



Peter Tait, Chief Auditor
Audit Services (East Region)
Osborne House, 1/5 Osborne Terrace
Edinburgh EH12 5HG

Tel 0131 623 8300
Fax 0131 623 8301

REPORT TO: AUDIT AND RISK MANAGEMENT SUB-COMMITTEE

REPORT ON: EXTERNAL AUDIT REPORTS

REPORT BY: PETER TAIT, CHIEF AUDITOR

REPORT NO: 411-2004

1 PURPOSE OF REPORT

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

2 RECOMMENDATIONS

Members of the Sub-Committee are asked to consider each of the individual reports.

3 BACKGROUND

3.1 The following reports relating to the 2002/03 audits have been finalised.

Item	Audit Year	Subject
1(a)	2002/03	Members Expenses; Superannuation Investments; Housing Income Collection: Review of the agreed Action Plans
1(b)		Review of Non-Domestic Rates Billing and Collection Arrangements
1(c)		Payment of Creditors
1(d)		Dundee Contract Services – Review of the agreed Action Plan
1(e)		Statutory Performance Indicators: Overview of Arrangements
1(f)		Tayside Superannuation Fund

3.2 The Executive Summary in each report sets out the principal focus of the review and summarises the main audit findings. The Action Plans contain detailed recommendations on the areas where further improvement could be achieved. The

John Philp CPFA, Senior Audit Manager
Audit Scotland
Osborne House,
1/5 Osborne Terrace
Edinburgh, EH12 5HG
Tel. 0131 623 8300

agreed Action Plans will be followed up as part of my future audits.

PETER TAIT
CHIEF AUDITOR

14 May 2004

5 February 2004

2002/2003 Audit

Dundee City Council

**Members Expenses; Superannuation
Investments; Housing Income Collection:
Review of the agreed Action Plans**

EXECUTIVE SUMMARY

1. As part of the 2001/2002 audit, a review of the actions taken by the Council to implement the recommendations made in the following management letters issued by Henderson Loggie was carried out:
 - Loans Fund – 2000/01, dated 5 January 2001
 - Members’ Services, dated 6 April 2001
 - Superannuation Investments, dated 8 May 2001
 - Housing: Income collection – 2000/01, dated 4 July 2001
2. On completion of the above reviews, a management report, ‘2001/2002 Audit, Dundee City Council - Loans Fund: Members Expenses: Superannuation Investments: Housing Income Collection - Review of the Agreed Action Plans’, was issued on the 16 May 2002. The management report contained an agreed action plan for the original recommendations that were either not yet or only partially implemented, and also contained other recommendations highlighted by our overviews of the systems in place at that time.
3. As part of our 2002/2003 audit we have revisited the above management report and carried out a review of the agreed action plan.

Audit findings

Members expenses

4. The two agreed recommendations contained within our management report have been addressed by the Council. Additional matters were noted during our review and are included in the action plan following this summary.

Superannuation investments

5. Two of the four recommendations contained within our management report have been implemented in full. The outstanding original recommendations in respect of the training manual for Members and the review of Fidelity have been considered afresh as part of Internal Audit Report 02/24 – ‘Review of the Administration of Tayside Superannuation Fund and Tayside Transport Superannuation Fund’.

Housing income collection

6. It was noted that one of the three recommendations has not yet been fully implemented. A formal reminder of the procedures to be followed for postal remittances has been issued to Admin Officers but there is no evidence of the regular checks to be carried out by the Cash Supervisors.

Management action

7. Detailed recommendations on those areas where further improvement could be achieved are summarised in the action plan that follows.
8. This report to management sets out our findings from the review carried out. The weaknesses outlined are only those which have come to our attention during the course of our normal audit work and are not necessarily, therefore, all of the weaknesses which may exist.

9. Although we include a number of specific recommendations in this report to strengthen internal control, it is the responsibility of management to determine the extent of the internal control system appropriate to the Council. We would stress, however, that an effective internal control system is an essential part of the efficient management of any organisation.
10. Communication of issues and weaknesses arising from this audit does not absolve management from its responsibility for addressing the issues raised and for maintenance of an adequate system of internal control.
11. The contents of this management letter have been discussed with relevant officers to confirm factual accuracy. The assistance and co-operation we received during the course of our audit is gratefully acknowledged.

John Philp CPFA
Senior Audit Manager

ACTION PLAN

Recommendations arising from the follow-up review

Members Expenses				
No.	Finding/ Recommendation	Responsible Officer	Management Response	Action Date
1	<p>Instances were found where the Council's taxi vouchers were not being used for travel by taxi within the city boundaries, contrary to the Members Allowances Scheme 2001.</p> <p><i>Recommendation:</i></p> <p><i>Members should use the Council's taxi vouchers for all taxi travel within the City boundaries.</i></p> <p>Medium Priority.</p>	Snr Admin Assistant (Office Services)	Members are instructed to use taxi vouchers at all times. On rare occasions this may not be possible. If a member does this on more than one occasion a reminder letter will be sent.	1/2/04
2	<p>An instance was noted where a Member had claimed and was paid for taxi travel without a receipt being provided.</p> <p><i>Recommendation:</i></p> <p><i>All payments for expenses should only be made on the production of valid receipts.</i></p> <p>Medium Priority.</p>	Snr Admin Assistant (Office Services)	Again this can happen on rare occasions. Where a claim is greater than £5 or the situation has happened more than once the member will be contacted and the reason recorded on their claim form.	1/2/04

Partially implemented recommendation that requires further action

Housing Income Collection						
No	Original Recommendation	Previous Management Response	Previous Date	Responsible Officer	Updated Management Response	Action Date
3	The list of postal remittances should be marked as and when the processor posts them onto the cash receipting system so that all remittances are accounted for. The supervisor should periodically review the list to ensure all remittances have been posted.	A formal reminder to be issued to all Admin Officers regarding agreed procedures. A record of regular checks and any corrective action required is to be maintained for each of our Housing Area Offices.	31 May 2002	Area Team Leaders City Housing Manager	The log of daily Postal Remittances is completed with the daily mail log. Payments are recorded onto the Postal Remittances log, checked by the supervisor and confirmed with authorising initials, before the transactions are processed. Procedures are in place, but a reminder will be issued 19 January 2004.	31/5/02 19/01/04

John Philp CPFA, Senior Audit Manager
Audit Scotland
Osborne House
1/5 Osborne Terrace
Edinburgh EH12 5HG
Tel 0131 623 8300

