

Causeway Coast and Glens Borough Council

Internal Audit Report Fuel Stamp Scheme

2018
Final

MOORE STEPHENS

INTERNAL AUDIT REPORT

Fuel Stamp Scheme

Executive Summary

This internal audit was completed in accordance with the approved annual Internal Audit Plan for 2018/19. This report summarises the findings arising from a review of

Through our audit we found the following examples of good practice:

- The administrators of the Fuel Stamp Scheme - Limavady Community Development Initiative (LCDI) have spreadsheets in place to monitor and control stamp stock, stamps issued, and all payments received and lodged relating to the Fuel Stamp Scheme.
- LCDI use a separate Fuel Stamp bank account for all 3rd party funds. The Council management fee is lodged to LCDI Overheads bank account, where all expenses (including any related bank fees) for the scheme are paid from.
- LCDI have in place all documented policies and procedures required under the specifications contained in the original tender.

There were 5 findings or recommendations from our audit.

The table below summarises the key risks reviewed and numbers of findings and recommendations:

Risk	Number of recommendations & Priority rating		
	1	2	3
There may be a lack of clarity as to the requirements of the contractor and the Council in relation to the fuel stamp scheme leading to services not being delivered according to Council's requirements	-	-	1
There may be a lack of contract monitoring resulting in service issues not being identified or resolved in a timely manner or contract terms not being complied with, leading to negative reputational impact for the Council.	-	-	2
Calculation of the contract payments may not be accurate resulting in the Council over or underpaying the contractor	-	-	1
There may be a lack of control and security over cash received and stocks of stamps held by the scheme administrator	-	-	1
Total recommendations made	0	0	5

Based on our audit testing we are able to provide the following overall level of assurance:

Satisfactory

Overall there is a satisfactory system of governance, risk management and control. While there may be some residual risk identified this should not significantly impact on the achievement of system objectives.

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Distribution:	Audit Committee Chief Executive Director of Environmental Services Head of Health and Built Environment
	2018

Audit progress	Date
Audit commenced	6 th July 2018
Draft Report issued to senior management for response	22 nd August 2018
Responses Received	7 th September 2018
Responses Agreed	11 th September 2018
Report Issued	11 th September 2018

All matters contained in this report came to our attention while conducting normal internal audit work. Whilst we are able to provide an overall level of assurance based on our audit work, unlike a special investigation, this work will not necessarily reveal every issue that may exist in the Council's internal control system.

1 Objective

The areas for inclusion in the scope of the audit were determined through discussion with management and considered the main risks facing grounds maintenance and a review the key systems and controls in place to address these. The objective being to ensure that:

- Contract terms are complied with and the contract delivers on Council's objectives
- There is an adequate monitoring framework in place and payments are being calculated correctly

2 Background

In the Causeway Coast and Glens Borough Council (CCAGBC) area, approximately 44% of the resident population are affected by fuel poverty. "A household is said to be in fuel poverty if it needs to spend more than 10% of its income on energy costs."

(<https://www.communities-ni.gov.uk/topics/housing/fuel-poverty>)

Fuel stamp schemes were introduced into legacy councils in response to high fuel poverty in the area, this was to allow residents to purchase stamps at a cost of five pounds (at participating retailers) whenever they could afford to do so, save them on the scheme card which could then be used as payment at point of purchasing heating oil (by participating fuel providers).

CCAGBC released a tender in 2017 for the contract to administer a rebranded fuel stamp scheme for the council, it was agreed by the council this contract would be awarded to Limavady Community Development Initiative (LCDI) on the 22nd August 2017.

It was noted in the tender specification that the successful administrator would be responsible for:

- The design, production, delivery & promotion of stamps and cards
- Ongoing supply of the fuel scheme saving stamps and cards
- Payment to oil distributors made within five working days
- Retain, maintain a list of participating retailers and encourage more to join.
- Providing quarterly progress reports using the template at Appendix 2 (of the tender)

3 Risks

The risks identified by Internal Audit relating to Fuel Stamp Scheme and agreed with management are as follows:

1. There may be a lack of clarity as to the requirements of the contractor and the Council in relation to the fuel stamp scheme leading to services not being delivered according to Council's requirements.

