

**REPORT TO: SCRUTINY COMMITTEE - 24 JUNE 2020**

**REPORT ON: 2019/20 INTERNAL AUDIT ANNUAL REPORT**

**REPORT BY: SENIOR MANAGER – INTERNAL AUDIT**

**REPORT NO: 160-2020**

## **1.0 PURPOSE OF REPORT**

To submit to Members of the Scrutiny Committee the 2019/20 Internal Audit Annual Report. This report provides an independent annual internal audit opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and control framework and a summary of the key activities of the Council's Internal Audit Service during the period from which the opinion is derived.

## **2.0 RECOMMENDATIONS**

Members of the Committee are asked to consider and note the contents of this report.

## **3.0 FINANCIAL IMPLICATIONS**

None

## **4.0 MAIN TEXT**

- 4.1** The terms of reference of the Scrutiny Committee, as detailed in Report No 274-2014 (Policy and Resources Committee 10 November 2014, Article V), includes consideration of the strategy, plan and performance of the Council's Internal Audit Service. In addition, the Committee is also required to consider internal audit reports and seek assurance that appropriate action has been taken, monitor the implementation of internal audit recommendations agreed with management and receive the Annual Report of the Senior Manager – Internal Audit.
- 4.2** The Public Sector Internal Audit Standards (PSIAS), which came into effect on 1 April 2013 (updated 1 April 2017), apply to all internal audit service providers within the public sector and set out the requirements in respect of professional standards for these services. Professional Standard 2450, Overall Opinions, states that *"the chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement"*. In the context of Dundee City Council, the *"chief audit executive"* is the Senior Manager – Internal Audit.
- 4.3** The PSIAS also states that the annual report prepared by the chief audit executive must incorporate:
- the annual internal audit opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control;
  - a summary of the information that supports that opinion;
  - a disclosure of any impairments to scope and / or independence;
  - a statement of conformance with the PSIAS; and
  - the results of the quality assurance and improvement programme (External Quality Assessment) and progress against any improvement plans.
- 4.4** The Local Authority Accounts (Scotland) Regulations 2014, which became effective in October 2014 state that *"a local authority must operate a professional and objective internal auditing service in accordance with recognised standards and practices in relation to internal auditing"*. In this context, recognised standards and practices are deemed to be those set out in the PSIAS. The Regulations require that the local authority must from time to time assess the efficiency and effectiveness of its internal auditing service, in accordance with the standards, the findings from which must be considered as part of the review of the effectiveness of its system of internal control.

**4.5** The Internal Audit Annual Report for the 2019/20 financial year, which is attached for consideration by Elected Members, has been prepared on the basis of the requirements outlined above.

**5.0 POLICY IMPLICATIONS**

This report has been subject to an assessment of any impacts on Equality and Diversity, Fairness and Poverty, Environment and Corporate Risk. There are no major issues.

**6.0 CONSULTATIONS**

The Chief Executive, Executive Director of Corporate Services, Head of Corporate Finance and Head of Democratic and Legal Services have been consulted on the content of this report.

**7.0 BACKGROUND PAPERS**

None

Pamela Redpath, Senior Manager – Internal Audit

DATE: 16 June 2020

# 2019/20 INTERNAL AUDIT ANNUAL REPORT

## 1. PURPOSE OF REPORT

- To summarise the key activities undertaken by the Council's Internal Audit Service during the 2019/20 financial year and highlight any matters of significance that have arisen as a result of the audit process.
- To provide an independent annual internal audit opinion, derived from the above, on the overall adequacy and effectiveness of the organisation's governance, risk management and control framework.