2002/2003 Audit

Dundee City Council

Review of Non-Domestic Rates Billing
and Collection Arrangements

9 February 2004

EXECUTIVE SUMMARY

1. As part of our 2002/2003 audit, we have conducted a review of the system in place for the billing and collection of Non-Domestic Rates (NDR). This system represents one of the key financial systems used by Dundee City Council and during the 2003/03 financial year around £56m of income was generated.
2. The principal focus of the review was on the controls in place to ensure that:
 - all relevant data from the valuation roll is promptly and correctly transferred to the assessment roll
 - bills are correctly calculated (including discounts, reliefs etc) for all relevant properties
 - only valid amendments can be made to the billing system
 - payments received are promptly processed and correctly posted to ratepayers' accounts
 - write-offs, cancellations and refunds are properly controlled
 - arrears follow-up procedures are properly controlled

Audit findings

3. In broad terms, the system operated properly in that bills were raised and rates collected. However, a number of significant issues have been identified which give cause for concern. Of particular importance are that:
 - the procedural manual requires to be updated to reflect Council policy and practice in a number of areas
 - there is no rolling programme of reviews of exemptions and reliefs to ensure that only valid awards are continuing to be awarded
 - significant credit balances, on which the Council are liable to pay interest, are not been timeously investigated and resolved
 - there is no formal arrears policy in place covering the recovery of arrears
4. Other areas of concern are:
 - there is limited independent checking of work undertaken by staff, even on a rotational sample basis
 - the number of users with write access to the system needs to be reviewed to ensure that only designated processing officers can make amendments
 - there are no formal instructions issued to staff detailing their responsibilities in respect of terminal access and security
 - exception reports are not always being evidenced as actioned

Management action

5. Detailed recommendations on those areas where further improvement could be achieved are summarised in the action plan that follows.

6. This report to management sets out our findings from the review carried out. The weaknesses outlined are only those which have come to our attention during the course of our normal audit work and are not necessarily, therefore, all of the weaknesses which may exist.
7. Although we include a number of specific recommendations in this report to strengthen internal control, it is the responsibility of management to determine the extent of the internal control system appropriate to the Council. We would stress, however, that an effective internal control system is an essential part of the efficient management of any organisation.
8. Communication of issues and weaknesses arising from this audit does not absolve management from its responsibility for addressing the issues raised and for maintenance of an adequate system of control.
9. The contents of this report have been discussed with relevant officers to confirm factual accuracy. The assistance and co-operation we received during the course of our audit is gratefully acknowledged.

John Philp CPFA
Senior Audit Manager

ACTION PLAN

No	Finding/Recommendation	Priority	Responsible Officer	Management Response	Action Date
All relevant data from the valuation roll is promptly and correctly transferred to the assessment roll					
1	<p>The procedural instructions do not cover all aspects and expected controls within the NDR system.</p> <p><i>Recommendation:</i></p> <p><i>Procedural instructions should be expanded to cover all aspects of NDR section. This would include instructions to staff on:</i></p> <ul style="list-style-type: none"> • <i>checking procedures</i> • <i>terminal security</i> • <i>awarding of exemptions/reliefs</i> 	High	Support Manager/ Recovery Manager	<p>There is no plan to implement an independent, random percentage check of work completed, as present staff resources do not permit this.</p> <p>Memo to be drafted and issued to staff in January re this matter.</p> <p>This is to be reviewed in January 2004 and a timetable drawn up for financial year 2004/05.</p>	<p style="text-align: center;">N/A</p> <p style="text-align: center;">January 2004</p> <p style="text-align: center;">April 2004</p>

No	Finding/Recommendation	Priority	Responsible Officer	Management Response	Action Date
Bills are correctly calculated (including discounts, reliefs etc) for all relevant properties					
2	<p>There is no evidence retained which shows that the annual uprating of system parameters have been independently checked.</p> <p><i>Recommendation:</i></p> <p><i>Evidence of independent checks of annual uprating of system parameters should be evidenced and retained.</i></p>	Medium	Support Manager/ Recovery Manager	Parameters are generally input by the NDR team leader, then checked by the Recovery Manager. In previous years these have also been checked by a member of the IT/Training team. Proforma will be drafted for completion for records.	March 2004
3	<p>There is no structured programme of reviews of entitlements to exemptions and reliefs.</p> <p>Audit testing of this area found instances of exemptions and reliefs being awarded up to eight years ago, for which supporting documentation could not be provided.</p> <p><i>Recommendations:</i></p> <p><i>A structured programme of reviews should be established to ensure that only valid awards are continuing to be made.</i></p>	High	Support Manager/ Recovery Manager	<p>This is correct. Due to moving to new computer system and then iWorld upgrade no timetable for reviewing reliefs and exemptions has been put in place.</p> <p>This is to be reviewed in January 2004 and a timetable drawn up for financial year 2004/05.</p>	April 2004

No	Finding/Recommendation	Priority	Responsible Officer	Management Response	Action Date
4	<p>There is limited documentation of reasons behind the decision to award an exemption or relief being recorded within NDR system.</p> <p><i>Recommendation:</i> All decisions, and information relating thereto, should be recorded within the notepad facility of IWorld.</p>	Medium		<p>This is generally correct. As documentation relating to reliefs /exemptions is held on the data imaging/workflow system any information relating to decision would be added to the documentation.</p> <p>There is no plan to duplicate this information by adding a notepad entry on the computer system.</p>	N/A
5	<p>There is limited independent checking of amendments made to the system.</p> <p><i>Recommendations:</i> A programme of independent checking of amendments should be set up along with instructions on how to undertake these checks and how to evidence them. Results should be collated and any errors used to inform future staff training.</p>	Medium		<p>Again this is correct. Only new staff have their work checked until it is at a suitable standard. Some of this checking would be by a member of the IT/Training team, but mainly by a supervisor within the NDR team. Staff are advised of errors and this is used to decide on training both for the team and the individual as appropriate.</p> <p>There is no plan to implement an independent, random % check of work completed as present staff resources do not permit this.</p>	N/A

No	Finding/Recommendation	Priority	Responsible Officer	Management Response	Action Date
Only valid amendments can be made to the billing system					
6	<p>A number of users have full read and write access to the NDR system, which, in our opinion, they do not need.</p> <p><i>Recommendation:</i></p> <p><i>Read and write access should be restricted to appropriate processing officers.</i></p>	Medium	Support Manager / IT Training Manager	<p>Would disagree with this point as only relevant staff should have update access to the NDR part of the system. Other staff will have enquiry only access. For users with update access to the NDR part of system this access is hierarchical with 3 different levels of security - Clerical, Supervisor & Manager.</p> <p>The access given to Head of Revenues & Revenues Manager is due mainly to their position in the Dept. Although they do not process information the risk associated with providing Senior Officer access is seen as non-existent.</p>	N/A
7	<p>There are no formal instructions issued to staff detailing their responsibilities in respect of terminal access. This coupled with the fact that IWorld does not have an automatic timeout facility, due to user inactivity, gives cause for concern.</p> <p><i>Recommendations:</i></p> <p><i>Procedural instructions relating to terminal security should be drafted and incorporated into procedural manual.</i></p> <p><i>Staff should be reminded, immediately, not to leave their terminals unattended and logged on.</i></p>	Medium	Support Manager	<p>Partially correct. A document on general computer security is included in the Staff Induction Pack. It does not however advise staff to log out systems when their terminal is unattended. All staff are advised verbally that they should log out of all systems when leaving their terminal unattended for extended periods, such as lunchtime, etc. It would be impractical to expect staff to log out all systems when not at their desk e.g. getting coffee, going to toilet, etc.</p> <p>Memo to be drafted and issued to staff in January re this matter.</p>	January 2004

