bodies. In the event of any financial or operational difficulties this association could present an increased reputational risk. Whilst applications for funding above certain levels are subject to financial and operational risk assessment, Councillor involvement is not included within this. Legal and Governance considers the risk associated with Councillor representation to be minimal. The Councillors' Code of Conduct and associated training advises on handling potential conflicts of interest, and risk assessments are undertaken as part of the "Confident Governance" initiative. The Service considers that further consideration of this risk at the point grants are applied for is not necessary.

2.6 Progress with agreed recommendations

- 2.6.1 Appendix A shows progress made by the Service with completing agreed recommendations contained in Internal Audit reports. Where recommendations have not been completed by their original due date, reasons are provided along with the grading applied to the recommendation in the original Internal Audit report. An explanation of the gradings used is shown at appendix B.
- 2.6.2 Where it has been confirmed that all actions contained in reports issued before April 2015 have been fully completed, these reports are no longer shown.

3. Equalities, Staffing and Financial Implications

- 3.1 An equality impact assessment is not required because the reason for this report is for Committee to discuss and comment on the findings of Internal Audit work and there will be no differential impact, as a result of this report, on people with protected characteristics.
- 3.2 There are no staffing or financial implications arising directly from this report other than those implicit in the tightening of internal controls recommended in the Internal Audit reports.

CHIEF INTERNAL AUDITOR

Report prepared by David Hughes, Chief Internal Auditor.
22 August 2016.

APPENDIX A

POSITION WITH AGREED RECOMMENDATIONS AS AT 22 AUGUST 2016

Report Number	Report Title	Date Issued	Agreed in Report	Due for implementation by 31.07.16	Number of Recommendations		Grading of overdue recommendations
					Confirmed Implemented by Service	Not implemented by original due date	
1362	Building Maintenance Stores	March 2014	12	12	11	1	1 Important
<p>As reported previously, the overdue recommendation (graded "important within audited area") was due to be implemented by the end of January 2016 and relates to the Service investigating the possibility of introducing random van stock checks. This was to be linked to the introduction of the system to replace the SAVE system which has been delayed due to ICT issues and means that introduction of the recommendation will be delayed until December 2016.</p> <p>In summary, the delays with the introduction of the new Repairs & Planned Maintenance Management system are:</p> <ol style="list-style-type: none"> 1- Award of the corporate mobile contract encountered delays and a suspension on the purchasing of mobile devices until the contract challenge was resolved; 2- ICT delays in the setup of the mobile gateway / MDM; 3- ICT set up of mobile devices with required app; and 4- Software issues between software suppliers. The Service is currently waiting on a system upgrade before relevant suppliers can produce a fix. Unfortunately this software upgrade involves all Housing Systems and because of the risks / testing required, cannot be carried out until after the year end procedures are concluded. This also has to be done when the system is not in use, over a weekend, and is currently scheduled for mid-May. <p><i>(continued over page)</i></p>							

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(Report 1362 – Building Maintenance Stores – continued)

The Housing Team has stated that they are very keen to introduce not only the new software system but, more importantly, a new and more efficient way of working with clear benefits to service users. The Organisational Review to support the new ways of working concluded last year and is dependent on the new RPMM system. The Service has stated that it is frustrated by the delays but also that it is equally important that the system is confirmed as working properly before it is introduced.

1602	Rent Assessment Scheme	October 2015	7	6	0	0
1604	Older People – Residential Care	December 2015	27	21	0	0
1610	Day Care Establishment Visits	December 2015	24	23	1	1 Significant

The overdue recommendation (**graded “significant within audited area”**) was due to be implemented by the end of April 2016 and relates to the Service ceasing payment for premises which have been vacated by the Council and are now occupied by a charity. The Council commissions services from the charity and pays a unit rate for the service excluding the property costs paid by the Council. Progress is being made to transfer the lease to the charity, after which the unit costs charged to the Council will increase to incorporate the premises costs. The issue will be resolved by the end of September 2016.

1624	Self Directed Support	January 2016	16	7	0	0
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1636	Following the Public Pound	May 2016	9	3	2	1	1 Important
<p>The overdue recommendation (graded "important within audited area") was due to be implemented by the end of April 2016 and relates to the Commissioning, Procurement and Contracts Team ensuring that, where grants are awarded subject to conditions, these are clearly stated in the award letters and follow up action is taken where necessary. Whilst the Service has stated that this will be done it is necessary to update procedures to incorporate these requirements. However, there have been discussions regarding how grants will be administered in the future following the inception of the Integration Joint Board and the Service has requested an extension on the recommendation until the end of October 2016 to tie in with other recommendations and allow these discussions to be finalised.</p>							

APPENDIX B

Grading of Recommendations

GRADE	DEFINITION
Major at a Corporate Level	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the Council.
Major at a Service Level / within audited area	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited. Financial Regulations have been consistently breached.
Significant within audited area	Addressing this issue will enhance internal controls An element of control is missing or only partial in nature. The existence of the weakness identified has an impact on a system's adequacy and effectiveness. Financial Regulations have been breached.
Important within audited area	Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control.