## 2. GOVERNANCE, RISK MANAGEMENT AND CONTROL FRAMEWORK

- The governance framework comprises the systems, processes, culture and values by which the activities of the Council are directed and controlled and through which they are accountable to, engage with and, where appropriate, lead the community. It enables the Council to monitor the achievement of its strategic objectives and consider whether those objectives have led to the delivery of appropriate cost-effective services.
- Risk management is a fundamental element of good governance and decision making in any organisation. The Council's risk management arrangements are intended to support the identification, documentation, scrutiny and management of both current and emerging risks. The range and extent of services provided by the Council result in a varied and complex risk profile. It is, therefore, important that there are sound risk management arrangements in place to capture all risks and manage and escalate these appropriately. The Council's risk management arrangements have been enhanced again this year through the holistic embedding of risk management processes and procedures, the development of risk registers across all services as well as the recording of them on Pentana for management and monitoring purposes. Arrangements for the governance of risk are also now embedded, with the Corporate Risk Management Working Group, chaired by the Executive Director of Corporate Services as Senior Responsible Officer for risk, meeting on a quarterly basis, and risk management being reported to management and Council committees in line with the Risk Management Policy and Strategy. The impact of Covid-19 towards the end of the financial year added a further layer of risk complexity and challenge throughout the organisation. Covid-19 related risks have been, and continue to be, actively considered by the Council as it moves into the recovery phase along with the control measures required to mitigate these.
- The system of control is a significant part of this framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can, therefore, only provide reasonable and not absolute assurance of effectiveness. It is based on an ongoing process designed to identify and prioritise the risks that may impact on the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact they may have if they come to fruition, and to manage them economically, efficiently and effectively.

## 3. ROLE OF INTERNAL AUDIT

- Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It is a fundamental element of Dundee City Council's governance and assurance framework and assists the organisation to accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of its governance, risk management and control framework. This role includes the requirement to have a full understanding of the key risks to which the Council is exposed.
- During 2019/20, the Internal Audit Service was independent of the activities it audited, with the exception of the organisation's Fraud Governance arrangements; the Senior Manager – Internal Audit is operationally responsible for managing the Corporate Fraud Team, including the Corporate Fraud Supervisor. This potential impairment has, however, been fully addressed through the approach taken to deliver the assignment and report on the findings, conclusions and recommendations. More specifically, the assignment was delivered by the Council's co-sourcing partner, KPMG, and reported directly to and by the Principal Internal Auditor. Independence is essential and helps ensure the Service provides unbiased judgements and impartial advice to management. Whilst there have been no specific audit assignments relating to the organisation's

risk management arrangements delivered during 2019/20, the Senior Manager – Internal Audit continues to be operationally responsible for the Council's Risk Management Function, including the Corporate Risk Management Co-ordinator.

- The Internal Audit Service, with strict accountability for confidentiality and the safeguarding of records and information, is authorised full, free, and unrestricted access to all of the organisation's records, physical properties and personnel relevant to carrying out any engagement and effectively discharging its remit.
- The primary purpose of internal audit is to provide an annual opinion on the adequacy and effectiveness of the organisation's governance, risk management and control framework. The Internal Audit Plan, therefore, requires to include a programme of work that is sufficient and diverse enough to enable the annual opinion to be informed. The types of review undertaken are grouped into key themes, which are integral to the assurance gathering process across the organisation's activities, specifically governance, ICT, systems, procurement / contract and financial. In addition, the Internal Audit Service may also provide advice and guidance on governance, risk management and control matters, including during specific investigations.
- The existence of an Internal Audit Service does not diminish the responsibility of management to ensure that resources are utilised appropriately, in a manner and on the activities intended, and governance, risk management and control arrangements are sufficient to address the risks that their services are exposed to.
- The Internal Audit Charter, updated in 2018 (Article VI of the minute of meeting of this Committee of 14 February 2018 refers) sets out in more detail, within the context of Dundee City Council, the purpose, authority and responsibility of the Internal Audit Service.

#### **4. AUDIT PLANNING**

- A key component in the effective management of internal audit is planning audit work to ensure that objectives are met, priorities are established, resources are targeted and used effectively, Best Value is achieved and cognisance is taken of the risk(s) associated within each area.
- To ensure planning is operationally effective, Internal Audit is required to have a clear understanding of the Council's functions / activities, associated risks and range and breadth of potential areas for inclusion within the plan. The Internal Audit Plan is compiled on an annual basis and provides a summary of the areas where it is planned that work will be carried out during the forthcoming year. The Internal Audit Plan for the 2019/20 financial year (Report No. 154-2019, Article VI of the minute of meeting of this Committee of 17 April 2019 refers) provides more detail surrounding its development. In line with recognised good practice the Internal Audit Plan was prepared on the best information available at that time.
- The internal audit arrangements are assessed on an annual basis by the Council's External Auditor. In 2019/20 the External Auditor was Audit Scotland. As part of this assessment, the External Auditor considers the activities of internal audit, principally to obtain an understanding of the work carried out and determine the extent to which assurance can be placed on its work. This approach helps to minimise duplication of effort and unnecessary disruption to Council services.

