

REPORT TO: SCRUTINY COMMITTEE – 25 SEPTEMBER 2013

REPORT ON: INTERNAL AUDIT REPORTS

REPORT BY: CHIEF INTERNAL AUDITOR

REPORT NO: 392-2013

ITEM No ...6.....

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: 09 September 2013

i) INTERNAL AUDIT REPORT 2012/16

Client	Corporate
Subject	ICT Solutions

Introduction

A corporate review to assess if the benefits of ICT solutions are being realised within the authority was part of the planned internal audit work.

The vision in Scotland at a national level is to provide high quality public services which are efficient, continually improving, and responsive to local people's needs. At a local level the Council fully supports this vision and has introduced various initiatives such as the Changing for the Future and Systems Thinking Empowers People programmes which aim to drive forward the modernisation of services agenda and embed a continuous improvement culture within the organisation.

The Council also recognises the success of such initiatives will in part be dependent upon effective deployment of ICT. It is estimated that currently there are in excess of three hundred technological solutions in place across the organisation. These along with future developments are pivotal in moving forward reform and improvements to Council services at a local level. The software packages currently in use are a mix of both ICT solutions developed in-house and commercially developed software.

In terms of the further development of the ICT infrastructure there are a number of key challenges. These include accelerating the pace of delivery, more effectively articulating the benefits of projects and ensuring that ICT solutions are being fully utilised by staff.

Scope and Objectives

Review to assess if ICT solutions purchased and developed by the Council to improve efficiency and effectiveness are being fully utilised by staff and benefits to the organisation are being realised. The review focussed upon a number of key areas including telephones, conferencing, email, calendar and home access and the views of users were captured through the use of an online survey.

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:

- Whilst the generic electronic systems and devices reviewed as part of this survey were in general perceived by staff to be beneficial, the feedback did highlight areas for improvement which would assist in enhancing efficiency and skill levels. Areas to be considered include raising awareness of facilities available such as telephone and video conferencing and providing self-help information and on-line resources which are readily accessible for staff.
- In line with good business practice all staff who use the Council's email system should be required to set up a signature file which enables recipients both internal and external to be provided with the basic contact details of the sender.

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.

ii) INTERNAL AUDIT REPORT 2012/29

Client	Corporate Services
Subject	Non-Domestic Rates

Introduction

A review of arrangements in place for administering refunds arising from the valuation appeals process for non-domestic rates was part of the planned internal audit work.

Non-domestic rates is a tax on properties not in domestic use. Examples of such properties include banks, factories, offices, schools and shops. Tayside Valuation Joint Board is responsible for determining the rateable values placed on non-domestic properties in Dundee and compiling and maintaining the corresponding Valuation Roll and the Council is responsible for administering the charges to be levied and collected for non-domestic rates. There are currently approximately 5,700 non-domestic properties on the Valuation Roll for Dundee City Council with a total rateable value of approximately £189 million.

On an annual basis the Scottish Government set a uniform poundage rate and this rate is multiplied by the rateable value to determine the non-domestic rates charge for each property. There is however a range of relief schemes in operation which businesses may be eligible to apply for to reduce the amount due. In addition there is a formal appeals procedure in place to deal with valuation disputes. The circumstances in which appeals can be lodged are prescribed by legislation and a statutory timetable is in place.

In general, statutory revaluation takes place every five years, resulting in the production of a new Valuation Roll. The last revaluation was carried out in 2010. In a revaluation year large numbers of revaluation appeals are lodged and the 2010 revaluation resulted in the order of 2,350 revaluation appeals for properties within the Dundee area. Tayside Valuation Joint Board has until 31 December 2013 to dispose of these appeals. As at 31 March 2013, 93% of the revaluation appeals had been resolved.

Scope and Objectives

To carry out a review of the systems and controls in place over the identification and processing of refunds arising from the valuation appeals process.

Conclusion

The principal conclusion drawn from this review is that whilst there is basically a sound system of control there is an area where it is viewed improvements can be made.

