

ABERDEEN CITY COUNCIL

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<b>COMMITTEE</b>	Audit, Risk and Scrutiny Committee
<b>DATE</b>	12 February 2020
<b>EXEMPT</b>	No
<b>CONFIDENTIAL</b>	No
<b>REPORT TITLE</b>	Internal Audit Report AC2013 – School Catering Income & Procurement
<b>REPORT NUMBER</b>	IA/AC2013
<b>DIRECTOR</b>	N/A
<b>REPORT AUTHOR</b>	David Hughes
<b>TERMS OF REFERENCE</b>	2.2

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**1. PURPOSE OF REPORT**

- 1.1 The purpose of this report is to present the planned Internal Audit report on School Catering Income & Procurement.

**2. RECOMMENDATION**

- 2.1 It is recommended that the Committee review, discuss and comment on the issues raised within this report and the attached appendix.

**3. BACKGROUND / MAIN ISSUES**

- 3.1 Internal Audit has completed the attached report which relates to an audit of School Catering Income & Procurement.

3.2 Management Comments

- 3.2.1 The audit was welcomed by Facilities Management and the findings were helpful and identified areas where the service can improve.

**4. FINANCIAL IMPLICATIONS**

- 4.1 There are no direct financial implications arising from the recommendations of this report.

**5. LEGAL IMPLICATIONS**

- 5.1 There are no direct legal implications arising from the recommendations of this report.

## 6. MANAGEMENT OF RISK

- 6.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are as detailed in the attached appendix.

## 7. OUTCOMES

- 7.1 There are no direct impacts, as a result of this report, in relation to the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place, or Enabling Technology, or on the Design Principles of the Target Operating Model.
- 7.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council's framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

## 8. IMPACT ASSESSMENTS

Assessment	Outcome
<b>Equality &amp; Human Rights Impact Assessment</b>	An assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics.
<b>Privacy Impact Assessment</b>	Not required
<b>Duty of Due Regard / Fairer Scotland Duty</b>	Not applicable

## 9. APPENDICES

- 9.1 Internal Audit report AC2013 – School Catering Income & Procurement.

## 10. REPORT AUTHOR DETAILS

David Hughes, Chief Internal Auditor  
[David.Hughes@aberdeenshire.gov.uk](mailto:David.Hughes@aberdeenshire.gov.uk)  
(01467) 537861



## **Internal Audit Report**

### **Operations**

## **School Catering Income & Procurement**

**Issued to:**

Rob Polkinghorne, Chief Operating Officer  
Andy MacDonald, Director of Customer Services  
Mark Reilly, Chief Officer – Operations and Protective Services  
Jacqui McKenzie, Chief Officer – Customer Experience  
Andy Campbell, Facilities Manager  
John Landragon, Catering Manager  
Bruce Reid, Business Services Manager  
Fraser Bell, Chief Officer - Governance  
Jonathan Belford, Chief Officer - Finance  
External Audit

## EXECUTIVE SUMMARY

Catering services for all Aberdeen City Council schools are provided by the Catering Team within the Operations and Protective Services Cluster. Projected expenditure for school catering supplies and services in 2019/20 is £6.6 million, with projected catering income of £2.5 million, resulting in projected net expenditure of £4.1 million (2018/19 actual £3.99 million).

The objective of this audit was to provide assurance over income and procurement expenditure relating to school catering operations. In general, procedures were considered to be adequate although the following issues were identified which require action.

Procedures require that Business Services reconcile daily income returns to income recorded in the cashless catering system and process journals to reallocate income from the catering suspense account to school cost centres in the financial ledger. As at 29 November 2019 these tasks have not been completed since the employee who did them left the Council in August 2019. Customer Experience has agreed to work with Finance and the Catering Service to agree roles and responsibilities in relation to clearing the catering income suspense account and reconciling catering income banked to the cashless catering system, to aid financial monitoring, ensure VAT is remitted timeously, and ensure any banking errors are identified timeously.

Free school meal status is reviewed annually unless information is received during the year. The review is completed by school administration staff who either request proof from parents / guardians or receive verification through a list circulated by Education. The most recent list had multiple inaccuracies leading to families with valid claims being unable to claim while claims which were no longer valid were automatically renewed. Education will review the means of verifying and reporting FSM entitlement.

Primary schools have a legal obligation to ensure children are fed and therefore the system has been set up to ensure that primary school children will receive their chosen meal whether or not they have money in their school catering account. Some schools have taken independent action to recover outstanding debts by contacting parents or guardians to encourage accounts to be cleared, but this is not being approached consistently across all schools. The Service has agreed to work with the Corporate Recovery Team to establish a process for identifying and recovering debts arising from non-payment of school meals.

The cashless catering system was procured in 2001/02. There is no live contract currently recorded in the Council's Contracts Register and the contract with the current supplier has continued to be rolled over on an annual basis. The spend (approximately £40,000 per annum) is likely to exceed the EU procurement threshold. The Service has agreed to work with the Commercial and Procurement Shared Service (CPSS) to progress the tendering process for a cashless catering system.

Eight establishments were visited during the audit and it was identified that there was a lack of guidance relating to banking arrangements under the new cash collection contract; income returns were not always being verified by a second signatory acting as a witness to cash counts; keys for safes and load terminals were not being securely held and in one case a spare load terminal key was missing; and the transfer of funds between Catering staff and school office staff or into the safe not being documented. The Service has agreed to address these matters.

