

REPORT TO: AUDIT AND RISK MANAGEMENT SUB-COMMITTEE – 07 JUNE 2010

REPORT ON: INTERNAL AUDIT REPORTS

REPORT BY: CHIEF INTERNAL AUDITOR

REPORT NO: 305-2010

1.0 PURPOSE OF REPORT

To submit to Members of the Audit and Risk Management Sub-Committee a summary of the Internal Audit Reports finalised since the last Sub-Committee.

2.0 RECOMMENDATIONS

Members of the Sub-Committee are asked to note the information contained within this report.

3.0 FINANCIAL IMPLICATIONS

None

4.0 MAIN TEXT

4.1. The day-to-day activity of the Internal Audit Service is primarily driven by the reviews included within the Internal Audit Plan. Broadly, on the completion of a specific review, a report which details the audit findings and recommendations is prepared and issued to Management for a formal response and submission of Management's proposed action plan to take the recommendations forward. Any follow-up work subsequently undertaken will examine the implementation of the action plan submitted by Management.

4.2. Executive Summaries for the reviews which have been finalised in terms of paragraph 4.1 above are provided at Appendix A. Within each Executive Summary the prime aim is to provide both Members and Management with key information which includes the reason for undertaking the review, summary financial data and statistics, the areas encompassed within the review and specific areas which were excluded, the principal audit objectives, an audit opinion on the adequacy of the systems and control framework of the area reviewed, the key conclusions based on the audit findings and recommendations and a summary of Management's response to the audit report. The full reports are available to Members on request.

5.0 POLICY IMPLICATIONS

This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management. There are no major issues.

6.0 CONSULTATIONS

The Chief Executive and Director of Finance have been consulted on the content of this report.

7.0 BACKGROUND PAPERS

None

Sallie Dailly, Chief Internal Auditor

DATE: 21 May 2010

i) INTERNAL AUDIT REPORT 2009/21

Department	City Development
Subject	Car Parking Income

Introduction

A review of car parking income was undertaken as part of the planned internal audit work. Dundee has of the order of 5,300 off street car parking spaces and 600 on street car parking spaces which includes approximately 60 disabled and motor cycle spaces. Car parking facilities are operated by the Council and also by private companies. The charges for parking vary according to the location and length of stay and are normally paid in cash. However some of the newer car parks accept payment by credit card. In addition, monthly car park tickets can be purchased for use in designated car parks.

Car parking meters are used to collect the car parking fee due for the stay of the vehicle. Meters are emptied on a rota basis and the frequency with which they are emptied reflects estimated daily takings. Cash collected is sent to the bus depot in Dock Street where it is counted by Travel Dundee staff using an industrial coin counting machine. Monies are then banked by Travel Dundee staff and details of bankings are passed to City Development staff to enable the reconciliation process to be carried out.

The Council's Management Accounts for the year ended 31 March 2009 reported actual income from fees for on street and off street car parking of £2.67m which was a shortfall on budget of approximately 9%. The breakdown between income from on street and from off street parking was 75% and 25% respectively. For the 2009/10 financial year the budgeted income for fees from on street and off street car parking is of the order of £2.94m. As at the end of February 2010 a shortfall of the order of 10% on budgeted income is projected.

Scope and Objectives

The overall objective of the review was to examine the procedures operated in respect of collection, counting, banking and reconciliation of cash collected in car parking meters. The systems operated in respect of non-cash payments for parking, the purchase of monthly car park tickets for Council car parks and the car parks operated by private operators were excluded from this review.

Conclusion

The principal conclusion drawn from this review is that there are weaknesses in the system which should be addressed.

The main areas highlighted in the report are as follows:

- In order that this potentially high risk area of the Council's operations is effectively managed, staff must compile and maintain a comprehensive inventory detailing meter locations and ensure that all meters are marked with a unique reference as a matter of urgency.
- To ensure that systems operated are robust, staff should review and remap, if necessary, the collection routes to be operated, clearly detailing the specific meters to be emptied on particular days. Any deviations from this schedule must be agreed with designated staff.
- A comprehensive review of the workshop's activities at Market Mews facility including the need for retention of this site should be undertaken. In addition, staff should assess the usability of meters and parts held, compile an inventory and make appropriate arrangements for the controlled disposal of obsolete items.

