
NORTH AYRSHIRE COUNCIL

9 March 2021

Audit and Scrutiny Committee

Title:	Internal Audit Reports issued
Purpose:	To inform the Committee of the findings of Internal Audit work completed during January and February 2021.
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 January and February 2021. 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 Section 95 Officer and the relevant Executive Director and Head of Service on the completion of each assignment. Where appropriate, this has included an action plan with recommendations for improving internal control. Appendix 1 includes the report and action plan from each audit.

- 2.3 The findings from 2 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
Building Services systems	Reasonable
Fire Safety	Substantial

- 2.4 There are no high priority findings from either of these audits which require to be highlighted to the Committee.

3. Proposals

- 3.1 It is proposed that the Committee considers the outcomes from the Internal Audit work completed during January and February 2021.

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.

Mark Boyd
Head of Finance

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

Background Papers

None.

BUILDING SERVICES SYSTEMS

1 Background

- 1.1 Building Services uses a system called ROCC URM to raise purchase orders, receipt goods and process invoices. This involves a reconciliation to match the invoice to the purchase order and goods received before the invoice is paid. Invoices also have to be keyed in Integra as there is currently no interface between ROCC and Integra.
- 1.2 Building Services also raise purchase orders directly on Integra.
- 1.3 The URM system is a single sign-on system and therefore access is automatically granted to users once they have signed on to the corporate network.
- 1.4 Invoices from the Stores Team are passed to the Senior Officer for approval. Invoices that do not reconcile are investigated and rectified by the Building Services Procurement Team.
- 1.5 Invoices from the Operations Team are passed to the supervisor to confirm the works have been carried out as there are normally variations between the purchase order and invoice.

2 Objectives and Scope

- 2.1 The main objectives of this audit were to ensure that:
 - Adequate written procedures are in place.
 - appropriate controls are in place for interfaces to and from the URM system.
 - appropriate user access controls are in place and there is a robust process for removing leavers access.
 - system admin access and high-risk job roles are properly controlled and adequately restricted to a small number of key staff.
 - there are appropriate separation of duties and adequate controls in place for ordering, receipting and payment of goods/services.
- 2.2 The period covered by the audit is 1st October 2019 to 30th June 2020. This includes the pre-lockdown and lockdown period.

3 Findings

Procedure Documents

- 3.1 A number of user manuals/training materials were provided to the auditor. They have not been updated since 2014/15 or no date is noted so it is unclear when the document was last reviewed and updated. Also, although these documents provide a basic step by step flow of system processes, they have not been adapted to include the Council's internal processes. This would provide a full documented process for each key area i.e. raising and approving purchase orders, receipting goods and processing and reconciling invoices. During the audit the Finance Officer produced a written note of the invoice process as there was no formal process documented. **(action a)**

System Interface Controls

- 3.2** There has been no progress made with an invoice interface between the URM system and Integra. As a result, Building Services staff are having to double key invoices. Staff key them to the URM system to ensure the invoice reconciles to the goods, services or works ordered and received before the invoice is keyed to Integra for payment. **(action b)**

System Access Controls

- 3.3** Testing carried out in this area showed there are robust procedures in place to ensure that users are removed timeously from the system when they leave the Council. However, it was noted the system administrator is not in receipt of the monthly movers and leavers report issued by IT Services. This was rectified during the audit.

Controls around System Admin Duties and High-Risk Job Roles

- 3.4** There are 5 users with system administrator level access to the URM system. It should be noted that a Senior Officer, Building Services Governance, has system administrator access and is an approver on the system. This level of access is a risk and should be reviewed to see if this user needs to be a system administrator. **(action c)**

Procurement and Payment of Goods and Services

- 3.5** The auditor analysed a report of all purchase orders raised on URM within the period of the audit to identify any purchase orders that were raised and approved by the same person. This identified 1,147 out of 4,480 purchase orders that were raised and approved by the same person. However, the auditor checked the user's access and only 1 user is set up to raise and approve purchase orders. Building Services explained that the approver field is overwritten if a purchase order is amended as part of the invoice reconciliation process. As a result, the user amending the purchase order will be recorded as the approver and it is not possible to see who originally approved the purchase order.
- 3.6** The auditor selected a sample of 20 invoices to carry out audit testing. This testing identified 9 instances where a Procurement user is shown as the purchase order's approver, as a result the auditor cannot determine who approved the purchase order. In 6 instances a change has been made to the purchase orders as per the History tab on URM. In 3 instances no changes have been made to the purchase orders as per the History tab on URM.
- 3.7** Building Services confirmed that an upgrade, which went live on 4th December 2020, resolved the audit trail issue identified at 3.5 and 3.6. The History tab on the system now records the original approver.
- 3.8** Further testing identified that if a purchase order is amended to allow the invoice to reconcile, the copy of the purchase order is overwritten to show the new purchase order details. An original copy of the purchase order which was sent to the supplier is not retained.