# 1. INTRODUCTION

1.1 Catering services for all Aberdeen City Council schools are provided by the Catering Team within the Operations and Protective Services Cluster. Projected expenditure for school catering supplies and services in 2019/20 is £6.6 million (actual spend to end November 2019 £4.39 million, 2018/19 actual £6.31 million), with projected catering income of £2.5 million (actual income to end November 2019 £1.70 million, 2018/19 actual £2.32 million), resulting in projected net expenditure of £4.1 million (2018/19 actual £3.99 million).

1.2 The Scottish Government carries out Healthy Living Surveys on an annual basis which include the number of pupils actually taking a school meal, free or paid for, on the day assessed as a percentage of the school roll, as well as the number of pupils registered for free school meals (FSM). The most recent survey was carried out in February 2019 and the percentage taking a meal for the Council, compared to national figures is shown below. It should be noted that all P1-3 pupils are automatically registered for free school meals and this is funded by the Scottish Government.

<b>Pupils taking school meal as percentage of school roll</b>	<b>Aberdeen City Council</b>	<b>All Scottish Local Authorities</b>
Meals taken – P4-P7	49.9%	46.7%
Meals taken – Secondary	40.5%	45.2%
Meals taken – Special	53.3%	72.4%
FSM – P4-P7	13.5%	19.3%
FSM – Secondary	12.3%	15.0%
FSM – Special	22.0%	66.9%

The low uptake of meals in special schools is attributed by the Service to the number of children on specialist diets.

1.3 The objective of this audit was to provide assurance over income and procurement expenditure relating to school catering operations. A review of the documentation relating to income and expenditure was undertaken along with stock records and budget monitoring. The schools visited as part of the audit were:

- Aberdeen Grammar School
- Airyhall Primary School
- Bucksburn Academy
- Cults Academy
- Kingswells Primary School
- Loirston Primary School
- Mile End Primary School
- Orchard Brae Special School

1.4 The factual accuracy of this report and action to be taken with regard to the recommendations made have been agreed with Mark Reilly, Chief Officer – Operations and Protective Services, Jacqui McKenzie, Chief Officer – Customer, Andy Campbell, Facilities Manager, John Landragon, Catering Manager, Bruce Reid, Business Services Manager, and Caroline Johnstone, Quality Improvement Manager.

## 2. FINDINGS AND RECOMMENDATIONS

### 2.1 Policy and Procedures

- 2.1.1 Comprehensive written procedures which are easily accessible by all members of staff can reduce the risk of errors and inconsistency. They are beneficial for the training of current and new employees and provide management with assurance that correct and consistent instructions are available to staff. This is important in the event of an experienced employee being absent or leaving.
- 2.1.2 School catering is managed by the Catering Team within Facilities which is part of the Operations Function. Guidance documents for catering staff are maintained and updated by the Catering Manager with copies held in a shared drive and in hard copy in each kitchen office. Procedures held in the shared drive were reviewed and were up to date and comprehensive. Hard copies of procedures were examined during establishment visits and in all cases matched the most recent version available; all catering staff interviewed during the audit were familiar with the procedures.
- 2.1.3 Any updates to these procedures are recorded in the version control data in each document and the Document Register maintained by the Catering Manager. Updated copies are distributed by the three Catering Team Leaders to the Cooks in Charge (CiC) for each school in their area. Distribution is recorded in the Document Distribution Record and accompanied by formal notification which should be signed by the CiC and returned to evidence receipt. The process was followed for all procedures reviewed.
- 2.1.4 School meals for students and staff are paid for through a cashless catering system known as Accord or CHIPS. Guidance and procedures for catering and school staff administering the cashless catering system are held by Business Services. These procedures are not widely available, and whilst Business Services has advised every school office and kitchen was provided with copies of guidance and procedures and that training was delivered, many catering and school staff advised they did not have copies of guidance and procedures and were not clear about how to carry out required tasks.
- 2.1.5 The Accord Primary School Catering System user manual was comprehensive but out of date; for example, reference is made to coloured wristbands for students to identify meal choices, which are no longer in use. The procedures have not been substantially updated since 2014 when the system was rolled out to Primary Schools; the Accord Administrator manual dates from 2012 and refers to the Accord Office, which no longer exists, as well as advising that Accord staff will assist with a twice-yearly validation of free school meals, while this process is actually carried out annually and is supported by a teams within Revenue and Benefits and Education.
- 2.1.6 Business Services was requested by Internal Audit to provide copies of their own guidance relating to the cashless catering system, including how to reconcile catering income banked to catering income received per the cashless catering system and how to process catering income journals. A procedure is in place for processing journals however procedures on the use of cashless catering system and the catering income reconciliation process were unavailable; the Service advised these are under review.

#### **Recommendation**

a) The CHIPS guidance should be reviewed and updated.

b) The CHIPS guidance should be made available to all users.

#### **Service Response / Action**

a) Agreed. Business Services will review, update and share guidance with Facilities Management (FM) and Integrated Children's & Family Services (IC&FS).

- b) Agreed.
- FM will distribute revised guidance to all Cooks in Charge.
  - IC&FS will distribute revised guidance to all school administrators who use the CHIPS system.

