
NORTH AYRSHIRE COUNCIL

28 January 2020

Audit and Scrutiny Committee

Title:	Internal Audit Reports issued
Purpose:	To inform the Committee of the findings of Internal Audit work completed between October and December 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 between October and December 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 8 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
Kelio	Limited
Procurement Cards	Limited
External Residential and Education Placements	Limited (HSCP) Reasonable (Education)
Accounts Payable transaction testing	Reasonable
Payroll transaction testing	Reasonable
Code of Corporate Governance	Substantial
Additional Support Needs schools	Substantial
Housing Rents	Substantial

2.4 The most significant findings are:

- There is a lack of overall control of the Kelio time-recording and access system and a number of actions have been identified to ensure it is operated in a robust manner.
- Limited assurance was obtained with regard to controls around procurement cards. No fraud was found during audit testing; however, the actions identified will help tighten controls around the cards and ensure compliance with procedures.
- In relation to the Health and Social Care Partnership's procedures surrounding external placements, audit testing raised concerns in the lack of consistency in the data being retained for each case, and where that data is being stored. In addition, breaches of Procurement Standing Orders were noted.

3. Proposals

3.1 It is proposed that the Committee considers the outcomes from the Internal Audit work completed between October and December 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.

Laura Friel
Executive Director (Finance and Corporate Support)

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

Background Papers

None.

KELIO

1 Background

- 1.1 The Kelio system provides time keeping and basic access/egress security within 17 North Ayrshire Council locations.
- 1.2 Kelio uses HIBglobal cards which can be programmed for a variety of locations and work patterns and provide user access to network printers. These cards, each with a unique numerical reference number, are issued independently from employee ID cards.
- 1.3 Employee records covering six months from January to July 2019 were analysed during this audit.

2 Objectives and Scope

- 2.1 The main objectives of this audit were to ensure that: -
 - policies, management and operational controls are in place to control access to the system
 - business continuity and security processes are established and robust
 - system monitoring is applied by management; and
 - users are using the system as prescribed by policy

3 Findings

System Access Controls

- 3.1 A copy of the contract with the supplier could not be provided and it is not recorded on the procurement contracts register. **(Action a)**
- 3.2 Guidance to employees is through the policy document 'Flexi Scheme' issued in April 2016. Further guidance is provided on the intranet 'Kelio-Self Service-Guide' and network printer document 'Safecom-printing-register-Kelio-card'. All other training needs are provided by team colleagues. **(Action b)**
- 3.3 The system is centrally administered by the Business Support team located in Cunninghame House. There are 3 central team members, augmented by 28 service based administrators who provide support within their teams. System reports identified a further 67 employees with system administration rights. **(Action c)**
- 3.4 System reports indicate 5,347 Kelio cards are currently in use allocated to 2,735 employees. 1,165 system users have been allocated multiple cards. External cards have been issued to 203 users many of whom are unidentified. Visitor cards are issued by receptionists and these should be returned at the end of the visit or day; however, at the time of the audit some of these had not been returned to reception for more than two days. **(Action d)**
- 3.5 Recurring spend on the Kelio system is low, with a maintenance agreement of £3,000 per annum. During the period under review, total spend was £24,000 with much of the

additional expenditure relating to the installation of additional terminals at a new location.

Business Continuity and Security

- 3.6 The Kelio System is not identified on the Business Continuity Plan. **(Action e)**
- 3.7 No overall responsibility for the Kelio system is assigned to an individual and no management checks are carried out to confirm that Kelio cards are held by the assigned individual. **(Action f)**
- 3.8 Some cards remain assigned to employees who have left the Council. **(Action g)**

Monitoring

- 3.9 There is a suite of system reports available and team managers have access to their own staff records. Analysis of these reports identified issues with the quality of information provided when setting up records on the system. These include naming conventions not matching HR records and employee numbers not being recorded. **(Action h)**
- 3.10 Analysis indicates that recording of annual leave and time on the Kelio system is inconsistently applied and recording errors have been identified to individual accounts. **(Action b)**

User Interface

- 3.11 Each individual work pattern is assigned on Kelio. Compliance testing covering a six month period identified 287 different work patterns allocated to 2,311 different employees.
- 3.12 Employees are permitted to carry forward 14 hours of credit to the next accounting period, this balance is adjusted for part time hours. In the event of excess hours this balance is automatically reduced by the system. For the six month period analysed employees regularly lost time when they exceeded their work pattern limits. **(Action i)**
- 3.13 Employees are permitted to carry forward a seven-hour negative balance, which is repayable in the next recording period. During the test period an average 445 employees failed to meet the criteria set by the flexi scheme in respect of negative balances. **(Action i)**

4 Internal Audit Opinion

- 4.1** Overall, limited assurance was obtained with regard to the use of the Kelio system as time keeping and access control to Council buildings and service areas.
- 4.2** There is no overall responsibility for the system resulting in a piecemeal approach to its use.
- 4.3** Policy and guidance documentation are current; however, its implementation has to be properly recorded by system users and managed by their team managers.
- 4.4** The system is currently under review and whether a new system is adopted, or the Council remain with the current system a major housekeeping exercise needs to be undertaken, supported by advice to users.

KEY FINDINGS AND ACTION PLAN KELIO

Action	a
Finding	Contract details are not available for review.
Action Description	A copy of the contract should be requested from the suppliers and the contracts register should be updated.
Risk	The Council has no overview of the terms and conditions and risks financial losses due to overcharging or payment for services not procured.
Priority (1, 2, 3)	1
Paragraph Reference	3.1
Managed by	Mark Boyd, Head of Service (Financial and Customer Services)
Assigned to	Hayley Smith, Team Leader (Business Support)
Due Date	December 2019
Management Comment	The Business Support team will liaise with PMI and the supplier to request the contract and update the contract register accordingly. Following this contract management arrangements between the Business Support team and PMI will be reinforced to clarify the roles between the two teams in the maintenance of the contract.

Action	b
Finding	Lack of training may lead to the system being used inappropriately.
Action Description	Guidance should be provided to new employees as part of the induction process. Regular reminders should be issued to employees on use of the system.
Risk	Informal training leads to inconsistent practices and inaccurate entries on the system.
Priority (1, 2, 3)	2
Paragraph Reference	3.2, 3.10
Managed by	Mark Boyd, Head of Service (Financial and Customer Services)
Assigned to	Hayley Smith, Team Leader (Business Support)
Due Date	March 2020
Management Comment	<p>Work has already commenced in introducing KELIO to new employees as part of the induction process.</p> <p>The Business Support team will also be introducing “drop-in sessions” for employees and managers, starting January 2020 and these will be delivered twice a month to demonstrate the system and advise on any queries employees may have.</p> <p>The Business Support team will be working with the Transformation Team to create a new Connects (SharePoint) page containing new procedure notes, including a FAQ section and video demonstrations for both employees and managers.</p> <p>The Drop-in sessions will start January 2020 and completion of all procedure notes available by March 2020.</p>

Action	c
Finding	System administration rights are available to too many people leading to a reduction in operational controls.
Action Description	A review of the role of system administrator should be undertaken. Where the individual is not a system administrator but is allocated administration rights these should be removed. If necessary, a new role should be identified on the system reducing the access that Service support staff have.
Risk	Administrator rights are a key system control which should be restricted to as few people as possible, reducing opportunity for fraudulent activities on the Kelio system.
Priority (1, 2, 3)	1
Paragraph Reference	3.3
Managed by	Mark Boyd, Head of Service (Financial and Customer Services)
Assigned to	Hayley Smith, Team Leader (Business Support)
Due Date	July 2020
Management Comment	<p>The Business Support team no longer add new administrators to KELIO.</p> <p>To address the current number of Administrator accounts a cleanse of KELIO will be undertaken to remove all administrators from the system and going forward, the Business Support team will control and maintain the number of administrator accounts required. These levels will be controlled across Directorates.</p> <p>Administrator training will be arranged with a requirement for each new administrator to complete a sign off on new terms for administrators.</p>

Action	d
Finding	Individuals have access to multiple cards and there is a lack of control over visitor cards.
Action Description	Using analysis work detailing users and number of cards, a house-keeping exercise should be undertaken to reduce the number of cards in use, restricting access to an appropriate level. Where cards are not recovered access privileges must be cancelled.
Risk	Access and egress to buildings is not controlled, missing cards are not reported, and unauthorised persons have uncontrolled use of Kelio cards.
Priority (1, 2, 3)	1
Paragraph Reference	3.4
Managed by	Mark Boyd, Head of Service (Financial and Customer Services)
Assigned to	Hayley Smith, Team Leader (Business Support)
Due Date	July 2020
Management Comment	Going forward only the Business Support team as the central administrator will issue new cards. Clearing unused cards will be part of the data cleanse completed once all administrators are removed from the system. Visitor cards will also be restricted per Service and will be subject to randomised checks to ensure these are still secure and in use.

