
NORTH AYRSHIRE COUNCIL

30 January 2018

Audit and Scrutiny Committee

Title: Internal Audit Reports issued

Purpose: To inform the Committee of the findings of Internal Audit work completed between 1 November and 31 December 2017.

Recommendation: That the Committee (a) considers the outcomes from the Internal Audit work carried out; and (b) challenges services where there are significant weaknesses in internal controls.

1. Executive Summary

- 1.1 The Council's local Code of Corporate Governance requires effective arrangements to be put in place for the objective review of risk management and internal control. Internal Audit is an important element in this framework as it reviews internal controls and offers Elected Members and officers an objective and independent appraisal of how effectively resources are being managed.
- 1.2 The remit of the Audit and Scrutiny Committee includes the monitoring of Internal Audit activity. The submission and consideration of regular reports assists the Committee in fulfilling this remit.

2. Background

- 2.1 This report provides information on the Internal Audit reports published between 1 November and 31 December 2017. Internal control reviews have been completed in respect of the areas detailed in Appendix 1 to this report. The aim of these reviews is to provide assurance that the internal control framework within the areas examined is appropriate and operating effectively.
- 2.2 The findings from each audit assignment have been notified in writing to the Chief Executive, the Executive Director (Finance and Corporate Support) and the relevant Executive Director and service managers on the completion of each assignment. Where appropriate, this has included an action plan detailing recommendations for improving internal control. Appendix 1 includes the executive summary and action plan from each audit.

- 2.3 Full copies of all Internal Audit reports are provided to all Elected Members, in confidence, through the Council's intranet site. Reports are held within the dedicated 'Members' information' area at:

<http://naconnects.north-ayrshire.gov.uk/elected-members/audit-reports/audit-reports.aspx>

- 2.4 The findings from 3 separate audit assignments are detailed at Appendix 1 to this report. The key findings are as follows:

- A number of issues were identified in relation to procurement within Education and Youth Employment although it is noted that the directorate has already taken steps to improve practices;
- Work is being progressed to the Housing system to ensure it is compliant with the General Data Protection Regulation (GDPR) when it comes into force in May 2018;
- Substantial assurance was obtained in relation to procurement practices within Building Services.

3. Proposals

- 3.1 It is proposed that the Committee (a) considers the outcomes from the Internal Audit work carried out during the period; and (b) challenges services where there are significant weaknesses in internal controls.

4. Implications

Financial:	None.
Human Resources:	None.
Legal:	None.
Equality:	None.
Environmental & Sustainability:	None.
Key Priorities:	The work of Internal Audit helps to support the efficient delivery of the strategic priorities within the Council Plan 2015-2020.
Community Benefits:	None.

5. Consultation

5.1 The relevant Services are consulted on Internal Audit findings during each audit assignment.



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For further information please contact **Paul Doak, Senior Manager (Internal Audit, Risk and Fraud)** on **01294-324561**.

Background Papers

N/A

EXECUTIVE SUMMARY PROCUREMENT OF EDUCATIONAL SUPPLIES

Background

This area was last audited in 2013/14. Analysis by the Corporate Procurement Unit (CPU) has highlighted issues with non-contract spending in a number of Council Services, including Education and Youth Employment.

Key Objectives

The main objectives of this audit were to:

- Analyse Education expenditure through Accounts Payable and Government Procurement Cards (GPCs).
- Ensure that procurement guidance is being followed to attain best value.
- Ensure that e-procurement is fully utilised and that the Council is only paying for goods and services ordered and received.
- Ensure that purchases made by procurement card are appropriate and properly authorised.
- Ensure that expenditure outwith e-procurement and GPCs is minimised and that the Council is only paying for goods and services ordered and received.

Key Findings and Actions

All the recommended actions arising from this audit are detailed in the action plan which follows this Executive Summary. The key findings are as follows:

- More than £250,000 of expenditure was identified during sample testing where Standing Orders Relating to Contracts had not been followed. Most of this had previously been identified by the Corporate Procurement Unit. Education and Youth Employment have taken actions to ensure that officers in the directorate are more aware of correct procurement procedures in future.
- 2 invoices in the sample testing were paid 60 or more days after the invoice date which is double the target timeframe. However, Education and Youth Employment have undertaken a Lean 6 Sigma project to improve their performance in timely payment of invoices and issued new guidance as an outcome of this exercise.
- 4 manual invoices in the sample did not have a corresponding purchase order, one of which was ordered by Property Management and Investment. However, all of these were paid using the old Masterpiece system and new processes for the new Integra Financial Management System should make this more unlikely to occur.
- 4 invoices were found to have been coded to inappropriate ledger codes when more suitable codes were available.

Audit Opinion

Overall, reasonable assurance was obtained with regard to procurement of Educational Supplies. The correct procurement procedures had not been followed in relation to a significant amount of expenditure. However, Education and Youth Employment have taken steps in recent months to improve awareness of correct procurement practices within their service.

