
NORTH AYRSHIRE COUNCIL

29 May 2018

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 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 March and April 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 five separate audit assignments are detailed at Appendix 1 to this report. The key findings are as follows:

- Limited assurance was obtained in relation to the access controls around the Council's Customer Relationship Management system. Customer Services are progressing a range of actions to tighten controls and these are scheduled for completion by the end of May;
- Reasonable assurance was obtained in relation to procurement within Facilities Management although a small number of specific issues were identified where contract arrangements were not in place and the Facilities Manager is working to rectify these.

3. Proposals

- 3.1 It is proposed that the Committee (a) considers the outcomes from the Internal Audit work completed during March and April 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**.

Background Papers

N/A

EXECUTIVE SUMMARY CUSTOMER SERVICES

Background

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

Key Objectives

The main objectives of this audit were to review:

- the controls in place for banking the cash takings from the self service kiosks in Bridgegate and Saltcoats Town Hall.
- the controls within the Council's Customer Relationship Management System (LAGAN) to ensure that system access is secure, and access permissions reflect users' roles and responsibilities.

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:

- As a result of the Council's General Income bank account not being reconciled, reliance is being placed on the accuracy of the kiosk cashing up reports.
- A review of all users currently set up on LAGAN needs to be undertaken.

Audit Opinion

Overall, reasonable assurance was obtained with regard to the cash kiosk procedure. Customer Services have good controls in place. However, a weakness in the final stage of the overall process does exist due to the General Income bank account reconciliation not being reconciled. Audit were therefore unable to gain assurance that kiosk cashing up reports are accurate, and takings are being banked in full.

Overall, limited assurance was obtained with regard the access controls in LAGAN due to the need for a number of amendments to the user list being identified during audit testing.

ACTION PLAN CUSTOMER SERVICES

Action	a
Action Description	<p>As soon as the General Income bank account reconciliation is up to date assurance must be gained that the takings per the kiosk receipts match the banking totals.</p> <p>If it is found that these don't match consistently, then consideration needs to be given to counting the takings prior to banking until the reason for the differences can be identified and corrected.</p> <p>Consideration should be given to whether it is appropriate to wait for the reconciliation to be updated, or if it would be prudent to start counting takings, at least on a sample basis, and comparing this to kiosk receipts in the short term. This would at least give assurance that the receipts produced by the kiosk are accurate.</p>
Risk	Cash losses to the Council as a result of theft or error are not identified.
Priority (1, 2, 3)	1
Paragraph Reference	3.8
Assigned to	Senior Manager (Financial Services)
Due Date	31 st March 2018
Management Response	<p>The General Income Bank Account reconciliation procedures have been reviewed and revised to reflect the pattern of income lodgements from the kiosks. Work is ongoing to reconcile all kiosk transactions to the bank deposits and no significant issues have been identified to date.</p> <p>Financial Services have worked closely with Customer Services to improve the data provided for the bank reconciliations and the procedures in place for the monthly reconciliation of the change hopper have been revised.</p>

Action	b
Action Description	A review of all current LAGAN users should be performed to ensure that all access remains valid.
Risk	Sensitive data is not being full protected.
Priority (1, 2, 3)	1
Paragraph Reference	3.30, 3.32, 3.36
Assigned to	Senior Manager (Transformation)
Due Date	30 th April 2018
Management Response	The review is in progress all users identified by Audit have been reviewed and where appropriate access has been removed. User Access Report requirements have been sent to IT which will identify user account last login date. The initial report is under review and appropriate action will be undertaken. A procedure will be documented and this process will be repeated monthly.

Action	c
Action Description	LAGAN Administrators should review the current leavers notification process to identify the weakness which is resulting in some leavers still having active LAGAN logins.
Risk	Sensitive data is not being full protected.
Priority (1, 2, 3)	1
Paragraph Reference	3.39
Assigned to	Senior Manager (Transformation)
Due Date	31 st May 2018
Management Response	Current leavers process has been reviewed, current process requires the manager to tick the box for removal of Lagan system access. This process will remain along with a new process which will include an automatic report match of Chris Leavers against Lagan Users daily, where match is identified this will generate an automatic notification to Lagan Administrators to remove access on the appropriate date.

