
NORTH AYRSHIRE COUNCIL

29 January 2019

Audit and Scrutiny Committee

Title:	Internal Audit Reports issued
Purpose:	To inform the Committee of the findings of Internal Audit work completed during November and December 2018.
Recommendation:	That the Committee (a) considers the outcomes from the Internal Audit work completed; 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 Internal Audit work completed during November and December 2018. 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 three separate audit assignments are detailed at Appendix 1 to this report. There are no significant findings which is a positive position.

3. Proposals

3.1. It is proposed that the Committee (a) considers the outcomes from the Internal Audit work completed during November and December 2018; and (b) challenges services where there are significant weaknesses in internal controls.

4. Implications

Financial:	None
Human Resources:	None
Legal:	None
Equality:	None
Children and Young People:	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**.

EXECUTIVE SUMMARY

FINANCIAL CONTROLS WITHIN PRIMARY SCHOOLS

Background

This audit was conducted as part of the 2018/19 audit plan.

The audit was performed by requiring each primary school to complete a self-assessment questionnaire. Each questionnaire response was reviewed in detail, and followed up as necessary. In addition, a sample of schools was visited to allow more detailed audit testing to be performed.

Key Objectives

The objective of this audit was to review financial controls within the Council's primary schools.

The questionnaire and detailed testing were designed to gain assurance that:-

- Staff are aware of all relevant Council governance procedures.
- All cash is being held securely and is being properly managed.
- Cash withdrawals made via the Procurement Card are being used for appropriate types of expenditure, and all transactions are being properly recorded.
- A full audit trail exists for all school fund income and expenditure transactions.

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:

- Not all head teachers had attended the Council's 'Financial Regulations and Standing Orders Relating to Contracts' training course, or were familiar with other relevant governance policies.
- Keyholder registers were not being held and maintained by all schools.
- Schools fund records were not always being reconciled to bank statements timeously.
- Consideration should be given to whether existing school fund bank accounts are fit for purpose.
- A review of the current G4S cash uplift schedule should be undertaken.

Audit Opinion

Overall, reasonable assurance was obtained with regard to the financial controls in place within primary schools.

ACTION PLAN

FINANCIAL CONTROLS WITHIN PRIMARY SCHOOLS

Action	a
Action Description	A list of the main governance policies and procedures should be circulated to head teachers, along with an instruction to undertake all necessary training courses and familiarise themselves with all policies and procedures. Going forward, a copy of the list should be included within induction packs for new head teachers.
Risk	A lack of awareness of these procedures may result in unacceptable decisions being taken, which could put the Council at risk.
Priority (1, 2, 3)	2
Paragraph Reference	3.6
Assigned to	Senior Manager, Resources and Infrastructure
Due Date	31/01/19
Management Response	A communication will be sent to all Head Teachers containing the main governance policies, along with an instruction to undertake all necessary training courses and familiarise themselves with all policies and procedures. Going forward, a copy of the list will be included within induction packs for new Head Teachers.

Action	b
Action Description	Keyholder registers should be held and maintained for all schools.
Risk	The lack of a formal record showing who has authority to access cash can cause issues should a loss occur – both in terms of hampering the ensuing investigation and also invalidating the insurance cover.
Priority (1, 2, 3)	1
Paragraph Reference	3.11
Assigned to	Senior Manager, Resources and Infrastructure
Due Date	31/01/19
Management Response	A communication will be sent to all Head Teachers with a link to the Keyholder register template.

Action	c
Action Description	School fund records should be reconciled to the bank statement monthly. However, if transaction numbers are very low, then it may be acceptable to do this quarterly.
Risk	Errors are not noted timeously
Priority (1, 2, 3)	1
Paragraph Reference	3.13
Assigned to	Senior Manager, Resources and Infrastructure
Due Date	31/01/19
Management Response	Education Business Managers will be reminded at monthly meetings of the need to reconcile school fund records timeously.

Action	d
Action Description	Those schools who currently use the cash withdrawal facility of the GPC card should consider whether this remains necessary. Consideration should be given to whether purchases could be made via an alternative method.
Risk	Holding cash unnecessarily increases the risk of theft; inefficient use of staff time to administer cash.
Priority (1, 2, 3)	2
Paragraph Reference	3.18
Assigned to	Senior Manager, Resources and Infrastructure
Due Date	31/01/19
Management Response	Education Business Officers will be asked to review the need for any cash withdrawals across all schools.