Action	e
Finding	Kelio is not identified in the Business Continuity Plan
Action Description	A risk assessment should be completed, and a mitigating action plan identified and communicated to the relevant staff.
Risk	Kelio HIB cards provide access and egress control. In the event of failure, the system defaults to open. Long term system failure would mean that access to various locations linked to that terminal would remain open all the time.
Priority (1, 2, 3)	2
Paragraph Reference	3.6
Managed by	Mark Boyd, Head of Service (Financial and Customer Services)
Assigned to	Hayley Smith, Team Leader (Business Support) & Laura Galloway, Senior Contracts Officer (Contracts Compliance and Maintenance)
Due Date	March 2020
Management Comment	Mitigating acting plan will be identified with Business Support with regards to system failure. This requires to be developed between PMI and the Business Support team.

Action	f
Finding	Ownership of the Kelio system is not allocated to one person.
Action Description	A senior management system owner should be identified as soon as possible with a remit to manage Kelio access permissions (including appropriate access to buildings), and ensure cards are checked randomly on a regular basis.
Risk	Corporate ownership of the system is unrecognised and localised impromptu procedures are adopted, access to the system is uncontrolled and fraudulent transactions are completed unnoticed.
Priority (1, 2, 3)	1
Paragraph Reference	3.7
Managed by	Mark Boyd, Head of Service (Financial and Customer Services)
Assigned to	Hayley Smith, Team Leader (Business Support)
Due Date	March 2020
Management Comment	System ownership will sit within Business Support. Senior Manager responsible for this will be Elaine Nixon. Business Support will require input from PMI with regarding to providing support in terms of supplier engagement.

Action	g
Finding	Analysis of leavers identified that cards remain issued to individuals no longer in the employ of the Council.
Action Description	Redundant cards should be deactivated. Arrangements should be made for system administration to receive regular reports from Chris in line with the recommendations of the recent Movers audit.
Risk	Access cards are used inappropriately, and security aspects of the system are circumvented.
Priority (1, 2, 3)	1
Paragraph Reference	3.8
Managed by	Mark Boyd, Head of Service (Financial and Customer Services)
Assigned to	Hayley Smith, Team Leader (Business Support)
Due Date	July 2020
Management Comment	<p>The Business Support team currently receive a report from HR for terminations/movers. This analysis will be used each month to remove employee access.</p> <p>The Business Support will also liaise with I.T to improve the current leavers form to ensure it becomes mandatory for managers to select the option that instructs removal of Kelio access.</p>

Action	h
Finding	<p>System reports are available, however making proper analysis of the information is difficult due to the way users are set up on the system: for example, some names can be shortened and not all records have the employee number assigned.</p> <p>Last usage of the cards is not readily available.</p>
Action Description	All Kelio records should replicate HR records and the employee number must be assigned to the card. An additional report which records last card usage should be requested from the system providers and regularly reviewed.
Risk	Proper review of the system is made impossible due to incompatibility with other Council records and redundant cards are used by personnel to whom they were not issued.
Priority (1, 2, 3)	1
Paragraph Reference	3.9
Managed by	Mark Boyd, Head of Service (Financial and Customer Services)
Assigned to	Hayley Smith, Team Leader (Business Support)
Due Date	April 2020
Management Comment	<p>Business Support will ensure that all new users are replicated to their HR records, this will be including HR records.</p> <p>Autoclock (system provider) have been contacted and have advised that there is no generic report for last card usage and that each card will need to be checked individually. Business Support will continue to discuss with the provider for resolution and if not will work through the system to attempt to create a report.</p>

Action	i
Finding	Time keeping and annual leave are not accurate on the system and management review of team records is inconsistently applied across Services.
Action Description	A house keeping exercise should be undertaken by the system administrator. Management teams should be encouraged to regularly review their staff records, especially where members of their team are losing time on a regular basis, and ensure that negative balances are recovered in the following calendar month.
Risk	Employee records are inaccurate and possible overloading of workflow or employees not adhering to the Flexi Scheme are not identified at an early opportunity.
Priority (1, 2, 3)	1
Paragraph Reference	3.12, 3.13
Managed by	Mark Boyd, Head of Service (Financial and Customer Services)
Assigned to	Hayley Smith, Team Leader (Business Support)
Due Date	March 2020
Management Comment	As part of the new drop-in sessions that Business Support will be introducing managers will be advised on how to run reports to check for absences, clocking and balances etc. As well as having new procedure notes for the system this should encourage managers to use KELIO more to be able to track the above.

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.

PCARD AND PROCUREMENT SPEND

1 Background

- 1.1 The audit is part of the approved 2019/20 audit plan and focused on compliance with Procurement card guidance, as well as compliance with on contract spend through an analysis of Procurement card spend versus expenditure through the Financial Management System (Integra). It also included an analysis of non-PO invoice spend.
- 1.2 The period covered by the audit is 1st April 2018 to 31st March 2019. During this period there were 27,976 card transactions totalling £5,527,601.04. The highest value card transaction was £12,940.11.
- 1.3 During this period there were 114,340 invoices processed on Integra totalling £276,769,283.05. The auditor removed payments to individuals i.e. social services payments, feeder payments, rent refunds, redecoration (disturbance allowance), replacement cheques, election deposits, equal pay and replacement clothing grant from this analysis and this reduced the number of invoices to 93,444 totalling £263,967,943.74. This represents payments to trade creditors.
- 1.4 SDOL is the system provided by Royal Bank of Scotland to process and control card payments. Cardholders are required to review all card transactions and approvers should independently check and approve the transactions.

2 Objectives and Scope

- 2.1 The main objectives of the audit were to ensure that:
- Procurement cards are being used in compliance with procedures
 - Adequate controls are in place to prevent invoices being paid via procurement card, and ensure card transactions are within set limits, only valid Council purchases are made, leavers' cards are returned and on contract spend via card is agreed and monitored.
 - Purchase orders are being raised where required, the use of retrospective orders is limited and the number of standard suppliers being paid only 1 invoice is limited as they should be processed as a sundry supplier.

3 Findings

Compliance with Procurement Card Procedures

- 3.1 The Procurement Card Policy and Procedure Reference Guide should be reviewed and updated. The audit tested against this guidance document and found it unclear at times and repetitive. **(action a)**
- 3.2 A sample of receipts was tested and, in 4 out of the 15 cases, the cardholder did not hold a valid VAT receipt and advised the receipt they held was the only one provided. In 1 case the cardholder recorded VAT on SDOL but didn't hold a VAT receipt and in the 3 other cases VAT was not recorded by the cardholder on SDOL, but vatable items were purchased. **(action b, c)**

- 3.3** Section 8.7 of the guidance states “Cardholders must ensure that for each transaction there is a receipt / documentation for Audit purposes. Spot checks will be carried out. If it has not been provided the cardholder must request the required paperwork from the supplier i.e. VAT receipt/VAT invoice.” Although this is noted under the Cardholder Responsibilities section, the spot checks should be an independent check to be carried out by eProcurement. It was identified that these are not taking place. **(action c)**
- 3.4** The auditor tested for card transactions that were approved and reviewed by the same person. There were 161 transactions across 10 cardholders. There were 84 card transactions where the transactions were not reviewed by the cardholder, as they were on leave. However, there were 77 card transactions totalling £3,719.01 which were reviewed and approved by the cardholder so there was no segregation of duties. The 77 card transactions were passed to e-Procurement to further investigate with RBS.
- 3.5** A previous audit recommendation stated “The Corporate Procurement Unit should investigate the possibility of enhancing controls within the SDOL system to ensure that the same person cannot review and approve a transaction.” E-Procurement advised a change was made to SDOL in October 2015 to ensure a separation of reviewers and approvers. E-Procurement were under the impression the system would prevent this; however, RBS have confirmed this is not the case. During the audit, e-Procurement carried out a full review to identify the cardholders that could approve their own transactions and are taking action to fix this. This review identified 51 users affected by the segregation of duties issue.
- 3.6** In addition, the management response to this action also stated “The CPU will run a quarterly report to assess if anyone is reviewing and approving the same transaction. If this is found to be the case the individual will be sent a reminder that this contravenes the procedure. If a second occasion is found then a message will be sent to the individual copying their line manager. A third occasion will result in the procurement card being revoked.” This has not been implemented despite the action having been marked complete. **(action d)**
- 3.7** The auditor traced a sample of transactions from the SDOL system to Integra. The SDOL system has a Financial Transaction Reference Number which is a unique reference; however, this is not recorded in the journal which is passed to Financial Management and uploaded to Integra. **(action e)**
- 3.8** A sample of 10 approvers were selected for further audit testing. In 1 case the application form was not properly completed and had not been signed by the Procurement Manager and this approver had not signed the acknowledgement form. In 1 case the acknowledgement form could not be traced. **(action f)**
- 3.9** Procurement confirmed there is no current monitoring of GPC card spend against Integra spend to highlight when Services should be using existing contracts and ordering via Integra instead of using GPC card. However, the Procurement Board has recently requested monitoring of GPC spend to identify high-value suppliers. Each quarter, expenditure with a selected supplier will be reviewed to identify off-contract expenditure and potential for contracts to be put in place.
- 3.10** As shown in the table below, the auditor identified the top 15 suppliers paid via procurement card to identify if the supplier is also being paid via Integra. There were 4 suppliers paid via both methods. However, no duplicate payments were found from the testing carried out.