No	Finding/Recommendation	Priority	Responsible Officer	Management Response	Action Date
Payments received are promptly processed and correctly posted to ratepayers' accounts					
8	Exception reports utilised are not being evidenced as having been actioned. <i>Recommendation:</i> <i>All exception reports should be appropriately initialled and dated as having been actioned.</i>	Medium	Recovery Manager / NDR Team Leader	All reports should be initialled and dated by the member of staff actioning them. Staff will be reminded re above.	January 2004
Write-offs, cancellations and refunds are properly controlled					
9	Significant credit balances, on which the Council are liable to pay interest, are not being timeously investigated and resolved. <i>Recommendation:</i> <i>Reports identifying credit balances should be run off on a regular basis to allow timeous investigation and resolution.</i>	High	Support Manager/ Recovery Manager	Partially correct. When an amendment from the Roll of Change results in a credit these are actioned at the time of the ROC. The same happens from each weekly billing run. Previously credit lists were run and actioned monthly. This will be reviewed with a view to re-instating as soon as practicable.	February 2004

No	Finding/Recommendation	Priority	Responsible Officer	Management Response	Action Date
Arrears follow-up procedures are properly controlled					
10	There is no formal arrears recovery policy in place. <i>Recommendation:</i> <i>The Council should draft and adopt a formal arrears recovery policy to ensure that their procedures are in accordance with legislative and existing recovery processes.</i>	High		A recovery timetable is prepared every financial year and details when final notices, etc will be produced. This takes into account any timescales laid down in legislation. Staff have procedural notes in relation to recovery actions adopted by this Council - arrangements, using Sheriff Officers, sequestrations, etc.	N/A
11	Management information relating to arrears is not being fully utilised. <i>Recommendation:</i> <i>This information should be produced and reviewed regularly to ensure that remedial action can be taken at as early a stage as possible.</i>	High		Management information relating to arrears is limited on FSW. This section does however contact debtors with high balances after Summary Warrant granted, monitors arrangements made by us, checks arrangements made by Sheriff Officers and initiates recovery action as appropriate.	N/A

John Philp CPFA, Senior Audit Manager
Audit Scotland
Osborne House
1/5 Osborne Terrace
Edinburgh EH12 5HG
Tel 0131 623 8300

2002/2003 Audit

Dundee City Council

Payment of Creditors

16 February 2004

EXECUTIVE SUMMARY

1. Creditor payments are one of the key financial systems used by the Council. During the 2002/2003 financial year, over 222,000 transactions were processed and paid through the Powersolve creditors system, representing a total spend of £234million. The principal focus of the review was on the controls in place to ensure that:
 - payments are made only for goods and services which were the subject of authorised orders
 - payments are made only for goods and services received
 - invoices are properly authorised and paid at the appropriate time
 - payments are made only to valid creditors
 - payments are correctly recorded in the financial ledger
2. Our review was focused, initially, on the controls operating within the Central Payment of Creditors Team with additional testing carried out at departmental level. The Planning and Transportation and Education Departments provided the focus for this additional testing. Our review also included a data interrogation exercise, which focused on potential duplicate payments.

Audit Findings

3. Overall, our review found that only thirteen of the twenty-seven expected controls for this system appeared to be operating properly.
4. A number of significant issues have been identified which give scope for improvement in the Council's arrangements. Of particular importance are:
 - there are no procedural instructions in place within the Council at present that cover all the expected system controls. The Departments selected for testing have procedural notes which either varied between establishments or have not been updated for some time
 - as a result, although testing showed numerous omissions in the authorisation of invoices, payments were not precluded
 - access passwords are not strictly controlled at all Council establishments
 - the controls relating to operator access and authorisation rights, for new operators and changes to existing operators, are deficient and leave the Council vulnerable to abuse
 - authorisation levels for cheque requisitions are informally suspended on occasion

5. Other significant areas where improvements to controls could be made are:
- authorised signatory lists are not maintained, centrally or departmentally, of officers involved in the, requisition, ordering and certification of goods and services
 - orders are not always appropriately endorsed when goods or services are received
 - a standard certification grid is not in operation throughout the Council and the receipt of goods and services cannot always be recorded on the invoice
 - formal instructions have not been issued regarding the querying of ‘informal’, ‘unofficial-looking’ invoices or invoices with amendments
 - twenty per cent of the sample chosen for examination as potential duplicate payments were such payments, which the controls in the system had not identified and stopped
 - responsibility for ensuring that payments are made within the time limits of the Council’s declared policy are not contained in procedural instructions
 - authenticity checks are not carried out when new suppliers are added to the supplier master file

Management Action

6. Detailed recommendations on those areas where further improvement could be achieved are included in our audit findings and are summarised in the action plan that follows.
7. This report to management sets out our findings from the review carried out. The weaknesses outlined are only those which have come to our attention during the course of our normal audit work and are not necessarily, therefore, all of the weaknesses which may exist.
8. Although we include a number of specific recommendations in this report to strengthen internal control, it is the responsibility of management to determine the extent of the internal control system appropriate to the Council. We would stress, however, that an effective internal control system is an essential part of the efficient management of any organisation.
9. Communication of issues and weaknesses arising from this audit does not absolve management from its responsibility for addressing the issues raised and for maintenance of an adequate system of internal control.
10. The contents of this management letter have been discussed with relevant officers to confirm factual accuracy. The assistance and co-operation we received during the course of our audit is gratefully acknowledged.

