

MINUTE
of
AUDIT AND SCRUTINY COMMITTEE

Minute of Meeting held at 3.00pm in the Council Chamber, Council Headquarters, Giffnock on 21 January 2016.

Present:

Councillor Gordon Wallace (Chair)
Councillor Barbara Grant (Vice Chair)
Councillor Charlie Gilbert
Councillor Paul O’Kane

Councillor Gordon McCaskill
Councillor Tommy Reilly
Councillor Ralph Robertson

Councillor Wallace in the Chair

Attending:

Lorraine McMillian, Chief Executive; Julie Murray, Chief Officer HSCP; Margaret McCrossan, Head of Accountancy; Lesley Bairden, Chief Financial Officer HSCP; Michelle Blair, Chief Auditor; Jacqui Martin, Corporate Business Manager; Liz Lyon, Senior Auditor; Linda Hutchison, Clerk to the Committee; and Jennifer Graham, Committee Services Officer.

Also Attending:

Brian Howarth, Audit Scotland.

DECLARATIONS OF INTEREST

1867. Councillor O’Kane declared a non-financial interest in item 1869 (Payments to Care Providers) by virtue of his employment with Enable. He left the meeting prior to consideration of this item.

CHAIR’S REPORT

1868. The Chair reported, and it was noted, that there were no issues which he wished to bring to the committee’s attention at this time.

PAYMENTS TO CARE PROVIDERS

1869. Under reference to the Minute of the meeting of 12 November 2015 (Page 1689, Item 1801(ii) refers), when it was agreed that Members advise the Chair of any views they might have on the internal audit report on payments to care providers and associated management response; and anticipated that the committee would wish to discuss the report at this meeting, the committee considered the internal audit report and related action plan.

The report explained why a review of payments to care providers was carried out by internal audit following the publication of a press article and at the Director of CHCP's request (now Chief Officer HSCP), clarifying that the report concentrated mainly on payments to learning disability providers. Full details of the scope of the work were outlined. The report concluded, regarding clients with learning disability, that there had been a serious lack of financial control over several years in the payment of CHCP care providers as detailed in the internal audit report. On the basis of the issues reviewed, the Chief Auditor had made 23 recommendations, 18 of which were accepted, 3 of which were partly accepted and 2 of which were not accepted. The related management response and action plan was attached to the report.

Councillor Wallace clarified that questions on issues the committee wished to explore had been issued to the Chief Executive, Chief Officer HSCP and Head of Accountancy in advance. Thereafter the Chief Auditor commented briefly on her report and related challenges given the complexity of issues involved. By way of an update, she explained that relative to an estimated £1.47m of overpayments that had been made to providers between 2010/11 to 2014/15, £1.39m had now been recovered or offset against other monies due; 2 invoices remained unpaid; a further 2 amounts remained to be agreed; and £80k was still owed to the Council over and above the £213k referred to in the report. It was clarified that the 2 invoices had been outstanding since around September or October 2015, the amounts concerned being the subject of ongoing discussions with providers.

The Head of Accountancy confirmed that Finance was first notified of the death of the client referred to in the report by the provider on 8 May 2011 but that related payments were not adjusted for 2 and a half years, adding that the matter would have come to light, if not in the press, through budget forecasts being investigated. In reply to Councillor Grant who sought clarification on who was responsible for the situation that arose, she explained that it had been the practice at the end of each financial year, for many years, for the finance manager to meet providers and agree reconciliations, but that some of the adjustments required had not been actioned. Having clarified why she could not discuss some issues relating to individuals at the meeting in view of other ongoing matters, the Head of Accountancy highlighted that the Council always had high financial standards, that the issue had been taken seriously and investigated as soon as it had come to light, that it had been checked that reconciliations were the only issue, and that preventative action had since been taken.