<b><u>Implementation Date</u></b>	<b><u>Responsible Officer</u></b>	<b><u>Grading</u></b>
a) February 2020	a) Business Services Manager	Important within audited area
b) February 2020	b) Quality Improvement Manager / Catering Manager	

## 2.2 Free School Meals

- 2.2.1 Since January 2015, all children in primaries 1 to 3 have had the option of taking a free school meal every day. In addition, children in other years whose parents or guardians are in receipt of certain benefits are entitled to free school meals, as are pupils aged between 16 and 18 who are entitled to benefits in their own right.
- 2.2.2 Children are identified as eligible for free school meals either through a direct application by their parent or guardian, or through an award of another benefit to the family; the application may be made through Firmstep, the Council's online customer portal, or to the Benefits Team or directly to the school. The application is passed to the relevant school office where staff are expected to review it and confirm eligibility before updating the child's records in SEEMiS and the cashless catering system (CHIPS).
- 2.2.3 Free school meal status is reviewed annually unless information is received during the year; this is done by school administration staff who request verification through a list produced by the Revenues and Benefits Team (snapshot position when report is run) which is then circulated to schools by the Education Support Officer. During establishment visits Internal Audit was advised that the list provided in 2019 from the Revenues and Benefits Team contained multiple inaccuracies at the time it was circulated, leading to families getting a FSM that didn't qualify. In addition, staff advised that they were uncomfortable with the responsibility of determining FSM status as they did not feel confident in assessing applications.

### **Recommendation**

The means of verifying and reporting FSM entitlement should be reviewed.

### **Service Response / Action**

Guidance on validating FSM eligibility will be reviewed in collaboration with the Revenues and Benefits Team and reissued to all schools once finalised.

The Education Support Officer will liaise with Revenues and Benefits colleagues to review the process for identifying eligible pupils and improve the accuracy of the information provided.

<b><u>Implementation Date</u></b>	<b><u>Responsible Officer</u></b>	<b><u>Grading</u></b>
April 2020	Quality Improvement Manager	Significant within audited area

- 2.2.4 It was noted that one special school had not been added to the drop-down lists in online application forms for FSM meaning that it was not possible to make a claim.

**Recommendation**

The Service should ensure that the identified school is included as an option in online application forms.

**Service Response / Action**

Agreed.

**Implementation Date**

Implemented

**Responsible Officer**

Business Services  
Manager

**Grading**

Important within audited  
area

- 2.2.5 A Free School Meals Policy is being developed and was due to be presented to the Education Operational Delivery Committee in November 2019 but has been delayed to “take cognisance of the recently approved [Scottish Government] Child Poverty Action Plan” and the impact of Universal Credit. The Service has advised that the report will be combined with the regular report on FSM numbers which is due to be made to the Committee in May 2020.

## **2.3 Catering Income**

- 2.3.1 The principal source of income to the Service is the sale of school meals. Meal charges are proposed by the Service after considering costs and benchmarking against other local authorities and approved by Full Council during the annual budget meeting. Approved charges are input to the cashless catering system (CHIPS), which controls all sales of school meals, by Business Services and cannot be amended by other catering staff.
- 2.3.2 Other income may be generated through vending machines and provision of catering to internal meetings or external users of school facilities. The Service advised that currently non-school meal catering is only provided in some schools and for internal events such as teacher training days; orders are placed with the Catering Service and internal invoices are raised to recover the costs.
- 2.3.3 The system has been set up to ensure that primary school children will receive their chosen meal whether or not they have money in their catering account, which is accessed by a smartcard known as Kidz Cards. When the system was set up schools were advised that if the account went into debit parents would automatically be advised through the Balance Alerts system. This system allows the Council to contact parents by email or by text and is used to advise parents of the catering account balance and to top-up online. When the cashless catering system went live in schools, if SEEMiS held an email address or mobile phone number for the parent / carer, they were automatically set-up to receive balance alerts. However, not all parents will receive these alerts, since parents can opt out of receiving them and have to re-register for the alerts if they change email address or mobile phone number. As a result, some of the debts owed to schools have become significant (£434,000 for all Aberdeen City Council schools). Some schools have taken independent action to recover outstanding debts by contacting parents or guardians to encourage accounts to be cleared, but this is not being approached consistently or with the guidance of the Corporate Recovery Team.
- 2.3.4 Financial Regulation 5.2.1 requires that all income due to the Council is identified and maximised, and debtor accounts are properly and promptly updated. The failure to record and recover school meal debt is, therefore, a breach of Financial Regulations, as well as risking loss of income to the Council.



**Recommendation**

The Service should work with Finance to establish a process for identifying and recovering debts arising from non-payment of school meals.

**Service Response / Action**

Agreed. An initial review has been undertaken by the Service and Finance and the following action will be undertaken:

- a) A review of the current level of historic outstanding debt and treatment will be undertaken and actions will be established to address this.
- b) A future process to identify and recover debts on a regular basis will be established between the Service, Schools and Finance.

**Implementation Date**

a) April 2020

**Responsible Officer**

a) Business Services  
Manager and  
Accounting Manager

**Grading**

Significant within audited  
area

b) June 2020

b) Facilities Manager

2.3.5 When pupils move up to secondary school a fresh catering account is created which is accessed by a personalised Accord Card for each pupil. Accord card accounts cannot be overdrawn and if primary school debt moved to the new account the child would not be able to use the card until the debt was cleared; the Service made the decision to freeze debt related to Kidz cards to enable the affected child to purchase meals at their secondary school as long as fresh payments are made.

2.3.6 The cashless catering system has been designed to identify student meals, which are not liable for VAT, and teacher or kitchen staff meals, which are VAT-able. However, it was observed during audit testing that a kitchen employee card was set up as a student. Failure to account for VAT on adult meals could lead to potential penalties from HMRC.