2. There may be a lack of contract monitoring resulting in service issues not being identified or resolved in a timely manner or contract terms not being complied with, leading to negative reputational impact for the Council.
3. Calculation of the contract payments may not be accurate resulting in the Council over or underpaying the contractor
4. There may be a lack of control and security over cash received and stocks of stamps held by the scheme administrator

4 Audit Approach

Our audit fieldwork comprised:

- Documenting the systems via discussions with key staff
- Consideration of the key risks within each audit area
- Examining relevant documentation
- Carrying out a preliminary evaluation of the arrangements and controls in operation generally within the Council
- Testing the key arrangements and controls
- Testing the completeness and accuracy of records.

The table below shows the staff consulted with and we would like to thank them for their assistance and co-operation.

Job title
Environmental Health and Housing Manager
Senior Project Accountant, ES Finance Business Partner
Manager LCDI Ltd
Finance Officer LCDI Ltd

5 Findings and Recommendations

This section of the report sets out our findings in relation to control issues identified and recommendations. A summary of all the key controls that we considered is included in Appendix II to this report.

5.1 Risk 1 – Contractual Compliance

ISSUE 1 – No signed contract in place

- a) **Observation-** There is no signed contract in place between Council and LCDI although there is a signed tendering specification in place which details the requirements of LCDI who provides and manages the fuel stamp scheme on behalf of Council.

b) Implication- As there is no official contract in place, there may be a small risk that any changes to the terms and conditions occurring as a result of the delay in implementing the project (e.g. monitoring schedule) may not be clearly understood or may not be obvious in the event of any dispute over the contract.
c) Priority Rating- 3
d) Recommendation- At the first convenient opportunity e.g. when the time comes to annually review the agreement/contract, a short contract should be put in place and signed by all relevant parties.
e) Management Response- A discussion will be held with the Head of Finance and the Procurement Officer to determine the wording of any required contract and where necessary this will be prepared and signed on behalf of Council and the service provider prior to the commencement of Year 2 of the contract.
f) Responsible Officer & Implementation Date- Head of Health & Built Environment February 2019

5.2 Risk 2 – Contract Monitoring

ISSUE 2 – Monitoring Reports

- a) Observation-** Testing revealed that Limavady Community Development Initiative (LCDI) provided CCAGBC with a monitoring report, on 11th July 2018 which covered quarter one (01/02/18 – 31/03/18) and quarter two (01/04/18-30/06/18). The report followed the template which CCAGBC had set out in the tender specification and contained the relevant information and KPIs required. Although the original tender conditions required the first report to be sent by the 10th July 2017, there were difficulties in initiating the programme and delays in making the new scheme operational. The scheme did not officially commence until the 1st of February 2018

A review of the information retained by LCDI to ensure compliance with the KPIs within the monitoring report revealed the following:

- *KPI – Fuel Suppliers should be paid within 5 days;* Testing of 15 Fuel Supplier payments revealed that based on the dates of the documents received from the supplier that 13 were not paid within 5 days. It should be noted that it was not always clear when a document requesting payment had been received from the supplier as LCDI do not stamp the documents upon receipt.
- *KPI – Fuel Stamps should be delivered to retailers within 24 hours of a request;* Testing of delivery of Fuel Stamps to retailers up to the period 3rd July 2018 revealed that 74% had been delivered within 24 hours. The remaining 22% were delivered within 2-7 days. Many of these were due to a request being received from a supplier on Friday followed by delivery on the following Monday. Audit was also advised that some retailers request delivery on a specific day, which may be more than 1 day.