- 3.9** There is a history tab within the URM system which shows the old value and new value of a purchase order, when the change was made and who made the change. A reason should be entered to explain the reason for the change. From the sample of 20 invoices, there are 10 purchase orders where changes have been made. There were 3 purchase orders where the reason for the change as per the history tab is not detailed enough to understand why the change has been made. **(action d)**
- 3.10** A physical copy of all Stores invoices is passed to the Senior Officer for approval after the invoice has been reconciled on the URM system and spot checks are then carried out. The Senior Officer is not advised if there has been a discrepancy with the original purchase order amount. However, if the invoice reconciles to the purchase order and goods received on URM, there is no audit requirement for the invoice to be approved. **(action e)**
- 3.11** There is only one approver for purchase orders raised via Integra as per the approval plan. There is no back up approver to cover the Senior Officer's leave. **(action f)**
- 3.12** The auditor analysed the spend per supplier to ensure contracts were in place for suppliers with a 9 month spend of over £100k. This identified 1 supplier with a spend of £159.5k which was not on the contract register and this was rectified during the course of the audit.

4 Internal Audit Opinion

- 4.1** Overall, reasonable assurance was obtained with regard to the controls around the URM system used by Building Services. The main issue relates to system data being overwritten in relation to the purchase order and the user that approved the purchase order.

Definitions of Assurance Levels:

Substantial	The framework of governance, risk management and control is adequate and effective.
Reasonable	Some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control.
Limited	There are significant weaknesses in the framework of governance, risk management and control such that it could be or could become inadequate and ineffective.
None	There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.

NB The level of assurance given is at the discretion of Internal Audit.

KEY FINDINGS AND ACTION PLAN BUILDING SERVICES SYSTEMS

Action	a
Finding	User manuals have not been updated since 2014/15 or no date is noted. Also, although these documents provide a basic step by step flow of system processes, they have not been adapted to include the Council's internal processes.
Action Description	The current user manuals/training documents for the key areas should be reviewed and adapted to include the Council's internal process to provide a complete user manual.
Risk	Manual is out of date and incomplete.
Priority (1, 2, 3)	2
Paragraph Reference	3.1
Managed by	Yvonne Baulk, Head of Service (Physical Environment)
Assigned to	Leigh-Ann Mitchell, Senior Manager (Governance) Jim Smith, Senior Officer (Governance)
Due Date	31 st March 2022
Management Comment	A complete user manual will be developed, ensuring that internal processes are captured.

Action	b
Finding	There has been no progress made in an invoice interface between the URM system and Integra. As a result, Building Services staff are having to double key invoices.
Action Description	Building Services should progress with the interface between the URM system and Integra to prevent double keying.
Risk	Increased risk of keying errors and inefficient use of staff time.
Priority (1, 2, 3)	3
Paragraph Reference	3.2
Managed by	Yvonne Baulk, Head of Service (Physical Environment)
Assigned to	Leigh-Ann Mitchell, Senior Manager (Governance) Jim Smith, Senior Officer (Governance)
Due Date	31 st December 2021
Management Comment	<p>Building Services have been working with a representative from the Transformation Team on this action. Contact has been made with both IT suppliers and the specification of requirements is in progress.</p> <p>The implementation of the Creditors interface cannot proceed until some work is undertaken on the general ledger. A mapping exercise has to be undertaken to ensure ROCC's financial coding is in line with the Council's Integra system; this will involve replacing old financial codes with the current codes that are in use.</p> <p>This is currently done through a translation table, which will be removed.</p>

Action	c
Finding	There are 5 users with system administrator level access. It should be noted that a Senior Officer, Building Services Governance, has system administrator access and is an approver on the system. This level of access is a risk and should be reviewed to see if this user needs to be a system administrator.
Action Description	Management should remove the Senior Officer as an administrator if he does not need this level of access to carry out their job.
Risk	A user with too much access can manipulate the system to their own benefit and avoid detection.
Priority (1, 2, 3)	2
Paragraph Reference	3.4
Managed by	Yvonne Baulk, Head of Service (Physical Environment)
Assigned to	Leigh-Ann Mitchell, Senior Manager (Governance)
Due Date	31/03/2021
Management Comment	The Senior Officer has responsibility for the Systems Admin team and requires system access to provide the system admin function. In addition to this the Senior Officer is a manager within the Governance Team and requires to authorise material orders for the service. We will undertake a review to examine if there are any options for an alternative manager to approve the invoices on the system.

