NORTH AYRSHIRE COUNCIL

12 November 2019

Audit and Scrutiny Committee

Title:	**Internal Audit Reports issued**
Purpose:	To inform the Committee of the findings of Internal Audit work completed during August and September 2019.
Recommendation:	That the Committee considers the outcomes from the Internal Audit work completed.

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 August and September 2019. 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 report and action plan from each audit.

2.3 The findings from 3 separate audit assignments are detailed at Appendix 1 to this report and the levels of assurance for each are noted in the table below:

Audit Title	Assurance Level
Music Tuition	Reasonable
Transport Hub	Substantial
Better Off North Ayrshire	Substantial

2.4 There are no significant findings to report.

3. Proposals

3.1 It is proposed that the Committee considers the outcomes from the Internal Audit work completed during August and September 2019.

4. Implications/Socio-economic Duty

Financial

4.1 None.

Human Resources

4.2 None.

Legal

4.3 None.

Equality/Socio-economic

4.4 None.

Environmental and Sustainability

4.5 None.

Key Priorities

4.6 The work of Internal Audit helps to support the efficient delivery of the strategic priorities within the Council Plan 2019-2024.

Community Wealth Building

4.7 None.

5.   Consultation

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

<div align="right">

Laura Friel
Executive Director (Finance and Corporate Support)

</div>

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

Background Papers
None.

MUSIC TUITION

1 Background

1.1 The Music Tuition Service provides instrumental lessons in all schools within North Ayrshire. By the end of Primary 6 every pupil in North Ayrshire will have been offered the opportunity to learn a musical instrument at least once. The Service also organises a number of highly successful bands and orchestras, including school bands, orchestras and ensembles, which pupils have the opportunity to participate in.

1.2 The Service is organised by a Manager and an Administration Officer and lessons are provided by a team of peripatetic instrument tutors who are attached to specific school clusters.

1.3 Since 2010, fees have been charged for music lessons, which currently stand at £198 for a year's tuition, consisting of a minimum of 30 lessons. There are exemptions for pupils receiving free school meals and working towards SQA qualifications. There is also a 50% discount for children who have a sibling already learning an instrument. Parents and carers have the option to pay a full year's fee at once or in 3 instalments, with other payment arrangements being made on a case-by-case basis.

2 Objectives and Scope

2.1 The main objectives of the audit were to ensure that:
- policy and procedure documents relating to music tuition are up-to-date and fit for purpose
- requests for service are processed in accordance with the relevant policies and procedures
- the Council is recovering all income due and policies are applied consistently
- there are adequate controls over instruments owned by the Council.

3 Findings

Policies and Procedures

3.1 Parents or carers sign an agreement for each instrument that a pupil learns. This has attached to it terms and conditions that the pupil and parent, as well as the Council, are required to adhere to. This document was seen to be suitable for the purpose of outlining the relationship between the Council and an individual parent or carer.

3.2 A guidance document describing the service provided and information on the Council's website were reviewed and found to be current and fit for purpose.

3.3 The Service also provided a copy of a process document they use within their team. This document is clear insofar as it goes, although it only focusses on the charging process and it is not sufficiently detailed that someone unfamiliar with the process could follow it. Therefore, for business continuity purposes, it would benefit from being expanded. **(Action a)**

Requests for Service

3.4   The team have well-established processes for signing up new pupils and renewing contracts each year.

3.5   Records are stored on a Microsoft Access database which fits in well with the team's current working practices e.g. producing bespoke management reports and mail merged letters to parents.   Discussions were held with officers in IT and Transformation about the use of Microsoft Access. IT are encouraging Services to move away from using Microsoft Access and they only support it on a break-fix basis. They advise that the Service should look to replace it through either a commercially available product or if the Transformation team are able to develop a replacement, for example using the Salesforce platform. There is a music tuition module in the SEEMIS system used for Education records, but this is being withdrawn in August 2020.   IT and Transformation are working on projects which will supersede some Access databases, but they are focussing on larger databases.   Therefore, the Service is advised to keep under review the possibility of replacing the database by keeping in contact with the Transformation team and also through professional networks, especially as other Councils who use the SEEMIS module will be looking for a replacement.

