

REPORT TO: SCRUTINY COMMITTEE – 24 AUGUST 2011

REPORT ON: INTERNAL AUDIT REPORTS

REPORT BY: CHIEF INTERNAL AUDITOR

REPORT NO: 383-2011

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, Depute 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: 08 August 2011

i) INTERNAL AUDIT REPORT 2010/31

Department	Education
Subject	Attendance Management (Secondary Schools)

Introduction

A review of attendance management within secondary schools was part of the planned internal audit work.

Parents or carers have the primary responsibility for ensuring that children of compulsory school age (i.e. 5 to 16 year olds) receive a suitable education, either by regular attendance at school or otherwise. Where parents have elected to have children educated at school they have an obligation to ensure that they attend on a regular basis and that they are only absent for valid reasons such as illness, work placements and attending school events. Parents and carers have a duty to notify school staff if pupils are to be absent for any reason. Any absence which is not valid is termed unauthorised. Such absences include holidays during term time except where specific permission has been granted and truancy.

Any absence from school means that the child is not receiving the appropriate education but, in the case of truancy, it also means that he/she may be disruptive in the community. It is important that parents or carers are advised promptly of pupil absence in order that the risk of anything untoward happening to a child is minimised and that appropriate remedial action can be taken as soon as possible. In common with most other Scottish local authorities, staff in the schools use a management information system from SEEMIS Group and in Dundee the system is used to take the class registers and send text messages to parents/carers for unnotified pupil absences. Arrangements for primary schools were considered in Internal Audit report 2008/20 and the subject of a follow up review in 2010/11 when it was found that all recommendations had been implemented (Internal Audit Report 2010/15 refers).

Scope and Objectives

The overall objective was to examine procedures operated in respect of notification of pupil absence within secondary schools. Two schools were visited to observe the systems in operation.

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 increase accuracy in registration and facilitate follow-up of absences, the Attendance Initiative Policy and Procedures should be reviewed to identify any areas where clarification and modifications would be beneficial at time of next update. The need for accuracy in registration at every period in the school day should be reinforced to teaching staff at all levels within secondary schools. In addition, IT support staff should continue to forward requests for developments to increase automation of key processes undertaken within the computerised system for recording and managing absences to the SEEMIS working group.

Management Response to the Audit Report

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

ii) INTERNAL AUDIT REPORT 2010/32

Department	City Development
Subject	Management of School Transport

Introduction

A review of the management of school transport by the City Development Department was part of the planned internal audit work. City Development staff use the Shaunsoft CTX system to manage transport arrangements.

Whilst the Education Department is responsible for ensuring that all children who qualify for school transport are provided with this facility, the City Development Department is responsible for arranging and monitoring the contracts with the providers of these services. Contracts normally run for three years and current contracts are effective for financial years 2009/10 to 2011/12.

Actual expenditure on the provision of school transport for financial year 2010/11 was of the order of £1m compared to a budget of £885,000 with services being provided to approximately 750 children. Of the order of 90% of this expenditure relates to transport for children with additional special needs. 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 2010/35 details the recommendations made in respect of procedures operated within the Finance Department. The management of the school transport arrangements by the Education Department was subject to a separate review and was reported upon in Internal Audit Report 2009/36.

Scope and Objectives

The overall objective of this review was to assess procedures operated by City Development staff in respect of the letting and monitoring of contracts for the provision of pupil transport to and from school. Arrangements operated by the Insurance and Risk Management Section within the Finance Department were also considered.

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 there are formal binding contracts in place, contractors should not be permitted to provide school transport unless the required forms have been fully completed and signed by appropriate personnel.
- To ensure compliance with the Conditions of Contract, contractors should be reminded that they must provide the Council with a list of all vehicles and employees that might be involved in the operation of school contracts.
- To ensure all escorts have been checked by Disclosure Scotland, City Development staff should obtain written details of the escorts currently employed on these contracts. If the escorts have not been checked this should be done as a matter of urgency.

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 2010/34

Department	Support Services
Subject	Electoral Registration

Introduction

A review of electoral registration within Support Services was part of the planned internal audit work.

Electoral Registration is governed by the Representation of the People Act and associated regulations. The Electoral Registration Officer (ERO) is responsible for compiling the Register of Electors which is published on or shortly before 1st December each year. The Council changed the software package used for maintenance of the Electoral Roll in December 2010 and now uses Eros which is supplied by Halarose. The Register is maintained by staff based within the Support Services Department. It is a "rolling" register and amendments are made throughout the year based on information received from a variety of sources including the electorate, Council departments, Housing Associations and other EROs.

An annual canvass exercise of all households is undertaken in the autumn prior to publication of the Register and the responses are used to check the information held and update this where necessary. The canvass is undertaken by post with canvassers being used to visit households where there is no response. Historically the annual canvass entailed the ERO writing out to all households listed and asking them to confirm in writing that the details held are correct. In the last couple of years, an automated telephone return has been introduced and can be used to confirm the information held is correct. This telephone service can also be used to request a postal vote.