<p>b) Implication- Any delays in the provision of monitoring reports increases the risk of delays in identifying issues in service delivery. Any gaps in the evidence required to support reporting of KPIs by LCDI within the monitoring reports may lead to inaccuracies in reporting progress and delays in identifying issues in service delivery.</p>
<p>c) Priority Rating- 3</p>
<p>d) Recommendation- All future monitoring reports should be provided to Council by LCDI in line with a revised monitoring schedule to be defined by CCAGBC. In addition, LCDI should consider:</p> <ul style="list-style-type: none"> • Date stamping documents received from supplier to allow verification that a supplier is paid within 5 days • Record any requests for specific dates for delivery of Fuel Stamps on the delivery spreadsheets to evidence reasons for delivery exceeding 1 day.
<p>e) Management Response- Revised schedule to be confirmed with LCDI with respect to monitoring reports. LCDI to be informed of recommendation above.</p> <ul style="list-style-type: none"> • Date stamping documents received from supplier to allow verification that a supplier is paid within 5 days • Record any requests for specific dates for delivery of Fuel Stamps on the delivery spreadsheets to evidence reasons for delivery exceeding 1 day
<p>f) Responsible Officer & Implementation Date- Environmental Health , Housing and well-being Manager End September 2018</p>

ISSUE 3 – Annual Review

<p>a) Observation- Audit was advised that meetings are held on an as needed basis and there is not a regular schedule for monitoring meetings between LCDI and CCAGBC. Meetings would occur if for example CCAGBC received complaints or there was an issue with the scheme.</p> <p>The tender specification stipulates that a full review of the administration scheme should be undertaken by Council on an annual basis. As the programme was delayed in getting started this is yet to take place.</p>
<p>b) Implication- In the absence of a planned annual review of the programme administration there is a risk that contract terms are not being fully complied with</p>
<p>c) Priority Rating- 3</p>
<p>d) Recommendation- Management should plan a detailed annual review of the programme to ensure compliance with the terms of the tender and that the programme is continuing to be effectively managed.</p>
<p>e) Management Response- Schedule of meetings to be arranged to coincide with submission of monitoring returns together with an annual review based on tender specification. A written report of all review meetings together with recommendations to be provided to Head of Health & Built Environment for consideration.</p>

- f) **Responsible Officer & Implementation Date- Environmental Health , Housing and well-being Manager End October 2018**

5.3 Risk 3 – Under or Over Payment

ISSUE 4 – Payment to the Contracted Administrator

- a) **Observation-** Audit was advised that a quarterly pre-determined payment is made in line with the terms and conditions in the tender document. The terms and conditions within the tender document specify that Council will not process any payments unless they have received a completed signed and dated progress monitoring report. Testing revealed that 2 payments have been made, one of these (dated 06/06/2018) was prior to receipt of the LCDI monitoring report(s). However, it was also noted that no payment was made until a small debt owed to Council was settled by LCDI and that there are frequent and open communications between LCDI and Council.
- b) **Implication-** In the absence of the receipt of a progress monitoring report there is a risk of over payment in the event that lack of progress comes to light following the invoice being paid.
- c) **Priority Rating-** 3
- d) **Recommendation-** Payments should be processed once it is verified that the most recent monitoring report has been received
- e) **Management Response-** Agreed. Payments will only be made in arrears following submission of satisfactorily completed and reviewed monitoring returns.
- f) **Responsible Officer & Implementation Date- Head of Health & Built Environment End October 2018**

5.4 Risk 4 – Security of Cash and Stock of Stamps

ISSUE 5 – Security of Cash and Stamps

- a) **Observation-** Audit was advised that a system has been put in place where by LCDI employees collecting payments from retailers (who supply Fuel Stamps) can lodge the takings frequently, during the course of their rounds of collection. This can be carried out at the nearest Post Office or Ulster Bank. Cash collected but not yet lodged is retained in the locked safe at the LCDI premises. Review of the Fuel Stamp Scheme bank statements revealed that since the process of frequent lodgements had been introduced that regular lodgements are being made which avoid a build-up of cash.

However, it was noted during audit testing that due to a delay in opening a separate bank account for the Fuel Stamp Scheme by LCDI, early monies collected were stored in a locked safe at the LCDI premises for a prolonged period. Once the bank account was opened the monies were lodged immediately; audit verified this by review of the bank statements. Prior to the process of lodging at Post Office and banks en-route it was noted that cash had built up in the safe which on a number of occasions exceeded £5,000. From a review of the Insurance Cover held by LCDI it would appear that LCDI cover for cash held in the safe is restricted to £5,000 during business hours and £2,000 outside of business hours.