SUPPLIER NAME	NO OF GPC TRANSACTIONS	TOTAL SPEND PER GPC	NO OF INTEGRA TRANSACTIONS	TOTAL SPEND PER INTEGRA
THE FURNISHING SERVICE	2780	£1,510,362.86	37	£28,653.93
BRAKE BROS LTD	2953	£1,302,622.24	54	£6,307.59
GEORGE CARRUTHERS & SO	411	£373,855.91	n/a	n/a
MCCONECHYS HEAD OFFICE	51	£275,978.72	n/a	n/a
AMAZON	3822	£175,919.31	n/a	n/a
MULLER WISEMAN DAIRIES	3710	£164,959.85	n/a	n/a
TESCO	1472	£138,367.32	n/a	n/a
UNICO LTD	482	£113,664.97	759	£237,595.16
CORSEHILL PACKAGING LT	698	£99,155.86	n/a	n/a
J PIERONI & SONS LTD	540	£94,035.76	n/a	n/a
BESTWAY WHOLESALE	55	£58,426.63	n/a	n/a
ARGOS	332	£43,522.89	21	£3,599.39
WWW.ADELIEFOODS.CO.UK	921	£40,990.47	n/a	n/a
GREENCITY WHOLEFOODS	238	£37,140.81	n/a	n/a
BATLEYS PERTH	129	£36,760.11	n/a	n/a

- 3.11** 10 of these suppliers are on the contract register. Procurement did advise that a number of Services are using procurement cards for on-contract spend after approval by Procurement; however, there is no record of such suppliers to show which ones have been given this approval. The contract register should include a flag to show all suppliers which have been given approval by Procurement to be used for on-contract spend via the procurement card. **(action g)**

Analysis of Procurement Card Spend

- 3.12** The auditor tested for card transactions that were higher than the single transaction limit by analysing limits provided by RBS. It was found that 216 card transactions met this criterion and in 43 cases the difference was more than £1,000. E-Procurement advised that an 'Amend a Limit' form should be completed if a user requires their single transaction limit to be amended. In addition, e-Procurement carried out a limit review in April 2019 to streamline the number of single transaction limits. **(action h)**
- 3.13** The auditor tested a sample of 10 such card transactions and found the following:
- in 4 cases it was unclear if a previous Amend a Limit form was actioned as the limit provided to audit implied it had not been actioned.
 - In 4 cases there is no evidence of the limit change to allow the queried transaction to be processed.
 - In 2 cases the current limit does not agree to either an Amend a Limit form or the limit review so there is no evidence of the limit change to allow the queried transaction to be processed. **(action h)**
- 3.14** As a result of the above, Internal Audit asked e-Procurement to contact RBS to find out if there was a sufficient audit trail covering amendments to cardholder limits. RBS provided an audit trail of such amendments and although it did provide the date of change, user who made the change, value before the change and value after the change, they could only provide the data for the previous 3 months. To ensure a full audit trail is maintained e-Procurement should ask for a monthly audit trail report from RBS to support such amendments. **(action h)**

- 3.15** The level of detail recorded by cardholders under the 'Finance Expense Description' varies. In addition, there were 88 card transactions totalling £22,440.63 with no description recorded by cardholders on the SDOL system. Although approvers are required to check receipts, there is a risk that they are approving such transactions with either limited knowledge or no knowledge of the description of goods purchased. **(action b)**
- 3.16** There were 21 cardholders that had since left the Council. The leavers were passed to e-Procurement to check the account had been de-activated. All accounts had been closed apart from 2 which e-Procurement will action. **(action b, i)**
- 3.17** There were 6 cards which had been used after the cardholder left. There were 36 card transactions made totalling £1,785.03. All these purchases were for genuine work purposes. 17 of them were for catering supplies where the card details were embedded in the supplier's system and the supplier had not been notified promptly. The other 19 transactions consisted of purchases made just before the leaving date but processed afterwards and internet purchases made by colleagues who had been given the card when the cardholder left. Therefore there were no fraudulent purchases or purchases for personal gain and no evidence of leavers retaining the cards. However, it is a clear breach of procedure for anyone other than the cardholder to make a purchase using that card and it is also a requirement that services notify eProcurement and any suppliers who hold card details promptly when a cardholder leaves. **(action b, i)**
- 3.18** The auditor tested for transactions with the word 'invoice' in the finance expense description column. This highlighted 8 card transactions totalling £12,145.97 in Facilities Management which were in relation to the payment of outstanding invoices. Although there was no duplicate payment of such invoices, there is a risk these invoices could be paid via Integra and SDOL. In addition, paying invoices via the procurement card is against the guidance. This has been highlighted in a recent Corporate Fraud investigation with an appropriate action.

Analysis of Integra Spend

- 3.19** There is an Integra Supplier Request Form, an Integra Individual Request Form and a Sundry Payment Form. There is no guidance on the forms or on Connects that advises users when each form should be used. A reference guide advising users of the criteria for each method should be produced. **(action j)**
- 3.20** The auditor analysed suppliers who had only been paid once during the last financial year. There were 756 suppliers brought over from Masterpiece who have only been paid once. There were 39 suppliers added to Integra between June 2017 and April 2018 that have only been paid once. There have been 252 suppliers added to Integra between April 2018 and March 2019 that have only been paid once. **(action j)**

4 Internal Audit Opinion

- 4.1** Overall, limited assurance was obtained with regard to controls around procurement cards. No fraud was found during audit testing; however, the actions identified will help tighten controls around procurement cards and ensure compliance with procedures.

KEY FINDINGS AND ACTION PLAN PCARD AND PROCUREMENT SPEND

Action	a
Finding	The auditor tested against the Procurement Card Policy and Procedure Reference Guide and found it unclear at times and repetitive.
Action Description	The Procurement Card Policy and Procedure Reference Guide should be reviewed and updated.
Risk	Users are not clear about their responsibilities.
Priority (1, 2, 3)	3
Paragraph Reference	3.1
Managed by	Mark Boyd, Head of Financial and Customer Services
Assigned to	Anne Lyndon, Senior Manager (Corporate Procurement)
Due Date	Complete
Management Comment	The Procedure has been revised to remove duplication and make it easier to understand. The revised document will be added to Connects and referenced in the monthly email sent to all SDOL users

Action	b
Finding	<p>VAT receipts are not always being obtained by the cardholder and VAT is not being properly accounted for by the cardholder on the SDOL system.</p> <p>The level of detail recorded by cardholders under the 'Finance Expense Description' varies. In addition, there were 88 card transactions totalling £22,440.63 with no description recorded by cardholders on the SDOL system.</p> <p>2 accounts where the cardholder had left the Council were still active. 36 transactions totalling £1,785.03 had been processed after the cardholder left the Council.</p>
Action Description	<p>Procurement should issue a reminder to users covering the following:</p> <ul style="list-style-type: none"> cardholders must comply with relevant sections of the GPC guidance with regards to VAT receipts and to ensure VAT is properly recorded on the SDOL system. Cardholders should provide a reasonable description for the goods purchased. Services must notify them of leavers and movers promptly, notify any suppliers with embedded cards promptly and consider the need to add new cardholders in good time.
Risk	Lack of VAT receipt where VAT has been claimed and not claiming back VAT on vatable items. Approvers are approving such transactions with either limited knowledge or no knowledge of the description of goods purchased. Employees who have left the Council still have the facility to use the GPC. Breach of procedures and lack of proper oversight if other colleagues or suppliers with embedded card details use a leaver's card. Lack of business continuity if a service has not set up a replacement cardholder in good time.

Priority (1, 2, 3)	2
Paragraph Reference	3.2, 3.16, 3.17, 3.18
Managed by	Mark Boyd, Head of Financial and Customer Services
Assigned to	Mark Boyd, Head of Financial and Customer Services
Due Date	30/11/19
Management Comment	A communication will be sent from Mark Boyd to all SDOL users and COLT members reminding individuals of their responsibilities.