3.6   A sample of 20 pupils was checked to ensure that the contracts were signed and matched the tutors' records of lessons. Some minor errors were identified but none of concern to audit.   They were also checked to ensure that serial numbers of instruments had been recorded. This had been done, although it was noted that violins and other string instruments do not have a serial number. This is because it is difficult to attach a serial number to the curved wooden instruments, and a violin is only worth around £40.   However, violas and cellos are generally more expensive than violins. **(Action b)**

3.7   It was noted that one of the tutors supplied information on a pupil, in response to an audit query, via a personal Hotmail e-mail account.   The Music Service Manager confirmed that all tutors have a Glow e-mail account provided and have been instructed to use these for all work e-mails.   A check was also undertaken on the training records of all the tutors in the sample, and they had all attended GDPR training.

Recovery of Income

3.8   Records were checked for the sample of 20 pupils to ensure that fees had been recovered and that discounts and exemptions were applied correctly. No significant issues were identified.

3.9   Parents and carers of current pupils receive a letter in May asking them to sign a new contract if their child wishes to continue lessons in the new academic year. This letter includes information about any increase in charge and this year noted a small increase from £198 to £200. However, Council fees and charges are set as part of the budget-setting process and approved by full Council, and the approved fee was to remain at £198 for 2019-20.   Officers do not have the authority to vary from this fee. Future increases should be included in the Council's revenue budget papers. **(Action c)**

Stock of Instruments

3.10   Instruments are purchased through a Scotland Excel framework. It was identified that £6,700 of expenditure had been placed with a contractor not on the framework over a 2-year period. The Corporate Procurement Unit confirmed that most of these items, while specialised, could be purchased from one of the suppliers on the framework. The Service were advised to order from the framework supplier in future and to approach the Procurement Officer if they wish to purchase items not included in the framework supplier's catalogue.

3.11   Tutors are required to keep track of instruments issued to their pupils. Instruments not issued to tutors are stored in a locked cupboard at St. Matthew's Academy in Saltcoats (with the exception of a number of double basses which are too bulky to store there). A stock check had been undertaken of the instruments in the store. However, the inventories produced are not comprehensive as they only list the items in the store on the day of the stock check, and do not include all the details required for an insurance claim in the event of a fire, flood or break-in at the school. **(Action d)**

3.12   The keys to the store at St. Matthew's are held by the Music Service Manager, the Administration Officer, and the school's Janitor. Music tutors who attend the school borrow the key from the Janitor. The Education Business Officer for the school stated that there is no key register for the store and therefore tutors are not required to sign it out. **(Action e)**

4   Internal Audit Opinion

4.1   Overall, reasonable assurance was obtained with regard to the Music Tuition Service. The core function of arranging music lessons for school pupils across North Ayrshire is operating well. The processes for charging pupils and applying exemptions and discounts were also found to be working well. However, a number of other issues and risks were identified during the audit which require action from the Service.

KEY FINDINGS AND ACTION PLAN
MUSIC TUITION

Action	a
Finding	The Service have a process document, but it only focusses on the charging process and it is not sufficiently detailed that someone unfamiliar with the process could follow it.
Action Description	The process document should be expanded to cover all the Service's key processes and to ensure that someone unfamiliar with the Service could follow it.
Risk	Business continuity - if the Administration Officer were unavailable for any reason, it would be difficult for someone else to cover her work.
Priority (1, 2, 3)	2
Paragraph Reference	3.3
Managed by	Head of Education
Assigned to	Music Service Manager
Due Date	01/11/19
Management Comment	The Service has a well organised system for the recording of pupils' attendance at lessons and their progress. This system is used by all instructors and returns are sent to the manager on a monthly basis. A process document within the GLOW site does include the detailed process that the individual instructors have to follow. Adding this and more detail to the process document in question would make it easier for someone who was not familiar with the system to be able to follow the processes. We will complete this action by 1 November 2019.

Action	b
Finding	Violins and other string instruments do not have a serial number
Action Description	The Service should explore e.g. by contacting colleagues in other Councils, whether there is a way to attach or mark a serial number on the string instruments.
Risk	Instruments are not identifiable in the inventory. It is not possible to trace which instruments have been issued to pupils. Instruments are not covered by insurance in the event of destruction or theft.
Priority (1, 2, 3)	3
Paragraph Reference	3.6
Managed by	Head of Education
Assigned to	Music Service Manager
Due Date	01/10/19
Management Comment	In the past the Service invested in a system to add serial numbers to violins. Unfortunately, the system did not work. Not only did the branding of instruments and cases devalue the instruments greatly, young people were also embarrassed to attend national events with the instruments and cases branded. The Music Service manager will discuss with colleagues at the Heads of Instrumental Scotland to agree on any other LA that have a successful system. We will complete this action by 1 October 2019.

