
NORTH AYRSHIRE COUNCIL

28 May 2019

Audit and Scrutiny Committee

Title:	Internal Audit Reports issued
Purpose:	To inform the Committee of the findings of Internal Audit work completed during March and April 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 March and April 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 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 considers the outcomes from the Internal Audit work completed during March and April 2019.

4. Implications/Socio-economic Duty

Financial:	None.
Human Resources:	None.
Legal:	None.
Equality/Socio-economic Duty:	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.

Insert Director's name

Insert Director's title

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

Background Papers

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EXECUTIVE SUMMARY GENERAL LEDGER SYSTEM

Background

This audit was conducted as part of the approved 2018/19 Internal Audit Plan and reviewed controls in the new Integra General Ledger system relating to Feeder systems, suspense/holding accounts and bank reconciliations.

Key Objectives

The main objectives of this audit were to ensure that:

- There are appropriate controls in place to reconcile feeder files posted to the general ledger and any resulting errors are investigated and cleared on a timely basis.
- Suspense and holding accounts are reconciled and cleared on a timely basis
- Bank reconciliations are carried out on a regular basis, independently reviewed and issues are highlighted on a timely basis.

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:

- The suspense reconciliation checklist spreadsheet is not being fully utilised to ensure that issues with suspense accounts and bank account reconciliations are highlighted and escalated where appropriate.
- A number of suspense reconciliations and bank reconciliations have not been reviewed at all or have not been independently reviewed.

Audit Opinion

Overall, reasonable assurance was obtained with regard to the controls in the new Integra General Ledger system relating to Feeder systems, suspense/holding accounts and bank reconciliations.

ACTION PLAN GENERAL LEDGER SYSETM

Action	a
Action Description	IT Services System Admin should contact Capita to request a solution to either prevent the same feeder file being processed or, at the very least, give a warning to the user that this file has already been processed.
Risk	The same feeder file is processed resulting in a reversal process being carried out.
Priority (1, 2, 3)	2
Paragraph Reference	3.1
Assigned to	Senior System Administrator
Due Date	31st May 2019
Management Response	The IT Services System Administration Team will raise this as a call with Capita and escalate to the Capita Account Manager.

Action	b
Action Description	An overarching procedure note for the suspense reconciliation checklist spreadsheet should be produced. Relevant staff should familiarise themselves with such procedure notes, to ensure the spreadsheet is properly completed. The checklist should be reviewed on a regular basis and any issues escalated promptly.
Risk	The checklist is not being fully utilised and reconciliation issues are not being recorded, monitored and escalated on a timely basis.
Priority (1, 2, 3)	1
Paragraph Reference	3.3, 3.4, 3.5, 3.9, 3.12
Assigned to	Senior Manager – Strategic Business Partner
Due Date	5 April 2019
Management Response	Work is underway to formalise the procedure for updating the reconciliation spreadsheet. This will be shared with all relevant officers before completion of the 2018/19 close.

Action	c
Action Description	There should be evidence that reconciliations have been independently reviewed in a timely manner.
Risk	Errors not identified. Lack of separation of duties increases risk of fraud and error.
Priority (1, 2, 3)	1
Paragraph Reference	3.4, 3.6
Assigned to	Senior Manager – Strategic Business Partner
Due Date	31 March 2019
Management Response	The allocation of reconciliations across officers has been reviewed and an independent reviewer has been assigned for each.

Action	d
Action Description	Consideration should be given to closing the Creditors Grants bank account if it is determined that it is no longer required and the balance is suitably transferred.
Risk	Potential additional work relating to maintenance of unnecessary additional bank account.
Priority (1, 2, 3)	3
Paragraph Reference	3.7
Assigned to	Senior Manager – Strategic Business Partner
Due Date	31 March 2019
Management Response	The current balance is being reviewed with a view to closing the account before the end of the financial year.

Action	e
Action Description	The Housing Advances bank account should be reviewed and the reconciliations should recommence if this account is still being used.
Risk	Unidentified transactions which therefore do not receive the correct accounting treatment. Potential for fraud or error which would not be identified timeously.
Priority (1, 2, 3)	2
Paragraph Reference	3.7
Assigned to	Senior Manager – Strategic Business Partner
Due Date	31 March 2019
Management Response	The transactions have been investigated and corrected. A final reconciliation will be completed at the end of the current financial year.