Management Response to the Audit Report

The audit findings and recommendations were formally reported to the Director of City Development and appropriate action agreed to address the matters raised.

ii) INTERNAL AUDIT REPORT 2009/22

Department	Finance
Subject	Accounting and Budgetary Control

Introduction
<p>A review of the procedures operated in respect of the arrangements for budgetary control was undertaken as part of the planned internal audit work.</p> <p>Budgetary control is the process by which expenditure is contained within approved budgets. All organisations require a sound and effective system of budgetary control in order that scarce resources are appropriately deployed and are targeted towards assisting the organisation achieve its objectives. The process can only be carried out where organisations have prepared a net budget in sufficient detail to allow actual income and expenditure to be monitored and controlled.</p> <p>Budgeted expenditure for 2009/2010 is of the order of £349m and the projected overspend as at 31 December 2009 is approximately £0.5m.</p> <p>The audit review identified areas for improvement in both the Finance Department and City Development Department. This report details the recommendations relating to the Finance Department. Internal Audit Report 2009/25 details the recommendations made in respect of procedures operated within the City Development Department.</p>
Scope and Objectives
<p>The objectives of this audit were to examine the systems operated in respect of budgetary control, assess the effectiveness of the controls and formally report the findings. Areas examined included accuracy and availability of guidance, monitoring statements, net over/underspends and compliance with LAAP Bulletin 77, Local Authority Reserves and Balances.</p>
Conclusion
<p><i>The principal conclusion drawn from this review is that whilst there is basically a sound system of control, there is one area where it is viewed improvements can be made.</i></p> <p>The area commented upon in the report is as follows:</p> <ul style="list-style-type: none"> • In order to ensure that staff within all departments have access to the most up to date information, the Revenue Budgetary Control Manual should be reviewed and revised as soon as possible. Thereafter the Manual should be updated on an annual basis.
Management Response to the Audit Report
<p>The audit findings and recommendations were formally reported to the Head of Financial Services and appropriate action agreed to address the matters raised.</p>

iii) INTERNAL AUDIT REPORT 2009/25

Department	City Development
Subject	Accounting and Budgetary Control

Introduction
<p>A review of the procedures operated in respect of the arrangements for budgetary control was undertaken as part of the planned internal audit work.</p> <p>Budgetary control is the process by which expenditure is contained within approved budgets. All organisations require a sound and effective system of budgetary control in order that scarce resources are appropriately deployed and are targeted towards assisting the organisation achieve its objectives. The process can only be carried out where organisations have prepared a net budget in sufficient detail to allow actual income and expenditure to be monitored and controlled.</p> <p>Budgeted expenditure for the City Development Department for 2009/2010 is of the order of £11.73m and projected expenditure as at 31 December 2009 is approximately £12.68m. The overspend is due to significantly lower than expected income for building warrants, planning applications and property enquiries due to the prevailing economic climate. The recent extreme weather has caused an overspend in the winter maintenance budget. These variances are partially offset by various projected underspends including reduced bus subsidies and street lighting. The Department is monitoring expenditure and income very closely to achieve the best possible outturn position.</p> <p>The audit review identified areas for improvement in both the City Development Department and the Finance Department. This report details the recommendations relating to the City Development Department. Internal Audit Report 2009/22 details the recommendations made in respect of procedures operated within the Finance Department.</p>
Scope and Objectives
<p>The objectives of this audit were to examine the systems operated in respect of budgetary control, assess the effectiveness of the controls and formally report the findings. Areas examined included accuracy and availability of guidance, monitoring statements, net over/underspends and compliance with LAAP Bulletin 77, Local Authority Reserves and Balances.</p>
Conclusion
<p><i>The principal conclusion drawn from this review is that whilst there is basically a sound system of control, there is one area where it is viewed improvements can be made.</i></p> <p>The area commented upon in the report is as follows:</p> <ul style="list-style-type: none"> To ensure that transactions are processed efficiently and simplify the revenue monitoring process, staff should discuss mechanisms through which the person requesting goods/services can be recorded in Authority Purchasing. Once this difficulty has been resolved, use of the in-house database should be discontinued.
Management Response to the Audit Report
<p>The audit findings and recommendations were formally reported to the Director of City Development and appropriate action agreed to address the matter raised.</p>