ACTION PLAN

PROCUREMENT OF EDUCATIONAL SUPPLIES

Action	a
Action Description	Education and Youth Employment should remind staff to keep records of procurement exercises for the required retention periods in a suitable and readily identifiable location, which is accessible to colleagues in the event of their absence.
Risk	Lack of business continuity. The Council is unable to demonstrate that it has followed correct procurement procedures.
Priority (1, 2, 3)	2
Paragraph Reference	3.6
Assigned to	Senior Manager (Resources and Infrastructure)
Due Date	22 December 2017
Management Response	A reminder will be issued to the service.

Action	b
Action Description	Education and Youth Employment should remind establishments to ensure that purchases are coded to the most appropriate ledger code to describe the type of expenditure.
Risk	Reduced usefulness of financial management information e.g. showing how much an establishment or service spends on certain types of supply. Inaccurate information included in statutory returns to central government
Priority (1, 2, 3)	2
Paragraph Reference	3.12, 3.18
Assigned to	Senior Manager (Resources and Infrastructure)
Due Date	22 December 2017
Management Response	A reminder will be issued to the service.

Action	c
Action Description	Education and Youth Employment should remind establishments to ensure that a purchase order is raised in Integra for all purchases
Risk	Breach of Standing Orders Relating to Contracts. Purchases are made which are not properly authorised. If an invoice is input to Integra without a recognised purchase order number, payment could be delayed.
Priority (1, 2, 3)	2
Paragraph Reference	3.15
Assigned to	Senior Manager (Resources and Infrastructure)
Due Date	22 December 2017
Management Response	A reminder will be issued to the service.

Priority Key used in Action Plan

1 (High)	Control weakness where there is a material impact on the achievement of the control objectives, generally requiring prompt attention.
2 (Medium)	Control weakness which needs to be rectified, but where there is no material impact on the achievement of the control objectives.
3 (Low)	Minor weakness or points for improvement.

EXECUTIVE SUMMARY

HOUSING RENT INCOME AND ARREARS

Background

The Annual Internal Audit Plan 2017/18 included an audit of Housing Rents Income and Arrears. Four subjects were examined; Policies and Procedures, Calculation, Collection of Rents and Rent Arrears Management and Collection.

Key Objectives

The main objectives of this audit were to ensure that there are:

- suitable policies and procedures for rent and arrears collection and staff are made aware of these.
- suitable controls over the calculation of rents.
- suitable controls in place in relation to collection of rents.
- adequate controls in place over rent arrears management and collection.

Key Findings and Actions

All the recommended actions arising from this audit are detailed in the action plan which follows this Executive Summary. The key findings are as follows:

- Policies and procedures are up to date and accessible to all employees
- Moving forward iWorld should be reviewed in light of the forthcoming introduction of General Data Protection Regulations (GDPR) and discussions are being held with Northgate to upgrade the system to become fully compliant.
- 'In arrears' accounts are closely monitored and well managed, this should be extended to review 'in credit' accounts which fall below the normal review thresholds.
- A review of kiosk payment receipts is required to identify whether issues are caused by client errors or by equipment malfunctions. This will be examined as part of a separate audit of Customer Services.
- System access controls are in place.

Audit Opinion

Overall, reasonable assurance was obtained with regard to Housing Rents Income and Arrears. Controls were generally found to be working well, but a key risk was identified, in that the iWorld system provided by Northgate requires some work to make it GDPR compliant.

ACTION PLAN HOUSING RENT INCOME AND ARREARS

Action	a
Action Description	The Declaration of Interests provided by Housing employees should be recorded on a central register
Risk	The Council fails to identify conflict of interest.
Priority (1, 2, 3)	2
Paragraph Reference	3.2
Assigned to	Performance Officer (Place) / Information Systems Co-ordinator
Due Date	31 st March 2018
Management Response	A proforma will be created for iWorld system access that will include a statement relating to highlighting any conflict of interest to a line manager. The GDPR representative for the Service will liaise with IT to discuss a metadata message in relation to system access and potential areas of conflict. This could be issued as a generic message for all staff accessing the various corporate systems to remind them of their responsibilities under the Council's code of conduct.

Action	b
Action Description	Housing to liaise with Northgate to ensure that the iWorld system is upgraded to allow user access logs to be maintained and meet GDPR standards.
Risk	The Council is not GDPR compliant in managing access to records
Priority (1, 2, 3)	1
Paragraph Reference	3.3
Assigned to	Performance Officer (Place)
Due Date	31 st March 2018
Management Response	The new GDPR legislation comes into force in May 2018 and places new obligations on organisations that process personal data. Northgate are making a number of changes to their Housing solutions which will support us to meet the new, more stringent requirements under GDPR. Changes to Housing will be released in February 2018 and will be available for the version of software that we are using.

Action	c
Action Description	Housing to liaise with Northgate to ensure that the iWorld system is upgraded to redact bank account details on the system
Risk	Client information is not protected sufficiently
Priority (1, 2, 3)	1
Paragraph Reference	3.11
Assigned to	Performance Officer (Place)
Due Date	31 st January 2018
Management Response	Northgate have been asked for a licence key to allow us to enable their bank account masking module. This will mask the first 4 digits of the 8 digit bank account numbers held on the system. Key users will then be assigned to allow access to full account details as per their role requirements.