John Philp CPFA
Senior Audit Manager

ACTION PLAN

No	Finding/Recommendation	Responsible Officer	Management Response	Action Date
Payments are made only for goods and services which were the subject of authorised orders				
1	<p>The procedural instructions in place are in the form of desktop instructions i.e. detailed screen operating instructions. Overarching procedural instructions are not in place throughout the Council.</p> <p>Education Department procedural instructions appear limited, varying from school to school, and the Planning and Transportation Department procedural notes have not been updated since local authority reorganisation.</p> <p><i>Recommendation:</i></p> <p><i>A comprehensive set of formal procedural instructions should be produced to cover all the elements of a creditors payments system, including the proper segregation of duties. They should be centrally controlled, kept up-to date and issued to all Departments and users, thereby ensuring uniformity throughout the Council</i></p> <p><i>Heads of Service should then ensure that the proper procedures are being followed in their Department.</i></p> <p>Risk Category: High</p>	Purchase Ledger Controller	<p>Standard instructions were issued to all Departments on the introduction of Powersolve.</p> <p>A re-write of the Creditors Manual will be undertaken. The Purchase Order instructions will be re-issued along with the Creditors Manual and both will incorporate all updates.</p> <p>All Departments will be requested to adhere to relevant procedures.</p>	<p>Sept 04</p> <p>Feb 04</p>

No	Finding/Recommendation	Responsible Officer	Management Response	Action Date
2	<p>Testing showed that access passwords to the creditors system are not strictly controlled at all establishments and can be used by several staff.</p> <p><i>Recommendation:</i></p> <p><i>Password controls should be strictly enforced by all Council staff.</i></p> <p>Risk Category: High</p>	<p>Principal Accountant (Ledger Control Team)</p>	<p>Memoranda have been previously sent by Internal Audit but a further one will be issued to incorporate length of password (5 or 6 characters) and auto-suspension after 3 consecutive unsuccessful attempts to login. In addition, the Council's Information Security Baseline Control Manual, currently in draft, when implemented will require strict compliance in this area.</p>	<p>Mar 04</p>
3	<p>A number of key controls within the creditors system are executed through predetermined system access and authorisation levels for each operator, based on their grade and post responsibilities. Any alterations made to operator authorisation levels are processed centrally on receipt of an emailed, or telephoned, request from Departments. There are no procedures in place which adequately control this process. In particular, there is no requirement for clear, documented evidence that has been authorised by a designated responsible officer within the Department for changes to operator levels.</p> <p><i>Recommendation:</i></p> <p><i>Procedures should be established to control operator authorisation levels and should designate officer responsibilities within the process.</i></p> <p>Risk Category: High</p>	<p>Principal Accountant (Ledger Control Team)</p>	<p>While there is a system in place for new operators, procedures will be implemented for amendments. In future the request to be made via e-mail. In addition, a list will be established of Departmental Contacts that will be permitted to authorise operator changes. Also, a quarterly confirmation of current departmental operators will be conducted.</p>	<p>Mar 04</p>

No	Finding/Recommendation	Responsible Officer	Management Response	Action Date
4	<p>Authorised signatory lists are not being maintained, centrally or departmentally, of officers involved in the requisition, ordering and certification of goods and services.</p> <p><i>Recommendation:</i></p> <p><i>Invoices and claims for payment should not be processed if the authorisation to pay has not been completed and checked to the signature lists held.</i></p> <p><i>Authorised signatory lists should be reviewed periodically to ensure that they are kept up to date.</i></p> <p>Risk Category: Medium</p>	Purchase Ledger Controller	Memorandum to go to Departments requiring list of signatories to be maintained by Departments. Department will require to verify the validity of signatures on the list and also regularly review the list.	Mar 04
Payments are made only for goods and services received				
5	<p>Departmental testing showed that orders are not appropriately endorsed when goods or services are received.</p> <p><i>Recommendation:</i></p> <p><i>This requirement should form part of the procedural instructions recommended at point 1 above.</i></p> <p>Risk Category: Medium</p>	Purchase Ledger Controller	This will be drawn to the attention of Departments.	Feb 04

No	Finding/Recommendation	Responsible Officer	Management Response	Action Date
6	<p>The Departmental review found that a standard invoice certification grid is not in operation throughout the Council such that the receipt of goods and services cannot always be recorded on the invoice.</p> <p><i>Recommendation:</i></p> <p><i>The invoice certification grids should be standardised for all the details required.</i></p> <p>Risk Category: Medium</p>	Purchase Ledger Controller	Departments will be reminded to certify receipt of goods or services on the face of invoices.	Feb 04
All invoices are properly authorised and paid at the appropriate time				
7	<p>There are no formal documented procedures in place for the authorisation of invoices. Testing showed numerous omissions but payment was not precluded.</p> <p><i>Recommendation:</i></p> <p><i>Invoices and claims for payment should not be passed for payment until all checks have been appropriately evidenced.</i></p> <p>Risk Category: High</p>	Purchase Ledger Controller	<p>Financial Regulation 12.3 defines the departmental responsibilities in this respect ie formal procedures.</p> <p>Departments will be reminded to comply with Financial Regulations.</p>	Feb 04

No	Finding/Recommendation	Responsible Officer	Management Response	Action Date
8	<p>Although staff has been advised during training that ‘informal’, ‘unofficial-looking’ invoices or invoices with amended values should be queried; formal instructions have not been issued.</p> <p><i>Recommendation:</i></p> <p><i>Such instructions should form part of the procedural instructions.</i></p> <p>Risk Category: Medium</p>	Purchase Ledger Controller	<p>The updated procedures will include the requirement for due care and attention to this category of invoice and to ensure standard authorisation is carried out.</p> <p>A reminder will be issued to Departments.</p>	Feb 04
9	<p>Our review of potential duplicate payments found that twenty per cent of the sample chosen were actual duplicate payments which had not been identified and stopped by the controls operating within the creditors system.</p> <p><i>Recommendation:</i></p> <p><i>Centrally produced reports of potential duplicate payments should be issued to Departments, and other bodies, for checking purposes. The outcomes should be recorded.</i></p> <p>Risk Category: Medium</p>	Purchase Ledger Controller	<p>A reminder will be sent to Departments referring to compliance with the procedures for the payment of duplicate invoices per Financial Regulation 12.5. Powersolve automatically warns if an invoice number has been already used for that supplier. Departments will be required to undertake greater vigilance.</p>	Feb 04

No	Finding/Recommendation	Responsible Officer	Management Response	Action Date
10	<p>Responsibility for ensuring that payments are made within the time limits in the Council's declared policy is not clearly defined in procedural instructions.</p> <p><i>Recommendation:</i></p> <p><i>Staff should be made aware formally of the Council's payment policy and potential penalties for non-compliance with legislation.</i></p> <p>Risk Category: Medium</p>	Purchase Ledger Controller	Regular reminder letters are sent to Departments. The update of procedures will include current approved timescales for payment of local and external suppliers. Last year's PI best in Scotland.	Sept 04
11	<p>Authorisation levels for cheque requisitions are informally suspended on occasion. It was also noted that Priority Payment Vouchers had no provision for inserting the dates they were 'Prepared By' and 'Authorised By'.</p> <p><i>Recommendation:</i></p> <p><i>The procedures for setting authorisation levels should be re-examined. Any amendments should be formally recorded. The Vouchers should be appropriately dated.</i></p> <p>Risk Category: High</p>	Principal Accountant (Ledger Control Team)	Formal requests from Departments will be recorded and records maintained. Priority Payment Voucher narrative will be amended to incorporate dates of preparation and authorisation.	Feb 04