#### **5. AUDIT REPORTS**

- Each audit assignment results in an internal audit report, which includes an executive summary as well as audit findings, recommendations and management responses, where appropriate. The audit report provides management with an action plan, which assigns responsibility and details the timetable for implementation of audit recommendations.
- Within all audit reports a judgement is given on the importance of each audit finding i.e. critical, significant or routine. These judgements are utilised to determine the overall level of assurance / opinion to be assigned to the area that has been subject to review. There are generally four overall levels of assurance i.e. full, reduced, limited and no assurance, with corresponding standard overall opinions. The overall opinion is detailed in the executive summary of each report.
- The findings and recommendations arising from the audit assignments reported upon since the last Annual Report have been discussed and agreed with appropriate officers of the Council and action plans have been put in place to address the areas identified for improvement. The

executive summary from each report has been submitted to the Scrutiny Committee for consideration.

- To confirm that management is discharging its responsibility in terms of implementing audit recommendations within the agreed timescales, Internal Audit undertakes formal follow-up work and progress reviews. The outcomes from these exercises are also formally reported to relevant officers and the Scrutiny Committee, along with revised implementation dates where appropriate. In line with last year, the implementation of internal audit recommendations is monitored via Pentana.

## **6. KEY EVENTS AND DEVELOPMENTS**

- The Council has been operating within a significantly challenging and changing environment for some time and, as a result of continuing resource constraints, it is expected that the level and pace of change will require to increase progressively for the foreseeable future. The cumulative savings required between 2020/21 and 2022/23 to achieve a balanced budget, assuming flat cash settlements in line with the Council's long-term financial projections, are £23.6m. Covid-19 has exacerbated the Council's circumstances, necessitating the provision of new / changed services and resulting in increased costs in some areas and a reduction of income in others, which, to date, have not been funded in full.
- Key events and developments during 2019/20 that have impacted on the organisation have included, or are related to, the continued evolution of the Dundee Integration Joint Board (IJB) and Dundee Health and Social Care Partnership (DH&SCP), the ongoing Waterfront development, the Braeview Academy fire, the Tay Cities Deal, the closure of the Dundee Michelin factory and development of the Michelin Scotland Innovation Parc, publication of the Independent Drugs Commission Report for Dundee and the Independent Inquiry into Mental Health Services in Tayside, the opening of the Regional Performance Centre, the local declaration of a climate emergency and subsequent launch of the Dundee Climate Action Plan. The turnover of strategic and operational-level management / key stakeholders as well as the approval of a number of new / updated corporate policies and strategies have also had an impact e.g. Long-term Financial Strategy 2020-2030, Our People and Workforce Strategy, Loans Fund Policy Review, Anti-Bribery Policy, Council Health and Safety Policy, ICT Security and Safe Use Policy, Social Media Policy and Handbook have in themselves brought about changes to working practices and procedures. In addition, with effect from March 2020, the Covid-19 pandemic has impacted significantly on the organisation. As a result of this constantly changing and complex environment, it is essential that the framework of governance, risk management and control described in Section 2 above continually evolves to support it.
- Some of the events noted above, including the new / updated corporate policies and strategies, turnover of strategic and operational-level management / key stakeholders and the Covid-19 pandemic as well as delays in being able to progress / implement some projects / systems as planned have directly impacted on the Internal Audit Service during 2019/20.
- Going forward, changes to the way the Council delivers its services will be driven by a number of internal and external factors including future Local Government finance settlements and supplementary funding to assist with Covid-19 related obligations / impacts; the Scottish Government's Covid-19 Framework for Decision Making (Scotland's route map through and out of the crisis) and locally developed recovery / mobilisation plans; Brexit; the C2022 transformational change agenda; Tay Cities Deal; the Waterfront Development; and the Education Reform Agenda. In addition, governance arrangements for the DH&SCP and its IJB will continue to evolve.
- The continuous impact of reduced funding and corresponding changes to the way Council services are delivered, including the significant increase in home-working required to maintain social distancing measures, has resulted, and will continue to result, in a challenging environment in which internal audit services require to be planned and delivered. Steps will continue to be taken to ensure that any related potential difficulties are identified and managed timeously.