Action	c
Finding	Spot checks to test for card transaction receipts as per the guidance are not being carried out by e-Procurement.
Action Description	e-Procurement should carry out periodic checks on a sample of card transactions to confirm that a proper receipt has been retained and VAT has been properly accounted for.
Risk	Potential fraudulent transactions go undetected and VAT is not properly accounted for.
Priority (1, 2, 3)	2
Paragraph Reference	3.2, 3.3
Managed by	Mark Boyd, Head of Financial and Customer Services
Assigned to	Betty Saunders, Procurement Manager and Anne Lyndon, Senior Manager (Corporate Procurement)
Due Date	Complete
Management Comment	A process has now been implemented to check a small number of random transactions to note whether a receipt is attached. The results will be documented in a spreadsheet. A reminder message will be sent to any individuals not attaching receipts.

Action	d
Finding	The management response to a previous audit action stated "The CPU will run a quarterly report to assess if anyone is reviewing and approving the same transaction. If this is found to be the case the individual will be sent a reminder that this contravenes the procedure. If a second occasion is found then a message will be sent to the individual copying their line manager. A third occasion will result in the procurement card being revoked." This has not been implemented despite the action having been marked complete.
Action Description	e-Procurement should periodically review card transactions to identify cardholders approving their own transactions.
Risk	No segregation of duties.
Priority (1, 2, 3)	2
Paragraph Reference	3.6
Managed by	Mark Boyd, Head of Financial and Customer Services
Assigned to	Betty Saunders, Procurement Manager and Anne Lyndon, Senior Manager (Corporate Procurement)
Due Date	30/11/19
Management Comment	The previous agreed action will be adopted. "The CPU will run a quarterly report to assess if anyone is reviewing and approving the same transaction. If this is found to

	be the case the individual will be sent a reminder that this contravenes the procedure. If a second occasion is found, then a message will be sent to the individual copying their line manager. A third occasion will result in the procurement card being revoked."
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Action	e
Finding	The SDOL system has a Financial Transaction Reference Number which is a unique reference; however, this is not recorded in the journal which is passed to Financial Management and uploaded to Integra.
Action Description	e-Procurement should consult with Financial Management to amend the information uploaded in the journal to include the unique reference.
Risk	Lack of a full audit trail of transactions between 2 systems.
Priority (1, 2, 3)	2
Paragraph Reference	3.7
Managed by	Mark Boyd, Head of Financial and Customer Services
Assigned to	Betty Saunders, Procurement Manager and Anne Lyndon, Senior Manager (Corporate Procurement)
Due Date	30/11/19
Management Comment	The reference number will be passed each month from eProcurement to Financial Management for uploading into Integra

Action	f
Finding	Audit testing identified that procedures relating to the approval of applications for a GPC were not always being adhered to.
Action Description	Procurement staff should be reminded to ensure that application forms and acknowledgement forms are properly completed, signed, authorised and retained.
Risk	Procurement cards are issued without evidence of appropriate authorisation.
Priority (1, 2, 3)	2
Paragraph Reference	3.8, 3.9
Managed by	Mark Boyd, Head of Financial and Customer Services
Assigned to	Anne Lyndon, Senior Manager (Corporate Procurement)
Due Date	Complete
Management Comment	Procurement staff have been reminded to be ensure forms are completed, authorised and retained.

Action	g
Finding	10 out of 15 highest paid procurement card suppliers are on the contract register, meaning the card is being used for on-contract spend. Procurement advised they approved a number of Services to use the procurement card for this purpose; however, there is no record of such suppliers to show which ones have been given this approval.

Action Description	The contract register should include a flag to show all suppliers which have been given approval by Procurement to be used for on-contract spend via the procurement card.
Risk	Increased risk of duplicate payments. Difficulty analysing aggregate spend per supplier.
Priority (1, 2, 3)	3
Paragraph Reference	3.12
Managed by	Mark Boyd, Head of Financial and Customer Services
Assigned to	Betty Saunders, Procurement Manager and Anne Lyndon, Senior Manager (Corporate Procurement)
Due Date	Complete
Management Comment	A separate record of contracts where the use of PCards has been agreed has now been established. This spreadsheet will be updated with any additions or amendments.

Action	h
Finding	Audit testing identified that a proper audit trail was not being maintained in relation to amendments to cardholder limits.
Action Description	To ensure a full audit trail is maintained, e-Procurement should ask for a monthly audit trail report from RBS to support amendments to cardholder limits.
Risk	Lack of audit trail for a key system admin function.
Priority (1, 2, 3)	2
Paragraph Reference	3.13 – 3.15
Managed by	Mark Boyd, Head of Financial and Customer Services
Assigned to	Betty Saunders, Procurement Manager and Anne Lyndon, Senior Manager (Corporate Procurement)
Due Date	30/11/19
Management Comment	e-Procurement will work with RBS to ensure that reports showing the full audit trail are requested and retained.

Action	i
Finding	2 accounts where the cardholder had left the Council were still active. 36 transactions totalling £1,785.03 had been processed after the cardholder left the Council.
Action Description	eProcurement should liaise with IT to ensure that they are included in reports they have started running, to show leavers and movers from CHRIS, and deactivate any cards where the service haven't previously notified them.
Risk	Employees who have left the Council still have the facility to use the GPC. Breach of procedures and lack of proper oversight if other colleagues or suppliers with embedded card details use a leaver's card.
Priority (1, 2, 3)	1
Paragraph Reference	3.16, 3.17
Managed by	Mark Boyd, Head of Financial and Customer Services
Assigned to	Anne Lyndon, Senior Manager (Corporate Procurement)
Due Date	31/1/20 to commence
Management Comment	It is not unexpected that transactions may occur after an employee has left the Council, as any goods purchased in the last

	<p>month of employment need to be reconciled the following month by another individual.</p> <p>On a quarterly basis eProcurement will request a report from HR of all leavers. This will be crossed checked against an updated SDOL report of all PCard holders to identify any leavers whose card has not been returned to eProcurement. If a card is identified, then contact will be made with the leavers previous line manager to locate the relevant PCard.</p>
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Action	j
Finding	Audit testing highlighted that additional clarity is required for system users to ensure that suppliers are set up in the correct way,
Action Description	A reference guide advising users of the criteria to be followed to ensure suppliers are set up correctly and payments are processed in the most efficient way should be developed and issued.
Risk	Suppliers are set up incorrectly. Inefficient use of staff time setting up a supplier for a one-off payment.
Priority (1, 2, 3)	3
Paragraph Reference	3.19, 3.20
Managed by	Mark Boyd, Head of Financial and Customer Services
Assigned to	Anne Lyndon, Senior Manager (Corporate Procurement)
Due Date	Complete
Management Comment	A review of Connects has been undertaken and it is felt that that the existing guidance on Connects is sufficient

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.

EXTERNAL RESIDENTIAL AND EDUCATION PLACEMENTS

1 Background

- 1.1 The Council has a responsibility to provide additional educational support and/or residential placements to young people assessed as needing such services.
- 1.2 The Council has a number of its own facilities which provide such services, however there are instances where it is necessary to procure services from external providers – either due to Council establishments being at capacity, or the needs of the young person being better met by a specialised external provider.
- 1.3 Both Education and the Health and Social Care Partnership (HSCP) have a role to play in delivering these services. Education take the lead in Education-only placements, whilst HSCP take responsibility for residential placements. Residential placements which include an element of educational support are arranged by HSCP, with input and budgetary support from Education.

2 Objectives and Scope

- 2.1 This audit has focussed on placements with external providers.
- 2.2 The main objectives of this audit were to ensure that:
 - There is a clear audit trail of the decision to place a child in a 3rd party placement, including details of the length of the placement, start date and funding mechanism,
 - There is evidence of a clear contract for services between the Council and the 3rd party service provider,
 - Financial checks are performed prior to paying invoices

3 Findings

Audit Trail of placement decision

- 3.1 Both services have their own procedure for managing these placements.
- 3.2 Audit testing of Education's procedures highlighted that paper files are kept for all children, with no direct electronic equivalent available. **(action point a)**
- 3.3 In addition, it was noted that the funding split agreed between Education and HSCP is not always stated in the Inclusion Group minutes. This was discussed with Education during the audit and it was agreed that the split would be noted in all minutes going forward.
- 3.4 During testing of HSCP's procedures it was noted that there is no formal list of the documents and correspondence to be held per child, nor is there a standardised filing system in place. A number of documents could not be located for review during audit testing. **(action point b)**

Contracts with external providers

- 3.5** A review of the service providers currently being used by both Education and HSCP was undertaken to ensure that the Council's Contract Standing Orders were being adhered to.
- 3.6** This review found that 2 of the companies being used by HSCP did not have a procurement contract in place. This was raised with Corporate Procurement during the audit, who agreed to investigate and correct this. **(action point c)**
- 3.7** Scotland Excel require an Individual Placement Agreement (IPA) be completed every time a young person is placed with a service provider from their framework. The IPA sets out, amongst other things, background details on the young person, placement requirements and costs.
- 3.8** The IPA is the formal agreement between the Council and the service provider and should be signed by both parties to signify an agreement has been reached. During audit testing within HSCP a number of IPAs could not be located, and of those that were available, a number hadn't been signed and returned to the Council by the provider. **(action point d)**

Financial checks

- 3.9** Education and HSCP maintain their own spreadsheets to monitor placements. These spreadsheets are the reference point against which invoices are checked prior to being paid. **(action point a and b)**
- 3.10** A sample of placements were selected from both spreadsheets to ensure the placement start or finish date per the spreadsheets matched the dates quoted on the supplier invoice. No errors were noted during testing.