No	Finding/Recommendation	Responsible Officer	Management Response	Action Date
Payments are made only to valid creditors				
12	<p>Authenticity checks are not carried out when new suppliers are added to the supplier master file.</p> <p><i>Recommendation:</i></p> <p><i>Such checks should be carried out and formally recorded. A print-out of accepted new suppliers should be checked against the supplier creation forms and the check evidenced.</i></p> <p>Risk Category: Medium</p>	Purchase Ledger Controller	Purchase Ledger Section carry out verification of suppliers' VAT numbers where possible. Lists of new suppliers are produced and will be validated.	Feb 04
13	<p>Our review of the suppliers held on the creditor's master file indicated that there are over 75,000 suppliers recorded. A significant number of these are the same supplier with supplier being number duplicated.</p> <p><i>Recommendation:</i></p> <p><i>The suppliers' reference numbers should be periodically reviewed to eliminate duplicate reference numbers and reference numbers for suppliers who have been dormant for a specified time.</i></p> <p>Risk Category: Low</p>	Purchase Ledger Controller	<p>Creditors can have the same name but different supplier numbers for varying categories of supply. This assists in processing and eases administration procedures.</p> <p>Archiving of old data will be regularly performed and the number of records reduced accordingly.</p>	Feb 04

No	Finding/Recommendation	Responsible Officer	Management Response	Action Date
14	<p>There is no evidence that the supplier details on the screen are checked prior to input.</p> <p><i>Recommendation:</i></p> <p><i>An input check should be initiated and evidenced whereby the supplier details appearing on the screen are checked to the supplier details on the invoice.</i></p> <p>Risk Category: Low</p>	Purchase Ledger Controller	Departments will be requested to ensure checks are carried out at authorisation stage and that the invoices are subsequently initialled.	Feb 04
15	<p>Testing showed an invoice from a supplier who had de-registered for VAT, being manually amended and treated as Vat-able.</p> <p><i>Recommendation:</i></p> <p><i>Checks on invoices should ensure that the invoice is a proper VAT document and the VAT element is properly chargeable, shown at the correct amount and allocated to the appropriate financial code</i></p> <p>Risk Category: Low</p>	Purchase Ledger Controller	Departments will be reminded that no amendments should be made to VAT on suppliers invoices. An invoice requiring amendment should be returned and re-submitted by supplier.	Feb 04

2002/2003 Audit

Dundee City Council

Dundee Contract Services
Review of the agreed Action Plan

EXECUTIVE SUMMARY

Introduction

1. As part of the 2002/2003 audit, we have reviewed the actions taken by the Council to implement the recommendations made in the following management letter, issued by Henderson Loggie on 18 December 2001:
 - Dundee Contract Services: Major Contracts – 2000/01
2. As part of our review the opportunity was taken to conduct an overview of the systems in operation to gain an understanding of how they operated. Consequently, certain recommendations have been made.

Audit findings

3. The Henderson Loggie report contained an action plan which detailed fourteen agreed recommendations which should have been implemented by 30 June 2002.
4. Only six of the agreed recommendations had been implemented at the time of our review. One of the eight outstanding recommendations was graded A, five were graded B and two were graded C to denote the level of importance. These gradings are defined as follows:

- A *Fundamental issues which require the consideration of the Director of Dundee Contract Services*
- B *Significant matters that can be resolved by senior managers*
- C *Less significant matters, which do not require urgent attention but which should be followed up within a reasonable timescale*

5. It is a matter of concern that so many important recommendations have not been implemented as agreed.
6. As part of our review further testing on the payroll system at Dundee Contract Services (DCS) was carried out. The key focus for this review was the operation of the bonus system. Our approach included interrogation of payroll data extracted from Dundee City Council ISIS payroll system.
7. Bonus payments represent a significant cost for DCS. The financial ledger for 2002/2003 shows the following:

	£000
Gross pay manual	3,333
Bonus	2,295

8. Bonus on average equates to approximately 69% of gross pay. This level of bonus appears high.

9. Our analysis of the payroll revealed that the range of bonus varied significantly across the workforce. The following table illustrates the position:

No. of employees	Bonus range (%)	Average bonus %
48	100 - 161	117
125	70 - 99	83
251	40 - 69	54

10. The highest level of bonus of 161% equated to £20,355 compared to a basic pay of £12,608.
11. Our examination also revealed instances of significant differences between the target hours for a job and the actual hours in which the work was completed which impacted on the bonus payable. The following example, relating to the installation of central heating in five houses by two plumbers, illustrates the matter:

Target hours for job	510.75
Actual hours to do job	74.00
Hours saved on job	436.75
Bonus @ £1.99 per saved hour	£869.13

12. The target hours for the job is the equivalent of six and a half weeks work for two men. The work was completed in one week. The target hours appear to be wholly unrealistic.
13. It was further noted that there is no single bonus scheme in operation and that those that are in place have been operating for some time, with the last review of bonus targets being implemented during 1998.
14. The bonus schemes in operation appear to require urgent review.
15. Our testing of the current system revealed a number of control deficiencies. In particular:
- bonus calculation sheets were not being signed off by either operatives or foremen
 - actual hours are not being recorded on bonus calculation sheets

Management action

16. The recommendations that have not yet been implemented are contained in action plan (A) following this summary. The recommendations have an updated management response and new action date where appropriate.
17. New recommendations arising from the follow-up review are contained in action plan (B).
18. This report to management sets out our findings from the review carried out. The weaknesses outlined are only those which have come to our attention during the course of our normal audit work and are not necessarily, therefore, all of the weaknesses which may exist.

19. Although we include a number of specific recommendations in this report to strengthen internal control, it is the responsibility of management to determine the extent of the internal control system appropriate to the Council. We would stress, however, that an effective internal control system is an essential part of the efficient management of any organisation.
20. Communication of issues and weaknesses arising from this audit does not absolve management from its responsibility for addressing the issues raised and for maintenance of an adequate system of internal control.
21. The contents of this management letter have been discussed with relevant officers to confirm factual accuracy. The assistance and co-operation we received during the course of our audit is gratefully acknowledged.