Action	c
Finding	The fee has been increased without appropriate authority.
Action Description	A letter should be sent out to parents revising the fee to the £198 approved by Council in February.
Risk	The Service is acting outwith its authority.
Priority (1, 2, 3)	2
Paragraph Reference	3.9
Managed by	Head of Education
Assigned to	Music Service Manager
Due Date	Complete
Management Comment	The fee increase has not been put into place. The Service has sent letters to parents. Copy of letter provided to Internal Audit.

Action	d
Finding	Inventories of the stock of instruments are insufficient for insurance purposes and do not comply with the Council's Codes of Financial Practice.
Action Description	Comprehensive inventories of the stock of instruments should be prepared and maintained. These should comply with the Council's Inventory Procedures and, as far as possible, include information required by Insurance i.e. the make and model, the date purchased, the cost and where the items are stored. It is suggested that the same document is used to record issues to tutors to ensure that there is a central record of all instruments.
Risk	Breach of the Council's Codes of Financial Practice. Instruments are not insured in the event of destruction or theft, particularly if this occurs at the store and several instruments are affected. Difficulty keeping track of which instruments are issued to which tutors and pupils.
Priority (1, 2, 3)	1
Paragraph Reference	3.11
Managed by	Head of Education
Assigned to	Music Service Manager
Due Date	20/12/19
Management Comment	Currently inventories are kept in two ways. Staff have the inventory of issued instruments with their pupil records and instruments that are kept in the store are on a shared inventory that staff update when taking or returning instruments. The store inventory is checked each term. The Service will move all of its inventories onto the standard Council documents. This will be complete by 20 December 2019.

Action	e
Finding	There is no key register for the store at St. Matthew's Academy and tutors who borrow the key are not required to sign it out.
Action Description	A key register should be established for the store, including a system for anyone who borrows the key to sign it out and back in.
Risk	In the event that an instrument goes missing, it is not possible to show who had access to the store, thereby potentially invalidating any insurance claim.
Priority (1, 2, 3)	2
Paragraph Reference	3.12
Managed by	Head of Education
Assigned to	Music Service Manager
Due Date	Complete
Management Comment	The key for the store will now be held in the office at St Matthew's Academy. When staff sign into the school, they will state on the signing in book that they have the key for the store and on their departure, they will return the key to the office and record on the signing in book that the key has been returned. This has been completed.

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.

1 Background

1.1 A centralised and consistent approach to managing the Council's fleet through the Transport Hub results in efficiencies - both in terms of improved service provision and budgetary savings.

1.2 The Hub has a wide remit which is split between an Operations Team and a Journeys and Hire Team.

1.3 The Operations Team is responsible for tasks including:-
- Repairing and maintaining the Council's transport and plant
- Procuring and disposing of transport and plant
- Ensuring all MOTs and servicing are carried out in accordance with the requirements of the Road Transport legislation and the Council's Operators' Licence.
- Testing of taxis, and monitoring of minibuses and PSV vehicles in line with the Council's contracts

The Journeys and Hire Team is responsible for tasks including:-
- Liaising with SPT to provide free school transport
- Procuring and monitoring contracts for transport for vulnerable service users
- Managing the Council's bus fleet and drivers

1.4 Transport use a fleet management system called Fleetwave to help them achieve the above tasks, monitor deadlines, monitor costs etc.

2 Objectives and Scope

2.1 An audit covering the services provided by the Journeys and Hire Team was undertaken in 2018/19, therefore this audit has focussed on the tasks performed by the Operations Team.

2.2 The main objectives of this audit were to ensure that:
- The information held within Fleetwave is accurate
- Processes are in place to ensure the Council meets its legal obligations with regards the fleet.
- The procedures surrounding fleet disposals are robust
- Consideration has been given to integrating Fleetwave with other Council systems to realise any efficiencies

3 Findings

Accuracy of data in Fleetwave

3.1 Every vehicle, plant and item of greenspace equipment that Transport are responsible for is recorded on Fleetwave. Servicing, MOT and road tax schedules are set up against every item, so that the system can be used to monitor when these become due.

Fulfilment of legal obligations

3.2 Road Transport legislation and the Council's Operators' Licence set out specific timeframes for completing checks such as MOTs and servicing on fleet vehicles. These are mandatory and must be achieved.