The Head of Accountancy clarified that the CHCP finance team knew of the client's death in 2011 but this had not been relayed to senior management, confirming she had first been made aware of the issue on 5 March 2015. She clarified that she met regularly with team leaders who had referred to work pressures, but added that in this case the Finance Business Partner did not consider that specific additional resources were needed. Regarding the time that had elapsed between the payments for the client ceasing in 2013 and her being advised in 2015 and also why the Chief Auditor had not been alerted, she stated that the adjustment practice adopted was not best practice, but had been in place for many years. It was clarified that the issue should have been identified but had not. In reply to Councillor Wallace, the Head of Accountancy further clarified that she had not been told of any specific staff competence issues, just that staff needed support such as identified through the performance review and development (PRD) process through which some training needs were identified.

The Chief Officer HSCP confirmed that neither she nor the Head of Accountancy were advised that required reconciliations were not being carried out, but that the Finance Business Partner (FBP) and providers knew money was due back to the Council and that providers had been in discussions with the finance team for some time.

The Chief Executive referred to a report of January 2015 predicting a CHCP budget overspend, explaining that beforehand expenditure was thought to have been containable within budget as indicated by the Director of CHCP. She referred to discussions she held with the Head of Accountancy and Director of CHCP on the predicted overspend and a related investigation that commenced following which, because the FBP was absent through long term illness, an experienced individual from outwith the Council had been engaged in February 2015 to continue the work. When the newspaper article was published subsequently she had requested further information and more intensive work commenced. The Chief Executive emphasised that the Director of CHCP and Head of Accountancy had kept her updated and that extensive work had been done, through internal audit work and progressing the outstanding reconciliations, to establish that the problem lay with one particular budget only. She emphasised that some reconciliations had been underway, but that these had taken longer than they should have.

The Chief Executive highlighted that it had already been identified, particularly by the Director of CHCP, that manual systems and processes that were in place were outdated which led to investment in a new, automated finance system to modernise them and avoid duplication. The Chief Officer HSCP clarified that the associated project mapping, aimed at addressing inefficiencies and improving financial control, began in 2011. Although implementation of this transformation project, which formed part of a wider strategic plan to support the self-directed support (SDS) initiative, was taking longer than expected completion was anticipated in the next few months.

Regarding the supplementary estimate of £1.3m requested by the CHCP in 2013, the Head of Accountancy confirmed this related to elderly care not learning disability, was checked by the previous Director of Finance at the time, and that a supplementary estimate of £1m had been approved. She added that the majority was regarded as a valid adjustment and that the department's expenditure had remained close to budget since then. On a general issue, it was confirmed that accruals that existed at the end of the financial year reverted to the general cash balance not the CHCP's departmental budget.

The Head of Accountancy agreed that the serious lack of financial control referred to within the report was completely unacceptable and was taken seriously, reiterating that the Council had high financial standards and that action had been taken and additional resources deployed to address the matter. She commented that Members had been alerted and that assurances had been provided in time for the closure of the Annual Accounts. She clarified that as much of the overpayment as possible would be recovered, that the vast majority had already been recovered and that, in terms of 2014/15, the problem concerned scheduled payments associated with 5 providers and approximately 50 individual client accounts. In response to further questions, the Head of Accountancy added that the position could have been similar for previous years and stressed the need to move away from using scheduled payments. The Chief Officer HSCP acknowledged that some payments had not reflected changes to care packages.

During discussion on the relatively fixed care packages for which scheduled payments had been established and considered appropriate, the Chief Executive referred to the extent to which such arrangements were implemented across Scotland from 2004 when many clients moved from hospital to supported group accommodation, explaining that associated year end reconciliation adjustments tended to be small because they were linked to minor changes to relatively stable care packages for this client group. It was clarified that the care costs were not always proportional to the number of clients in an accommodation unit because a similar service might be required irrespective of whether one or several clients lived there.

Further clarification was provided on the national interim Supporting People contracts put in place with a range of providers in 2014 and the subsequent arrangements, where the CHCP and care providers were working in a Public Social Partnership (PSP). It was explained that a PSP was a new approach to procurement of social care endorsed by the Scottish Government, which had worked well when a positive ongoing working relationship existed with a provider. Regarding the £213k referred to in the report, the Chief Officer HSCP commented that the contract dispute concerned one of a number of providers supplying group homes, on the same basis as other providers, then referred to quality concerns that arose on the learning disability care provider in question, the termination of the relationship with the provider, a related contract dispute, and the basis on which the provider's lawyer argued that the Council could not recoup funds. It was explained that this was the subject of ongoing legal issues which prevented further comment being made at the meeting.