Action	d
Action Description	LAGAN Administrators should review the generic user logins in LAGAN and confirm that all are still necessary.
Risk	The audit trail when using generic logins is less clear, and there is the additional risk of having to protect shared passwords.
Priority (1, 2, 3)	1
Paragraph Reference	3.41
Assigned to	Senior Manager (Transformation)
Due Date	Completed
Management Response	Generic Logins highlighted by Audit have been reviewed, appropriate action has been taken and where these are still required the reason for this has been noted. The main reason for these is email notification only to non-Lagan users for case updates that effect their service.

Priority Key used in Action Plan

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

EXECUTIVE SUMMARY

FACILITIES MANAGEMENT PROCUREMENT

Background

In the 6 months July-December 2017, Facilities Management spent £1,087,548 on supplies via Government Procurement Cards (GPC) and £399,346 on supplies ordered and paid for through the Council's Financial Management System, Integra. Several of the main contracted suppliers have a facility whereby the details of the GPCs used by Catering Supervisors and other officers in the service are embedded in their online catalogues to allow a more efficient ordering process.

Key Objectives

The main objectives of this audit were to:

- Establish the processes followed by Facilities Management for purchasing and monitoring these purchases
- Ensure that Standing Orders in relation to Contracts have been adhered to and all off-contract purchases are appropriate
- Ensure that relevant procedures are being followed when purchasing from contracts and purchases are appropriate

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 high-value suppliers do not have contracts in place, of these:
 - 2 are based on Arran – a firm business case is required to justify a Single Tender Action Request or otherwise existing contracts should be used
 - 1 relates to a pilot which has been continued
 - 1 relates to a historic supplier of soft drinks which can be purchased from current contractors
- Sample testing identified another pilot which has been continued and now requires a formal procurement exercise
- All the individual purchases tested had been authorised correctly and were for appropriate items
- Standard Rated VAT on procurement card purchases has not always been claimed back

Audit Opinion

Overall, reasonable assurance was obtained with regard to procurement processes in Facilities Management. The majority of purchasing is taking place through correct routes. However, a few suppliers with a significant volume of purchases did not have appropriate contracts in place, either due to historic arrangements being continued or pilot arrangements which proved to be successful, requiring a procurement exercise to be undertaken. Catering need to ensure that Standard-Rated VAT is identified on procurement card purchases and valid VAT invoices or receipts are obtained for those purchases.

ACTION PLAN

FACILITIES MANAGEMENT PROCUREMENT

Action	a
Action Description	Facilities Management should discuss arrangements for supply of fresh produce on Arran with the Corporate Procurement Unit and submit Single Tender Action Requests with a firm business case or otherwise use existing contractors for these supplies.
Risk	Breach of Standing Orders. The Council is not obtaining best value for money. The Council does not have adequate protection in the event of a dispute with the supplier.
Priority (1, 2, 3)	2
Paragraph Reference	3.3
Assigned to	Facilities Manager
Due Date	31 May 2018
Management Response	Facilities Management are working with procurement to finalise a STAR (Single Tender Action Request) due to the island challenges in delivery and supporting local SMEs. We expect to complete the STAR by 31 May 2018

Action	b
Action Description	A formal procurement exercise in accordance with the Standing Orders relating to Contracts should be undertaken to appoint a contractor to supply pre-prepared sandwiches.
Risk	Breach of Standing Orders. The Council is not obtaining best value for money. The Council does not have adequate protection in the event of a dispute with the supplier.
Priority (1, 2, 3)	2
Paragraph Reference	3.5
Assigned to	Facilities Manager
Due Date	15 June 2018
Management Response	Following a successful pilot, FM will arrange with Procurement for a quick quote in line with the Council's Standing Orders relating to services and goods contracts. The aggregated spend over the term will be within the £10k-£49k.

Action	c
Action Description	Facilities Management should ensure that soft drinks are purchased from the existing contractors wherever possible or if this is not considered to be providing good value for money, they should seek advice from the Corporate Procurement Unit on the best way to achieve this while adhering to Standing Orders relating to Contracts.
Risk	Breach of Standing Orders. The Council is not obtaining best value for money.
Priority (1, 2, 3)	2
Paragraph Reference	3.6
Assigned to	Facilities Manager
Due Date	18 May 2018
Management Response	FM will revert to the Scotland Excel framework for soft drinks for the remainder of the framework timeline, with a view to considering a Pan Ayrshire contract for soft drinks direct to the manufacturer as increased sales develop.