iv) INTERNAL AUDIT REPORT 2009/26

Department	Leisure and Communities
Subject	Monitoring Public Use of Internet Facilities

Introduction
<p>A review of monitoring public use of internet facilities was part of the planned internal audit work.</p> <p>The People's Network is part of the Government's commitment to give everyone in the country the opportunity to use computers and to access the internet. To enable this within Dundee, the Council provides internet facilities for the public at libraries and learning centres across the city. Whilst library membership is restricted to people who work, live or attend educational establishments in Dundee, there are no such restrictions on the use of internet services available to the public.</p> <p>There are three levels of internet access: at the time of audit fieldwork, these were adults, young people aged 8-16 years and children, although these categories were being reviewed. Young people can only access pre-defined categories set by the software provider and children aged under 8 are only allowed access if under the direct supervision of a parent or legal guardian. Users are recommended to book in advance and bookings can be made for 30 minute sessions up to a maximum of 2 hours. There is no charge levied for the use of the computer but there is a fee for printing and for compact discs.</p> <p>For each session users are required to accept an online statement saying they agree to abide by the rules of the Council's Acceptable Use of Computers Policy which has been compiled by the Leisure and Communities Department. This document advises that the Council can monitor access to sites through both manual and electronic systems to check that a user is not committing a criminal offence relating to the internet. There were 184,851 logins to the internet by the public during the 2009/10 financial year.</p>
Scope and Objectives
<p>The overall object of the review was to examine the systems operated in respect of the Council's public internet facilities. The main focus of the work was in respect of ensuring there is adequate guidance and procedures in place in relation to allowing members of the public to access the Council's internet facilities, monitoring internet use and the sites accessed and the action taken if the Council's policy in this area is breached by members of the public.</p>
Conclusion
<p><i>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.</i></p> <p>The main area commented upon in the report is as follows:</p> <ul style="list-style-type: none"> To strengthen controls over PC access, people applying for PC only access membership should be asked to verify identity and staff should explore the feasibility of the booking system automatically denying access to people who have been temporarily suspended or banned from using the computing facilities and children who do not have parental permission to access the internet.
Management Response to the Audit Report
<p>The audit findings and recommendations were formally reported to the Director of Leisure and Communities and appropriate action agreed to address the matters raised.</p>