Following discussion on awareness of normal expenditure levels within the finance team and how long the practice of making year-end adjustments had existed, the Head of Accountancy reiterated that the approach was not best practice and that the Council was moving away from this. The Chief Officer HSCP clarified that adjustments were now done at least 4-weekly and that the new CareFinance system would more easily generate better related reports. Having emphasised that the change programme leading to the implementation of the CareFirst system had already been planned before the predicted budget overspend and reconciliation issue came to light, the Chief Executive referred to the benefits of real time information and explained that reconciliations were already predicted by the FBP who was aware of the need for these and was progressing some. It was confirmed that scheduled payments remained for only one provider and that there was confidence that this arrangement would end by 31 March 2016 as clients moved to individual care packages.

Regarding outstanding invoices, the Chief Officer HSCP clarified the extent to which amounts had been agreed, invoiced and paid, clarifying that she had decided not to recover a sum of £27,730 from a provider because she was satisfied the provider had delivered the associated service although she could not provide evidence to the satisfaction of internal audit. Whilst clarifying the position on the use of 'p' numbers (unique service user numbers), the extent to which these were used and information relied upon when they were not, the Head of Accountancy confirmed that providers were now all being asked to specify 'p' numbers failing which the name and date of birth of clients was used which was sufficient to identify individuals. Having commented on the emphasis being placed on training under the new system and confirmed that manual over-rides of procedures were not possible under it, she clarified that the maximum overpayment for a single individual had been £221k for a period of over 2 years.

The Head of Accountancy referred to the importance of tracing figures and reconciliations in logs to the ledger, which had not been done, and the focus placed on ensuring the Accounts were materially correct. During discussion on procedural issues she said she could not explain fully why various invoices were paid for service users who were not on commitment logs, that some logs were not kept updated, and that in some cases confirmation from the service manager to the finance team on the position on service provision may have been verbal. She added that sickness absence, which was higher than normal in the finance section, could have been a factor but the Finance Business Partner had not considered that extra staff were required to cover shortages and get required tasks done, other than possibly through the need for some overtime. Replying to Councillor Grant who expressed concern regarding the extent to which work within the CHCP finance section was being sufficiently overseen, the Chief Executive commented on the responsibilities of various officers, adding that there were clear lines of responsibility within the section as in others. Supported by the Chief Officer HSCP, she reiterated that the problem had arisen with one small proportion of

a much larger budget, how seriously the issue had been taken and investigated, that the problems identified were not widespread in the CHCP or Council as a whole, and that through the investigation the HSCP finance team was being strengthened.

Regarding expected costs, related tolerances and budget monitoring, the Head of Accountancy clarified that monitoring had been done at a level higher than individual clients, that the need for adjustments was known and that checks were now made against the ledger. She confirmed that reconciliation work was routine within the finance section, but that weaknesses identified, such as in terms of pressures or the need for training, were taken seriously and addressed. She added that the new CareFirst system would provide a range of reports including on reconciliations, adding that she would have expected reconciliations to be countersigned but some had not been, and referring to the importance of communication in terms of spreadsheets used until now. The Chief Officer HSCP acknowledged that the Independent Living Fund reconciliations should have been completed earlier, clarifying that a review going back 5 years was underway and that completion of all reconciliations was expected by June 2016.

Whilst commenting on issues relating to the contractual basis for scheduled payments, the Chief Officer HSCP reported on progress to remodel the learning disability service which was nearing completion, risks linked to unfilled voids, framework arrangements with providers and potential issues linked to filling vacancies within a group and how such matters were taken forward, including through discussions with the appropriate Care Manager. She confirmed that 124 complex care packages existed, in respect of the vast majority of which legally binding contracts were now in place through which care providers had a responsibility to identify and notify the Council when service users' care needs changed failing which a right to terminate the contract was an option. The position on 20 was ongoing and less than 10 clients had chosen a direct payment option.