4 Internal Audit Opinion

- 4.1** Overall, reasonable assurance was obtained with regards to Education's procedures surrounding external placements. The main concern arising from the audit was the ongoing use of paper files as the main storage method.
- 4.2** Overall, limited assurance was obtained with regards to HSCP's procedures surrounding external placements. Audit testing raised concerns in the lack of consistency in the data being retained for each case, and where that data is being stored. In addition, breaches of Standing Orders were noted.

KEY FINDINGS AND ACTION PLAN
EXTERNAL RESIDENTIAL AND EDUCATION PLACEMENTS

Action	a
Finding	Highly sensitive young person placement data is being kept in paper files by Education, with no direct electronic equivalent being available.
Action Description	<p>Carefirst should be considered as a storage location for holding all relevant placement information – as a replacement to the current systems being used.</p> <p>This would ensure that all data is held securely against each young person's record, whilst remaining accessible to those with appropriate system access rights.</p> <p>In addition, Carefirst could be used to hold financial cost information on each placement. This would reduce the reliance on spreadsheets.</p>
Risk	Data loss due to paper files not being backed up; inability to locate highly confidential data; GDPR breaches
Priority (1, 2, 3)	1
Paragraph Reference	3.2; 3.9
Managed by	Head of Service (Education)
Assigned to	Principal Educational Psychologist
Due Date	31 December 2019
Management Comment	Carefirst is not a viable storage mechanism for this as Education does not currently have access to Carefirst. Psychological Services files are currently paper reflecting their depth and the fact that they are open files in constant use meeting the exigencies of the service. Furthermore they are securely stored. There are also issues around the timing involved in transferring to an electronic filing system. We will consider electronic filing systems.

Action	b
Finding	Inconsistencies in the data being retained by the HSCP for placements.
Action Description	<p>A review should be undertaken by HSCP to confirm what data and correspondence need to be retained for each placement.</p> <p>Carefirst should be considered as a storage location for holding all relevant information – as a replacement to the current system being used.</p> <p>A procedure document which states the data to be retained, and its storage location should be prepared and circulated to all relevant staff.</p> <p>In addition, Carefirst could be used to hold financial cost information on each placement. This would reduce the reliance on spreadsheets.</p>
Risk	Important data is not retained: lack of succession planning; GDPR breaches
Priority (1, 2, 3)	1
Paragraph Reference	3.4; 3.9
Managed by	Head of Service (Children, Families & Criminal Justice)
Assigned to	Senior Manager (Children & Families); Senior Officer (Residential Services)
Due Date	Checklist, including procedure document, have been completed and circulated to all relevant staff. March 2021 for everything to be contained in Carefirst or a similar information system.
Management Comment	<p>A checklist has been drawn up confirming what data and correspondence needs to be retained for each placement.</p> <p>Having spoken with our Finance and Carefirst managers, it has been pointed out that Carefirst was not designed as a repository for documents. However, the system can be used for this purpose while we await a new IT system that should have this as a core function. The work on Carefirst required for it to be used to hold financial information is currently being carried out in regard to residential services for adults. It would therefore be 2020/2021 before children's external residential placements can be looked at being incorporated into Carefirst. In the meantime, we will continue to use a spreadsheet to hold financial information.</p>

Action	c
Finding	Contract standing orders are not always being adhered to when appointing suppliers.
Action Description	HSCP and Corporate Procurement should review the 2 suppliers identified during the Audit who do not have procurement contracts in place, investigate how this has occurred, and take corrective action.
Risk	Breach of legislation; breach of Standing Orders.
Priority (1, 2, 3)	2
Paragraph Reference	3.6
Managed by	Head of Service (Children, Families & Criminal Justice)
Assigned to	Senior Officer (Residential Services)
Due Date	Complete
Management Comment	Senior Officer (Residential Services) has met with an officer in Corporate Procurement to review the two suppliers identified in the audit. As part of this work, they have investigated why this happened and taken corrective action to ensure that it does not happen again.

Action	d
Finding	IPAs are not always being signed and returned by external service providers.
Action Description	All suppliers should be reminded of the need to sign and return IPAs timeously. Support from Corporate Procurement and Scotland Excel may be required to effectively achieve this.
Risk	Lack of supplier signature may result in issues should a contractual disagreement occur; officer time wasted having to chase suppliers for signed IPAs. No evidence of service level agreed with supplier.
Priority (1, 2, 3)	1
Paragraph Reference	3.8
Managed by	Head of Service (Children, Families & Criminal Justice)
Assigned to	Senior Officer (Residential Services)
Due Date	Complete.
Management Comment	Senior Officer (Residential Services) has reminded all providers in writing at the time of placement of the need to sign and return IPAs. He has also set up a system to track missing IPAs and ensure that they are signed and returned.

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.

ACCOUNTS PAYABLE TRANSACTION TESTING

1 Background

- 1.1 This audit used computer audit software called IDEA (Interactive Data Extraction and Analysis) to interrogate the Accounts Payable (AP) System and examined any anomalies which arose.
- 1.2 The audit was carried out in quarter 2 and the audit period was 1st January 2019 to 30th June 2019. This audit will be carried out again in quarter 4.
- 1.3 There were 4,881 active Trade Suppliers (for processing payments to standard suppliers, individuals and social services) and 209 Sundry Suppliers (for processing one-off sundry payments) on Integra as at 26/07/19. Accounts Payable advised that since the last audit they have introduced a new process to deactivate suppliers that have not been paid in the previous 18 months which is why the number of suppliers is smaller than previous audits. This exercise is carried out on a quarterly basis.
- 1.4 There were 53,311 invoices paid during the period of the audit totalling just over £136 million.

2 Objectives and Scope

- 2.1 The main objectives of this audit were to ensure that:
 - duplicate suppliers are identified and de-activated to minimise the risk of duplicate invoices being paid
 - duplicate invoices have not gone undetected
 - advance payments have been reported to Financial Services for the list of pre-payments
 - high value invoices have been properly authorised
 - invoices paid to employees are bona fide

3 Findings

Supplier Tests

- 3.1 Testing was carried out to identify duplicate trade suppliers on the system. Testing identified 55 duplicate suppliers by either supplier name or bank details. These were passed to the AP team to review and deactivate as appropriate. There were 5 occasions where the same invoice was paid against 2 instances of the same supplier. **(Action a)**

Invoice Tests

- 3.2 The auditor tested for duplicate invoices for payments to suppliers and identified 208 possible duplicates that were investigated further. This resulted in 47 that were not duplicates and 116 where the duplicate had already been identified and action taken by the AP team. This testing identified 45 potential duplicate invoices totalling £82,490.97, which have not already been identified by AP. The potential duplicates have been passed to the AP team to check and arrange recovery. **(action b)**

Advance Payment Tests

- 3.3** The auditor tested for round sum amounts over £20,000 to help identify any advance payments. There were 22 invoices found meeting this criteria, all were checked and there were no cases of advance payments to report.

High Value Payments

- 3.4** The auditor selected a sample of 10 invoices between £10,000 and £100,000 to check the invoices were approved by an authorised signatory, were approved within the approval limit and an independent check had been carried out. In 4/10 cases there was no 'payments over £10k' report attached, 3 of which were keyed by the service, so there is no evidence an independent check was carried out. In addition, 2 invoices had no invoice stamp and although there was an approved stamp with initials against it, the auditor could not check if they were approved by an authorised signatory as the correct invoice stamp was not used. **(action c, d)**
- 3.5** The auditor selected a sample of 15 invoices over £100,000 to check the invoices were approved by an authorised signatory, were approved within the approval limit and an independent check had been carried out. In 3/15 cases there was no 'payments over £10k' report attached, all of which were keyed by the service, so there is no evidence an independent check was carried out. In 1 case the invoice was not attached on Integra. Although all invoices were approved by an authorised signatory, in 2 cases the invoice values were above their approval limit. The approvers were contacted during the audit and advised they should only approve within their agreed limit and if the limit needs to be amended this needs to be agreed by the Head of Service. **(action c)**

Creditors to Payroll Data Match

- 3.6** Testing was carried out to match employee bank details to trade and sundry supplier bank details to identify creditor payments made to employees. There were no matches found in this test.