## **7. PSIAS CONFORMANCE**

- The Internal Audit Service operated in conformance with the PSIAS throughout 2019/20. A requirement of the PSIAS is that the Chief Audit Executive develops and maintains a Quality Assurance and Improvement Programme (QA&IP) covering all aspects of the Internal Audit

Service, including both periodic internal self-assessments and five-yearly external assessments. Since the PSIAS came into effect in April 2013, periodic self-assessments, and one external assessment, have been undertaken as required to assess conformance against the PSIAS and identify opportunities for improvement. A copy of the QA&IP Action Plan with progress updates against the actions that were partially implemented at the last update can be found at Appendix C. It should be noted that the partially implemented actions do not represent significant deviations from the PSIAS.

## **8. PLAN ACHIEVEMENT**

- For the 2019/20 financial year, there was a total of 703 productive days used for direct audit activities, a decrease of approximately 10% on the previous year and, for some of the reasons noted below, 12% under the 800 budgeted productive audit days. In terms of the total number of productive days (audit and non-audit), approximately 77% was spent on direct audit activities in line with last year, and 23% on support activities such as strategic management of the Internal Audit Service, audit planning, attendance at / contribution to national groups and staff training and development.
- The 2019/20 Internal Audit Plan included 27 specific internal audit assignments, both at a corporate and service level across the organisation. It also included an allocation of audit days for follow-up reviews, progress reviews, finalisation of audit assignments that commenced in the previous financial year, the provision of advice and guidance to services and specific investigations. Whilst work on the majority of the planned areas for corporate and service reviews included within the plan commenced in 2019/20, there was, due to a number of factors, some changes to the plan and re-scheduling of work into the 2020/21 work programme. These were reported to, and approved by, Elected Members utilising the Essential Council Business arrangements (Report No. 150-2020). Specific reasons behind these changes varied but generally related to a number of audit days being utilised during the year to deliver assignments either not in the Internal Audit Plan or requiring more days than originally envisaged when the Internal Audit Plan was compiled, as well as the timing of planned reviews being unsuitable. A conscious decision was also made in March to hold off progressing some assignments, providing management with the time and space necessary to concentrate on the Council's immediate Covid-19 response, and focus on supporting the organisation where required, audit planning and other strategic management activities. In addition, one member of staff from the Internal Audit Service has been re-deployed to assist with Scottish Welfare Fund Crisis Grant applications.
- As part of the continuous improvement process within the Internal Audit Service, client feedback questionnaires are issued at the conclusion of each audit. Feedback from this process is used, where appropriate, to improve the quality of the Internal Audit Service going forward. During 2019/20, 13 completed client feedback questionnaires were received. Responses were generally very positive across the Audit Approach, Communication and Conduct and Audit Report statements with 95% rated as strongly agree / agree. The positive rating in the Timing section was lower at 90%, with 2 of the returned questionnaires disagreeing with the statement that the timing of the audit was appropriate and 2 disagreeing with the statement that the audit was completed within an acceptable timescale. Overall, with one exception, the returned questionnaires indicated that the review was beneficial to the client's area of responsibility.

## **9. OVERALL ASSESSMENT OF GOVERNANCE, RISK MANAGEMENT AND CONTROL**

- Internal Audit activity covered a diverse range of areas including Climate Change, Energy Management, Council Tax, Health and Safety Contracts, Health and Safety Risk Assessments, DWP Appointeeships, Integrated Impact Assessments, Fraud Governance, ABC Multi-Operator Smartcards, Electric Vehicles Parking, Mosaic, Transformational Change, Commercial Lets, Travel and Subsistence, Trade Waste, Assisted Collections, Community Empowerment Act, Joint Community Equipment Service, Grant Claims and Follow-up Reviews. The range of areas covered within the organisation continues to reflect the changing landscape and nature of internal audit work and focusses on evaluating, and contributing towards the improvement of the organisation's governance, risk management and control framework.
- The 2019/20 corporate and service-level reviews identified that many of the expected controls are in place and operating satisfactorily in the areas examined. However, audit work also identified a number of areas requiring improvement and, consequently, Internal Audit reports included a range of recommendations and action plans (developed in consultation with

management), which, once implemented, will improve the organisation's governance, risk management and control framework.