v) INTERNAL AUDIT REPORT 2009/27

Department	Housing
Subject	Gas Safety Checks

Introduction
<p>A review of procedures operated in respect of gas safety checks was part of the planned internal audit work.</p> <p>Dundee City Council owns approximately 13,700 homes throughout the city and these are a mixture of flats, maisonettes and cottages. Under the Gas Safety (Installations and Use) Regulations 1998 the Council has a statutory duty to ensure that safety checks are made on all gas appliances and flues that it provides for its tenants. Approximately 65% of council houses have gas appliances and flues and there is a cyclical programme to ensure that all of these are covered over the course of a year. The majority of the work is carried out by qualified engineers within Dundee Contract Services and this is supplemented by services provided by a local firm on an as required basis. For the 2009/10 financial year expenditure to the end of November incurred by the Housing Department in meeting their obligations in relation to gas safety checks was of the order of £488,000.</p> <p>The Scottish Housing Regulator carried out an inspection of the housing service delivered by the Housing Department in 2008/09. One of the areas covered in the report was gas safety. The Regulator's report highlighted several weaknesses in this area and it is recognised that the Housing Department has made strenuous efforts to address these. Improvements made include a dedicated gas safety group which meets regularly to monitor and report on progress being made with gas safety issues; undertaking an exercise to confirm the number of houses with gas; changes in policy to facilitate access to all properties with gas using forced entry, if necessary; recording of gas certificate numbers and dates of gas checks in the Housing Repairs System providing a much better audit trail and revised storage arrangements for gas certificates facilitating easy retrieval.</p>
Scope and Objectives
To review the adequacy of systems in place to ensure that the Housing Department can meet its statutory obligations in respect of gas safety checks.
Conclusion
<p><i>The principal conclusion drawn from this review is that there are still some weaknesses in the system which should be addressed.</i></p> <p>The main areas commented upon in the report are as follows:</p> <ul style="list-style-type: none"> • In order that the Council can clearly demonstrate its strategy in relation to compliance with the Gas Safety (Installations and Use) Regulations 1998, the Housing Department should compile a policy on Gas Safety which formalises the procedures that have been put in place. • In order that the Housing Repairs system contains complete and accurate information, staff should finalise the exercise confirming houses with gas, update the system accordingly and ensure that all certificate numbers recorded are correct. In addition, IT staff should be requested to make the necessary changes to the software to accommodate leading zeros in gas certificate numbers. • In order to confirm that best value is being achieved, contracts for gas services and quality assurance should be market tested.
Management Response to the Audit Report
The audit findings and recommendations were formally reported to the Director of Housing and appropriate action agreed to address the matters raised.

vi) INTERNAL AUDIT REPORT 2009/28

Department	Finance
Subject	Online Payments

Introduction
<p>A review of the Council's on-line payments arrangements was undertaken as part of the planned internal audit work.</p> <p>To maximise the payment options open to members of the public and assist in minimising transaction costs, the Council has put facilities in place to enable payments to be made by debit and credit cards via the Internet. Payments can be made online for a variety of purposes including council tax, non domestic rates, rent, invoices for various council services and penalty notices.</p> <p>Acceptance of electronic payments over the Council's web site is facilitated by a Payment Service Provider (PSP) who provides a secure gateway for customers to input their debit or credit card details online and who also is responsible for capturing and authorising card data. The Council uses PayPoint.net (formerly SECPay) as its PSP and is charged for this service on monthly basis.</p> <p>In order to accept debit or credit card payments online the Council also requires a merchant account with an acquiring bank. All high street banks are acquiring banks and they are responsible for moving money between the accounts of those involved in debit and credit card transactions. The Council's merchant account is provided by The Royal Bank of Scotland Streamline (Streamline). PayPoint.net passes payments through Streamline to the Council's bank account. During financial year 2009/10 approximately 78,000 online payments with an associated value of £9m were made on the Council's website.</p> <p>The review identified areas for improvements in both the Finance Department and Information Technology Department. This report details the recommendations relating to the Finance Department. Internal Audit Report 2009/44 details the recommendations made in respect of procedures operated within the Information Technology Department.</p>
Scope and Objectives
<p>The overall objective of this review was to obtain reasonable assurance that there are adequate internal controls in place for managing online payments.</p>
Conclusion
<p><i>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.</i></p> <p>The main areas highlighted in the report are as follows:</p> <ul style="list-style-type: none"> To minimise the risk of error if key staff are absent, Banking Services should compile guidance notes detailing procedures to be followed in respect of online payments. In addition, to ensure that the Council is achieving best value and that the contract reflects the Council's needs, the contract for PSP services should be market tested as soon as practicable.
Management Response to the Audit Report
<p>The audit findings and recommendations were formally reported to the Head of Financial Services and appropriate action agreed to address the matters raised.</p>