**Recommendation**

The Service should ensure that all staff cards are correctly set up within the cashless catering system.

**Service Response / Action**

Agreed.

**Implementation Date**

Implemented

**Responsible Officer**

Catering Manager

**Grading**

Important within audited  
area

2.3.7 Each Accord or Kidz Card is registered to a unique user and linked to their catering account in the CHIPS system. Children registered to begin P1, or those in P7 due to move up to a Council secondary school, are identified from a SEEMiS report run by Education and Accord card applications are sent to parents / guardians with a unique reference. The application process requires this reference as well as other identifying data to verify that the account is being created for the correct person; for secondary school pupils or staff, a photograph is printed on the card for additional verification when used. The smartcards are provided free of charge by the Improvement Service through the National Entitlement Card (NEC) Programme Office. If cards are lost or damaged, replacements may be ordered from the NEC Programme Office free of charge; temporary cards are provided and linked to the relevant account until replacements are received.

- 2.3.8 Accounts in the CHIPS system can be credited through online payments or by cash payments in schools. Online payments go through the cash receipting system (Civica) and a scheduled job is run twice a day which exports payment records to the CHIPS system. Payments are automatically allocated unless there is insufficient data to identify the account, in which case the transaction is flagged for manual intervention. Business Services must then allocate or refund the payment. Civica payments are checked and reconciled to bank statements and the financial ledger by the Finance Control Team.
- 2.3.9 Cash or cheque payments are accepted in both primary and secondary school offices, although this is discouraged. Primary school catering staff complete e-returns for cash / cheques collected in schools by logging into the cash receipting system and inputting the value received, which is generally low in value and irregular as parents are encouraged to use the online service. The data from the e-returns can then be reconciled by the Finance Control Team during their reconciliations of the cash receipting system to bank statement and the Ledger.
- 2.3.10 In secondary schools, cash payments should be made through networked "load terminal" machines which are emptied on a daily basis by Catering staff. The account holder presents their card to be read by the terminal and once their account has been identified the value of cash presented is added to their balance. The load terminal also records the number and denominations of notes and coins deposited. Where payments are made by cash or cheque to the school office, staff look up the account holder in the cashless catering system and input the value to their account, then store the cash / cheques to be collected by catering staff the next day at the same time as load terminals are emptied.
- 2.3.11 Receipts are not provided by load terminals but they show the updated balance on the account, while available funds are shown in "purses" on the cashless catering electronic point of sale (EPOS) laptops during transactions. Staff advised that on occasion load terminal users advised that payments had not been credited to their account and this was generally the result of notes or coins not being registered by the load terminals; these cases are investigated by checking the terminals for items which may have become stuck and by checking the cash collected from the machine against the electronic record. If this matches the user's description of the missing funds their CHIPS account is credited manually by office staff.
- 2.3.12 Account holders spend funds in their account by tapping their Accord smartcard against a card reader device attached to a networked laptop with the electronic point of sale (EPOS) cashless catering software installed and active. This brings up their account in the cashless catering system on the laptop screen, along with sale options. For primary schools this is a choice of two or three complete meals. Secondary schools offer a variety of options including main meals, salads, sandwiches, drinks and dessert items. The member of staff operating the EPOS selects the screen options for the items being purchased and presses the "pay" button, which instantly debits the total value from the card holder's account. In secondary schools, if there are insufficient funds in the account the sale will be refused and the card holder will have to abandon certain items or the whole transaction. Primary school meals will be provided without comment but the debt will be recorded in the cashless catering system.
- 2.3.13 The load terminals are reset every day after morning break when two members of catering staff collect and count the cash taken in by the machines, along with cash and cheques collected from the school office. At this point a report is sent automatically by each load terminal to the cashless catering system with details of cash taken in. Catering staff complete a form designed by the Service (SPF06) with the total values of cash and cheques collected. All income is then sealed inside bank bags and placed in the school safe. The SPF06 form is given to school administration staff and the total value of cash and cheques collected per the SPF06 form is input to the CML Access database used by Business Services for monitoring and reporting.

- 2.3.14 The Accord procedures contain some guidance for catering and school administration staff on completing income returns and carrying out reconciliations of income returns to reports from the cashless catering system, although the Business Services Manager advised that staff in schools are not expected to carry the reconciliations out in practice as they are the responsibility of Business Services.
- 2.3.15 It is possible to reconcile the automatic load terminal transactions to the values of cash and cheques recorded as having been collected per the SPF06 income returns input to the Business Services' database by school offices. This requires an extract from the cashless catering system showing load terminal data to be input to the CML database by Business Services after which a report can be run in the database to automatically reconcile the totals (cash collected according to SPF06 forms compared to that collected per CHIPS system) and flag discrepancies. This task was completed previously but has not been done since the employee who did it left the Council in August 2019. The Business Services Manager has stated that the reconciliation of income returns recorded in the CML database, to income per the CHIPS system, will recommence in February 2020, now that a technical problem has been resolved, which was preventing the CHIPS system from being updated with cash collection data.
- 2.3.16 The cashless catering system has its own bank account (9244 Education Smartcard) and banking bags should clearly identify that the value should be credited to that account. Bank statements received by the Finance Control Team show details of deposits received from each school and these could be checked against the income returns input to the Business Services' database by school office staff if the reports were being run following procedure.