- In addition, whilst not necessarily directly informed through the planned programme of work, the Internal Audit Service has assisted the Council, through the provision of advice and guidance, to make a number of improvements during 2019/20 to its governance, risk management and control framework, including improvements around the organisation's fraud governance arrangements, specifically the new Anti-Bribery Policy and development of a new draft fraud risk register, construction stock, stocktaking arrangements, Pentana, and resilience in general via the Integrity Group and Corporate Risk Management Working Group. Assistance was also provided in relation to the development of the new Construction Services system and the Best Value self-assessment.
- The Internal Audit Service has also been working with services that have had to change and / or develop new systems / processes relatively quickly to respond to the evolving Covid-19 environment, providing them with advice and guidance around designing robust systems / processes as well as some real time assurances that controls were adequately considered, mitigating corresponding risks to the Council. Those systems / processes include Business Support Grants, Self-Employed Hardship Grants, Scottish Welfare Fund, Bankline Payments and Payment Certificates.
- A number of areas have been identified as requiring further improvement / development, including the Council's risk management arrangements (specifically around the development of more detailed operational level risk registers), Service Area Scorecards, assurance mapping, fraud governance arrangements, contingency planning for Brexit, workforce planning, business continuity planning, procurement, asset management and the launch of the risk-based compliance framework. In addition, as the Council recovers from the pandemic, steps will require to be taken to ensure that key business operations and their associated governance and control frameworks, including the formal committee / decision making process, are appropriately and timeously established / re-established. Senior officers in the Council are aware of these areas and steps are being taken to address them. Some of these areas will feature, alongside other areas identified as requiring improvement, in the Continuous Improvement Agenda of the Council's Annual Governance Statement and will be formally reviewed and reported on during the 2020/21 financial year.
- A total of 29 Dundee City Council internal audit reports have been finalised since the last Annual Report was issued. A summary of these reports is attached at Appendix A. In general, these reports have been well received by clients, with management agreeing to implement 100% of the recommendations made. A total of 93 recommendations were made in the reports issued on behalf of Dundee City Council. Of these, 3 were categorised as critical, 56 as significant and the remaining 34 as routine. In comparison, 83 recommendations were made the previous year. In relation to the Dundee IJB, there have been no internal audit reports submitted to the Performance and Audit Committee (PAC) during 2019/20. However, one internal audit report that was finalised in January 2020, entitled Information Governance and Technology as Enablers and is the output of a review delivered by the Council's Internal Audit Service, is awaiting submission to the PAC and then the Council's Scrutiny Committee.
- Analysis of the overall audit opinion in each of the reports issued on behalf of Dundee City Council highlighted that 14% of the areas reported upon were considered to be well controlled (full assurance), 45% were adequately controlled (reduced assurance) and 38% required improvement (limited assurance). One of the areas reviewed, Travel and Subsistence (which equates to the remaining 3%), was assessed as having no assurance. A watching brief will continue to be kept on the profile of the overall audit opinions.
- The PSIAS requires the Senior Manager – Internal Audit to provide an internal audit annual opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control, which should be used to inform the Council's Annual Governance Statement. This principle is also affirmed in the Local Authority Accounts (Scotland) Regulations 2014. Attached at Appendix B is the Senior Manager – Internal Audit's annual opinion, which is supported by the audit work carried out by the Internal Audit Service and other relevant information. On the basis of the areas used to inform this process for the year to 31 March 2020, the overall audit opinion reached is that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's framework of governance, risk management and control.

## Summary of Internal Audit Reports and 2019/20 Progress Review Exercise

Key - Overall Level of Assurance			
<b>F = Full</b> The principal conclusion drawn from this review is that there is a sound system of control designed to achieve the system objectives and that the controls are being consistently applied.	<b>R = Reduced</b> The principal conclusion drawn from this review is that whilst there is basically a sound system of control there are some areas where it is viewed improvements can be made.	<b>L = Limited</b> The principal conclusion drawn from this review is that there are weaknesses in the system which should be addressed.	<b>N = No</b> The principal conclusion drawn from this review is that there are significant weaknesses in the system which must be addressed.