There are approximately 107,000 voters on the Electoral Roll for Dundee and voters can inspect their own entries at the local library. In the region of 10% have opted out of the edited version.

Scope and Objectives

The overall objective of the review was to examine the procedures operated in respect of maintaining and updating the Electoral Roll and assess the completeness of data migrated from Pickwick, the previous software system, to Eros.

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 area commented upon in the report is as follows:

- To provide management with additional assurance on the accuracy of the changes which are manually input to the Eros system sample checks should be introduced.

Management Response to the Audit Report

The audit findings and recommendations were formally reported to the Depute Chief Executive (Support Services) and appropriate action agreed to address the matters raised.

iv) INTERNAL AUDIT REPORT 2010/35

Department	Finance
Subject	Insurance Arrangements for School Transport

Introduction

A review of the management of school transport by the City Development Department was part of the planned internal audit work. City Development staff use the Shaunsoft CTX system to manage transport arrangements.

The Council provides transport for all primary school pupils who live over 2 miles from their designated primary school and for all secondary pupils who live over 3 miles from their designated secondary school. A parent of a child who lives within these limits but who considers that his/her child's journey to school is unreasonable on grounds of safety may apply to the Director of Education for consideration for school transport. This applies only where there is no suitable public transport. The Council also provides school transport, where necessary, for pupils attending a special school or special unit provided by the Council. In consultation with parents, some of these pupils may be encouraged to make their own way by public transport, in which case bus passes will be issued to them.

Whilst the Education Department is responsible for ensuring that all children who qualify for school transport are provided with this facility, the City Development Department is responsible for arranging and monitoring of the contracts with the providers of these services. Contracts normally run for three years and the current contract is effective for financial year 2009/10 until the end of 2011/12.

Actual expenditure on the provision of school transport for financial year 2010/11 was of the order of £1m compared to a budget of £885,000 with services being provided to approximately 750 children. The audit review identified areas for improvement in both the City Development Department and the Finance Department. Internal Audit Report 2010/32 details the recommendations made in respect of procedures operated within the City Development Department. This report details the recommendations relating to the Finance Department.

Scope and Objectives

The overall objective of this review is to assess procedures operated by City Development staff in respect of the letting and monitoring of contracts for the provision of pupil transport to and from school. Arrangements operated by the Insurance and Risk Management Section within the Finance Department were also considered.

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:

- Steps should be taken to ensure that the relevant contractors are formally requested to provide outstanding information and reminded of their contractual obligations. In cases of persistent non-compliance, details of the contractors involved should be formally passed to City Development staff who could withhold payment of invoices until the documents are received.

Management Response to the Audit Report

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

v) INTERNAL AUDIT REPORT 2011/01

Department	Finance
Subject	User Access to Payroll

Introduction

A review of user access to the payroll system was part of the planned internal audit work.

The Council utilises ResourceLink, an integrated payroll and personnel system, for recording payroll data and personnel information. ResourceLink holds records for approximately 10,000 Dundee City Council employees and has in the region of 200 users within the Council. Most of the payroll functions have recently been centralised within the Finance Department.

New employee records can only be created by members of the Finance payroll team but staff within Council departments require access to ResourceLink for input of raw data and for enquiries. The level of access granted to any IT system should be commensurate with business need, authorised by staff at an appropriate level and be the minimum level required as this assists in protecting the integrity of the system. In line with Dundee City Council's IT Policy, access for employees who have left the Council's employment should be terminated at the date of leaving.

The audit review identified areas for improvement in processes operated by both the Finance Department and the IT Department. This report details the recommendations relating to the Finance Department. Internal Audit Report 2011/12 details the recommendations made in respect of procedures operated within the IT Department.

Scope and Objectives

The overall objective of this review was to examine the appropriateness of user access to the Council's integrated payroll and personnel system, ResourceLink. Access rights of users in external bodies to whom payroll services are provided were excluded from this review.

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 the continued integrity of ResourceLink, security profiles should be reviewed and deleted or amended, where appropriate. In addition, departments should be provided with a list of employees who have access to ResourceLink, an overview of the areas to which they have access and an indication of whether the access is enquiry only or processing and asked to state if the level of access provided is appropriate or not.

Management Response to the Audit Report

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

vi) INTERNAL AUDIT REPORT 2011/02

Department	Social Work
Subject	Client Services

Introduction

The Social Work Department requested internal audit to carry out an independent review of invoices issued to one of its clients. The request was in response to a complaint from the client's mother that invoices issued by the Council were not correct and did not reflect the level of services provided for her daughter.