4 Internal Audit Opinion

- 4.1** Overall, reasonable assurance was obtained with regard to the controls around the processing of invoices, in particular to preventing duplicate invoices being processed.

KEY FINDINGS AND ACTION PLAN
ACCOUNTS PAYABLE TRANSACTION TESTING

Action	a
Finding	Testing identified 55 duplicate suppliers by name or bank details.
Action Description	Procurement should review the list of duplicate suppliers and de-activate suppliers as appropriate.
Risk	Duplicate invoices may be passed for payment to the same supplier via different supplier numbers.
Priority (1, 2, 3)	1
Paragraph Reference	3.1
Managed by	Mark Boyd, Head of Financial and Customer Services
Assigned to	Anne Lyndon, Senior Manager (Corporate Procurement)
Due Date	30.11.2019
Management Comment	Procurement will review the 55 potential duplicate suppliers and de-activate as required.

Action	b
Finding	Testing identified 45 potential duplicate invoices totalling £82,490.97, which have not already been identified by AP.
Action Description	AP should review the duplicate invoices and arrange for recovery of monies paid twice.
Risk	Council has paid the same invoice twice and the money has not been recovered.
Priority (1, 2, 3)	1
Paragraph Reference	3.2
Managed by	Mark Boyd, Head of Financial and Customer Services
Assigned to	Anne Lyndon, Senior Manager (Corporate Procurement)
Due Date	30.11.19
Management Comment	Accounts Payable will investigate the potential duplicates and take appropriate action to recover duplicate payments.

Action	c
Findings	In 7/25 cases there was no 'payments over £10k' report attached so there is no evidence an independent check was carried out. In 4/25 cases invoices were approved by an authorised signatory for amounts above their agreed approval limit.
Action Description	Procurement should remind users to carry out an independent check to ensure invoices over £10k are keyed correctly and evidence of the check is attached to the Integra transaction. Procurement should remind approvers to only approve invoices within their agreed approval limit.
Risk	Errors made processing high value invoices are not picked up and no evidence to support checks are carried out. Invoices are passed for payment without proper approval.
Priority (1, 2, 3)	2
Paragraph Reference	3.4, 3.5
Managed by	Mark Boyd, Head of Financial and Customer Services
Assigned to	Anne Lyndon, Senior Manager (Corporate Procurement)
Due Date	30.11.19
Management Comment	A reminder will be sent to all users who undertake manual invoice entries over £10K.

Action	d
Finding	The invoice stamp was not used on 2 invoices and although there was an 'approved' stamp with initials against it, the auditor could not check if they had been approved by an authorised signatory as the correct invoice stamp was not used. In addition, there was no evidence all relevant checks were carried out prior to passing the invoice for payment.
Action Description	Procurement should remind HSCP to use the corporate invoice stamp to ensure all relevant checks are carried out and approval given before the invoice is passed for payment.
Risk	No evidence of checks carried out or approval given.
Priority (1, 2, 3)	2
Paragraph Reference	3.4
Managed by	Mark Boyd, Head of Financial and Customer Services
Assigned to	Anne Lyndon, Senior Manager (Corporate Procurement)
Due Date	30.11.19
Management Comment	Procurement will send a reminder to the team manager within the HSCP responsible for payment of invoices.

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.

PAYROLL TRANSACTION TESTING

1 Background

- 1.1 This audit was conducted as part of the approved 2018/19 Internal Audit Plan and used computer audit software to interrogate the HR/Payroll system and examined any anomalies which arose.
- 1.2 The Employee Account is used to access and complete internal online forms for contract amendments and terminations.
- 1.3 Mileage, travel and subsistence claims can either be submitted via the completion of a manual claim form which is then physically authorised or electronically via the system called HR21, which allows the claim form to be electronically completed and approved.
- 1.4 The Payroll system has a screen called Authorised Signatories which records what the employee is authorised to approve.
- 1.5 Audit software called IDEA (Interactive Data Extraction and Analysis) has been used to carry out this testing.

2 Objectives and Scope

- 2.1 The main objectives of this audit were to ensure that:
 - High overtime payments are valid and properly authorised.
 - Employees' last pay is correct, properly authorised and has not resulted in an overpayment.
 - Salary changes are valid and authorised.
 - High mileage claims are in line with the Terms and Conditions of Employment, are valid and authorised.
 - Travel and subsistence expenses are in line with the Terms and Conditions of Employment, are valid and authorised.
 - Employee details are valid and complete.
 - Allowances and deductions are in line with the Terms and Conditions of Employment, are valid and properly authorised.
- 2.2 This testing covered the period 1st April 2018 to 31st March 2019.

3 Findings

High Overtime Payments

- 3.1 A monthly paid Facilities Management employee received 187.5 hours overtime in March 2019. Further investigation found that the employee claimed overtime of 29 hours for working 2 school holidays in February and was paid these hours at triple time in addition to his normal contracted hours so received £1,130.13 gross. The approver of the overtime claim form confirmed that the employee worked 14.5 hours each day and was due to be paid triple time. However, in line with the terms and conditions of employment, the employee was entitled to double time for all hours worked on a public holiday in addition to payment for the day. Given that the employee is paid automatically for contracted hours, an overpayment of £350.61 (gross) has been made in relation to this overtime claim. Payroll are taking steps to recover this overpayment.
(action a)

- 3.2 A Building Services overtime form was approved by an employee who is not an authorised signatory. The auditor advised the Service during the audit to add the employee as an authorised signatory in Payroll.

Employees' Last Pay

- 3.3 From a sample of 30 leavers, 7 overpayments were made which had been picked up by Payroll. In 4 cases, the termination forms were submitted after the employee left and in 3 cases, the termination forms were submitted before the employee left.
- 3.4 When completing the Termination form through the Employee Account, if an employee is due Pay In Lieu of Notice this should result in a field appearing to record the number of weeks due. However, in 3 cases, the person completing the Termination form selected that the employee was due Pay In Lieu of Notice but no field appeared to record the number of weeks due. In all other cases this field had appeared. **(action b)**
- 3.5 There were 15 employees who left within 14 days of starting and in 3 cases the employee was overpaid. This had been picked up by Payroll. In addition, there was no termination form on Lagan for 3 of these employees.

Salary Changes

- 3.6 From a sample of 10 salary changes, 7 of the contract amendment forms were received after the effective date, 4 of which were more than 1 week after the effective date and 1 of which resulted in the employee being owed 1 full week's salary.

High Mileage Claims

- 3.7 There were 15 employees claiming 999+ miles; 5 claim forms were not completed properly and in all 5 cases the purpose of visit was not completed. In 6 cases the claim form was not submitted within the 3-month period; however, in 4 of these cases authorisation was provided by HSCP along with a reason for the delay to confirm the payment should still be made. In 5 of these cases, a number of claim forms were submitted and paid together rather than being paid individually.

Subsistence Claims

- 3.8 From a sample of 10 travel and subsistence claim forms, the details section for 1 claim form was not properly completed.
- 3.9 A manually completed travel and subsistence claim form for £324.40 was submitted and processed by Payroll without any approval. **(action c)**
- 3.10 2 employees submitted claim forms in relation to expenses incurred while overseas, one for £631.22 in June 2018 and one for £518.35 in April 2018. HR confirmed that teaching staff are not subject to the Local Government Terms and Conditions of Employment, which requires approval of such trips from the Chief Executive. The Head of Service (Education) confirmed that all Head Teachers were notified in March 2019 that the Head of Service (Education) should be notified of all overseas trips. However, the above employees claimed back the Euro value in pounds and did not use an exchange rate to ensure they were reimbursed the correct amount. As a result, one employee was overpaid £60.06 and the other employee was overpaid £41.85. **(action d)**

3.11 During the investigation into 3.10 above, the PA to the Chief Executive had no knowledge of the requirement within the Terms and Conditions of Employment which states "For overseas visits, approval must be sought from the Chief Executive in advance of such a visit". As a result, there is no evidence that corporate staff taking trips overseas have not obtained approval from the Chief Executive. **(action e)**

3.12 Subsistence of £200.50 was paid to a Building Services employee for working in Arran for 2 weeks; however, no travel and subsistence claim form was completed. The employee requested expenses via their timesheet and the Contract Supervisor confirmed the subsistence to be paid via email. In addition, the Contract Supervisor approving via email is not an authorised signatory on Payroll. The service was advised during the audit to ensure travel and subsistence claim forms are completed in future and to add the approver as an authorised signatory in Payroll.

