

REPORT TO: SCRUTINY COMMITTEE – 24 SEPTEMBER 2014

REPORT ON: INTERNAL AUDIT REPORTS

REPORT BY: CHIEF INTERNAL AUDITOR

REPORT NO: 340-2014

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: 9 September 2014

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i) INTERNAL AUDIT REPORT 2012/32

Client	Social Work
Subject	Commissioning of Care
Introduction	
<p>A review of contract management and commissioning arrangements within the Social Work Department was part of the planned internal audit work.</p> <p>To conclude on this piece of work, a high level review of the new financial management and monitoring arrangements in place for Social Work contracts was undertaken. This was supplemented by a follow-up review of Internal Audit Report 2010/33, Contracting and Payments, which concluded that whilst there was basically a sound system of control there were some areas where it was viewed improvements could be made. These included the approval process for external organisations providing services on behalf of the Social Work Department and the sign off process for formal contacts.</p> <p>The Council is currently reviewing the different contracting and monitoring arrangements in place throughout the organisation with a view to achieving standardisation of approach to contracts in general and as well as developing a risk based monitoring regime. These ongoing developments were considered during the reporting stage so that the recommendations, which relate to principles and practices, will continue to be relevant once the new corporate arrangements are in place.</p>	
Scope and Objectives	
<p>To carry out a review of contract management and commissioning arrangements within the Social Work Department to verify that they are adequately controlled and operating effectively. The focus of the review was to carry out a high level assessment of the new financial management and monitoring arrangements in place for Social Work contracts and confirm whether or not the recommendations agreed by management in Internal Audit Report 2010/33 had been implemented.</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 commented upon in the report are as follows:</p> <ul style="list-style-type: none"> • The Social Work Department should continue to strive, in conjunction with organisations, towards ensuring that all contracts are signed by the date they become effective. Where this is not possible, the reasons should be recorded and the situation monitored. In addition, staff should be reminded of the importance of ensuring the timeous return of key documentation such as financial statements and insurance certificates. 	
Management Response to the Audit Report	
<p>The audit findings and recommendations were formally reported to the Director of Social Work and appropriate action agreed to address the matters raised.</p>	

ii) INTERNAL AUDIT REPORT 2012/33

Client	City Development
Subject	Business Start-Ups

Introduction

A review to assess the procedures in place within City Development to provide financial support to new businesses was part of the planned internal audit work.

City Development's Economic Development Division is responsible for building a strong and sustainable city economy and improving employment outcomes for the people of Dundee. The E-zone Project, managed by the Division, provides business start-up support in the form of one-to-one advice sessions and discretionary small business start-up grants, known as Kick-start Grants, to individuals living in Dundee requiring assistance to get their new businesses up and running. The E-zone Project has an annual target of providing start up support to 48 new businesses in Dundee. Where applicable, these businesses may also be eligible to receive a Kick-start Grant. At the time of the audit fieldwork the standard maximum grant available to these businesses, subject to predetermined terms and conditions, was up to £1,250, increasing to £2,500 in specific circumstances. These levels are in the process of being reviewed.

The budget for Kick-start Grants for the 2014/15 financial year is £48,500. The Council has recently been successful in re-securing European Regional Development Fund monies through a collaborative bid with the lead partner Dundee College, which will help fund the E-zone Project.

Scope and Objectives

Review to assess the procedures within City Development to provide financial support to new businesses. This review focussed on the arrangements in place for managing the Kick-start Grants awarded through the E-Zone Project.

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:

- To ensure that key documentation and working practices for Kick-start Grants are fully aligned, a comprehensive review of the terms and conditions should be undertaken with amendments made as required. In addition, key identity and compliance checks should be undertaken as a matter of routine.

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.

iii) INTERNAL AUDIT REPORT 2013/12

Client	Housing
Subject	Performance Indicators

Introduction

A high level review of the arrangements in place to manage the collection of data for the Scottish Social Housing Charter performance indicators was part of the planned internal audit work.

The Scottish Housing Regulator, established on 1 April 2011 following the introduction of the Housing (Scotland) Act 2010 (the Act), is the independent regulator of Registered Social Landlords and local authority housing services in Scotland.

In line with the Act, a Scottish Social Housing Charter was compiled by Scottish Ministers to help improve the quality and value of services provided by social landlords and supports the Scottish Government's long-term aim of creating a safer and stronger Scotland. The standards and outcomes that all social landlords should aim to achieve when performing their housing activities are set out in the Charter, which came into effect on 1 April 2012 following Scottish Parliament approval.