Stock of stamps are also retained within the same locked safe within LCDI. From a review of the Insurance Cover held by LCDI it would appear that LCDI cover for non-cash items is £500,000. However, the types of items listed under non-cash items does not specifically refer to Fuel Stamps.

b) Implication- If insurance limits are exceeded there is risk that any theft of cash or stamps would not be appropriately insured and recoverable.

c) Priority Rating- 3

d) Recommendation-

LCDI should confirm the coverage details for holding cash and Fuel Stamps in their safe with their insurer and avoid retaining cash or stamps in the locked safe which exceeds these insurance limits.

e) Management Response- Written request to be made to provider to confirm insurance cover for value of cash and stamps to be held in safe overnight.

f) Responsible Officer & Implementation Date- Environmental Health, Housing and well-being Manager End September 2018

Appendix I: Definition of Assurance Ratings and Hierarchy of Findings

Satisfactory Assurance

Evaluation opinion: Overall there is a satisfactory system of governance, risk management and control. While there may be some residual risk identified this should not significantly impact on the achievement of system objectives.

Limited Assurance

Evaluation opinion: There are significant weaknesses within the governance, risk management and control framework which, if not addressed, could lead to the system objectives not being achieved.

Unacceptable Assurance

Evaluation opinion: The system of governance, risk management and control has failed or there is a real and substantial risk that the system will fail to meet its objectives.

Hierarchy of Findings

This audit report records only the main findings. As a guide to management and to reflect current thinking on risk management we have categorised our recommendations according to the perceived level of risk. The categories are as follows:

Priority 1: Failure to implement the recommendation is likely to result in a major failure of a key organisational objective, significant damage to the reputation of the organisation or the misuse of public funds.

Priority 2: Failure to implement the recommendation could result in the failure of an important organisational objective or could have some impact on a key organisational objective.

Priority 3: Failure to implement the recommendation could lead to an increased risk exposure.

Appendix II: Summary of Key Controls Reviewed

Risk	Key Controls
There may be a lack of clarity as to the requirements of the contractor and the Council in relation to the fuel stamp scheme leading to services not being delivered according to Council's requirements.	<ul style="list-style-type: none"> • Contracts (or another form of agreement) are signed by all relevant parties working on the project as soon as practicable following appointment. • Responsibilities and service parameters are clearly set out in the tender specification and agreed to by the contracted administrator • Invitations to tender for consultants and contractors followed Council's Procurement Policy • The administrator has provided evidence of their policies and procedures • Expected service levels or key performance indicators have been identified against which the contractor is required to perform. • A contract manager has been identified within Council to lead on matters relating to the scheme.
There may be a lack of contract monitoring resulting in service issues not being identified or resolved in a timely manner or contract terms not being complied with, leading to negative reputational impact for the Council.	<ul style="list-style-type: none"> • There is a scheme monitoring process in place • The key performance indicators or service levels outlined in the tender specification are monitored by the Council Contract Manager per the frequency outlined • The scheme administrator provides the required reports to the Council per the defined frequency outlined • Any issues identified through contract monitoring are dealt with in a timely manner by Council and the relevant contractor • Meetings are held periodically between the Council and the scheme administrator to review performance and deal with any issues
Calculation of the contract payments may not be accurate resulting in the Council over or underpaying the contractor.	<ul style="list-style-type: none"> • The method, frequency and value of payments have been agreed between the Council and the scheme administrator • The Council receives the relevant information (invoice and any supporting documentation) from the administrator to be able to process the payment in a timely manner • Amounts invoiced or claimed by the scheme administrator are correct and based on activities in line with the original agreement • Invoices / contract claims are authorised prior to being sent to Finance for payment processing • Payments made by the Council match the amounts to be paid per the invoice received • Submission to receive payment must be in the form of a VAT invoice at the end of each quarter
There may be a lack of control and security over cash received and stocks of stamps held by the scheme administrator	<ul style="list-style-type: none"> • Cash received is promptly recorded and lodged • Any cash held on site (by LCDI) is kept in a locked and secured safe • Cash levels do not exceed insurance limits • Stock of stamps are kept in a secure and locked place • Stocks of stamps are properly recorded and monitored