**Recommendation**

Business Services should ensure that financial monitoring and reporting of Accord cash and cheque transactions resumes as soon as possible.

**Service Response / Action**

Agreed

**Implementation Date**

February 2020

**Responsible Officer**

Business Services  
Manager

**Grading**

Significant within audited  
area

- 2.3.17 On a daily basis electronic bank account files are received from the Council's bankers and are uploaded into the cash receipting system. When the Education Smartcard bank account statement is uploaded this generates a journal in the general ledger (debiting the bank code and crediting the Accord income suspense code with catering income where a school pay-in reference is present on the bank statement). Cheques are also paid out of the Education Smartcard bank account by Business Services to Bridge of Don Academy for vending supplies. When these cheques are drawn by Business Services, the Finance Control team is notified and the cash receipting system updated to reflect the payments, resulting in the bank code being credited and the Accord income suspense code being debited. Timing differences may arise between these vending supply charges hitting the ledger and hitting the bank statement.
- 2.3.18 Cheque payments relate to income generated via the school's vending machine. The Service has advised that the vending machine sells bottled water which is purchased by the school fund. Pupils use their Accord card at the vending machine to purchase bottled water. The cheque payments are to reimburse the school fund for pupil Accord card income relating to the purchase of bottled water which has been credited to the Education Smartcard bank account.
- 2.3.19 Monthly reconciliations between bank statements, the cash receipting system and the

financial ledger (bank code) are carried out by the Finance Control Team. The October 2019 bank reconciliation was completed timeously with a small number and value of reconciling differences.

- 2.3.20 Reconciliations of SPF06 income returns to bank statements are identified in Banking Reconciliation procedures as the responsibility of Business Services; the most recent version available is a draft dated October 2017. The bank statement for October 2019 was reviewed by Internal Audit and compared to income reported on SPF06 forms for schools visited during audit testing and all entries matched.
- 2.3.21 The Bank Recs 9244 Accord Account Procedure additionally requires Business Services to extract a report from the cashless catering system with details of all catering income broken down by school. This should be created as a journal spreadsheet and emailed to Finance in order to allocate income to each school cost centre, to support financial monitoring by the Service. As at 29 November 2019, this had not been done since the middle of June 2019 meaning it is was more difficult for income to be monitored. The Accord income suspense balance as at 29 November 2019 was £609,482 of which approximately £88,000 related to prior years. The VAT on non-student meals is accounted for as part of the clearing of this suspense account. Since the Accord income suspense account is not being cleared regularly, VAT is not being accounted for timeously. The balance in the catering income suspense account has since reduced to £271,732 as at 8 January 2020, following recommencement of work by Business Services to clear the suspense account.
- 2.3.22 The procedures for reporting and reconciliation involve Business Services acting as a liaison between the Catering Service and the Finance Control Team. The issues that affected financial reporting appear to have arisen from a lack of understanding across all three teams of roles and responsibilities.
- 2.3.23 The Service advised that it had been identified, separately from this Internal Audit, that reports from the cashless catering system (CHIPS) and Business Services' database, which would allow reconciliations to be carried out between income returns and cashless catering system reports, along with journals reallocating income to school cost centres in the financial ledger, were not being carried out as previously by Business Services as discussed above. As a result, income was not being recorded to allow accurate in-year budget forecasting and as a basis for preparing the 2020/21 budget.

**Recommendation**

- a) Business Services should work with Finance and the Service to ensure that all staff involved in financial monitoring, reporting and reconciliation of catering income are aware of their roles and responsibilities.
- b) The suspense account should be cleared on a regular basis to aid financial monitoring and ensure that VAT is remitted timeously.

**Service Response / Action**

- a) Agreed. A review process will be undertaken with all involved to ensure clarity of roles and responsibilities.
- b) Agreed.

**Implementation Date**

a) August 2020

b) Implemented

**Responsible Officer**

a) Business Services Manager

b) Business Services Manager

**Grading**

Significant within audited area

## 2.4 Cashless Catering System

- 2.4.1 There are two systems directly involved in administrating cashless catering: CHIPS (Cashless Health Initiative Programme for Schools), procured from an external supplier, and the Card Management Log (CML), also known as the Financial Records Log (FRL), which is an Access database, created and controlled by Business Services, used to report and reconcile card and financial transaction data. While CHIPS is supplied externally it is maintained by Business Services and ICT staff.
- 2.4.2 The CHIPS system was procured in 2001/02 to support the Council's smartcard applications, with the intention of providing access to concessionary travel, school meals, and catering and laundry services in supported accommodation.
- 2.4.3 There is no live contract currently recorded in the Contracts Register system; the most recent, which dates from November 2016, consists only of a Procurement Request report, and has been archived. The Procurement Request discusses system requirements and states that a report was to be made to the Finance Policy & Resources Committee in 2017; this recommended that a tender process be carried out for a two year contract with the possibility of a one-year extension, and that while this is carried out an exemption be given for a further year's contract with the current supplier, from October 2017 to October 2018. Approval was given for both recommendations.
- 2.4.4 Internal Audit was advised that the tender process has still not been completed and a new contract is not expected to be in place until December 2020 at the earliest. The contract with the current supplier has therefore continued to be rolled over on an annual basis and the spend (approximately £40,000 per annum) is likely to exceed the EU procurement threshold.

### **Recommendation**

The Service should work with Commercial and Procurement Services to progress the tendering process for a cashless catering contract.