John Philp CPFA
Senior Audit Manager

ACTION PLAN (A)

Recommendations that have not yet been implemented

No	Original Recommendation	Original Response	Original Date	Responsible Officer	Updated Management Response	New Date
1.1	A typed sheet should be produced by the Estimator when he issues the instructions to the Purchasing Officer regarding which goods and services are required, and which companies are specified as potential suppliers (where appropriate). This typed sheet should allow the status of each enquiry to be tracked for each supplier. Grade B	The current methodology employed by estimators will be examined and the development of an appropriate typed document will be progressed.	31/03/02	Chief Surveyor/ Estimator	Implemented - April 03	N/A
3.3	A list of authorised signatories should be produced which clearly states the level of authorisation for each staff member listed. Grade A	The authorisation levels attached to posts and individuals will be examined with a view to developing a sustainable register of authorised signatories.	31/03/02	Employee Services Officer	Completed - September 03	N/A

No	Original Recommendation	Original Response	Original Date	Responsible Officer	Updated Management Response	New Date
3.4	Timesheet form DCS-RM-09 should be amended to remove the operator's signature box. Grade B	The form will be amended to remove this box. Introduction of the new form will be held back until the new financial year. This will allow the existing stock of forms to be run down.	31/03/02	Quality Manager	The existing schedule of rate contract will be replaced in April 04 by a partnership agreement for Housing Repairs and Maintenance. This will result in significant changes to current documentation.	April 04
4.1	The bonus claim form should be amended to clarify what the site supervisor is signing for, as laid down in the work instruction for Operatives Weekly Bonus Claim Sheet DCS-CCM-07. Grade B	The bonus form will be amended to clarify this point once current supplies of the forms are used.	31/03/02	Quality Manager	The box designated for the Supervisor to sign will be altered following a review of the system to include the working supervisors certification.	April 04
4.2	A spreadsheet should be devised which will allow automatic checking of bonus claim form details with timesheet details. Grade C	The development of such a spreadsheet will be progressed.	31/03/02	Chief Surveyor/ Estimator	Implemented November 03	N/A

No	Original Recommendation	Original Response	Original Date	Responsible Officer	Updated Management Response	New Date
5.1	Before receiving materials procured specifically for contracts, all authorised individuals should be required to complete a Contracts Material Requisition Form DCS-CON-08. Grade B	This will be progressed through briefings of site agents. In addition, stores personnel will be reminded that the appropriate form must be completed before materials are issued to site agents.	31/03/02	Support Services Manager	Implemented – March 03	N/A
6.2	The creation of a diary reminder system will allow final valuation certificates to be actively pursued. Grade B	The creation of a diary reminder system will be progressed using Microsoft Outlook. The supporting information flow will be finalised following discussions between the Support Services Manager and the Chief Surveyor/Estimator.	31/03/02	Support Services Manager	This recommendation was considered and it was decided to introduce a spreadsheet recording system with information shared between Cost Control and Accounts.	Sept 03
7.2	The enquiries book should be replaced by a spreadsheet form, which can be sorted and analysed to track the progress of each project, and to identify wider trends such as the proportion of quotations returned. Grade C	This will be addressed as part of the implementation of the recommendation outlined in 1.1 above.	31/03/02	Chief Surveyor/Estimator	Implemented April 03	N/A

ACTION PLAN (B)

Recommendations arising from the follow-up review

No.	Finding/Recommendation	Priority	Responsible Officer	Management Response	Action Date
1	<p>The current bonus schemes in operation appear to be in need of urgent review.</p> <p><i>Recommendations:</i></p> <p><i>The bonus schemes, along with the total pay and remuneration package, should be reviewed.</i></p> <p><i>Consideration should be given to absorbing bonus payments into basic pay, which could generate reductions in administration and other overhead costs.</i></p>	High	Director of Contract Services	<p>The major contracts bonus scheme is a target hours saved scheme which encourages maximum productivity by substantially reducing actual hours on the job and subsequently through this productivity incentive, the Operative's earnings are increased.</p> <p>The targets used in the various disciplines within Dundee Contract Services are utilised throughout the construction industry to enable contracts to be completed on time and to programme, thus avoiding liquidate and ascertained damages.</p> <p>Absorbing bonus payments into basic pay would eradicate the incentive for the Operative to produce at the highest level and contracts won in competitive tender or negotiated and benchmarked, would undoubtedly suffer considerable financial losses.</p>	N/A
No.	Finding/Recommendation	Priority	Responsible Officer	Management Response	Action Date

2	<p>Bonus calculation sheets are not being fully completed with all relevant information and signed off by relevant personnel.</p> <p><i>Recommendation:</i></p> <p><i>Bonus calculation sheets should be fully completed, including signatures of appropriate personnel</i></p>	Medium	Support Services Manager	Daily summary sheets are completed with all relevant information. These sheets will be replaced by Job Tickets in the new system.	April 04
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2002/2003 Audit

Dundee City Council

**Statutory Performance Indicators:
Overview of Arrangements**

EXECUTIVE SUMMARY

Introduction

1. The Council has a statutory duty under the Local Government Act 1992 to ensure that arrangements are in place for collecting, recording and publishing Statutory Performance Indicators (SPIs) and so far as practicable, that the information is accurate and complete.
2. The external auditor is required to review the Council's arrangements to collect, record and publish the directed information. The external auditor is also required to return details of the SPIs, and give an opinion on their reliability, to Audit Scotland to enable compilation of national reports on performance.
3. The Local Government in Scotland Act 2003 introduced the duty on local authorities to secure best value. Best value is defined as '*continuous improvement in the performance of an authority's functions*'. The role of SPIs will be relevant to the demonstration of continuous improvement and as such confidence must be high that the arrangements in place are returning accurate and complete SPIs.
4. The Report to Members on the 2001/02 Audit highlighted that except for one SPI classed as '*unreliable*', and two SPIs classed as '*failed to report*', all other SPIs provided by the Council was assessed as '*reliable*'.
5. As a result of our work carried out on the 2001/02 SPIs prior to publication, six (27%) of the twenty-three SPIs examined required to be corrected. Some of the errors found were basic and should have been picked up through internal review mechanisms prior to submission. Others represented more fundamental errors of interpretation of SPI guidance. Collectively these errors cast doubt on the effectiveness of the arrangements in place within the Council to produce accurate SPIs.
6. Members were advised of our intention to review more fully the Council's arrangements as part of our 2002/03 audit.

Scope of the review

7. The principal focus of the review was to ascertain and appraise the current arrangements against best practice. It considered whether these arrangements would provide assurance that the Council were reporting SPIs that are accurate, complete and in accordance with the Accounts Commission's Direction.
8. The arrangements for three key areas were considered. These were:
 - planning and control
 - checking for accuracy and completeness
 - internal audit
9. Our review focused on the central arrangements as well as the arrangements in place within two departments.