Action	d
Action Description	A procurement exercise in accordance with the Standing Orders relating to Contracts should be undertaken to appoint a contractor to supply frozen drinks.
Risk	Breach of Standing Orders. The Council is not obtaining best value for money. The Council does not have adequate protection in the event of a dispute with the supplier.
Priority (1, 2, 3)	2
Paragraph Reference	3.10
Assigned to	Facilities Manager
Due Date	15 June 2018
Management Response	This is a unique product developed for schools that meets the Scottish Government nutritional guidance for school meals. At present only two suppliers in the UK have a product that meets the guidance. We will, with support from the CPU, place a quick quote and test and evaluate the market. This is a seasonal product that is within the Supplies and Services values of £10k- £49k aggregated spend over the term of the contract.

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

FUEL CONTROLS

Background

In the period May to October 2017, North Ayrshire Council has spent £115,883 on fuel card transactions and dispensed £1,255,869 diesel from its depots for use in its fleet and equipment.

Fuel is purchased at any petrol station using fuel cards. These have been allocated to vehicles or particular employees.

Bunkered fuel is stored in six locations within the Council boundaries. Fuel is drawn using the vehicle registration and mileage details and a designated fob.

Key Objectives

The main objectives of this audit were to ensure that:

- Guidance to employees is appropriate and has been in accordance with corporate procurement policy
- Management reports support control over fuel usage
- There is adequate control over stored fuel
- There is adequate control over fuel card usage
- Security of fuel depots is adequate
- There is adequate control over pool cars' fuel usage

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:

- External invoicing and reports should be sent to a generic email address.
- The fuelling equipment is old and consideration should be given to upgrading equipment. This would provide more accurate management information and assist the efficiency of the fleet fuelling process.
- Drivers should be reminded of the fuelling process and to ensure that they enter correct odometer and vehicle information when fuelling.

Audit Opinion

Overall, reasonable assurance was obtained with regard to controls over fuel issues. Fuel consumption has been reducing year on year.

Fuelling equipment has now aged and consideration should be given to upgrading the software to vehicle recognition software. This would enable more accurate fuel performance information, reduce the administration process and enhance the fuel pump security.

ACTION PLAN FUEL CONTROLS

Action	a
Action Description	Emails containing billing information should be sent to a generic address to allow all hub members to access in the absence of any of the team.
Risk	In the absence of key personnel information will not be timeously processed.
Priority (1, 2, 3)	2
Paragraph Reference	3.5
Assigned to	Transport Manager
Due Date	Complete
Management Response	All suppliers have been notified of the change in the correspondence e-mail address. (Fleetmaintenancetransport@north-ayrshire.gov.uk)

Action	b
Action Description	Transport Management to consider the upgrade of fuelling equipment to CCTV vehicle recognition and automatic odometer reading to provide better management information.
Risk	Vehicle performance information is inaccurate.
Priority (1, 2, 3)	2
Paragraph Reference	3.8
Assigned to	Transport Manager
Due Date	Complete
Management Response	Soft market testing has been carried out which shows that a modern basic system could be supplied and installed at a cost of approximately £20k with an annual maintenance fee of £4k. A fully automated vehicle recognition and odometer solution would cost approximately £110k. Proposals will be developed to consider upgrading of the equipment.

Action	c
Action Description	Remind drivers of the need to ensure odometer information is correctly annotated when fuelling their vehicles.
Risk	Incomplete data reduces the controls of fuel consumption and assessment of vehicle performance is impaired.
Priority (1, 2, 3)	2
Paragraph Reference	3.12, 3.18
Assigned to	Transport Manger
Due Date	Complete
Management Response	Refuelling process has been promoted at each bunkered fuel location, and fuel cards users are reminded of the process on issue of fuel cards.