Action	d
Action Description	'In credit' accounts should be reviewed over a period of time and either offset against other Council debts or, if refunds are due make payment to client or benefits body as appropriate.
Risk	Council is holding funds that it does not need to or other Council debts are not being cleared.
Priority (1, 2, 3)	2
Paragraph Reference	3.14
Assigned to	Business Planning Team Manager
Due Date	31 st March 2018
Management Response	<p>A quarterly housekeeping exercise is already carried out to review all rent accounts with a credit balance above £400. The majority of our tenants are in receipt of housing benefit therefore many of the credits are a result in housing benefit overpayments. The Benefits Team will recover this weekly via their escalation process.</p> <p>There is an agreement with the Benefits Team whereby notification is given to Housing of any significant back payments of housing benefit being made to a tenant. This allows Housing to check for outstanding debt and refund the tenant immediately.</p> <p>Prior to any refund being finalised, other corporate debts are checked such as court costs, council tax etc. If debts are found, the refund is used to offset any outstanding balances.</p> <p>When a tenancy is ended, credit balances are processed immediately.</p> <p>Refunds requested by the tenant at a local housing office are verified and processed quickly. Changes were made in 2017 to the credit refund procedure where a true refund to the tenant was identified. This has shortened the time taken to process a refund from 15 days to 3 days.</p> <p>In addition to the above current processes, an annual review will be undertaken of all credit balances above £280 which is around the average value for a monthly rent charge. This will be introduced at the 2017/18 year end and will take place annually thereafter.</p>

Priority Key used in Action Plan

1 (High)	Control weakness where there is a material impact on the achievement of the control objectives, generally requiring prompt attention.
2 (Medium)	Control weakness which needs to be rectified, but where there is no material impact on the achievement of the control objectives.
3 (Low)	Minor weakness or points for improvement.

EXECUTIVE SUMMARY BUILDING SERVICES PROCUREMENT

Background

This audit was conducted as part of the 2017/18 audit plan.

Key Objectives

The main objectives of this audit were to:

- gather information on the level of spend incurred by Building Services over the period being audited
- ensure that the Council's 'Standing Orders relating to Contracts' procedure is being adhered to at all times, so as to confirm that best value is being achieved
- review orders and purchases being made using PECOS, GPC card and ROCC software, to confirm that proper controls are in place to ensure that only appropriate goods and services are being purchased using Council funds.

Key Findings and Actions

All the recommended actions arising from this audit are detailed in the action plan which follows this Executive Summary. The key findings are as follows:

- Whilst Building Services are taking steps to ensure value for money when procuring goods and services, two instances were noted where the Council's 'Standing Orders relating to Contracts' hadn't been applied.

Audit Opinion

Overall, substantial assurance was obtained with regard to the procurement processes within Building Services.

Whilst testing highlighted that in a couple of instances that the Council's 'Standing Orders' were not adhered to, the Service could demonstrate that they had still ensured value for money for the Council.

ACTION PLAN BUILDING SERVICES PROCUREMENT

Action	a
Action Description	Staff must finalise the updating of internal procurement procedures, including authorisation limits information, to reflect the changes resulting from the introduction of Integra.
Risk	Business continuity could be at risk if procedures are not up to date.
Priority (1, 2, 3)	2
Paragraph Reference	3.7, 3.17
Assigned to	Senior Officer (Quality and Support)
Due Date	28/02/2018
Management Response	Procedure and authorised signatories document being updated to include new Integra limits.

Action	b
Action Description	<p>Consideration must be given to the cumulative levels of spend with suppliers.</p> <p>Even if the individual jobs to a supplier are deemed 'ad-hoc', the fact that they cumulate to more than £10,000 annually means that a quick quote should be obtained.</p> <p>Alternatively, a framework could be put in place. This could be written in such a way as to give the Service flexibility, but would mean purchases would be in accordance with the Council's 'Standing Orders'.</p>
Risk	The Council could be challenged for not complying with Procurement legislation. This could prove detrimental to the Council's reputation.
Priority (1, 2, 3)	2
Paragraph Reference	3.14
Assigned to	Senior Officer (Stores and Procurement)
Due Date	30/03/2018
Management Response	Meeting to be scheduled with the Corporate Procurement / Property Management and Investment to discuss standardisation of these specialized one off projects re sub contractor & material requirements. A specification requires to be provided by the PM&I team to allow a framework / tender to be progressed to cover spend with suppliers & sub contractors.

Action	c
Action Description	Receipts must be kept for all purchases made via procurement card, or cash withdrawn from the card.
Risk	A lack of audit trail makes it difficult to confirm that Council funds have been appropriately used.
Priority (1, 2, 3)	2
Paragraph Reference	3.23
Assigned to	Team Manager (Finance and Quality), / Finance Officer
Due Date	15/12/2017
Management Response	Process & procedure to be reviewed to ensure cash withdrawals from the card(s) have clear auditable process.

Priority Key used in Action Plan

1 (High)	Control weakness where there is a material impact on the achievement of the control objectives, generally requiring prompt attention.
2 (Medium)	Control weakness which needs to be rectified, but where there is no material impact on the achievement of the control objectives.
3 (Low)	Minor weakness or points for improvement.