The Scottish Housing Regulator is responsible for assessing social landlords' performance against the Charter and has issued guidance setting out 69 indicators that will be used to measure and report progress towards achieving the Charter's specified standards and outcomes. In relation to the Council, only 63 of these indicators are relevant. Technical guidance for landlords has also been issued by the Scottish Housing Regulator providing detailed information on the data that should be included for each indicator in the social landlords' return for the Annual Return on the Charter. The first reporting year was the 2013/14 financial year with data returned to the Scottish Housing Regulator by the end of May 2014.

Scope and Objectives

Review of the arrangements within the Housing Department, which underpin compilation of the Charter Indicators required by the Scottish Housing Regulator to assess landlord performance.

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:

- To further enhance the framework in place for Charter Indicators, including capturing, collating, testing, validating, approving and reporting the data, steps should be taken to improve clarity around roles and responsibilities as well as developing the arrangements in place for disseminating key information.

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.

iv) INTERNAL AUDIT REPORT 2013/26

Client	Corporate
Subject	Invoice Processing

Introduction

A review of invoice processing arrangements was part of the planned internal audit work.

As part of the Council's Purchase to Payment System a central team is being established for the processing of creditors' invoices using intelligent scanning. The use of intelligent scanning for this purpose should generate efficiencies through the reduction of invoice processing times and instant access to source data. It should also reduce the risk of invoices being misplaced and paid twice.

The Council's intelligent scanning software provider is Kofax. Intelligent scanning functionality, from an invoice processing perspective, can improve the speed and accuracy of data capture. Once invoices are scanned into the system, the software can recognise and extract important field values such as the supplier details, purchase order number and values from the documents before automatically checking and validating it against existing system information.

The central intelligent scanning of invoices is in the process of being piloted for the Council's Housing Department. This service will be rolled out incrementally over the next 18 months to other departments of the Council. In addition, electronically received invoices from a limited number of suppliers for Council-wide purchases are also being processed and paid centrally.

During 2013/14, the new intelligent invoice scanning arrangements were used to process of the order of 13,000 invoices for 400 suppliers with a net value of £7.6m.

Scope and Objectives

Review of the processing of invoices to provide assurance that it is in line with the approved framework and key risks are effectively managed. The review focussed on providing assurances to management in respect of the new intelligent invoice scanning arrangements before roll-out to departments.

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 mitigate the potential risk associated with the incremental roll-out of the service and ensure that an adequate internal control framework is in place, responsibilities, operational procedures and working practices should be agreed in advance with each departmental management team. In addition, a comprehensive review of CIVICA Purchasing user profiles should be carried out with a view to ensuring appropriate access rights, authorisation levels and segregation of duties exist under the new arrangements. An implementation plan should be compiled to assist with taking these key areas, as well as the other suggested improvements, forward.

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.

v) INTERNAL AUDIT REPORT 2013/30

Client	Corporate
Subject	Tax Governance

Introduction

A high level review of the arrangements to manage the potential tax risks faced by the Council was part of the planned internal audit work.

Increasingly tax governance and associated risks are being considered by HM Revenue & Customs (HMRC), particularly in respect of large businesses. This is partly due to the fact that there have been examples, in both the public and private sectors, whereby the effectiveness of the tax governance arrangements have been brought into question. Within the public sector these include the use of off-payroll payments being made within central government which ultimately resulted in the use of personal service companies in the wider public sector being considered and reported upon by the House of Commons, Committee of Public Accounts in 2012.

From an organisational perspective effective tax governance is considered an important factor in helping preserve the reputation of the business and discharging its responsibility to stakeholders. The approach used by HMRC in this area focuses upon assessing the level of risk in respect of governance, delivery and tax strategy, and key principles considered as part of this include legal and regulatory compliance, management of tax risks, and lines of responsibility and accountability.

Scope and Objectives

To assess the effectiveness of the Council's arrangements to manage the potential tax risks faced by the organisation particularly in respect of PAYE and VAT. This high level review focussed on assessing potential risks and mitigating controls in place.

Conclusion

The principle 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:

- To assist in ensuring an appropriate and consistent approach is followed in attributing an employment status to each individual, a clear, written procedure should be compiled to aid departmental staff in the task of assigning employment status.
- In order to reduce the potential risk to the Council of not being able to fulfil its duties particularly in respect of the compilation and submission of the monthly VAT return should the staff member key to this process be unavailable, consideration should be given to introducing appropriate contingency arrangements.

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.

vi) INTERNAL AUDIT REPORT 2014/01

Client	Housing
Subject	Follow-up Review of Houses in Multiple Occupation

Introduction

As part of the planned internal audit work, a follow-up review of Internal Audit Report 2011/34, Licensing of Houses in Multiple Occupation was undertaken.