Action	e
Action Description	Steps should be taken to mitigate the risks associated with staff having to bank school fund cash via mobile banks. This may be by sending two members of staff to the mobile bank, by accepting the additional charges of using G4S uplifts, or by considering whether a Clydesdale bank account (which would mean G4S uplift costs would be covered by the main Education contract) would suit the needs of the school.
Risk	The inability to vary banking times increases the risk to staff when transporting cash to the mobile bank.
Priority (1, 2, 3)	2
Paragraph Reference	3.25
Assigned to	Senior Manager, Resources and Infrastructure
Due Date	31/03/19
Management Response	Education Business Officers will be asked to review current processes. This action is linked to Actions f and g.

Action	f
Action Description	Consideration should be given to whether better flexibility and facilities could be gained from changing school fund bank accounts to ones which offer facilities such as debit cards and online banking.
Risk	Inefficient use of staff time.
Priority (1, 2, 3)	3
Paragraph Reference	3.27
Assigned to	Senior Manager, Resources and Infrastructure
Due Date	31/03/19
Management Response	Education Business Officers will be asked to review current processes. This action is linked to Actions e and g.

Action	g
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Action Description	A review of current G4S uplift scheduling for the primary schools should be undertaken to allow routes to be revised to better reflect the actual need for service.
Risk	Better use could be made of Council budgets.
Priority (1, 2, 3)	3
Paragraph Reference	3.28
Assigned to	Senior Manager, Resources and Infrastructure
Due Date	31/03/19
Management Response	Education Business Officers will be asked to review current processes. This action is linked to Actions e and f.

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 BUSINESS CONTINUITY

Background

This audit was conducted as part of the 2018/19 audit plan. Business Continuity is an on-going process of risk assessment and management with the purpose of ensuring that critical services can continue to be provided during periods of disruption.

Key Objectives

The main objectives of this audit were to ensure that:

- There are suitable arrangements for co-ordination and oversight of business continuity
- Services have put in place suitable business continuity plans and comply with corporate arrangements
- Business continuity arrangements have been disseminated to all relevant officers
- Regular testing of business continuity arrangements is undertaken and lessons learnt from these and real-life experiences
- Suitable business continuity arrangements are built into contracts for outsourced functions

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:

- A small number of Priority 1 services did not have a Business Continuity Plan in place as required in the Council's Business Continuity Management Strategy
- 3/10 Business Continuity Plans reviewed had not been revised in the previous 12 months.
- Most of the plans in the sample had some information missing
- Some officers are not aware that they are named in the Business Continuity Plans

Audit Opinion

Overall, reasonable assurance was obtained with regard to Business Continuity arrangements at North Ayrshire Council although a number of specific issues were identified. A few individual Services need to produce or update Business Continuity Plans. Improvements have been suggested to the completion, communication and testing of Business Continuity Plans. Some Services require regular updates from suppliers on their business continuity arrangements and this could be replicated for other business-critical contracts.

ACTION PLAN BUSINESS CONTINUITY

Action	a
Action Description	The Business Continuity Strategy and associated documents should be reviewed and thereafter a cycle should be established of reviewing them periodically, in line with best practice.
Risk	Business Continuity practices at North Ayrshire Council are not based on current knowledge and Council structures.
Priority (1, 2, 3)	2
Paragraph Reference	3.1
Assigned to	Team Manager, Risk and Insurance
Due Date	30/06/19
Management Response	The strategy and associated documents will be updated. Where possible alignment with relevant authorities/partners will take place to ensure documentation is appropriately standardised. A diarised cycle will be established with prompts to review issued to Services.

Action	b
Action Description	Formal Terms of Reference should be established for the Business Continuity Liaison Group and a timetable of regular meetings established.
Risk	Services are not properly engaged in the Business Continuity process. Representatives are unsure of their responsibilities.
Priority (1, 2, 3)	2
Paragraph Reference	3.4, 3.16
Assigned to	Team Manager, Risk and Insurance
Due Date	29/03/19
Management Response	It is anticipated that the BC liaison group will play a more active role going forward. A ToR will be created for the liaison group to have involvement/oversight of the improvement actions required. This will involve a level of training for all liaison group members.