The Chief Officer HSCP reiterated the contractual position regarding the provider with which quality concerns arose around the summer and autumn of 2013 and the legal stance ultimately adopted by the provider's lawyer, referring also to the discontinuation of the ongoing relationship with that provider and related consequences. The Head of Accountancy explained why funds specified in the internal audit report had not been claimed back from the provider, clarified from an accountancy perspective why the sum in question was not shown as a loss in the Accounts but rather was a prior year adjustment that was deemed incorrect which was subsequently corrected. She also confirmed that the decision to accrue the income was taken by the Contracts Manager and Finance Business Partner. She said that when the position was being reviewed she had liaised with the Chief Solicitor on the approach to take, the conclusion reached being that it could not be assumed that income would be received from the provider. She added that it was not considered unreasonable originally to think that the income would be received.

The Chief Executive confirmed that she had sought clarification on the matter also, explaining that this issue was not amongst the reconciliations that were not done and that the sum related to a block contract in respect of which it could be difficult to identify the costs relating to specific individuals, adding that it was inappropriate to place clients in a facility in respect of which there were quality concerns. In response to Councillor Wallace who acknowledged the position taken on the quality issue but referred to the scale of the payment made for a service that was not provided, she explained why she could not comment further at the meeting other than clarifying that her approach to the issue had been from a legal standpoint.

The Chief Officer HSCP highlighted that although the department was moving away from block contracts, this was being done on a phased basis to avoid destabilising service provision as services were redesigned. Whilst responding to further questions, she reiterated that void places were only filled when a suitable client could be found and arrangement made, and that the authority would not wish to contract with providers where it was considered that the quality of service was unacceptable.

Whilst providing further information on the reconciliation issues referred to in the report, the Head of Accountancy reiterated that some such work had been done but this had been incomplete to a degree. She added that the FBP and finance team at CHCP headquarters were aware of this, but this information had not been passed on to senior accountancy staff at Council headquarters. In response to Councillor Wallace she reiterated that she had first become aware of the situation on 5 March 2015 and that, had there been a problem in maintaining reconciliations, she would have expected to be advised of it through one to one meetings, performance review and development sessions and budget reports for example. In reply to Councillor Robertson who asked if expenditure from the budget concerned was hard to track, she referred to various elements of commitment logs and spreadsheets that were not sufficiently updated and the related impact on forecasting expenditure accurately. Regarding the fact that the matter was not brought to her attention, she said she believed the team thought they could resolve the matter whilst working towards the new system. Regarding the sporadic reconciliations between 2010/11 and 2014/15, she agreed that the invoicing delays had been completely unacceptable. She and the Chief Officer HSCP clarified that invoicing would be done automatically under the new CareFinance system.

Regarding existing financial records, the Head of Accountancy clarified that the previous CHCP Finance Business Partner would have requested initiation of the spreadsheets used and that she thought staff were aware of the need to maintain them which had not always happened. Whilst providing further clarification, she explained that she would have expected those who set up and used them to have sufficient expertise in doing so already and referred to the extent of training opportunities that had been and were accessible, on-line and otherwise, had this not been the case. The Chief Officer HSCP referred to a comprehensive training plan under development for all relevant staff linked to the new staffing structure which was part of a wider improvement plan to put more robust practices in place. The Head of Accountancy acknowledged that knowledge of Excel as a tool for finance work was fundamental, adding that many records had been dealt with manually and referring to the Council's digital professional initiative as part of which an Excel network to help develop staff in using Excel had been established.

Regarding the CHCP finance team's responsibility for authorising payments, the Head of Accountancy accepted that it was important for officers within it to source necessary information to decide whether or not to pay invoices. She confirmed that payment should only be made on the basis of evidence of service provision, and explained that in most cases the Care Manager was best placed to confirm the position on this. She said that finance staff had not had ready access to this on the systems used and relied on operational staff. She reported that the finance team did try to seek information they needed when invoices were received but delays could occur, such as if a manager was on holiday, with invoices being either delayed or paid without proper authorisation or confirmation in these circumstances. This could not occur under the new financial system.