The main area commented upon in the report is as follows:

- Whilst it is acknowledged that there is minimal staff turnover and that existing members of the team have extensive knowledge and experience of non-domestic rates consideration should be given to identifying all the potential reference sources and ensure that they are rationalised and updated where appropriate.

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.

iii) INTERNAL AUDIT REPORT 2012/34

Client	Corporate
Subject	Stocks and Inventories

Introduction

A review of stocks and inventories was part of the planned internal audit work.

The term stocks and inventories includes consumables such as materials and components which are kept at designated stores and are required by the organisation to ensure the smooth running of operational needs. The Council's Financial Regulations with respect to stores and inventories state that the safe custody of stores and equipment shall be the responsibility of the Chief Officer concerned. Such responsibilities include ensuring that there are adequate arrangements in place with regard to the control and reconciliation of stock and that a physical count of stock is carried out at least annually by personnel who are independent of day to day operation of the store. At a minimum, all stores should undertake a year end stock check as close as possible to the Council's financial year end i.e. 31 March. On completion of the stock check, the physical stock count records are reconciled to the book stock. Any material adjustments arising from the stock count and subsequent reconciliation process require to be authorised by the Director of Corporate Services.

The year end balance for inventories in the Council's Unaudited Statement of Accounts for the year ended 31 March 2013 totalled £904,000. Of this £835,000 related to consumable stores and the balance was for maintenance materials and work in progress. Approximately 96% of consumables are held in stores managed by the Environment and Social Work Departments.

Scope and Objectives

Review of arrangements in place at the year end of the 2012/13 year end financial year.

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 streamline the year end process for gathering key information from departments in respect of their stocktaking arrangements, steps should be taken to amend the year end processes so that the proforma are returned to and collated by the Finance Accounting Section rather than Internal Audit.

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 2012/36

Client	Corporate
Subject	Data Protection

Introduction

A review of the Council's Data Protection arrangements was part of the planned internal audit work.

The Data Protection Act 1998 controls how personal information is used by organisations, businesses or the government. Broadly, the Act has two main aims. Firstly it gives data subjects i.e. individuals about whom information is held, certain rights, including the right to access and receive a copy of the information held about them. The 1998 Act also requires data controllers i.e. bodies who hold information about individuals, such as the Council, to follow the eight data protection principles. In summary, these principles state that personal information must be processed fairly and lawfully, obtained only for one or more specified lawful purposes, adequate, relevant and not excessive, accurate and where necessary kept up to date, kept for no longer than is necessary, processed in accordance with individuals' rights, kept secure by appropriate technical or organisational measures and only transferred outside the European Economic Area if privacy is respected.

Within the United Kingdom the Information Commissioner's Office is an independent public authority which has been set up to uphold information rights. As part of their remit the Commissioner is responsible for administering the provisions of the Data Protection Act and has wide enforcement powers in relation to the Act. This includes being able to serve Enforcement Notices on data controllers and issue monetary penalty notices of up to £0.5m. Breaching the Act can also, in certain circumstances, be a criminal offence. It is therefore critical that procedures and controls are embedded within the Council to ensure that it is storing and managing data in line with the Act.

Scope and Objectives

Review of the policies and procedures and key controls in place to protect personal information in line with the Data Protection Act and mitigate risks facing the Council in the management of this area. In addition to reviewing the Council's overall arrangements, an assessment of the arrangements within the Social Work and Education Departments was also undertaken.

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 ensure that all guidance in relation to data protection is readily accessible, the Data Protection Policy should be updated to include links to related policies such as IT Security, Records Management, Home Working and Social Media Guidelines. A data protection reportable incidents procedure and a data/information sharing policy should also be created to further support the existing data protection arrangements. In addition, consideration should be given to the introduction of a classification scheme for transferring data and a policy should be created detailing the security measures to be taken when handling each category of document.
- To ensure that all Council staff have received and understood their responsibilities in relation to data protection, the e-learning module, currently being developed, should be rolled out as compulsory compliance training across the whole Council and the completion of this training should be monitored.