Action	f
Action Description	A decision should be made on the historical unreconciled Payroll transactions as per the Payroll bank reconciliation to ensure they are not continually carried forward.
Risk	Incorrect accounting treatment of transactions. Unnecessary complication in ongoing reconciliations.
Priority (1, 2, 3)	2
Paragraph Reference	3.8
Assigned to	Senior Manager – Strategic Business Partner
Due Date	31 March 2019
Management Response	All transactions are passed to HR Payroll for investigation and confirmation of corrective action. Procedures are being put in place to escalate issues not corrected within 3 months to Senior Managers for further action. Historic balances will be raised with HR Payroll to determine appropriate remedial action.

Action	g
Action Description	Outstanding cheques from Masterpiece should be cancelled and a process put in place for cancelling outstanding cheques since Integra went live.
Risk	Unnecessary complication in the reconciliation.
Priority (1, 2, 3)	3
Paragraph Reference	3.11
Assigned to	Senior Manager – Strategic Business Partner
Due Date	31 March 2019
Management Response	Integra software supplier has now confirmed the correct procedures for cancelling outstanding cheques and a report detailing outstanding cheques from the previous ledger system has been developed. All outstanding cheques are now being cancelled or re-issued as appropriate.

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

FACILITIES MANAGEMENT COMMERCIAL INCOME

Background

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

There has been an expansion of the commercial catering function provided by Facilities Management over recent years. This audit focussed on the processes at 4 of the newer facilities – namely Saltcoats Town Hall, the canteen within the DSM factory in Dalry, the café in the Portal leisure centre and the café in Cunninghame House.

Key Objectives

The main objective of this audit was to ensure that each of the facilities noted above have:

- Appropriate cash management procedures in place,
- Effective stock management controls,
- Accurate financial information available, to allow for accurate and timely decision making

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:

- Financial procedures and templates need to be updated
- Issues with the coding of income and expenditure have affected the quality of information available from the Council's finance ledger

Audit Opinion

Overall, reasonable assurance was obtained with regard to the processes surrounding Facilities Management's commercial income.

The main area requiring improvement is the coding of expenditure in the financial ledger. This will allow Facilities Management to evidence that its locations are making a profit and provide good quality information for future decision making.

ACTION PLAN
FACILITIES MANAGEMENT COMMERCIAL INCOME

Action	a
Action Description	<p>Facilities Management should review and update the financial procedures and related templates.</p> <p>Undertake refresher training with staff to ensure they are aware of the changes to processes and ensure they are aware of what is required of them going forward.</p>
Risk	Staff do not have accurate guidance documents resulting in errors
Priority (1, 2, 3)	2
Paragraph Reference	3.1, 3.3, 3.26, 3.34
Assigned to	Team Manager Events and Commercial
Due Date	31 st August 2019
Management Response	<p>The following procedures have been identified for update to capture commercial income accurately:</p> <ul style="list-style-type: none"> • Cash Count Form (NACC 1C) – <i>Changes Are Required</i> • Monthly Income (NACC 3) – <i>Changes Are Complete</i> • Monthly Monitoring Form (NACC22) – <i>Changes Are Required</i> <p>NACC 1C form is being amended for commercial income use. As an interim measure there is a ready reckoner to accompany the existing NACC 1C form to reduce errors in cash counting pending the implementation of the amended form.</p> <p>NACC 3 has been updated and is in use.</p> <p>NACC 22 will be amended for commercial use and implemented.</p> <p>The implementation procedure will be as follows;</p> <ul style="list-style-type: none"> • a change document for each financial procedure will be sent to all units, • training will then be completed by each unit manager, • training records will be sent back to Facilities Management to be stored on file and; • the CHRIS system will be updated to reflect training. <p>Completion of this action will require training of staff and therefore will be completed by 31st August 2019 to allow for rollout during school summer holidays.</p>