Main audit findings

10. Our review found commendable practices within the Council's arrangements:
 - there is a designated overall co-ordinating officer
 - there are officers at departmental level who have been designated responsible for SPIs
 - the Audit Scotland Guidance Manual, and other SPI publications, are issued to departmental officers as well as being published on the Finance Department's intranet site
 - internal audit have been active in reviewing systems for SPI production over the last three years
 - SPIs form an integral part of a number of departmental Service Plans
11. The arrangements, however, were found to be unsatisfactory in the following key areas:
 - there is a lack of written procedural instructions on how SPI information is collected, collated and returned
 - all departmental officers involved in the SPI process are not always clearly identified along with their responsibilities
 - there is limited evidence that checking of SPIs is being carried out, particularly independent checking
 - there is no standard assurance document that officers involved in the process, including Heads of Department, can sign off which states that their SPIs are accurate, complete and have been prepared in accordance with the Accounts Commission Direction
12. As in 2001/02 a number of the 2002/03 SPIs submitted for audit were unsatisfactory. Of the twenty-four SPIs selected for review, seven (29%) required to be revised prior to final submission to Audit Scotland. For 2002/03 the Council failed to report three of the SPIs and one other was deemed to be unreliable.
13. Detailed recommendations on those areas where further improvement could be achieved are summarised in the action plan that follows.
14. This report to management sets out our findings from the review carried out. The weaknesses outlined are only those which have come to our attention during the course of our normal audit work and are not necessarily, therefore, all of the weaknesses which may exist.
15. The contents of this report have been discussed with relevant officers to confirm factual accuracy. The assistance and co-operation we received during the course of our audit is gratefully acknowledged.

John Philp CPFA
Senior Audit Manager

ACTION PLAN

No.	Finding/Recommendation	Priority	Responsible Officer	Management Response	Action Date
1	<p>The responsibilities of departmental officers within the SPI process are not clearly defined.</p> <p><i>Recommendation:</i></p> <p><i>The co-ordinating officer should maintain a list of all of the officers involved at departmental level in the SPI process. This list should clearly detail their responsibilities and provide relevant contact details.</i></p>	Medium	R.McKay	A list of the principal departmental contacts and their telephone numbers is maintained. This could be supplemented for others who are involved in the process. Responsibilities could be annotated but these would simply be either indicator compilation or indicator verification and submission to Finance.	31 July 2004
2	<p>For the two departments reviewed, neither had formally documented procedures in place for the collection, collation nor checking of their SPIs.</p> <p><i>Recommendation:</i></p> <p><i>All departments should prepare and maintain written procedures for the collection, collation and checking of their SPIs.</i></p>	High	Departmental Co-ordinators.	The authority has never regarded this as a priority but departments could be instructed to carry this out.	31 July 2004

No.	Finding/Recommendation	Priority	Responsible Officer	Management Response	Action Date
3	<p>Basic and other errors have been found in the SPIs submitted for audit.</p> <p><i>Recommendations:</i></p> <p><i>Independent checks should be detailed in the procedural instructions for each department and for each SPI. Checks should be evidenced as having been undertaken.</i></p> <p><i>The co-ordinating officer should also undertake reasonableness checks prior to submission for audit. These checks should be evidenced as having been undertaken.</i></p>	High	Departmental Co-ordinators.	Agreed that error rate is not acceptable and Co-ordinators will be asked to check and sign their copies. Reasonableness check are carried out on items which have improved or deteriorated by greater than 5% and explanations sought by e-mail to assist the compilation of the Management Team report.	30 April 2004
4	<p>In 2002/03 the Council failed to report three SPIs and one was deemed to be unreliable.</p> <p><i>Recommendation:</i></p> <p><i>The Council should put arrangements in place for collecting, recording and publishing all of the directed information, and ensuring that the information is accurate and complete.</i></p>	High	T. Bailey M.Methven	Agreed but the authority will continue to have difficulties with the Council Tax indicators. It is noted that none of the FTR items feature on the Accounts Commission's Compendium Statements of 65 indicators.	

No.	Finding/Recommendation	Priority	Responsible Officer	Management Response	Action Date
5	<p>There is no standard assurance statement prepared and signed by officers involved in the SPI process and Heads of Department.</p> <p><i>Recommendations:</i></p> <p><i>A formal assurance statement should be prepared for completion by all departments submitting SPIs, stating that the information is accurate, complete and prepared in accordance with the Accounts Commission Direction.</i></p> <p><i>Explanations for variances compared to the previous year should also be recorded here.</i></p> <p><i>All officers involved in the SPI process should sign this statement. The co-ordinating officer should retain the originals.</i></p>	Medium	R.McKay	This has never been regarded as a priority but could easily be implemented.	30 April 2004

John Philp CPFA, Senior Audit Manager
Audit Scotland
Osborne House
1/5 Osborne Terrace
Edinburgh EH12 5HG
Tel 0131 623 8300

2002/2003 Audit

Dundee City Council

Tayside Superannuation Fund

17 March 2004

EXECUTIVE SUMMARY

1. Dundee City Council is the administering authority for the Tayside Superannuation Fund.
2. The Superannuation Investment Sub-Committee of the Finance Committee is responsible for investment policy and decisions. During 2002/2003 the Fund's investment assets were under the management of four external fund managers.
3. The Fund at 31 March 2003 supported 9,506 pensioners. Pensions of £31.1m and lump sums of £4.7m were paid during the 2002/2003 financial year. Employer contributions for the Fund's 16,143 active members for the year were £35.6m and employee contributions totalled £14.4m. In addition, there are approximately 4,000 deferred members.
4. The actuarial valuation as at 31 March 2002 disclosed a funding deficit of £29.3m (funding level: 96.9%). Since that date there has been a further material decline in world stock markets, resulting in a negative effect on the financial position of the Fund. The value of the Fund's net assets decreased from £926.3m at 31 March 2002 to £758m at 31 March 2003 (18 % reduction).
5. This audit review was undertaken as a precursor to our annual accounts audit work on the Tayside Superannuation Fund Accounts. The review examined the arrangements to ensure that for:

Pensions and contributions:

- relevant employees are admitted to the Fund and all related contributions are received and accounted for;
- lump sums are calculated in accordance with scheme conditions;
- payments are made only to valid recipients;
- payments chargeable to the Fund and other accounts are differentiated and correctly recorded in the financial ledger;
- transfer values are promptly paid and received, properly calculated and accurately recorded in the financial ledger.

Investments:

- funds are invested in accordance with statutory requirements and approved policy;
 - acquisitions and disposals are properly controlled and recorded;
 - all income earned is received and properly recorded;
 - investment performance is adequately monitored and appraised.
6. Internal Audit has recently reviewed pension administration by the Council and the administration of the Funds and we have placed reliance on their work as appropriate, omitting any duplication of effort.

7. The opportunity was also taken to review the work of the Actuary to the Fund to use their expertise in order to obtain appropriate evidence in relation to the financial statements and financial position of the Council, in particular with regard to FRS 17 requirements. It was noted during this review that the Council was conducting a tendering process for the appointment of an Actuary as recommended by Internal Audit.