Allowances and Deductions

3.13 There are 15 employees currently in receipt of a Mental Health Allowance. HR advised this is an allowance paid to employees who undertake Mental Health Officer duties. This allowance is not covered in the Terms and Conditions of Employment. In addition, there is no evidence that the employees in receipt of this allowance are reviewed on an annual basis. **(action f)**

General Finding

3.14 During the audit there were a high number of errors noted, some of which resulted in overpayments which, although they had been picked up, resulted in additional staff time to investigate, correct and take action. Other key points identified were in relation to late completion of paperwork by services, approval by employees who are not approved signatories and travel and subsistence claims not being properly completed. **(action g)**

4 Internal Audit Opinion

4.1 Overall, reasonable assurance was obtained with regard to Payroll transactions testing.

KEY FINDINGS AND ACTION PLAN PAYROLL TRANSACTION TESTING

Action	a
Finding	The approver of the overtime claim form confirmed that the employee worked 14.5 hours each day and was due to be paid triple time. The employee was paid triple time in addition to their normal contracted hours resulting in an overpayment of £350.61.
Action Description	Approvers of overtime in Facilities Management should be reminded to authorise overtime claims only in line with the Terms and Conditions of Employment for each employee.
Risk	Overpayment of overtime
Paragraph Reference	3.4
Priority (1, 2, 3)	2
Managed by	Yvonne Baulk, Head of Service (Physical Environment)
Assigned to	Carolyn Hope, Senior Manager (Acting) Facilities Management
Due Date	Complete
Management Comment	Facilities Management staff are aware of the payment for public holidays i.e. always double time as no current staff will request plain time plus a day in lieu. On this overtime submission the employee actually wrote triple time at the side of the sheet and this was processed at triple time. The approving supervisors have been advised to ensure that if an employee marked on "triple time" that this was scored out.

Action	b
Finding	When completing the Termination form through the employee account, if an employee is due Pay In Lieu of Notice this should result in a field appearing to record the number of weeks due. However, in 3 cases the person completing the Termination form selected that the employee was due Pay In Lieu of Notice but no field appeared to record the number of weeks due. In all other cases this field had appeared.
Action Description	Payroll should review the Termination form to establish why this field is not appearing in all cases when PILON is due.
Risk	The number of weeks PILON is not provided resulting in extra work to determine the number of weeks due.
Paragraph Reference	3.4
Priority (1, 2, 3)	2
Managed by	Fiona Walker, Head of Service (People and Transformation)
Assigned to	Sheila Paisley, Senior Manager (Transformation)
Due Date	Complete
Management Comment	This issue has been identified and the issue resolved. The form has been updated and the fields will be visible in all instances where PILON has been identified.

Action	c
Finding	A manually completed travel and subsistence claim form was submitted and processed by Payroll without any approval.
Action Description	Payroll staff should be reminded not to process mileage and subsistence claim forms unless proper approval has been provided.
Risk	Employee is paid mileage/subsistence they are not entitled to.
Priority (1, 2, 3)	1
Paragraph Reference	3.9
Managed by	Fiona Walker, Head of Service (People and Transformation)
Assigned to	Jackie Hamilton, Senior Manager Employee Services
Due Date	Complete
Management Comment	The Payroll Team has been reminded of the importance of ensuring that all claim forms have been signed at the Authorised Signatory section.

Action	d
Finding	2 employees claimed subsistence for an overseas trip resulting in overpayments as both claimed the Euro value in pounds.
Action Description	Education should arrange for the recovery of these overpayments.
Risk	Overpayment not recovered.
Priority (1, 2, 3)	2
Paragraph Reference	3.10
Managed by	Andrew McClelland, Head of Service (Education)
Assigned to	Carole Devoy, Education Resources Manager
Due Date	Complete
Management Comment	Arrangements are in place for the recovery of overpayments.

Action	e
Finding	The PA to the Chief Executive had no knowledge of the requirement within the Terms and Conditions of Employment which states "For overseas visits, approval must be sought from the Chief Executive in advance of such a visit". As a result, it can be concluded that corporate staff taking trips overseas have not obtained approval from the Chief Executive.
Action Description	HR should review the current Terms and Conditions of Employment requirements, and if still relevant, remind Heads of Service to comply with the section relating to overseas trips and the completion of subsequent travel and subsistence claims.
Risk	Proper approval for overseas trips is not obtained, travel and subsistence outwith the standard rates are not properly approved.
Paragraph Reference	3.11
Priority (1, 2, 3)	2
Managed by	Fiona Walker, Head of Service (People and Transformation)
Assigned to	Jackie Smillie, Senior Manager (HR & OD)
Due Date	Complete
Management Comment	HR have sent a reminder to Heads of Service that CE approval is required for approval of overseas trips.

Action	f
Finding	There are 15 employees currently in receipt of a Mental Health Allowance. This allowance is not covered in the Terms and Conditions of Employment. In addition, there is no evidence that the employees in receipt of this allowance are reviewed on an annual basis.
Action Description	HR should consult with HSCP to review the current employees in receipt of this allowance and to set up an annual review process to ensure employees still meet the criteria to receive it along with clarification on the annual increase in line with the pay award. The approval should be a senior member of HSCP and should not be someone in receipt of such an allowance. This process should be covered in the Terms and Conditions of Employment.
Risk	Employees continue to receive an allowance they are no longer entitled to.
Paragraph Reference	3.13
Priority (1, 2, 3)	1
Managed by	Fiona Walker, Head of Service (People and Transformation) and Thelma Bowers, Head of Service (Mental Health)
Assigned to	Jackie Smillie, Senior Manager (HR & OD)
Due Date	Complete
Management Comment	Recent exercise conducted with HSCP to confirm those in receipt are still undertaking these duties (end Oct 2019). T's and C's also updated to reflect MHO allowance – sent to Webteam 4 Nov 2019.

Action	g
Finding	During the audit there were a high number of errors noted, some of which resulted in overpayments which, although they had been picked up, resulted in additional staff time to investigate, correct and take action. Other key points identified were in relation to late completion of paperwork by services, approval by employees who are not approved signatories and travel and subsistence claims not being properly completed.
Action Description	Employee Services should consider an awareness-raising campaign highlighting issues identified during the audit to try to reduce the number of errors being made and reduce Payroll officer time rectifying such errors.
Risk	Ineffective use of staff time rectifying errors by not getting it right first time.
Paragraph Reference	3.14
Priority (1, 2, 3)	2
Managed by	Fiona Walker, Head of Service (People and Transformation)
Assigned to	Jackie Hamilton, Senior Manager Employee Services
Due Date	Complete
Management Comment	Heads of Service are advised on a monthly basis of any overpayments that occur and should ensure that their Senior Manager review their processes to avoid future overpayments. In addition to this the Lead Adviser Payroll meets Senior Managers quarterly to discuss both the performance of the Service and the Payroll team, over/underpayments are discussed at this meeting with opportunities explored to enhance the process.

CODE OF CORPORATE GOVERNANCE

1 Background

- 1.1** The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives and Senior Managers (SOLACE) published an updated version of their Delivering Good Governance in Local Government Framework in 2016 (“the Framework”). This identified 7 Principles of Good Governance and within each of these a series of sub-principles and behaviours and actions which demonstrate good governance in practice. To support implementation of the Framework, CIPFA and SOLACE also published a set of Guidance Notes for Scottish Authorities (“the Scottish Guidance”).
- 1.2** North Ayrshire Council’s Internal Audit team test compliance with selected principles of the Framework (and previous versions) on a cyclical basis and the last such audit took place in 2015/16.

2 Objectives and Scope

- 2.1** The audit gathered evidence to demonstrate compliance with 2 of the 7 Principles of Good Governance as outlined in the Framework. These were:
C. Defining outcomes in terms of sustainable economic, social and environmental benefits;
and
E. Developing the entity’s capacity, including the capability of its leadership and the individuals within it.

3 Findings

- 3.1** In relation to principle C, the Scottish Guidance states that “The long-term nature and impact of many of local government’s responsibilities mean that it should define and plan outcomes and that these should be sustainable. Decisions should further the authority’s purpose, contribute to intended benefits and outcomes, and remain within the limits of authority and resources. Input from all groups of stakeholders, including citizens, service users, and institutional stakeholders, is vital to the success of this process and in balancing competing demands when determining priorities for the finite resources available.
- 3.2** The Scottish Guidance identifies 9 relevant behaviours and actions that demonstrate good governance in practice in relation to this principle. Testing was undertaken to ensure that the Council has suitable measures in place to demonstrate these behaviours and actions. It was found that this was the case in relation to all 9, for example:
- the preparation of the new Council Plan, which included consultation and impact assessment activities,
 - other consultations,
 - the inclusion of impacts in the standard template for committee reports,
 - the performance management framework,
 - the Capital Investment Programme and Strategy, which looks forward as far as 2027/28 and
 - the Risk Management Strategy.