Action	d
Finding	From the sample of 20 invoices, there are 10 purchase orders where changes have been made. There were 3 purchase orders where the reason for the change as per the history tab is not detailed enough to understand why the change has been made.
Action Description	When a change is made to a purchase order to allow reconciliation to the invoice, a valid and full reason should be noted on URM.
Risk	Lack of audit trail to explain the difference between the purchase order and the invoice.
Priority (1, 2, 3)	2
Paragraph Reference	3.9
Managed by	Yvonne Baulk, Head of Service (Physical Environment)
Assigned to	Leigh-Ann Mitchell, Senior Manager (Governance) John Andrew, Senior Officer (Governance)
Due Date	Complete
Management Comment	Staff have been made aware of this and will ensure that a full explanation is given where a purchase order is amended. Reports will be run every 4 weeks to ensure that all amendments have a full and valid reason.

Action	e
Finding	A physical copy of all Stores invoices is passed to the Senior Officer for approval after the invoice has been reconciled on the URM system and spot checks are then carried out. The Senior Officer is not advised if there has been a discrepancy with the original purchase order amount. However, if the invoice reconciles to the purchase order and goods received on URM, there is no audit requirement for the invoice to be approved.
Action Description	Internal Audit recommends that only Stores invoices that did not reconcile should be passed to the Senior Officer for approval. In addition, these invoices should be emailed to the Senior Officer noting the original purchase order value to allow the Senior Officer to approve the invoice via email.
Risk	Paying invoice without checking original approved purchase order amount, unnecessary delay in paying supplier and inefficient use of staff time.
Priority (1, 2, 3)	2
Paragraph Reference	3.10
Managed by	Yvonne Baulk, Head of Service (Physical Environment)
Assigned to	Leigh-Ann Mitchell, Senior Manager (Governance) John Andrew, Senior Officer (Governance)
Due Date	Complete
Management Comment	Process has been reviewed and only invoices that do not match the approved order will be passed to the Senior Officer to authorise.

Action	f
Finding	There is only one approver for purchase orders raised via Integra as per the approval plan. There is no back up approver to cover the Senior Officers leave
Action Description	An additional approver should be set up to approve Integra purchase orders.
Risk	Delay in orders being processed and no contingency for long term absence.
Priority (1, 2, 3)	3
Paragraph Reference	3.11
Managed by	Yvonne Baulk, Head of Service (Physical Environment)
Assigned to	Leigh-Ann Mitchell, Senior Manager (Governance)
Due Date	31/01/2021
Management Comment	Senior Manager (Governance) has requested that their authorisation access be reinstated on Integra and will provide cover when required.

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.

FIRE SAFETY

1 Background

- 1.1 Fire safety is the responsibility of every employee of North Ayrshire Council.
- 1.2 Information on the roles and responsibilities of Services and employees are detailed within the Council's Fire Safety Policy and Fire Safety Guidance document.

2 Objectives and Scope

- 2.1 The objective of this audit was to ensure that:-
 - The Council's Fire Safety Policy and Guidance documents incorporate all of the legal requirements imposed on the Council as an employer and property owner
 - Services are complying with the Policy and Guidance documents

3 Findings

The Council's Policy and Guidance Documents

- 3.1 A comparison of the Council's Fire Safety Policy and Guidance documents to the key relevant Legislation was undertaken. The Council's documents were found to cover all key points.
- 3.2 Minor updates to the procedures to remove references to a support document which is no longer relevant have been agreed with the Service.

Compliance

- 3.3 There are a number of processes in place within the Council to ensure that fire safety procedures are being adhered to. For example:-
 - property managers are required to complete a 6 monthly health and safety workplace inspection, which includes a section on fire safety, for submission to Corporate Health & Safety,
 - Corporate Health & Safety carry out fire safety audits,
 - Fire Risk Assessments have been carried out by an independent party for the majority of the properties for which the Council has fire safety responsibility.
- 3.4 In addition to relying on the above controls, Audit selected a sample of 4 properties for detailed testing - with the sample being skewed towards properties with more complex fire safety requirements.
- 3.5 The properties selected were:-
 - A kitchen within a school
 - A kitchen within a commercial property
 - An additional support needs school
 - A residential home for the elderly
- 3.6 Each property was requested to provide copies of documentation, fire safety testing, etc. to confirm they are adhering to Council policy. All were able to provide sufficient evidence of required measures having been undertaken.

4 Internal Audit Opinion

- 4.1 Overall, substantial assurance was obtained with regard to the Council's approach and processes surrounding fire safety.

Definitions of Assurance Levels:

Substantial	The framework of governance, risk management and control is adequate and effective.
Reasonable	Some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control.
Limited	There are significant weaknesses in the framework of governance, risk management and control such that it could be or could become inadequate and ineffective.
None	There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.

NB The level of assurance given is at the discretion of Internal Audit.