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 2012/37

Client	Corporate
Subject	ICT Resilience

Introduction

A review in relation to ICT Resilience was part of the planned internal audit work.

An effective plan for ICT Resilience is made up from a combination of strategies designed to minimise the impact of a system outage. The Council operates multiple core technologies with varying levels of ICT resilience across its central infrastructure. External facing and financial systems are afforded higher levels of ICT resilience while non-critical back-office functions merit less resource.

Disaster Recovery strategies are designed to reflect the level of importance of a given system failure and are commensurate with perceived threat levels, business impact, existing business continuity plans and the cost of ICT resilience. For a Disaster Recovery Plan to be effective, it must take account of a full range of supporting components including hardware, software, network communications, backup strategies and recovery procedures.

Dundee City Council has two separate data centres in place. There are also multiple layers of resilience in place in areas such as system and server replication, data replication, firewall replication, core network replication, dual fibre connectivity between data centres, electrical power, battery and generator power resilience, air conditioning resilience and other key elements of resilience.

Scope and Objectives

To provide assurance that there is an appropriate and current strategy in place, which reflects and supports the current business continuity strategy.

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 operational impact of a system outage, the Council's strategy for ICT resilience and disaster recovery should be formally documented and approved. This should include a project plan for how the Council is going to achieve its strategy as well as procedures to ensure that all business critical systems have appropriate levels of resilience.
- In order to support the service areas' business continuity plans, the IT team should perform an appropriate annual testing exercise to ensure that disaster recovery is in place for all systems supporting critical functions. The results of this exercise should be reported annually to the Strategic Management Team and any remedial actions should be identified in an action plan.

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 2012/38

Client	Corporate
Subject	Spreadsheets

Introduction

A high level review of spreadsheets utilised in the Council's day to day operations was part of the planned internal audit work.

Most organisations rely on spreadsheets as a key tool to support the operational and financial reporting processes and they are often used as an integral part of the information and decision-making framework. Research in respect of the use of spreadsheets by organisations invariably highlights that their ease of use, flexibility and the fact that there is a tendency to place undue trust on the integrity of the analysis that spreadsheets produce can potentially pose a significant risk to an organisation. As a result there have been a number of externally reported cases in the management of business critical spreadsheets where either the absence of or poorly applied controls has contributed to financial reporting errors and potentially reputational damage to the organisation.

The fact that spreadsheets can potentially be easily changed and may lack certain control activities can result in an increased level in risk and error. Typical spreadsheet errors include input errors arising from flawed data entry, inaccurate referencing or other simple cut-and-paste functions; logic errors where inappropriate formulas are created and generate improper results; interface errors from the import or export of data with other systems and errors resulting from incorrect definition of cell ranges or improperly linked spreadsheets. It is therefore important that there is a reasonable understanding within organisations of how spreadsheets are being used and the adequacy of the controls surrounding their development and maintenance.

Scope and Objectives

To review the arrangements in place to manage exposure to the potential risks inherent in spreadsheets used to inform business critical activities. The review focussed upon a sample of key spreadsheets.

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 identify those spreadsheets that pose the biggest risk to the Council an inventory should be maintained of all business critical and/or high risk spreadsheets. This should be critically analysed to identify any potential areas for automation or where reliance could be placed on current software systems. In addition, to ensure that business critical and high risk spreadsheets are adequately controlled best practice guidelines for the use of spreadsheets should be developed.

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.

vii) INTERNAL AUDIT REPORT 2013/02

Client	Environment
Subject	2012/13 Grant Claim : Local Air Quality Management

Introduction

In the 2012/13 financial year Scottish Ministers offered funding support to Dundee City Council for Local Air Quality Management of £36,000.00. 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.

viii) INTERNAL AUDIT REPORT 2013/03

Client	Environment
Subject	2012/13 Grant Claim : Air Quality Action Plan

Introduction

In the 2012/13 financial year Scottish Ministers offered funding support to Dundee City Council for Local Air Quality Management of £180,000.00. 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.