### **Service Response / Action**

Agreed. FM will work with Commissioning and Scotland Excel to procure a replacement cashless catering system.

### **Implementation Date**

December 2020

### **Responsible Officer**

Catering Manager

### **Grading**

Significant within audited area

## 2.5 Establishment Visits

- 2.5.1 Eight establishments were visited (4 secondary schools, 3 primary schools and 1 special school) and cash counts were observed in the four secondary schools. The Primary Schools visited advised that virtually all payments are made electronically with infrequent cash payments received. All staff were familiar with the requirements for counting cash and completing e-returns. However, staff in all 8 schools advised that they were not clear regarding banking arrangements following the change of cash collection contract. Only one kitchen had a copy of the guidance provided by the new contractor while 5 were following the procedure incorrectly or had not been given sufficient supplies of the three types of banking bags to comply with the contractor's requirements.

### **Recommendation**

The Service should ensure that all staff responsible for banking are aware of the requirements set by the cash collection contractor and have sufficient guidance and banking supplies.

**Service Response / Action**

Agreed.

**Implementation Date**

Implemented

**Responsible Officer**

Facilities Manager

**Grading**

Significant within audited area

2.5.2 All secondary schools visited had two staff collecting and counting cash on the day of the audit visit, and all observed cash counts were verified by Internal Audit as correct. For the four secondary schools, income returns and banking slips for one month were reviewed; banking records were obtained from the Finance Control Team, cross-checked by Internal Audit to SPF06 income return forms, and these agreed. However, in one secondary school, not all SPF06 forms (for a month of prior SPF06 forms reviewed) were signed by both members of staff.

2.5.3 If SPF06 forms are not verified by a second member of staff there is a risk that errors may not be noticed, leaving the identified employee vulnerable should discrepancies be identified later.

**Recommendation**

The Service should remind staff that all SPF06 cash count forms should be signed by two members of staff.

**Service Response / Action**

Agreed. A reminder will be sent to all Cooks in Charge.

**Implementation Date**

Implemented

**Responsible Officer**

Catering Manager

**Grading**

Significant within audited area

2.5.4 Financial Regulation 5.2.9 stipulates that keys to safes and similar security boxes should be held securely at all times, either in a secure key box or carried on the person of those responsible; the loss of such keys must be reported immediately. Not all schools were complying with this. In six of the schools visited, safe keys, the keys to access load terminals, or both, were held in open or unlocked desk drawers or in open containers.

**Recommendation**

The Service should ensure that load terminal and safe keys are held securely following corporate guidelines.

**Service Response / Action**

Agreed. All load terminal keys at Secondary Schools will be held by Catering Services and stored in locked key cabinets/boxes, while all safe keys will be held securely by School Administrators.

**Implementation Date**

February 2020

**Responsible Officer**

Catering Manager

**Grading**

Significant within audited area

2.5.5 An access record form is maintained for each terminal and this should be completed by the member of staff opening the machine; this can be compared to the machine's record of being accessed to confirm that the terminals are not being inappropriately opened. This form was not in use in two of the secondary schools visited.

**Recommendation**

The Service should ensure that all load terminals in academies have access record sheets completed whenever the machine is opened.

**Service Response / Action**

Agreed. A reminder will be sent to all Academy Cooks in Charge.

**Implementation Date**

Implemented

**Responsible Officer**

Catering Manager

**Grading**

Important within audited area

2.5.6

Financial Regulation 5.2.5 states that every transfer of Council money should be evidenced in the records of the Services concerned by the signature of the receiving officer. The Service's Daily Banking Procedure states that this is evidenced through the completion of a banking record form which notes the value of the cash and cheques being transferred and the signature of the staff involved. However, in one primary school only one member of catering staff generally took cash from the kitchen to the school office to transfer to the safe, and there was no banking record form or other process in the school office to record the transfer, either from catering to office staff or into the safe by any member of staff. The Catering Manager advised that while catering staff followed the Daily Banking Procedure, this had not been formally agreed with school administration staff.

**Recommendation**

The Service should agree a procedure with Education to ensure that records are kept of cash transferred to another member of Council staff or into the safe

**Service Response / Action**

Agreed. The Catering Manager will work with the Quality Improvement Manager to agree a procedure and roll out to all schools.

**Implementation Date**

April 2020

**Responsible Officer**

Catering Manager

**Grading**

Significant within audited area

2.5.7

In another primary school the Cook in Charge carried out cash counts and banking on Fridays, meaning that cash may be held in the kitchen office for several days. While a locked drawer is used, this is not as secure as the school safe and is not insured against loss or theft.

**Recommendation**

The Service should remind staff that cash should be counted and banked on the day it is received.

**Service Response / Action**

Agreed. A reminder will be sent to all Cooks in Charge.

**Implementation Date**

Implemented

**Responsible Officer**

Catering Manager

**Grading**

Important within audited area

2.5.8

Another Cook in Charge advised that their kitchen could not be kept secure as the shutter was damaged and could not be fully closed; as a result, non-kitchen staff had accessed the area when no catering staff were present. This had not been reported to Facilities Management.