It is normal practice for Social Work staff to compile a care plan for each client which details the nature and number of care hours required for each client. Services for clients with care needs may be provided by Dundee City Council staff and/or purchased by the Council from one or more external organisations which provide care services.

Care providers should submit a weekly return listing the services provided to Council clients and this document is then used as the basis for completing the billing function in K2, the in-house database used by Social Work staff for recording details of clients needs and services provided. Amounts charged to clients are dependent upon each individual's circumstances.

Care providers usually invoice the Council on a monthly basis for the services provided and, unless there has been a deviation from the agreed care plan for some reason such as admission to hospital, the hours recorded in the care plan, the weekly returns, the bills to clients and the provider's invoices should match. Any material anomalies should be investigated in order to ensure that neither the Council nor the client is being over or undercharged.

Scope and Objectives

The overall objective of this review was to ensure that the services provided to the client were correctly recorded by the care provider and the Council and that these services have been accurately reflected in the bills submitted to the client.

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 minimise the risk of inaccurate billing, the weekly service returns submitted by providers should be monitored in order to confirm that they are received from all providers in respect of all clients. The returns should then be checked to ensure that clients are receiving the level of service assessed as being required. Once this has been verified, the hours detailed in the weekly service returns should be accurately recorded in K2 for billing purposes.

Management Response to the Audit Report

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

vii) INTERNAL AUDIT REPORT 2011/07

Department	Information Technology
Subject	USB Memory Devices

Introduction

A review of the use of USB memory devices within Dundee City Council was undertaken as part of the planned internal audit work.

USB memory devices are known by many names including sticks, pens, keys and flash drives. Such devices utilise flash memory, a relatively low cost way of storing data on mobile devices and are an extremely convenient method for transporting data as they fit easily into a pocket or handbag, plug easily into the USB ports of computers and can hold vast amounts of data. However there are significant risks associated with the use of memory devices. For example the risk of data loss is potentially very high as devices can easily be lost, data can be corrupted if memory devices are not safely removed from computers, they are a potential means for the transfer of viruses and as they are very unobtrusive, they can be plugged into the USB port of a computer without the user being aware.

The Council's IT Department issued the 'USB Memory Device Policy' in August 2007 and this is available on the IT Department's intranet site. The policy states that such devices must only be used to transfer non-sensitive, non confidential information, used for occasional transfer of information, information must be removed from the memory stick once transfer is complete, memory devices used on non-Council equipment must be virus checked on return and losses must be reported to the IT help desk, giving details of information lost. In addition, the policy states that if information requires to be transferred on a regular basis IT assistance should be sought.

Scope and Objectives

The overall objective of this review is to assess the adequacy of the arrangements for use of USB memory devices within the various departments of the Council.

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 improve controls over memory devices, the policy should be reviewed and revised prior to the completion of the Personal Information Security Manual (PISM). Consideration should be given to making the use of encrypted memory devices mandatory and installing software which will prevent the use of non-encrypted devices.

Management Response to the Audit Report

The audit findings and recommendations were formally reported to the Head of Information Technology and appropriate action agreed to address the matters raised.

viii) INTERNAL AUDIT REPORT 2011/09

Department	Waste Management
Subject	Fuel Management

Introduction

A review of the procedures operating in respect of fuel management within the Waste Management Department was part of the planned internal audit work.

The Department has of the order of 120 vehicles which range from small vans to domestic refuse collection vehicles. Some vehicles use petrol which is purchased from Dundee Contract Services and recharged to Waste Management via the general ledger. Other vehicles use red diesel which is held at Baldovie. However the vast majority of the Department's vehicles use diesel. Diesel for these vehicles is supplied from the Marchbanks fuel station. The capacity of the fuel tank is of the order of 36,000 litres.

Diesel is managed using the JMW fuel management system (JMW). Most vehicles have a vehicle fob which is on a ring with the keys of the vehicle and which is swiped when fuel is withdrawn. Staff also require a driver's fob to withdraw fuel. Vehicle keys and vehicle fob should be handed in to the Transport Office at the end of the working day. A small number of older vehicles still have data plates which are read electronically. Both fobs and data plates provide a mechanism for recording all fuel withdrawals against individual vehicles in JMW. At the end of each month data from JMW is downloaded into the department's costing system which in turn feeds into the general ledger module of the Council's financial system, Authority Financials.

For the 2010/11 financial year expenditure on diesel for Marchbanks was of the order of £710,000.

Scope and Objectives

The overall objective of this review was to examine the procedures operated in respect of diesel fuel management at Marchbanks. Fuel management procedures operated in respect of petrol and red diesel used by Waste Management was outwith the scope of this review as were procedures operated by other departments of the Council.

