

REPORT TO: SCRUTINY COMMITTEE – 22 AUGUST 2012

REPORT ON: INTERNAL AUDIT REPORTS

REPORT BY: CHIEF INTERNAL AUDITOR

REPORT NO: 309-2012

1.0 PURPOSE OF REPORT

To submit to Members of the Scrutiny Committee a summary of the Internal Audit Reports finalised since the last Scrutiny Committee.

2.0 RECOMMENDATIONS

Members of the 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, Director of Corporate Services and Head of Democratic and Legal Services have been consulted on the content of this report.

7.0 BACKGROUND PAPERS

None

Sallie Dailly, Chief Internal Auditor

DATE: 06 August 2012

i) INTERNAL AUDIT REPORT 2011/22

Client	Social Work
Subject	Dundee Joint Equipment Service

Introduction

A review of the Dundee Joint Equipment Service (DJES) was part of the planned internal audit work.

The DJES is an agreement between Dundee City Council and NHS Tayside that underpins provision of a joint community equipment store for the supply of equipment to people with a disability in Dundee. The key strategic objectives this arrangement are to provide equipment, impartial advice about the equipment available, more effective use of resources and a more responsive service. The store is located at Claverhouse Industrial Estate.

At the end of the 2011/12 financial year, there were approximately 6,250 items of equipment in stock and 57,250 items of equipment in use in the community or in stock at NHS Tayside health centres and hospitals. Stock holdings include low value items such as WC seats and crutches as well as high value items such as mobile shower trolleys and beds. A high volume of equipment in use in the community is returned to the store when it is no longer needed. The returned equipment is cleaned and where appropriate recycled back into stock. Ethitec's Equipment Loans Management System (ELMS2) is the software solution in operation at store. All requests for equipment, including requests received from NHS Tayside via district nurses, allied health professionals, health centres and hospitals, are processed through ELMS2.

The total budgeted expenditure for 2011/12 was of the order of £820,000, of which £349,000 is to be contributed by NHS Tayside.

Scope and Objectives

The overall objective of this review was to examine the systems operated in respect of the DJES.

Conclusion

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

The main areas commented upon in the report are as follows:

- ELMS2 should be reviewed in conjunction with Ethitec to ensure that the system is set up appropriately. In addition, a comprehensive review of all users and their permissions should be carried out.
- A formal business continuity plan should be compiled for ELMS2. The plan should be tested periodically and any weaknesses identified should be resolved by revising the plan. Periodic testing of back-ups should also be carried out.
- Specialist advice on infection control should be sought from NHS Tayside with adequate arrangements being put in place to mitigate infection control risks.

Management Response to the Audit Report

The audit finding and recommendation were formally reported to the Director of Social Work and appropriate action agreed to address the matters raised.

ii) INTERNAL AUDIT REPORT 2011/39

Client	Leisure and Culture Dundee (SCIO No. SC042421)
Subject	Governance Arrangements

Introduction

A review of Leisure and Culture Dundee's (L&C Dundee's) governance arrangements was part of the planned internal audit work.

As part of Dundee City Council's (DCC's) Changing for the Future agenda and ongoing commitment to deliver proposed savings, a new Scottish Charitable Incorporated Organisation (SCIO) known as L&C Dundee was created on 1 July 2011 to operate the leisure, sport, cultural and library facilities. Key members of staff from DCC and former Dundee Leisure transferred to the new organisation under the Transfer of Undertakings (Protection of Employment) Regulations 1982 (TUPE). The new arrangements include a trading subsidiary in the form of a Community Interest Company, which is currently dormant.

Scottish Ministers introduced the new SCIO legal form in April 2011 to allow charities to be incorporated but administered and regulated by a single body, the Office of the Scottish Charity Regulator (OSCR). The main benefits of the SCIO include limited liability and, in comparison to Company Law requirements, a less complicated regime for trustees' duties. Administration requirements are also less formal in comparison.

Corporate governance was defined in the Cadbury Report as the system by which organisations are directed and controlled. It is concerned with the structures and processes in place for decision making, accountability, controls and behaviour. In 2007, CIPFA published Delivering Good Governance in Local Government: Framework, which builds on governance work in the public and private sectors including the Good Governance Standard in Public Services, which was published by the Independent Commission on Good Governance in Public Services. A number of national guidance notes have since been compiled to support the publication. The Scottish guidance note, which was adapted for L&C Dundee, contains self-assessment material based on the six core principles and eighteen supporting principles of good governance and used as the basis of this review to assist in assessing the extent to which corporate governance requirements are being met. In carrying out the review, cognisance was taken of L&C Dundee's size, function, and recent formation.

Scope and Objectives

To carry out a high level review of the governance arrangements in place at L&C Dundee. In addition, checks were carried out to ensure that L&C Dundee and its trading subsidiary are suitably registered with OSCR, Companies House and HM Revenue and Customs.

Conclusion

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.

The main areas commented upon in the report are as follows:

- In order to ensure that the governance arrangements operated by L&C Dundee are in line with best practice, consideration should be given to clearly setting out its approach to performing each of the functions of governance in a local code of corporate governance. In addition staff should ensure that the areas of partial compliance are addressed. Measures to be taken include compiling a business plan, developing formal risk management arrangements, taking steps to finalise the draft Service Level Agreements with DCC and assessing / self-assessing the skills, knowledge and experience of trustees.