Action	c
Action Description	Education and Youth Employment should produce a Business Continuity Plan for their Headquarters services and upload it to either the current Business Continuity Quickr site or the planned Resilience Direct website.
Risk	Business Continuity Plans are not in place and readily available in the event of an incident. Failure to comply with corporate Business Continuity processes.
Priority (1, 2, 3)	1
Paragraph Reference	3.9
Assigned to	Head of Service (Learning, Teaching and Curriculum), Senior Project Officer (Improvement)
Due Date	31/10/18
Management Response	BIA and BCP to be developed by EYE and submitted to Internal Audit and Risk and Insurance by end October 2018

Action	d
Action Description	Services to ensure that their Business Continuity Plans are completed, signed off by an appropriate Senior Manager or Head Teacher and classed as live as soon as possible.
Risk	Confusion over whether the available version of the plan is a live document and the correct version. Managers are unaware of or have not approved the content of the plans.
Priority (1, 2, 3)	2
Paragraph Reference	3.11, 3.12, 3.13, 3.14,3.16
Assigned to	Team Manager, Risk and Insurance
Due Date	30/06/19
Management Response	Risk and Insurance will remind services of the requirement. Appropriate quality control measures will be built into associated documents including guidance as per action 'a' to enable an appropriate sign off process. Whilst Services will be reminded to ensure completion and sign off, the responsibility for doing so will remain with the Service.

Action	e
Action Description	Risk and Insurance should consider putting additional measures in place to improve the quality of completion of the Business Continuity Plan template by Services. This could include a system of peer review and also building features such as more specific questions, drop-down menus, conditional formatting or hints and tips for completion into the fields of the template
Risk	Poor quality completion of the template means that the documents are less useful in the event of an incident.
Priority (1, 2, 3)	3
Paragraph Reference	3.14, 3.16
Assigned to	Team Manager, Risk and Insurance
Due Date	30/06/19
Management Response	This will be considered and actioned alongside actions a, b & d. Business Impact Assessment documents and plans will be updated to ensure they are fit for use. Options around service level peer review will be explored as there are capacity issues around all plans being reviewed by Risk and Insurance. Sample audits will also be considered by the liaison group and common issues identified for action.

Action	f
Action Description	Risk and Insurance, in conjunction with Property Management and Investment, should carry out a review with Services of plans for accommodation and relocation in Business Continuity Plans, and produce advice to Services in order for them to update their plans.
Risk	Plans relating to accommodation and relocation are unclear in the Services' Business Continuity Plans and not fit-for-purpose in the event of an incident
Priority (1, 2, 3)	2
Paragraph Reference	3.15
Assigned to	Team Manager, Risk and Insurance Senior Manager, PMI
Due Date	30/06/19
Management Response	Initial consultation has taken place between Risk and Insurance and PMI. An updated Business Impact Assessment will be undertaken across all Services in order to gather information on criticality of service, service needs and expectations. This will focus on main sites in the first instance.

Action	g
Action Description	Risk and Insurance should remind Services to ensure that officers named in their Business Continuity Plans are aware of this, know what is expected of them and receive a copy of the plan if appropriate.
Risk	Officers are unaware of the actions required of them in the event of an incident.
Priority (1, 2, 3)	2
Paragraph Reference	3.18
Assigned to	Team Manager, Risk and Insurance
Due Date	31/12/18
Management Response	Appropriate quality control measures will be built into associated documents including guidance to enable appropriate awareness levels within the Service. Whilst Services will be reminded to ensure appropriate communication with service staff the responsibility for doing so will remain with the Service.

Action	h
Action Description	Risk and Insurance should complete the preparation of the Risk Management e-learning and also arrange refresher training or awareness-raising for Business Continuity representatives and other relevant officers. They should also advise the service representatives to organise training and awareness-raising as well as testing exercises within their own Services.
Risk	Officers are unaware of the actions required of them in the event of an incident. Officers are not familiar with how to use the plans; gaps, errors or points for improvement in the plans are not identified
Priority (1, 2, 3)	2
Paragraph Reference	3.19, 3.20, 3.22
Assigned to	Team Manager, Risk and Insurance
Due Date	Face to Face training for Liaison group reps 29/03/19 E-learning 30/06/19 General awareness sessions 30/06/19
Management Response	The training of business continuity liaison representatives within Services will be prioritised in order to allow meaningful involvement in the overall process improvements and subsequently deliver service training/awareness raising sessions. E-learning will be developed.