The Chief Officer HSCP commented that a care plan was effectively regarded as a purchase order, on problems keeping records updated, and on how invoices would be paid automatically in future, but only if the Care Manager authorised the care package beforehand. She said that no management information concerns had been raised with her

before the issue came to light, adding that figures had been looked at closely in advance of that but that prior to March 2015 she had no sense of them being inaccurate or of reconciliations not being done. In reply to Councillor Wallace she reported that a few reconciliations outstanding for the period prior to 2011 had come to light through a data cleansing exercise undertaken.

It was confirmed that the FBP reported directly to the Head of Accountancy, with a dotted line accountability to the Director of CHCP, had tried to meet the CHCP's needs, had become an integral part of the CHCP team and, in terms of demands placed on her, had been involved in providing financial support to a range of projects, some very large, which impacted on the time she had for other operational duties. Having heard the Chief Officer HSCP confirm she would be directly managing the Chief Financial Officer post in the HSCP going forward, the Chief Executive commented on how the previous management arrangements operated and were being strengthened, associated lines of responsibility and, more generally, the success of the FBP model across the authority.

In reply to questions, the Corporate Business Manager commented that it was arguable that control had been poor and that she had been aware of issues around the way the team operated through discussion with the Head of Accountancy, but not to the extent they existed. However it was not necessarily appropriate to identify an associated risk in the Strategic Risk Register. It was clarified that risk issues were considered as part of the work on the new CareFinance project, this being a project that presented both opportunities and risks. During further discussion on workload pressures, the Head of Accountancy stressed she had been aware of some discussion on these but of neither the specific training issue referred to earlier or a need for extra staff which had not been raised with her. The exception was in respect of the new Care Finance system which would support SDS regarding which a successful bid for a second FBP had been submitted to the Modernisation Fund. In response to Councillor Wallace who asked further about the level of awareness by the Head of Accountancy of day to day issues, she said that when work began to embed the finance team in the CHCP there were issues, inevitably, she was aware of linked to those affected by that change, but she was not aware of the issues referred to earlier. The Head of Accountancy confirmed that responsibility for the day to day running of the finance team lay with the FBP, such as for arranging cover and requesting additional staff which were not requested.

The Chief Officer HSCP, supported by the Head of Accountancy, clarified that budget holders required good and accurate management information which was why the new CareFinance system was investigated. It was reiterated that budgets had been managed at too senior a level but would be managed by Care Managers in future who would have responsibility for these and a clearer view of service provision. The Chief Executive expressed support for the new arrangements, the new system and the move away from year end reconciliations, clarifying that she, the Head of Accountancy and Chief Officer HSCP considered the old system inappropriate. Reference was made to an invoice issue that had arisen with community alarms in respect of a problem arose.

In reply to Councillor Wallace who asked about the time it was taking to implement the new system, the Chief Officer HSCP confirmed that the project, which began in 2011, was now in a late implementation phase and had taken longer than expected but could not be rushed. Supported by the Chief Executive, she referred to additional administrative resources required to ensure this transformation project was successful, which included ensuring that only cleansed data was entered into the new system, this being a stage required towards the end of such a project before it went live. The Chief Officer HSCP and Head of Accountancy referred to the scale of the ongoing task of allocating out the new budget responsibilities. They confirmed it had been recognised that better management information was required

and acknowledged that it should not have been necessary for internal audit to have had to refer to the importance of budget meetings in her report.

During discussion on allocated care workers, the Chief Officer HSCP confirmed that the position of Care Manager was significant to the finance team who would know in most cases who the appropriate Care Manager was, acknowledging that in the past some information had not been provided as it should. She explained why some cases were unallocated, such as if someone was in a nursing home and their care needs were stable, that unallocated cases were reviewed by a team manager on a 6 monthly basis, and that 637 elderly cases and 47 learning disability cases were currently unallocated all of which were subject to review at least on a 6 monthly basis.