- 3.3** In relation to principle E, the Scottish Guidance states that “Local government needs appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mindset, to operate efficiently and effectively and achieve their intended outcomes within the specified periods. A local government organisation must ensure that it has both the capacity to fulfil its own mandate and to make certain that there are policies in place to guarantee that its management has the operational capacity for the organisation as a whole. Because both individuals and the environment in which an authority operates will change over time, there will be a continuous need to develop its capacity as well as the skills and experience of the leadership of individual staff members. Leadership in local government entities is strengthened by the participation of people with many different types of backgrounds, reflecting the structure and diversity of communities.”
- 3.4** The Scottish Guidance identifies 12 relevant behaviours and actions that demonstrate good governance in practice in relation to this principle. Testing was undertaken to ensure that the Council has suitable measures in place to demonstrate these behaviours and actions. It was found that this was the case in relation to all 12, for example:
- the performance management framework,
 - asset management planning,
 - partnership working, including through the Community Planning Partnership,
 - the Workforce Plan,
 - Standing Orders and other governance documents,
 - the Performance and Personal Development scheme, Leadership and Elected Member Development,
 - the activities of the Audit and Scrutiny Committee,
 - consultations and the Communications Strategy and
 - Health and Safety policies and the Livewell programme.
- 3.5** During discussions about developing the capabilities of Elected Members and senior managers in relation to risk management, it was highlighted that there has been no specific risk management training for Chief Officers, although there has been for Members and also a general training course for all employees is offered. Chief Officer awareness is included in a Risk Management Action Plan which has been agreed by the Corporate Risk Management Group. **(Action a)**

4 Internal Audit Opinion

- 4.1** Overall, substantial assurance was obtained with regard to compliance with principles C. “Defining outcomes in terms of sustainable economic, social and environmental benefits” and E. “Developing the entity’s capacity, including the capability of its leadership and the individuals within in it” of the CIPFA/SOLACE Delivering Good Governance in Local Government Framework (2016).

KEY FINDINGS AND ACTION PLAN CODE OF CORPORATE GOVERNANCE

Action	a
Finding	There has been no specific risk management training for Chief Officers
Action Description	Specific risk management training should be arranged for Chief Officers
Risk	The Council hasn't ensured that Chief Officers have sufficient awareness and understanding of risk management for their roles.
Priority (1, 2, 3)	3
Paragraph Reference	3.5
Managed by	Fiona Walker, Head of Service (People and Transformation)
Assigned to	Alex Fitzharris, Team Manager (Risk and Insurance)
Due Date	31/03/2020
Management Comment	A risk management training session will be arranged and delivered for Chief Officers.

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.

ASN SCHOOLS

1 Background

- 1.1** North Ayrshire Council currently has 4 Additional Support Needs (ASN) schools.
- 1.2** This audit was performed by requiring each ASN school to complete a self-assessment questionnaire. Each questionnaire response was reviewed in detail and followed up as necessary. In addition, all schools were visited to allow more detailed audit testing to be performed.

2 Objectives and Scope

- 2.1** The objective of this audit was to review financial controls within the Council's ASN schools.
- 2.2** The questionnaire and detailed testing were designed to gain assurance that:-
- Staff are aware of all relevant Council governance procedures.
 - All cash is being held securely and is being properly managed.
 - Cash withdrawals made via the Procurement Card are being used for appropriate types of expenditure, and all transactions are being properly recorded.
 - A full audit trail exists for all school fund income and expenditure transactions.
 - Income from school meals is being securely stored prior to banking.

3 Findings

- 3.1** No significant risks or areas of weakness were identified at any of the schools.
- 3.2** During the audit it was noted that 2 of the 4 Head Teachers are reasonably new into post, and therefore have not yet attended the Council's 'Financial Regulations and Standing Orders relating to Contracts' training course. This was raised during the audit and both Head Teachers have now been booked on the course.
- 3.3** All 4 schools operate slightly differently in terms of financial procedures and practices. Consideration should be given to the best way to merge these systems, bank accounts etc in preparation for the merging of the 4 schools into the new ASN campus, and advice should be sought from Internal Audit as required.

4 Internal Audit Opinion

- 4.1** Overall, substantial assurance was obtained with regards to the financial controls within the ASN schools.

HOUSING RENTS AND ARREARS

1 Background

- 1.1** Universal Credit was introduced as part of The Welfare Reform Act 2012. This consolidated 6 previous benefits into one.
- 1.2** Prior to the introduction of Universal Credit, Housing Benefit was paid directly to the Council. Under Universal Credit the housing element of benefit is normally paid to the tenant and the tenant is then responsible for making the rent payment, although tenants can elect to have it paid directly to the Council.
- 1.3** The risk of increased rent arrears and bad debts as a result of changes to the benefits system was identified by Housing, and Performance Indicators (PI's) to monitor the impact were created within the Service Plan.
- 1.4** The 2018 Service Plan update confirms that the number, and value, of Universal Credit rent arrears cases has increased as more tenants are moved onto the scheme.

2 Objectives and Scope

- 2.1** The main objectives of this audit were to ensure that:
 - All housing rent payments received by the Council are accounted for, and accurately reflected in I-World (Housing rent system).
 - Rent arrears processes are sufficient to monitor and recoup all income owed to the Council timeously.

3 Findings

Rent Payments

- 3.1** Housing have very detailed procedure documents covering the income reconciliation process.
- 3.2** I-World is automatically updated for income received via PARIS (income collection system) at the end of each day. Housing reconcile the transfer between the two systems daily, to ensure that the transfer of data has been successful and that tenants accounts have been correctly updated.
- 3.3** A fortnightly reconciliation (in line with the rent charging period) is undertaken. This reconciles the movements in the Council's rent account in the period - including the total rent charge, PARIS income, Housing Benefit and Universal Credit received - to supporting documentation.
- 3.4** Audit selected a sample of dates to ensure a daily reconciliation between the two systems had been undertaken and that all the steps per the procedure had been completed. Reconciliations were available for all dates.
- 3.5** A fortnightly reconciliation was selected for testing. No issues were noted when reviewing this reconciliation and its supporting documents.

- 3.6** During the audit, discussions with staff highlighted that the Service is aware of the benefits of streamlining processes and is pro-actively reviewing current processes to look for areas of improvement.

Rent Arrears

- 3.7** Housing have a number of detailed guidance notes and procedure documents available to staff to assist with the arrears process.
- 3.8** Rent arrears have increased since the introduction of Universal Credit.
- 3.9** Part of this increase is due to 'technical' arrears. These are not true arrears but occur because the timing of some tenants' Universal Credit payments is out of sync with the Council's rent charging dates. This means that tenants may not receive their benefit payment in time to make the rent due date.
- 3.10** Housing are very aware of this issue and have been proactive in looking for ways to separate true debt from technical arrears. Manual adjustments are being made to arrears reports whilst work is undertaken with Northgate (I-World software provider) to update system reports.
- 3.11** In order to monitor debt within the Service:-
- Monthly reports are generated to monitor rent arrears by area, but also by Officer,
 - Debts of over £1,000 are looked at on a case by case basis each month. Each Housing Officer must provide a detailed update on the steps they are taking to recover any such debt,
 - A Rent Arrears Working Group meets every 4-6 weeks to oversee the overall arrears position.
- 3.12** In addition to monitoring arrears, Housing have processes in place to monitor the performance of Housing Officers including:-
- monthly area team meetings,
 - quarterly one to one's,
 - reviews of case notes by Senior Managers which help with the identification of best practice, training needs and ensure a consistent efficient, effective approach is taken to all arrears.
- 3.13** Examples of all the above monitoring processes were reviewed during the audit. No issues were identified during this review.
- 3.14** A sample of 5 arrears balances was selected for detailed testing. Audit worked through each case in detail with Housing - reviewing case notes, file notes, records of letters sent, phone calls made etc as recorded on I-World.
- 3.15** This review confirmed that Housing Officers are going beyond the standard steps of the debt recovery procedures. Requests for assistance from Welfare Reform Officers and multiple attempts to contact tenants shows that Housing Officers are proactively trying to assist tenants and prevent the escalation of cases to court action.

4 Internal Audit Opinion

- 4.1** Overall, substantial assurance was obtained with regard to Housing's income recording, and arrears monitoring procedures and no improvement actions were identified.