Action	b
Action Description	Keyholder registers must be updated to reflect new cash storage procedures.
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	3.15
Assigned to	Team Manager Events and Commercial
Due Date	31 st May 2019
Management Response	<p>The keyholders register has been amended and all existing keyholder names will be updated to ensure that the document is accurate.</p> <p>The imminent introduction of a card machine at Saltcoats Town Hall should reduce the amount of cash being handled within the facility. Facilities Management will introduce a key log for Saltcoats to add another layer of financial security requiring key holders to sign keys in and out. This will log who has access to cash storage at all times and should control risks highlighted above.</p>

Action	c
Action Description	A review of the coding of employee costs should be undertaken to ensure staff are being coded to the correct location. Staff coding overtime forms should be reminded that overtime should be charged to the location where the overtime was worked, rather than the employee's normal place of work
Risk	Financial ledger is inaccurate which could have a detrimental effect on decision making; staff time is wasted having to identify and correct errors.
Priority (1, 2, 3)	1
Paragraph Reference	3.28
Assigned to	Team Manager Events and Commercial
Due Date	31 st August 2019
Management Response	<p>There have been ongoing improvements made since January 2019 including the completion of a large exercise with Finance to code staff to appropriate cost centres prior to financial year end 2018-19.</p> <p>Facilities Management will undertake a monthly exercise to review staff coding during Q1 of financial year 2019-20 and undertake any further amendments after each month. The new Business Planning Team Manager will work closely with the Events Manager during monthly budgetary control to ensure the coding of employees is checked. It is expected that this action will be closed during Q2 2019 after final coding corrections have been completed.</p>

Action	d
Action Description	Transfers of costs between locations should be undertaken to ensure the true cost of providing services is reflected in the financial ledger.
Risk	Poor management decisions taken due to the lack of accurate financial information.
Priority (1, 2, 3)	1
Paragraph Reference	3.32, 3.34
Assigned to	Team Manager Events and Commercial
Due Date	29 th February 2020
Management Response	<p>This action will be completed as part of the Facilities Management budgetary control process over a period of 10 months up to February 2020. This will allow for robust monitoring of costs between locations and provide accurate financial information to support management decisions. Transfers will be monitored on a monthly basis to ensure that they are reflective of the costs incurred within each cost centre.</p> <p>The timescales for this action reflect the ongoing monitoring that will be required throughout the financial year.</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 PVG AND DISCLOSURE CHECKING

Background

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

Disclosure Scotland audited the Council's procedures for handling and submitting PVG (Protection of Vulnerable Groups) and Disclosure information in late 2016 and made 5 recommendations as a result.

Key Objectives

The main objectives of this audit were to ensure that:

- All the recommendations made by Disclosure Scotland and the subsequent internal improvement plan have been fully implemented,
- Appropriate checks are being completed on individuals prior to confirming a contract of employment.

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 finding of this audit is that recruiting services are not always keeping Employee Services fully and timeously informed at all stages of the recruitment process. This has resulted in instances of individuals delivering services on behalf of the Council before appropriate checks on their suitability have been undertaken, or legal contracts of employment have been offered or confirmed.

Audit Opinion

Overall, substantial assurance was obtained that Employee Services have fully implemented all the recommendations resulting from the Disclosure Scotland audit.

Recruiting services should be reminded of their responsibilities to keep Employee Services informed throughout the recruitment process.

ACTION PLAN

PVG AND DISCLOSURE CHECKING

Action	a
Action Description	Services should be reminded of the importance of following recruitment procedures and ensuring that Employee Services are informed timeously at every stage of the process.
Risk	Vulnerable adults and children are put at risk of being exposed to inappropriate individuals; reputational risk to the Council of having unfit individuals providing Council services; new starts not being paid as they have no formal start date noted on CHRIS
Priority (1, 2, 3)	1
Paragraph Reference	3.32; 3.33
Assigned to	Senior Manager Employee Services
Due Date	Complete
Management Response	<p>An email has been issued to the relevant Head of Service detailing the instances identified where recruiting managers have not adhered to the key steps within the recruitment process, with a request to reinforce the importance of adhering to the process.</p> <p>All recruiting managers have been emailed a reminder of the key steps within the recruitment process, the email reinforced that steps must be followed within a sequential order and that failure to adhere to these steps may put the Council at risk.</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.