vii) INTERNAL AUDIT REPORT 2009/41

Department	Finance
Subject	Follow up of Anti-Money Laundering

Introduction
<p>As part of the planned internal audit work, a follow-up review to Internal Audit Report 2007/30 on anti-money laundering was undertaken.</p> <p>The original internal audit report concluded that there were weaknesses in the system which should be addressed. These included the following:</p> <ul style="list-style-type: none"> • Reviewing and revising the Council's anti-money laundering policy. • Reviewing and revising the Council's anti-money laundering procedures. • Clear documentation of the responsibilities of the proceeds of crime officer and nominated officers which should be communicated to all staff. • Development of targeted training. • Annotation of Suspicious Transaction Reports by the Proceeds of Crime Officer.
Scope and Objectives
<p>The objective of this review was to assess whether or not each of the recommendations agreed by Management in Internal Audit Report 2007/30 had been implemented.</p>
Conclusion
<p><i>The principal conclusion drawn from the follow-up work undertaken is that the actions taken by management have addressed the control weaknesses highlighted in the original review.</i></p>

viii) INTERNAL AUDIT REPORT 2009/44

Department	Information Technology
Subject	Online Payments

Introduction
<p>A review of the Council's on-line payments arrangements was undertaken as part of the planned internal audit work.</p> <p>To maximise the payment options open to members of the public and assist in minimising transaction costs, the Council has put facilities in place to enable payments to be made by debit and credit cards via the Internet. Payments can be made online for a variety of purposes including council tax, non domestic rates, rent, invoices for various council services and penalty notices.</p> <p>Acceptance of electronic payments over the Council's web site is facilitated by a Payment Service Provider (PSP) who provides a secure gateway for customers to input their debit or credit card details online and who also is responsible for capturing and authorising card data. The Council uses PayPoint.net (formerly SECPay) as its PSP and is charged for this service on monthly basis.</p> <p>In order to accept debit or credit card payments online the Council also requires a merchant account with an acquiring bank. All high street banks are acquiring banks and they are responsible for moving money between the accounts of those involved in debit and credit card transactions. The Council's merchant account is provided by The Royal Bank of Scotland Streamline (Streamline). PayPoint.net passes payments through Streamline to the Council's bank account. During financial year 2009/10 approximately 78,000 online payments with an associated value of £9m were made on the Council's website.</p> <p>The review identified areas for improvements in both the Finance Department and Information Technology (IT) Department. This report details the recommendations relating to the IT Department. Internal Audit Report 2009/28 details the recommendations made in respect of procedures operated within the Finance Department.</p>
Scope and Objectives
<p>The overall objective of this review was to obtain reasonable assurance that there are adequate internal controls in place for managing online payments.</p>
Conclusion
<p><i>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.</i></p> <p>The main areas highlighted in the report are as follows:</p> <ul style="list-style-type: none"> To improve procedures operated in respect of online payments, the IT Department should compile a policy document on the various security aspects of online payments and the secure log-on facility provided for other departments for processing telephone payments via the online payments system should be rolled out to Revenues staff as soon as possible.
Management Response to the Audit Report
<p>The audit findings and recommendations were formally reported to the Head of Information Technology and appropriate action agreed to address the matters raised.</p>

ix) INTERNAL AUDIT REPORT 2010/03

Department	Finance
Subject	Payment of Pensions for Former Employees of ex List D School

Introduction

Pension payments to former employees of ex List D schools can have funded and unfunded elements. Funded pension is the amount to which the employee is entitled by virtue of his/her contributions to the pension fund. This element depends on length of service and final salary and the cost is borne by Tayside Superannuation Fund. Unfunded pension relates to pension increases and any enhancements which have been provided to staff when the employee retires before 65 e.g. in the case of redundancy. These costs are recoverable from the Scottish Government and Pensions Administration staff invoice the Scottish Government on a regular basis. It is a requirement of the payment for unfunded pensions that the claims are audited annually by the Internal Audit Service at the end of each financial year.

Scope and Objectives

The overall objective of this review was to examine and confirm the accuracy of the information provided by the Pensions Section in support of the claim for payment of pensions for former List D employees in order that the Chief Internal Auditor had the assurance required to validate the claim for the year ended 31 March 2010. Audit fieldwork was restricted to validity of pensions paid to former List D school employees.

Conclusion

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.