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 improve controls over fuel management, a formal schedule for regular tank gauge and dip readings and the recording of fuel levels prior to and immediately after fuel deliveries require to be introduced as a matter of urgency. In addition, data on fuel output from JMW should be fully reconciled to the fuel stock and any other records. Discrepancies between actual and expected fuel levels must be reported to senior management, investigated immediately, satisfactorily resolved and any adjustments to be made to fuel records must be authorised by management.
- To comply with best practice, users of JMW should have unique logins and passwords and electronic data stored in the system should be backed up nightly and storage media held off-site.
- To improve security, there should be CCTV coverage of fuel pumps and tank. In addition, active key fobs should be matched to current staff and vehicles and fobs disabled as appropriate.

Management Response to the Audit Report

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

ix) INTERNAL AUDIT REPORT 2011/10

Department	Corporate
Subject	Debtors and Debt Management - Sundry Debtors

Introduction

A review of debtors and debt management with a particular focus in the systems in place for writing off sundry debtors' bad debt was part of the planned internal audit work.

Departmental operators are responsible for raising internal and external sales invoices via Authority Financials for goods and services rendered. The Finance Department's Sales Ledger Section is responsible for recovering debt from the Council's sundry debtors and identifying bad and doubtful debt so that further action can be taken where appropriate. The Director of Finance has delegated authority to write off miscellaneous debts subject to all recovery options having been exhausted. Currently this exercise is undertaken on an annual basis at the end of the financial year.

During the 2010/11 financial year the sundry debt billed for the Council was approximately £40.0m. The amount collected during this period for debt relating to the current and previous financial years totalled £46.5m. The sundry debt outstanding in the Sales Ledger as at 15 March 2011 was of the order of £10.0m and as part of the 2010/11 year end write off exercise 3.725 invoices with an associated value of £0.5m were written off.

Scope and Objectives

The overall objective of this review was to carry out a review of the arrangements in place for writing off sundry debtors' bad debt. The write off procedures operated in respect of Non-Domestic Rates, Council Tax, Community Charge, housing rents and penalty charge notices bad debt were outwith the scope of this review. In addition, the debt recovery and write off procedures carried out by the Council on behalf of external bodies were also excluded from the scope of 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:

- To reduce the risk of inconsistent working practices and increased bad debt and write off a corporate debt management policy should be drafted along with comprehensive operational guidance and instructions for staff which include process maps where appropriate. To complement this consideration should be given to introducing good practice guidance for Council departments.
- To improve the overall management of write offs consideration should be given to undertaking this exercise on a more frequent basis, introducing additional approval levels and more formalised reporting mechanisms.
- To ensure that there is a corporate approach to the management of this area cross-departmental working arrangements between Finance, Housing and City Development should be further developed. In addition, a policy statement requires to be drawn-up detailing the circumstances in which additional goods or services should or should not be issued to existing bad debtors.

Management Response to the Audit Report

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

x) INTERNAL AUDIT REPORT 2011/012

Department	Information Technology
Subject	User Access by Employees to IT Systems

Introduction

A review of user access to the payroll system was part of the planned internal audit work.

The Council utilises ResourceLink, an integrated payroll and personnel system, for recording payroll data and personnel information. ResourceLink holds records for approximately 10,000 Dundee City Council employees and has in the region of 250 users within the Council. Most of the payroll functions have been centralised within the Finance Department.

New employee records can only be created by members of the Finance payroll team but staff within Council departments require access to ResourceLink for input of raw data and for enquiries. The level of access granted to any IT system should be commensurate with business need, authorised by staff at an appropriate level and be the minimum level required as this assists in protecting the integrity of the system. In line with Dundee City Council's IT Policy, access for employees who have left the Council's employment should be terminated at the date of leaving. Payroll staff have recently deployed a facility within ResourceLink which automatically withdraws an employee's access when their final salary is paid.

Recommendations for improvements relating to procedures operated in the Finance Department are covered in Internal Audit report 2011/01. This report addresses user access to Council systems during periods of prolonged absence, an area highlighted during the review of access to ResourceLink.

Scope and Objectives

The overall objective of this review was to examine the appropriateness of user access to the Council's integrated payroll and personnel system, ResourceLink. Access rights of users in external bodies to whom payroll services are provided were excluded from this review.

Conclusion

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.

The area commented upon in the report is as follows:

- In order to further strengthen controls over Council IT systems, the feasibility of deploying a timeout facility in the Active Directory for employees should be explored. The timeout period should be set at a level which would not place undue pressure on IT staff to re-activate access to systems but would assist in restricting access to Dundee City Council systems to those with a genuine business need.

Management Response to the Audit Report

The audit findings and recommendations were formally reported to the Head of Information Technology and appropriate action agreed to address the matters raised.

xi) INTERNAL AUDIT REPORT 2011/23

Department	City Development
Subject	2010/11 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 2010/11 financial year grant assistance totalling £249,000 was awarded to Dundee City Council for the development of projects associated with local cycling, walking and safer streets. The grant awarded for 2010/11 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.