Action	i
Action Description	Risk and Insurance should run cross-service Business Continuity tests.
Risk	Officers are not familiar with how to use the plans; gaps, errors or points for improvement in the plans are not identified
Priority (1, 2, 3)	2
Paragraph Reference	3.22
Assigned to	Team Manager, Risk and Insurance
Due Date	30/09/19
Management Response	This will be progressed in line with the updated BC strategy and associated documentation as per previous actions. Services will run their own exercises and cross-Service exercises will be coordinated by Risk and Insurance for critical scenarios.

Action	j
Action Description	IT should introduce a periodic check of business continuity arrangements for the LAN contract and other business-critical contracts e.g. requesting up-to-date business continuity documentation on an annual basis
Risk	The Council is unaware that a supplier of a business-critical service does not have up-to-date business continuity plans
Priority (1, 2, 3)	2
Paragraph Reference	3.26
Assigned to	Team Manager (Infrastructure)
Due Date	21/12/18
Management Response	IT Services will review current contract management procedures with the aim of adding an annual check of business continuity plans.

Action	k
Action Description	The Corporate Procurement Unit should recommend to Services that they introduce an annual supplier business continuity health-check for business-critical contracts, similar to those already undertaken by the HSCP. They should include Business Continuity for critical contracts in the Procurement Manual.
Risk	The Council is unaware that a supplier of a business-critical service does not have up-to-date business continuity plans. Services do not review the Business Continuity arrangements of key suppliers.
Priority (1, 2, 3)	2
Paragraph Reference	3.26, 3.27
Assigned to	Senior Manager (Corporate Procurement)
Due Date	31/12/18
Management Response	The following action will be undertaken a) The Contract strategy documentation will be undated to include identification of business critical contracts prior to tendering. b) The tender documentation will then reflect the need for an annual business continuity health check for those identified contracts. c) The Procurement Manual will be updated to reflect Business continuity for business critical contracts.

Action	l
Action Description	FACS managers should arrange a disaster recovery test of Integra at a time agreed to minimise disruption to Services
Risk	The Council does not have sufficient assurance over the disaster recovery arrangements for the system. Officers are not familiar with the relevant procedures.
Priority (1, 2, 3)	2
Paragraph Reference	3.27
Assigned to	Senior Manager (IT)
Due Date	31/12/18
Management Response	Capita has provided details of its disaster recovery procedures and require at least two weeks' notice to carry out a test. As the test requires system downtime, to minimise any disruption the recommended time to run this test is the end of the calendar year 2018. This will be arranged between Capita and the Council's IT team.

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 INCOME COLLECTION

Background

This audit of the Council's income collection system was carried out as part of the 2018/19 annual audit plan. Previously, income collection had been audited in 2014/15 and 2016/17.

Currently there are 11 locations using the PARIS receipting system; 3 were selected for sample testing which were:

- Harbour Arts Centre
- Kilbirnie Social Work Office
- Arran Local Office

Key Objectives

The main objectives of this audit were to ensure that:

- procedures are adequate, current and readily available to all system users
- user access is appropriate to role and reflects current staffing complement
- all transactions are recorded correctly
- cash transactions are reconciled to bank statements, and any variances are investigated
- money laundering procedures are being followed

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:

- procedures were current and all locations visited had access to them
- some movers and leavers records had not been amended on the PARIS system
- transactions had been accurately recorded onto PARIS by the different locations, with corrections properly updated
- in the main the upload to Integra from PARIS matched
- daily reconciliations were accurately completed and appropriately approved
- bank reconciliations could not be automatically completed from the records provided

Audit Opinion

Overall, reasonable assurance was obtained with regard to income collection in the three sites visited. Not all staff interviewed showed an awareness of the Council's Money Laundering Procedure.

A small number of users who had left the Council or had moved were found to still have access to the PARIS system.

ACTION PLAN INCOME COLLECTION

Action	a
Action Description	The Council's Money Laundering Reporting Officer should remind all staff members responsible for handling cash of the requirements for reporting cash payments over £3,000.
Risk	The Council's Money Laundering Procedure is not adhered to and cash from the proceeds of crime could be accepted.
Priority (1, 2, 3)	2
Paragraph Reference	3.13
Assigned to	Senior Manager (Internal Audit, Risk and Fraud)
Due Date	31/01/2019
Management Response	A reminder of the policy will be issued to staff with responsibility for cash collection.

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.