## i) Summary of Internal Audit Reports

Report No.	Area Reviewed	Level of Assurance	Recommendations			
			Total No.	Importance		
				Critical	Significant	Routine
2018/07	City Development – Climate Change	L	4	-	4	-
2018/08	City Development – Energy Management	L	4	-	2	2
2018/09	Corporate Services – Council Tax*	R	1	-	-	1
2018/10	City Development – Health and Safety Contracts	R	2	-	2	-
2018/11	Corporate – Health and Safety Risk Assessments	L	5	-	3	2
2018/13	Corporate – Follow-up Review of Procurement <sup>^</sup>	R	5	-	3 (2-FI, 1-PI)	2 (2-PI)
2018/14	City Development – Follow-up Review of Dangerous Buildings and Public Safety <sup>^</sup>	R	3	-	2 (2-PI)	1 (1-PI)
2018/15	Corporate Services – DWP Appointeeships	L	5	-	3	2
2018/16	Corporate/Tayside Procurement Consortium – e-tendering	F	1	-	-	1
2018/18	Corporate – Integrated Impact Assessments	L	3	-	2	1
2018/21	Corporate – Fraud Governance	R	3	-	1	2
2018/25	City Development – ABC Multi-Operator Smartcards	R	1	-	-	1
2018/26	City Development – Electric Vehicles Parking	L	1	-	1	-
2018/30	Corporate – Mosaic*	L	7	1	5	1
2019/01	Corporate – Transformational Change	L	4	-	3	1
2019/02	Neighbourhood Services – 2018/19 Grant Claim: Local Authority Air Quality Action Plan	R	1	-	1	-
2019/03	Neighbourhood Services – 2018/19 Grant Claim: Local Air Quality Management	F	0	-	-	-
2019/04	Corporate – Commercial Lets*	L	5	-	3	2
2019/05	Corporate – Travel and Subsistence*	N	6	2	2	2
2019/06	Corporate – Trade Waste*	R	4	-	2	2
2019/07	Neighbourhood Services – Assisted Collections*	L	3	-	3	-
2019/08	Neighbourhood Services – Community Empowerment Act*	R	3	-	-	3
2019/12	Corporate – Follow-up Review of Construction Design and Management (CDM) Regulations 2015 <sup>^</sup>	R	3	-	2 (1-FI, 1-PI)	1 (1-FI)
2019/13	Corporate Services – Follow-up Review of Email Security <sup>^</sup>	R	5	-	2 (1-FI, 1-PI)	3 (3-FI)
2019/14	Neighbourhood Services and City Development – Follow-up Review of Festivals and Events <sup>^</sup>	F	4	-	2 (2-FI)	2 (1-FI, 1-PI)



Report No.	Area Reviewed	Level of Assurance	Recommendations			
			Total No.	Importance		
				Critical	Significant	Routine
2019/17	DH&SCP – Joint Community Equipment Service*	L	5	-	5	-
2019/21	Corporate – Follow-up Review of Pentana*^	R	4	-	2 (2- PI)	2 (2-PI)
2020/01	Neighbourhood Services - 2019/20 Grant Claim: Local Authority Air Quality Action Plan*	R	1	-	1	-
2020/02	Neighbourhood Services - 2019/20 Grant Claim: Local Air Quality Management*	F	0	-	-	-
<b>TOTALS</b>			<b>93</b>	<b>3</b>	<b>56</b>	<b>34</b>

\* Submitted to June 2020 Scrutiny Committee (*Report 160-2020*)

^ For follow-up reviews, the recommendation importance is from the original audit report. The information in brackets, details the number of original recommendations formally assessed as being fully implemented (FI), partly implemented (PI) or not implemented (NI).

## ii) Summary of 2019/20 Progress Review Exercise

As part of the 2019/20 Audit Plan, a total of 164 recommendations from 65 internal audit reports were subject to a progress review. 53 of these recommendations were also part of the 2018 Progress Review Exercise. Some outstanding recommendations from the previous year's exercise were not included, however, because planned audit work within the same area was undertaken and reported to Scrutiny Committee. Implementation of the recommendations within the new audit reports will be monitored in line with standard working practices.