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 HR CONTRACT CHANGES

Background

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

Key Objectives

The main objectives of this audit were to:

- Review the system for submitting contract amendments via the employee account to ensure that the process is robust
- Ensure contract amendments made through the employee account are being activated accurately and timeously

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 system for submitting contract amendments online was found to be working, with the majority of amendments being dealt with timeously
- Payroll need to keep a record of all spot checks performed on amendment forms

Audit Opinion

Overall, substantial assurance was obtained with regard to the process for making contract amendments using the employee account.

LAGAN does not have a hierarchy or routing function built into it, which means there is no way of controlling who can be entered as an approver when completing the initial amendment request. Reliance for ensuring that an approver is appropriate is based on spot checks performed by Payroll picking up any errors. However, Payroll at present have no evidence that spot checks are been completed.

ACTION PLAN HR CONTRACT CHANGES

Action	a
Action Description	Consideration should be given to setting up a report to highlight cases that have been awaiting approval for longer than an agreed period of time.
Risk	Over/under payments could be made to staff due to delays in approving contract changes.
Priority (1, 2, 3)	2
Paragraph Reference	3.7
Assigned to	Senior Manager (Employee Services)
Due Date	Complete
Management Response	Payroll Officers routinely check the pending queue and escalate to the relevant manager where case approval has reached a critical stage. Approving managers have been reminded to actively manage cases via the employee account and ensure the accuracy of data entered. No further development work is being undertaken due to the commencement of a procurement exercise for a replacement HR Payroll system.

Action	b
Action Description	A record of the spot checks being performed by Payroll on online forms should be kept.
Risk	<p>The spot checks being performed by Payroll are the only checks in place to confirm that forms are being approved by appropriate individuals.</p> <p>By having no record of these checks being performed, it is impossible to evidence that sufficient levels of checking are being performed.</p>
Priority (1, 2, 3)	2
Paragraph Reference	3.10
Assigned to	Lead Advisor (Payroll)
Due Date	30/04/2018
Management Response	Lagan has been developed to allow Payroll to add a note that the approver spot check has been carried out. This will commence from 01/04/18. A report has been requested to show the percentage of spot checks carried out against the volume of cases for contract amendments and terminations.

Action	c
Action Description	<p>Payroll should prepare a training document which covers the most common errors being made by Services when completing the amendment forms.</p> <p>This should be circulated to all approvers as a reminder of how the form should be completed.</p>
Risk	Over/under payments could be made to staff due to delays in completing contract changes.
Priority (1, 2, 3)	2
Paragraph Reference	3.20
Assigned to	Senior Manager (Employee Services)
Due Date	Complete
Management Response	A guide regarding how to populate data in relation both contract amendments and terminations was produced in June 2017 as part of audit action 2017-PA-024a. A link to this guide has been recirculated via email to authorised approvers with a reminder of the requirement for timely and accurate completion of online forms.

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 RECRUITMENT

Background

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

Key Objectives

The main objectives of this audit were to:

- review the Council's recruitment procedure to ensure it is clearly documented, robust and transparent
- ensure that recruitment procedures are being followed
- confirm that data security arrangements are sufficient to protect sensitive data gathered during the recruitment process

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 Council's recruitment guidance notes and procedures are well documented
- The use of Talentlink as an e-recruitment tool ensures that a detailed electronic audit trail is available for the recruitment process
- Data security arrangements were found to be appropriate
- An issue was noted where a Service amended the number of posts being recruited from that originally approved on Talentlink. Whilst the Service had emailed HR to request this change, the email did not come from the original approver. HR should have sought confirmation of the change from the authorised approver before actioning it.

Audit Opinion

Overall, substantial assurance was obtained with regard to the Council's recruitment process. The use of Talentlink ensures a strong audit trail is available which ensures transparency of the overall process.

ACTION PLAN RECRUITMENT

Action	a
Action Description	HR Resourcing staff should be reminded that once a recruitment exercise has been approved on Talentlink, any subsequent changes should only be accepted and actioned if they are requested by the original approver.
Risk	Staff could be recruited that the Council does not have the budget to fund.
Priority (1, 2, 3)	2
Paragraph Reference	3.21
Assigned to	Lead Adviser (Resourcing)
Due Date	Complete
Management Response	Team members have been reminded of the requirement to ensure any subsequent changes to an advert must only be accepted and actioned if they are requested by the original approver. Procedures have also been updated accordingly.

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.