The original internal audit report concluded that there were weaknesses in the system which should be addressed. The main areas commented on in the report were as follows:

- To reduce the potential risk of inconsistent working practices, particularly during periods of absence and ensure compliance with legislation, the HMO procedure, process maps, and application forms should be updated to address the areas requiring improvement highlighted in the report. Consideration should also be given to reviewing the HMO system as a project under the STEP programme.
- To assist the Council in discharging its statutory responsibility of determining an HMO licence application within twelve months, the HMO records held on the Council's primary licensing system, CIVIC, should be reconciled on a regular basis to the HMO Data Management System.

A progress review was carried out in August 2013 during which formal assurances were obtained from management that whilst a number of the recommendations had been actioned there were some areas for improvement that remained outstanding. This was subsequently reported to the Scrutiny Committee on 25 September 2013.

Scope and Objectives

To assess whether or not each of the recommendations agreed by management in Internal Audit Report 2011/34 had been implemented within the given timescales. The follow-up review was restricted to areas included in the original report.

Conclusion

The principal conclusion drawn from the follow-up work undertaken is that whilst some action has been taken to strengthen the control weaknesses highlighted in the original review there are still some recommendations which require to be implemented by management.

The main area where action agreed by management is still outstanding is as follows:

- To date, the interim inspections / spot checks of licensed properties have not been implemented as intended. However, these will be carried out once adequate resource becomes available.

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.

vii) INTERNAL AUDIT REPORT 2014/04

Client	Corporate
Subject	Grant Funding

Introduction

A review of the processes and approach adopted in respect of grant funding was part of the planned internal audit work.

Local authorities are under increasing pressure to achieve efficiency savings and their finance raising powers through taxation are restricted. In addition, ongoing austerity measures have resulted in the Council's overall grant funding levels reducing in real terms. Given this there is an increasing need to explore alternative sources of funding in order to achieve key objectives. Whilst there are potentially a wide range of alternative funding opportunities available to the Council, careful consideration is required before an application is submitted to ensure that the project aligns with the Council stated priorities, and should the submission be successful the Council will be able to fulfil its obligations in respect of the grant awarded. Such obligations may for example be the requirement to provide an element of match funding or demonstrating that the specific outcomes for which the grant was approved have been achieved. To minimise potential risk in this area it is important that the processes in place which underpin the planning, application, monitoring and management of grant funding are robust.

The notes to Dundee City Council's Annual Statement of Accounts provide a summary of the grant income received by the Council. The unaudited Annual Statement of Accounts for the year ended 31 March 2014 show revenue and capital grants totalling of the order of £100 million and £31 million respectively. Whilst the majority of this grant income is received direct from the Scottish Government, DWP and NHS in respect of allocations, subsidies and resource transfers, the Council also actively pursues other potential funding streams which will help support delivery of its aims and objectives. Such additional grant funding has been secured through successful applications being submitted for example to the Scottish Futures Trust, Big Lottery Fund and European Regional Development Fund.

Scope and Objectives

Review to ensure that there is an effective corporate approach to the planning, application, monitoring and management of grant funding across the organisation. This focus of this particular review was in relation to the area of additional grant funding income being secured by the Council.

Conclusion

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

The main area highlighted in the report is as follows:

- Formalised policies and procedures should be developed to improve the level of corporate oversight and ensure that a minimum level of control is consistently applied to grant funding across the Council.

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.

viii) INTERNAL AUDIT REPORT 2014/05

Client	Environment
Subject	2013/14 Grant Claim : Local Air Quality Management

Introduction

The Council was awarded grant funding of £41,700 by Scottish Ministers for the 2013/14 financial year to assist the Council in progressing its Local Air Quality Management project. In respect of this grant £19,531 was expended during 2013/14 and approval was given to carry over and utilise the balance to complete the modelling and works that had commenced in 2013/14.

The funding conditions of this grant state 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 funding support received by it from the Scottish Ministers. This account requires to be certified as true and accurate and in addition where the amount exceeds £10,000 requires to 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.

ix) INTERNAL AUDIT REPORT 2014/06

Client	Environment
Subject	2013/14 Grant Claim : Air Quality Action Plan
Introduction	
<p>The Council was awarded grant funding of £166,000 by Scottish Ministers for the 2013/14 financial year to assist the Council in progressing its Air Quality Action Plan. In respect of this grant £151,000 was expended during 2013/14 and approval was given to carry over and utilise the balance to complete the Dundee Travel Active workshop programme within primary schools which had commenced in 2013/14.</p> <p>The funding conditions of this grant state 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 funding support received by it from the Scottish Ministers. This account requires to be certified as true and accurate and in addition where the amount exceeds £10,000 requires to be audited, by a member of a recognised accountancy body.</p>	
Scope and Objectives	
<p>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.</p>	
Conclusion	
<p><i>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.</i></p>	