In previous years, progress towards implementation of recommendations was not formally reported to Committee until the implementation deadlines had passed for all recommendations contained within an audit report. This year, through the utilisation of Pentana which follows up each recommendation at its specific implementation deadline, an update on all recommendations with implementation deadlines up to 31 July 2019 was included.

A summary of the outcome of the progress review exercise is detailed in the table below. A report providing more detail on the progress made towards implementing internal audit recommendations previously reported to and agreed by management was presented to the Scrutiny Committee in September 2019 (Article VIII of the minute of meeting of this Committee of 25 September 2019 refers).

No. of Recommendations	Fully Implemented	Partly Implemented	Not Implemented	Superseded
164	91	68	1	4

For the recommendations that were partly or not implemented, assurances were provided to Internal Audit by management that the outstanding areas would be addressed and, where feasible, revised timelines were provided for completion. Four recommendations had been superseded and the reasons for this are recorded in the Management Update column within the report submitted to Scrutiny Committee. In terms of management responses to the progress reviews that were undertaken as part of the 2019/20 Plan, it was evident as in previous years that there had been slippage in the anticipated timeframes provided by management for the implementation of the recommendations in full. Whilst the specific reasons for this are varied, there are recurring themes, as in previous years, surrounding delays in the replacement or implementation of IT systems and further progress being dependent on the outcome of decisions in terms of service provision.

An update on progress made towards full implementation of the outstanding recommendations will be sought, via Pentana, during the 2020/21 Progress Review Exercise and reported to Scrutiny Committee in 2020.

## **To the Members of Dundee City Council, Chief Executive and Executive Director of Corporate Services**

As Senior Manager – Internal Audit of Dundee City Council, I am pleased to present my annual opinion for the year ended 31 March 2020. It should be noted that the statement does not include assurances on group activities.

### **Respective Responsibilities of Management and Internal Audit in Relation to the Governance, Risk Management and Control Environment**

It is the responsibility of the Council's officers to determine, establish and maintain sound systems of governance, risk management and control to ensure that the organisation's resources are utilised in the proper manner and on the activities intended and that these arrangements are sufficient to address the risks facing their services. This includes responsibility for the prevention and detection of fraud. Management is also charged with monitoring the continuing effectiveness of these arrangements and taking action as appropriate. It is the responsibility of the Senior Manager – Internal Audit to provide an annual assessment of the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

### **Control Environment**

This comprises the governance, risk management and control processes in the context of the Council's defined goals and objectives. The key elements include the following:

- Consistency of operations with established goals and objectives.
- Efficiency and effectiveness of operations and deployment of resources.
- Compliance with significant policies, plans, procedures, laws, and regulations.
- Reliability and integrity of management and financial information processes, including the means to identify, measure, classify and report such information.
- Safeguarding of assets.

A sound control environment reduces, but cannot eliminate, the possibility of poor judgement in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances. It, therefore, provides reasonable but not absolute assurance that control weaknesses or irregularities do not exist or that there is no risk of material errors, losses, fraud or breaches of laws or regulations. Accordingly, the Council is continually seeking to improve the adequacy and effectiveness of its control environment.

### **The Focus of Internal Audit Work**

Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. Through its work, internal audit assists the organisation to accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of its governance, risk management and control framework. The Council's Internal Audit Service operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and the Local Authority Accounts (Scotland) Regulations 2014. The requirements under the PSIAS represent best practice and these, along with the Regulations, are mandatory.

The Senior Manager – Internal Audit prepares an annual internal audit plan which outlines the work to be undertaken. The internal audit plan is developed utilising a risk-based methodology based on the audit universe and takes into account the requirement placed upon the Senior Manager – Internal Audit to provide an annual internal audit opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. In compiling the plan, input from Elected Members, senior management and any other relevant parties is sought and cognisance is taken of emerging issues. The plan needs to be flexible to be able to reflect the changing risks and priorities of the organisation. The plan, any material changes to the plan during the course of the financial year, and any significant matters that may impact upon the delivery of the plan are reported to the Scrutiny Committee as appropriate.