<b><u>Recommendation</u></b>		
The Service should work with Facilities Management to ensure that the kitchen area in the identified school is secure.		
<b><u>Service Response / Action</u></b>		
Agreed.		
<b><u>Implementation Date</u></b>	<b><u>Responsible Officer</u></b>	<b><u>Grading</u></b>
Implemented	Catering Manager	Important within audited area

2.5.9 All schools have at least one office administrator who is responsible for managing Accord or Kidz Cards for that school's students by adding or amending accounts in the cashless catering system, flagging them for free school meals where appropriate, assisting with requests for new and replacement cards, and issuing temporary cards when required. In secondary schools they are also responsible for inputting values from the SPF06 income return to Business Services' CML database. These arrangements were discussed with staff during establishment visits. In two schools, the administrators were not clear on how to use the cashless catering system or Business Services' database as they had not received sufficient guidance or training.

<b><u>Recommendation</u></b>		
Education should ensure that all school office staff with CHIPS / Accord administration responsibilities have sufficient training and guidance to carry out required duties.		
<b><u>Service Response / Action</u></b>		
Agreed.		
<b><u>Implementation Date</u></b>	<b><u>Responsible Officer</u></b>	<b><u>Grading</u></b>
April 2020	Quality Improvement Manager	Important within audited area

2.5.10 All eight schools reported significant delays in receiving new or replacement Accord or Kidz Cards. Business Services advised that this was due to a failure in the process which transferred card request data to Business Services. The Service further advised that resources had now been assigned to address the backlog. A recommendation is included to track progress.

<b><u>Recommendation</u></b>		
Business Services should ensure that requests for new and replacement cards are processed timeously.		
<b><u>Service Response / Action</u></b>		
Agreed.		
A technical issue preventing the receipt of new / replacement card requests from users has now been resolved. The processing of applications for secondary school replacement cards and new user cards and primary school replacement cards has recommenced and the backlog of applications has been processed. There remain some primary schools who await new applications to be processed and a temporary solution has been implemented to allow pupils to order meals in school. The outstanding applications will be processed as soon as possible		
<b><u>Implementation Date</u></b>	<b><u>Responsible Officer</u></b>	<b><u>Grading</u></b>
April 2020	Business Services Manager	Important within audited area



## 2.6 Procurement

- 2.6.1 Goods and services required by the Service are ordered through the PECOS procurement system. Only Cooks in Charge and their assistants should have access to PECOS. They should only order from a restricted catalogue of approved suppliers and products and have a set budget which is regularly reviewed by the Catering Advisor and Catering Manager. Non-catalogue or orders for over £1,000 are automatically sent to the Catering Manager for review and approval. Each user is associated with the relevant cost centre for their school. However, in some cases a default cost centre is being used instead, which is the first school on the list, Aberdeen Grammar. When invoices were reviewed during audit testing (discussed further below) two of the three selected for Aberdeen Grammar should have been allocated to a different school's cost centre. The Service does not currently regularly review cost centres for such mis-codings.

### **Recommendation**

The Service should review spend allocated to cost centres to ensure that this has been carried out correctly.

### **Service Response / Action**

Agreed. The Service will develop a Work Instruction for all Cooks in Charge to ensure that the correct cost centre is applied for each and every order.

### **Implementation Date**

Implemented

### **Responsible Officer**

Catering Manager

### **Grading**

Important within audited area

- 2.6.2 The Catering Advisor carries out quarterly audits of compliance with British Standards Institution (BSI) quality standards to maintain the Service's ISO 9001 Quality Management accreditation. This includes reviews of purchasing records to confirm that all goods have been procured following procedure. Where non-compliance is identified an investigation is carried out by a Catering Team Leader who is not responsible for supervising the school, and a Corrective Action Request (CAR) form is completed with details of the discrepancies found and recommended actions. These forms are saved in the Catering Team's shared drive and the actions are followed up by the Catering Manager during regular team meetings.
- 2.6.3 When deliveries are made to kitchens the Cook in Charge should receipt them in PECOS with notes of any issues such as change in price, incorrect goods supplied, or unacceptable use-by dates. Invoices should be sent to the central Accounts Payable team in Marischal College and will be auto-matched and paid if they have been receipted and the invoice is within tolerance of the purchase order; a tolerance limit of £2.00 has been set up in the system, with the exception of goods from Brakes, where a limit of £50 is in place.
- 2.6.4 Spending over the last two financial years was reviewed by extracting data from the financial ledger. In five cases spending with an individual supplier exceeded the threshold for a competitive tender or was likely to exceed it over three years. In all five cases an appropriate contract or framework agreement was in place; these were reviewed in the Contracts Register system (BOrganised) and had been procured appropriately. However, the contract for fresh meat and fish appeared to have expired after an extension to January 2019.
- 2.6.5 25 invoices were reviewed to confirm that procurement guidance had been followed and that there were appropriate orders, receipted on delivery, with invoices paid for timeously. In all but one case purchase orders existed and had been raised and authorised before the invoice was paid. An invoice for beverage supplies, was not supported by a purchase

order and the invoice required authorisation from the Catering Manager before payment. Placing orders without purchase orders is a breach of Financial Regulations.

**Recommendation**

The Service should ensure that all purchases are made through PECOS and from catalogue suppliers wherever possible.

**Service Response / Action**

Agreed. The Service will ensure that all Cooks in Charge are aware that orders are required to be placed via PECOS and to approved suppliers.