3.3 One of the management tools within Fleetwave is the ability to tailor KPIs to report on any data held within the system. As key dates for each vehicle are noted on the system, Transport have been able to create KPIs that monitor the number of days until each vehicle reaches these specific dates.

3.4 A sample of 6 KPIs was selected for testing during the audit, with a focus being on those that were overdue. Discussions with staff confirmed that these issues were in hand, and no audit concern was raised.

Disposals

3.5 Transport have a detailed procedure in place to ensure all necessary steps are taken during the disposal process, including:-
- Evidence to confirm that disposal is the best option for the vehicle/plant
- Ensuring a SORN is completed for the vehicle (to ensure Council has any remaining road tax refunded),
- Ensuring a V5 transferring ownership has been completed,
- Marking the vehicle as disposed on Fleetwave.
- Ensuring approval for the disposal has been obtained

3.5 A sample of 5 disposals made during 2018/19 was selected for audit testing. No issues were noted during testing.

Fleetwave efficiencies

3.6 At present Fleetwave is not linked to Integra. As a result, invoices must be manually approved and then keyed twice – once into Fleetwave and then into Integra. This is time consuming and increases the risk of human error. **(action point a)**

4   Internal Audit Opinion

4.1 Overall, substantial assurance was obtained with regard to the areas reviewed at the Transport Hub.

4.2 Fleetwave, the fleet management system plays a key part in helping Transport fulfil their role. Transport recognise the capabilities of Fleetwave and are proactive in continuing to develop the system to attain further benefits going forward.

KEY FINDINGS AND ACTION PLAN
TRANSPORT HUB

Action	a
Finding	Double keying of invoices due to Fleetwave and Integra not being linked.
Action Description	The creation of a feeder between Fleetwave and Integra should be investigated to allow invoice information from Fleetwave to be automatically transferred into Integra.
Risk	Double keying increases the risk of human error; inefficient use of officer time.
Priority (1, 2, 3)	3
Managed by	Head of Service (Financial and Customer Services)
Assigned to	Senior Manager (Procurement) and Corporate Transport Manager
Due Date	30 November 2019
Management Comment	The business case for an interface between Fleetwave and Integra will be considered.

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.

BETTER OFF NORTH AYRSHIRE

1   Background

1.1   Better Off North Ayrshire (BONA) is a European Social Fund Poverty and Social Inclusion programme, funded via the National Lottery Communities Fund (NLCF) i.e. the EU grant is claimed by the NLCF as the Lead Partner and North Ayrshire, together with 4 other consortia in Scotland, claims funding from the NLCF. Better Off helps North Ayrshire residents who are lone parents or living in low income or non-working households to improve their financial circumstances through a package of financial services.

1.2   Better Off North Ayrshire set out to deliver a different type of financial inclusion service – a more holistic approach which aims to get to the heart of the challenges people face, overcome barriers and provide support to improve financial capability and reduce risk of financial crisis situations arising in the future. The programme has saved residents over £2million so far, through newly identified benefit entitlements and assistance with applications, write-off of debts, assistance applying for energy efficiency grants and other improvements in management of their personal finances.

1.3   A Programme Manager within the Employability and Skills team at North Ayrshire Council is responsible for overseeing the programme on a day-to-day basis. Work is undertaken by partner organisations such as the Community Housing Advocacy Project (CHAP), ANCHO Housing Association and 1st Alliance Credit Union to assist clients in preparing an action plan to improve their financial situation. The funding is claimed for each action plan prepared on a unit basis and can be claimed as a Stage 1 or Stage 2 claim, depending on the level of intervention completed, where Stage 2 will attract a higher level of funding.   The Council pays the partners for their participation in the programme based on actual costs incurred, rather than a unit cost model.

1.4   There has been a significant time lag in the NLCF paying the grant to all the consortia, not just North Ayrshire. The funding model for the programme was revised in late 2018 and a new contract agreed with the NLCF, which included lower KPIs, new unit costs and new payment mechanisms. The NLCF audit 100% of claims and have rejected or asked for additional information on many of the individual claims. Guidance around compliance and paperwork has changed throughout the programme, meaning significant numbers of cases have had to be discounted from future claims. The time lag has led to an accrual of £813,920 being made in the Council's accounts for the grant applied for but not received.