The Internal Audit Service formally reports upon the areas subject to review. Such reports, which identify system weaknesses and / or non-compliance with expected controls, are issued for the attention of service

managers and include appropriate recommendations and agreed action plans. It is management's responsibility to ensure that due consideration is given to internal audit reports. This includes management taking remedial action where appropriate or accepting that there may be a level of risk exposure if the weaknesses identified are not addressed for operational reasons. The Senior Manager – Internal Audit must establish a follow-up process to monitor and ensure that audit recommendations have been effectively implemented or, as noted above, that senior management has accepted the risk of not taking action. Matters arising from internal audit work are also reported to the Council's Scrutiny Committee, the Chief Executive, the Council Management Team and Audit Scotland, the Council's External Auditor.

### **Summary of Internal Audit Activity**

A total of 29 Dundee City Council internal audit reports have been finalised since the last Annual Report was issued. These covered a diverse range of areas including Climate Change, Energy Management, Council Tax, Health and Safety Contracts, Health and Safety Risk Assessments, DWP Appointeeships, Integrated Impact Assessments, Fraud Governance, ABC Multi-Operator Smartcards, Electric Vehicles Parking, Mosaic, Transformational Change, Commercial Lets, Travel and Subsistence, Trade Waste, Assisted Collections, Community Empowerment Act, Joint Community Equipment Service, Grant Claims and Follow-up Reviews.

The Internal Audit Service also undertook a comprehensive progress review exercise during the year and provided advice and guidance as required surrounding the Council's governance, risk management and control framework. In addition, the Internal Audit Service has been working with services that have had to change and / or develop new systems / processes relatively quickly to respond to the evolving Covid-19 environment, providing them with advice and guidance around designing robust systems / processes as well as some real time assurances around controls, mitigating corresponding risks to the Council.

The audit work during 2019/20 has identified that many of the expected controls are in place and operating satisfactorily, however, there is scope for improvement. The Internal Audit Service has made a range of recommendations in the areas examined and action plans have been developed in consultation with management which, once successfully implemented, will improve the Council's governance, risk management and control framework.

### **Limitation of Scope or Independence**

There was no limitation of scope or independence ultimately placed upon the work undertaken by the Internal Audit Service during 2019/20.

### **Basis of Opinion**

My evaluation of the framework of governance, risk management and control is informed by a number of sources, including the following:

- Audit work undertaken by the Internal Audit Service.
- The assessment of risk carried out during the preparation of the 2019/20 and 2020/21 internal audit plans.
- Knowledge of the Council's culture, governance, risk management and performance monitoring arrangements.
- The Self-assessment Checklists completed to date by relevant Executive Directors / Heads of Service (including the DH&SCP Checklist) providing formal assurances in respect of the general control environment within individual services.
- Reports issued by the Council's External Auditor together with relevant reports from other external review and inspection bodies.

### **Opinion**

It is my opinion, based on the above, that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's framework of governance, risk management and control for the year to 31 March 2020.

*Pamela Redpath FCCA*

**DATE: 16 June 2020**

**Senior Manager – Internal Audit  
Dundee City Council**

## Quality Assurance and Improvement Programme – Action Plan

Standard / Area	Action	Implementation Date	Progress Update	Revised Implementation Date
1200 / Job Descriptions & Person Specifications	Refresh Internal Auditor Job Description and Person Specification.	30 September 2018	Implemented – Job Description & Person Specification refreshed	N/A
1300 / Performance Monitoring	Develop performance management / monitoring framework for the Service to feed into the Corporate Finance Service Scorecard.	31 August 2019	Partially Implemented – Framework developing and to be fed into the Corporate Finance Scorecard	30 September 2020
2000 / Assurance Mapping	Develop the use of assurance mapping.	30 September 2019	Partially Implemented – assurance mapping template has been developed, which will be linked to risks and taken forward in conjunction with services	31 December 2020
2400 / Audit Opinions	Refresh standard recommendation / overall conclusions levels and associated terminology following conclusion of benchmarking exercise and stakeholder consultation.	31 December 2019	Partially Implemented - benchmarking exercise carried out, further work required	30 September 2020