Management Response to the Audit Report

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

iii) INTERNAL AUDIT REPORT 2011/40

Client	Corporate
Subject	Leavers

Introduction

A review of the arrangements in place within the Council surrounding the management and administration of leavers from a payroll perspective was part of the planned internal audit work.

There are currently two separately managed payroll functions operating in the Council, one in the Environment Department which is principally responsible for administering weekly wages for staff in the department and one in the Corporate Services Department, which is the central Payroll Section responsible for administering the payroll function for all other Council staff.

ResourceLink is the Council's integrated payroll and personnel system. With the exception of leavers from the Environment Department who are weekly paid and administered locally, departments are responsible for notifying the Payroll Section of impending leavers so that records can be updated timeously. Prompt notification, in addition to other controls such as positive assurance exercises and the preparation and review of monitoring reports, supports the Council in maintaining accurate and up to date payroll records whilst at the same time mitigating the risk of salary overpayments.

Payroll is the single largest expense for the Council. During 2011/12 the Council's net expenditure for wages and salaries for its employees was of the order of £130 million. Management reports from ResourceLink for this period indicate that there were of the order of 750 employees who left the Council. It is recognised however that the number of leavers in the last two years has been higher than the norm due to the Council's Voluntary Early Retirement / Voluntary Redundancy Schemes.

Scope and Objectives

To assess the adequacy of the processes and procedures in place in the Council surrounding the declaration, acknowledgement, notification and processing of leavers, including the updating of ResourceLink.

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:

- To reduce the risk of error, inconsistent working practices and potential salary overpayments, operational guidance and instructions, including process maps where appropriate, should be compiled.
- To reduce the risk of incomplete and inaccurate payroll records, payroll verification exercises should be carried out on a regular basis to confirm that all employees receiving payment are existing employees and assigned the correct pay grade and spinal column point.

Management Response to the Audit Report

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

iv) INTERNAL AUDIT REPORT 2012/02

Client	City Development
Subject	2011/12 Grant Claim : Cycling, Walking and Safer Streets Projects

Introduction

Under Section 70 of the Transport (Scotland) Act 2001 Scottish Ministers have powers to award grant assistance for specific projects. For the 2011/12 financial year grant assistance totalling £206,000 was awarded to Dundee City Council for the development of projects associated with local cycling, walking and safer streets. The grant awarded for 2011/12 was expended in full.

Under the conditions of the grant it is a requirement that the "Council shall by the 30 June in the financial year following receipt of any grant submit to Scottish Ministers a statement of compliance with the grant conditions signed by the head of internal audit".

Scope and Objectives

The overall objective of this review was to enable the Chief Internal Auditor to provide an opinion as to whether or not the grant funding received in respect of the cycling, walking and safer streets grant has been expended in accordance with the grant's terms and conditions.

Conclusion

On the basis of examining the accounts and records of this grant claim, obtaining such explanations and carrying out such tests as deemed necessary, it is considered that the entries in the claim form are fairly stated, and that the sums claimed are properly due and have been used in accordance with the terms and conditions of the Offer of Grant.

v) INTERNAL AUDIT REPORT 2012/03

Client	Corporate Services
Subject	Payment of Pensions for Former Employees of ex List D Schools

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 has the assurance required to validate the claim. 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.

vi) INTERNAL AUDIT REPORT 2012/04

Client	Environment
Subject	2011/12 Grant Claim : Local Air Quality Management

Introduction

In the 2011/12 financial year Scottish Ministers offered funding support to Dundee City Council for Local Air Quality Management of £26,600. The Grant awarded was expended in full.

It is a requirement of the Conditions of the Grant that at the end of each Financial Year, the Council is required to prepare an account showing the expenses reasonably and properly incurred by it in executing the Project during that financial year and the amount of Grant received by it from the Scottish Ministers under the Agreement. The conditions also state that such account shall be certified as true and accurate, and where the amount exceeds £10,000 shall be audited, by a member of a recognised accountancy body.

Scope and Objectives

The overall aim of this review was to enable the Chief Internal Auditor to provide an opinion as to whether or not the grant funding received in respect of the above subject has been spent in accordance with the related Terms and Conditions.

Conclusion

On the basis of examining the accounts and records of this grant claim, obtaining such explanations and carrying out such tests as deemed necessary, it is considered that the entries in the claim form are fairly stated, and that the sums claimed are properly due and have been used in accordance with the terms and conditions of the Offer of Grant.

vii) INTERNAL AUDIT REPORT 2012/06

Client	City Development
Subject	2011/12 Grant Claim: Air Quality Action Plan

Introduction

In the 2011/12 financial year Scottish Ministers offered funding support to Dundee City Council for Air Quality Action Plan of £185,000. The Grant awarded was expended in full.

It is a requirement of the Conditions of the Grant that at the end of each Financial Year, the Council is required to prepare an account showing the expenses reasonably and properly incurred by it in executing the Project during that financial year and the amount of Grant received by it from the Scottish Ministers under the Agreement. The conditions also state that such account shall be certified as true and accurate, and where the amount exceeds £10,000 shall be audited, by a member of a recognised accountancy body.

Scope and Objectives

The overall aim of this review was to enable the Chief Internal Auditor to provide an opinion as to whether or not the grant funding received in respect of the above subject has been spent in accordance with the related Terms and Conditions.

Conclusion

On the basis of examining the accounts and records of this grant claim, obtaining such explanations and carrying out such tests as deemed necessary, it is considered that the entries in the claim form are fairly stated, and that the sums claimed are properly due and have been used in accordance with the terms and conditions of the Offer of Grant.