Regarding a report submitted to the CHCP committee on 1 April 2015 detailing the revenue budget as at 31 January 2015, it was clarified that this was prepared by the acting FBP when the permanent FBP was absent. Having referred to an initial short term secondment arranged for 4 weeks to cover that absence, the Head of Accountancy clarified the approach taken to cover the post on a longer term basis by an external appointee with required expertise arranged through CiPFA, confirmed the length of the appointment made, the total associated cost of £46,370 and the related daily rate of £550. She clarified that she had not been able to check the content of the report prior to it being submitted to the committee, as she would normally have done, as she had been on leave. She added that other reports submitted were found to be accurate. The cost of overtime required to date to implement the CareFinance package was confirmed to be £3,241.

In reply to Councillor McCaskill, it was reiterated that it had not been considered necessary to refer to the specific issues that arose in the Strategic Risk Register, but that risk analysis was an element of the new project.

In reply to Councillor Wallace, Mr Howarth clarified that the additional cost of the external audit work on the issue that arose was £10,000, He reported that external audit had been satisfied that the commitment logs accurately reflected the care records maintained for individuals, 80 individual care packages having been reviewed linked to learning disability and otherwise. He explained that reliance was placed on internal audit's work regarding the learning disability issues identified and that otherwise no other concerns had been identified. Regarding the learning disability payments system, he suggested that the main issues that arose were linked to some of the original contracts dating from 2004 not being located and therefore unavailable, the scheduled payment system and the annual reconciliations at the end of the financial year not working properly. He expressed the view that there was awareness that reconciliations should have been done at the year-end which were not done.

The committee agreed to consider:-

- (a) the further clarification provided at the meeting; and
- (b) what, if any, further action it wished to take on this issue in due course.

CONTINUED ITEMS

1870. The committee agreed to continue consideration of the undernoted reports to the next meeting:-

- (a) a progress report by the Chief Executive on risk management;

- (b) a report by the Clerk on Audit Scotland reports on the Benefits Performance Audit Annual Update 2014/15; and the Review of Activity to Reduce Fraud and Error in Housing Benefit;
- (c) a progress report by the Chief Auditor on implementation of the internal audit plan 2015/16; and
- (d) a report by the Clerk on supplementary information requested by the committee on expenditure incurred on consultants during 2013/14 and 2014/15.

FUNDING FOR COMMUNITY AND VOLUNTARY GROUPS

1871. Under reference to the Minute of the meeting of 12 November 2015 (Page 1690, Item 1801(iii) refers), when it was agreed that Members should advise the Chair or Clerk of any issues they wished referred to in the committee's report on community grants, the committee considered the draft report on the outcome of its investigation on funding for community and voluntary groups which included a number of proposed recommendations.

The report provided information on the background to the investigation, the scope of the work and the method used, the main focus of the work being various grant schemes operated by the council. Information provided on a range of background issues included clarification on grant requests received and awarded in various years, associated budgetary provision, and the extent to which applications were made to various funds and information was available on the total resources awarded to organisations.

Issues commented on in more detail included the implementation of grant related recommendations approved by the Cabinet in 2006 and 2013 and various arrangements and procedures relating to grant applications. These included the extent to which written procedures were in place and issues relating to the submission and processing of applications, administrative costs, decisions and associated records, adherence to timescales and project costs. Other issues covered included access to other funding and related issues and adherence to conditions of grant and related matters. Implementation of grant related recommendations made by internal audit in November 2013 was also reviewed.

In summary the committee identified a range of issues that would merit being reviewed and addressed on issues which included monitoring arrangements, procedure notes, seeking comments on how the grants procedure operates from applicants' perspective, and the recording of decisions. In total 21 recommendations were proposed. Subject to approval of the final report by the committee and the preparation of an executive summary, it was proposed that it be submitted to the Cabinet for consideration.

The committee, having reviewed the draft report, agreed:-

- (a) to approve the content of the report subject to:-
 - (i) recommendation 15 being changed to "applicants should be required to submit accurate and researched estimates of expenditure";

- (ii) recommendation 19, on the closer scrutiny of project plans and the integrity and ability of applicants to carry them through to completion, being amended to include reference to implications for future applications if such issues with applicants arise;
- (b) to authorise the Clerk, in liaison with the Chair, to finalise the report on the basis of the discussions at the meeting and prepare and finalise a related executive summary; and
- (c) that the finalised report and executive summary be submitted to the Cabinet for consideration.

CHAIR