**Implementation Date**

Implemented

**Responsible Officer**

Catering Manager

**Grading**

Important within audited area

- 2.6.6 The orders were appropriate in nature and value and in all but one case goods had been receipted through PECOS on delivery. An order for fresh fruit and vegetables, had not been receipted on delivery and the invoice payment was delayed while the AP team requested this be carried out through PECOS.
- 2.6.7 Segregation of duties was observed, with invoices being received and processed for payment centrally whilst ordering and receipting of goods was carried out by Catering staff. Payments to suppliers were fully supported by approved invoices, and no duplicate payments were observed for the sample.
- 2.6.8 However, seven of the twenty-five, including the invoice for beverages in 2.6.5 and the order for fresh fruit and vegetables referred to in paragraph 2.6.6, were not paid within thirty days. Of the remaining five, three invoices were paid late after processing delays and two payments were delayed due to the payments system detecting a mismatch outwith the tolerance between the order and the invoice value, due to VAT not being accounted for correctly in the purchase order value raised. Where a payment date is not specified, the Council has thirty days from receipt of the invoice to pay, as required by the supplier contracts and the Late Payment of Commercial Debts (Interest) Act 1998, which allows suppliers to charge 'statutory interest' of 8% plus the Bank of England base rate. Failing to pay invoices timeously risks reputational damage and financial charges.

**Recommendation**

The Service should ensure invoices are paid timeously including reminding staff to account for VAT correctly and promptly receipt deliveries.

**Service Response / Action**

Agreed. A reminder will be issued to all Cooks in Charge to ensure that goods are receipted timeously, to allow invoices to be paid timeously.

**Implementation Date**

Implemented

**Responsible Officer**

Catering Manager

**Grading**

Important within audited area

**2.7 Stock**

- 2.7.1 Cooks in Charge are encouraged to order only what they need over the coming weeks to ensure that only the required type and amount of stock is held; menus are set centrally and cover the entire term to allow cooks to plan ahead, with recipes and quantities being specified in the "Day Books" provided by the Catering Manager. Cooks in Charge advised that they perform regular informal stock checks and rotate stock, moving the newest goods to the rear of the storage area, to ensure waste and obsolescence is minimised.

- 2.7.2 All food waste is disposed of through recycling bins provided as part of the Council food waste disposal contract. The cost of collections per school varies in line with the volume of waste produced. Data on the volume of waste collected is reported to the Customer Experience team by the Catering Service on a weekly basis and recorded by the team in a spreadsheet in the Catering Team shared drive for review. The Service advised the review is carried out a minimum of termly and at the commencement of each menu planning cycle, in order to identify any unusually large volumes of waste; this also assists in determining if menu items are unpopular and should not be provided in future.
- 2.7.3 An annual stock check is carried out at year end and recorded on template forms. Informal checks are carried out at the discretion of the Cook in Charge to confirm that goods are present in expected quantities and condition. The Service advised that there is currently no formal system in which to record stock movements and that time pressures would make more frequent formal stock checks a significant burden on kitchen staff, while the risk of theft is perceived by the Service as low, as Cooks in Charge order only what is needed in the short term, and the value of the stock held is relatively low (£83,000 as at 31 March 2019).
- 2.7.4 Financial Regulations require that each Chief Officer maintain, on a continuous basis, an inventory of equipment, furniture, information technology hardware and software, etc. While some school buildings are not owned by the Council, and inventories are held by the facilities management company, no inventories of kitchen equipment or furniture are held by the Service; the Service advised that as all their equipment is in daily use, loss or damage would be immediately noticed.
- 2.7.5 Finance intends to revise Financial Regulations so that there will only be one inventory held by the Council for equipment, furniture, fixtures and fittings. In advance of revised inventory governance arrangements being formalised, Facilities Management has agreed to put in place an inventory for kitchen and servery equipment in line with current Financial Regulations. A recommendation is included to track progress.

**Recommendation**

Inventories should be completed and maintained in line with Financial Regulations.

**Service Response / Action**

Agreed. Inventories for all equipment over the value of £1,000 will be completed for each school kitchen and servery.

**Implementation Date**

July 2020

**Responsible Officer**

Catering Manager

**Grading**

Important within audited area

**2.8 Budget Monitoring**

- 2.8.1 The Facilities Manager receives monthly budget monitoring reports from Finance. These are passed to the Catering Manager for use during regular budget monitoring within the Service. The Service maintains detailed spreadsheets of catering expenditure by schools, which are populated from reports run from the purchasing system (PECOS) by the Catering Advisor, and discuss issues with Catering Team Leaders and school staff as they arise.
- 2.8.2 Budget monitoring meetings are held at least quarterly between the Service, represented by the Facilities Manager and other Catering staff, and Finance. Reports and minutes for 2019 were reviewed and detailed with appropriate actions being allocated and followed up.

2.8.3 The most recent full budget monitoring report available was for August 2019. The Service budget for the year is approximately £14.12m and the forecast outturn as at end August 2019 was £14.79m, a variance of £67,000, which is attributed to overspends on staff and premises costs and under-recovery of customer receipts. The issues were discussed at the meeting between the Service and Finance and actions were assigned to address them.

**AUDITORS:** D Hughes  
A Johnston  
L Jarvis

## Appendix 1 – Grading of Recommendations

GRADE	DEFINITION
<b>Major at a Corporate Level</b>	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.
<b>Major at a Service Level</b>	<p>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.</p> <p>Financial Regulations have been consistently breached.</p>
<b>Significant within audited area</b>	<p>Addressing this issue will enhance internal controls.</p> <p>An element of control is missing or only partial in nature.</p> <p>The existence of the weakness identified has an impact on a system’s adequacy and effectiveness.</p> <p>Financial Regulations have been breached.</p>
<b>Important within audited area</b>	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.