2   Objectives and Scope

2.1   The objectives of the audit were to ensure that:
- the Council and its partners are taking all reasonable steps to comply with funder requirements
- proper programme management measures are in place
- the Council has suitable arrangements in place to control risks associated with partnership working
- anticipated income in the Council's accounts is realistic

3   Findings

Compliance and Funder Requirements

3.1   Feedback received from NLCF and changes to guidance are relayed to partner organisations through regular contact, including development days and steering group meetings. The Programme Manager has issued materials including PowerPoint presentations and checklists to the delivery partners to assist them in meeting the funder requirements.

3.2   A sample of 11 claim files was reviewed, together with feedback received from NLCF – 10 from Claim 3 (prepared by ANCHO and CHAP) and 1 from Claim 4 (prepared by 1ˢᵗ Alliance Credit Union).   Claim 4 is still subject to a final decision by NLCF. In general, it was noted that the decision-making, particularly regarding whether the level of intervention is suitable for a Stage 1 or 2 payment, was very subjective. Therefore, it was seen that, although the reasons to decline or reduce payments given by NLCF were often accurate, it was nonetheless reasonable for BONA to have submitted those cases at Stage 1 or 2 (as outlined at 1.3 above).

3.3   It was also noted that file notes are being requested by NLCF for all errors identified in the files, for example a small and clear typographical error in the address of a claimant. This activity is time consuming and for internal Council processes would be viewed as poor use of officer time. There is a risk that, in future claims, Better Off North Ayrshire are unable to complete all required corrections due to lack of resources.

3.4   The Council has another programme funded from the ESF Poverty and Social Inclusion fund. In this case, the Council is the Lead Partner and claims grant directly from the Scottish Government's European Structural Funds Division (the Managing Authority or MA). Information from the MA's most recent audit of a claim was reviewed. The MA checked claim files on a sample basis. They gave the programme 2 opportunities to correct issues identified and were willing to accept minor discrepancies which did not have a material effect on the evidence supporting the claim.

Programme Management

3.5   Reporting arrangements, both from delivery partners to the Council and within the Council, were reviewed and found to be adequate. The risk register for the programme was reviewed. It included mitigating actions with named responsible officers and was regularly updated with progress on actions and emerging risks. It is clear that Employability and Skills have monitored the programme closely and been proactive in trying to mitigate the issues that have occurred.

Partnership Arrangements

3.6   Contracts were signed with all delivery partners, which covered areas such as:
- Agreed roles of each partner
- Expected outcomes and monitoring arrangements
- Compliance with ESF requirements such as record-keeping
- Compliance with legislation such as equality and data protection
- Payment arrangements
- Arrangements for dispute resolution
- Early termination of the agreement

3.7   2 of the initial partners withdrew from the programme because of other issues within those organisations. Due to the issues with funding, the contracts with delivery partners have been kept under review and some of the partnership arrangements have been terminated by mutual agreement, in accordance with the signed agreements, to minimise expenditure where the performance in recruiting clients requiring the intended level or type of support was not sufficient.

Financial Accounting for Income

3.8   An accrual for £813,920 of anticipated grant income relating to activities during 2018/19 but not yet received at 31/3/19 was made in the Council's accounts. Discussions were held with the Senior Manager (Employability & Skills) and the Accountant responsible for that service, about how the accrual amount was calculated, and calculation spreadsheets were examined. It was concluded that the methodology used to calculate the accrual was reasonable given the information available at the time. The accrual was based on a lower success rate in having claims approved than had been experienced in the most recent claim at the time.   At the time of writing, feedback received on Claim 4 indicates that this lower success rate may not be achieved. However, this could not have been known at the time that the accrual was calculated.

4   Internal Audit Opinion

4.1   Overall, substantial assurance was obtained with regard to the Better Off North Ayrshire programme. This programme has faced significant problems in satisfying the requirements of the funder, in order to receive the anticipated grant income. Conversely, it has been very successful in helping many of the most disadvantaged people in North Ayrshire and saved these residents over £2million through newly identified benefit entitlements and assistance with applications, write-off of debts and other improvements in management of their personal finances.

4.2   The audit focussed on whether all reasonable measures had been taken within the Council to manage the programme and the risks associated with it and it was concluded that, indeed, good practice in project management and risk management had been demonstrated. A reasonable methodology, based on the data available at the time, was used to calculate the accrual included in the Council's accounts at the end of the 2018/19 financial year. No audit actions have been identified.