Audit findings

Pensions and contributions

8. The administration of the Fund is undertaken by the Pensions Section of the Finance Department, under the control and supervision of the Principal Pensions Officer. Our audit work provided evidence that the controls in the Section are generally robust and that pensions staff have a detailed working knowledge of the pension regulations.
9. Our audit has, however, identified weaknesses in the internal control system for pensions and contributions. The principal areas for concern are:
 - the current Pension Manual is out of date and has not yet been updated to incorporate the 1998 regulations. This was also recommended by Internal Audit;
 - monthly contributions from the admitted/scheduled bodies are reconciled annually to “end year schedule” information provided by the bodies. This exercise, however, is not performed before the preparation of the Statement of Accounts, nor are the reconciliations subsequently agreed to the ledger balances;
 - the comparison between the Axis system and the Isis system to ensure that pensioner details are in accord has not been carried out since the 2001 pension increase.
10. Other matters include:
 - duties of pension staff are not currently rotated nor are there are procedures in place to debar pension staff processing cases in respect of their family or friends;
 - pensioner bank details can be altered without written confirmation;
 - although pension staff perform reconciliations of various pension transactions, including transfer values in and out, the reconciliation procedures do not extend to agreeing the values in the general ledger.

Investments

11. We were pleased to note that there is a dedicated Superannuation Investment Sub-Committee which is actively involved in the management, monitoring and decision making relating to the Fund.
12. The Superannuation Investment Sub-Committee is supported by the Principal Treasury and Investment Officer, who has extensive experience and in-depth knowledge of the subject matter and procedures relating to the Fund’s investments. The Principal Treasury and Investment Officer prepares reports on the performance and transactions of the Fund which, together with reports from the Fund Managers, are presented to the Sub-Committee at their quarterly meetings.

13. Our audit work, which complemented the Internal Audit exercise carried out previously, provided evidence that the expected controls are generally robust and appear to be working satisfactorily. Our review has, however, identified certain weaknesses in the internal control system for investments. The principal areas for concern are:

- the remit of the Superannuation Investment Sub-Committee is stated in very broad terms, does not extend to its responsibilities for investment policies or principles and does not reflect its activities;
- Financial Regulations do not reflect the requirements of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 1998 and currently do not adequately provide for pension fund management;
- the absence of formal written procedures for those officers involved in the management, monitoring and decision making relating to the Fund.

Management action

14. Detailed recommendations on those areas where further improvement could be achieved are summarised in the action plan that follows.

15. This report to management sets out our findings from the review carried out. The weaknesses outlined are only those which have come to our attention during the course of our normal audit work and are not necessarily, therefore, all of the weaknesses which may exist.

16. Although we include a number of specific recommendations in this report to strengthen internal control, it is the responsibility of management to determine the extent of the internal control system appropriate to the Council. We would stress, however, that an effective internal control system is an essential part of the efficient management of any organisation.

17. Communication of issues and weaknesses arising from this audit does not absolve management from its responsibility for addressing the issues raised and for maintenance of an adequate system of control.

18. The contents of this report have been discussed with relevant officers to confirm factual accuracy. The assistance and co-operation we received during the course of our audit is gratefully acknowledged.

John Philp CPFA
Senior Audit Manager

ACTION PLAN

Pensions and Contributions

No.	Finding/Recommendation	Priority	Responsible Officer	Agreed	Management Response	Action Date
Relevant employees are admitted to the Fund and all related contributions are received and accounted for						
1	<p>The Pension Manual was issued for guidance to staff involved in pension arrangements for departments and scheduled/admitted bodies. The current Pension Manual, however, is out of date and has not yet been updated to incorporate the 1998 regulations.</p> <p><i>Recommendation:</i></p> <p><i>The Pension Manual should be updated to incorporate the regulations under SI 1998 No. 366 (S.14), and should be made available to all pensions staff involved in pension administration as well as departments and scheduled/admitted bodies.</i></p>	High	Principal Pensions Officer	Yes	<p>There are currently three major changes being considered regarding the Local Government Pensions Scheme.</p> <p>(1) A new pensions Act, (2) The Inland Revenue Simplification, and (3) The stocktake of the Local Government Pension Scheme.</p> <p>All of these will have a significant impact on the LGPS and it would therefore seem inappropriate to amend any documentation meantime until the outcome of these amendments is known.</p>	Possibly 2006

No.	Finding/Recommendation	Priority	Responsible Officer	Agreed	Management Response	Action Date
2	<p>The monthly contributions received from admitted/scheduled bodies are reconciled annually to “end year schedule” information provided by the admitted/scheduled bodies. This exercise, however, is not performed timeously, and had not been completed at the time of our final accounts audit during July 2003.</p> <p><i>Recommendation:</i></p> <p><i>Arrangements should be made with admitted / scheduled bodies to provide the “end year schedule” by a specified date, soon after the year end, to enable pension staff to reconcile and update information on Axis before the preparation of the Statement of Accounts.</i></p>	High	Principal Pensions Officer	Partly	<p>Endeavours are made to have the end of year returns submitted early especially at the Valuation year. Further efforts will be made but this reconciliation has no bearing on the Final accounts as apart from the major bodies the contributions are checked monthly. The major bodies year end returns come electronically usually fairly quickly after the end of the year. These entries are subject to audit within these bodies.</p>	May 2004
3	<p>In addition, the contributions recorded by the Pensions Section are not subsequently reconciled to the financial ledger.</p> <p><i>Recommendation:</i></p> <p><i>The contributions recorded by the Pensions Section should be agreed and reconciled to the balance in the financial ledger.</i></p>	High	Principal Pensions Officer	Yes		Annually

No.	Finding/Recommendation	Priority	Responsible Officer	Agreed	Management Response	Action Date
Lump sums and pensions are calculated in accordance with scheme conditions						
4	<p>Annual pension increases are calculated by the Senior Pensions Officer for both the Axis pensions system and Isis payroll system.</p> <p><i>Recommendation:</i></p> <p><i>Masterfile amendments effecting annual pension increases should be independently verified prior to input.</i></p>	Medium	Principal Pensions Officer	Yes	Already done annually.	
5	<p>Once input, the results of these calculations, as well as all other member information held on the two systems, should be compared and differences between the systems followed up and resolved by pensions staff thereby ensuring that both systems are in accord.</p> <p>This comparison has not been done since the 2001 pension increase.</p> <p><i>Recommendation:</i></p> <p><i>Pensioner records held on the Axis system should be periodically compared and agreed to information on the Isis pensioner payroll system to ensure completeness of records and validity of payments.</i></p>	High	Principal Pensions Officer	No	Only the payroll needs to be correct and this is checked to the last penny at each run. In a significant number of authorities the payroll is separate from the Axis system and no verification is undertaken. This was done as a test and will be done periodically but is not a high priority.	

No.	Finding/Recommendation	Priority	Responsible Officer	Agreed	Management Response	Action Date
6	<p>Duties of pension staff are not currently rotated. In addition, there are no procedures in place to debar pension staff processing cases in respect of their family or friends.</p> <p><i>Recommendation:</i></p> <p><i>The allocation of duties to staff should be periodically rotated. Procedures should be introduced whereby pension staff are prevented from processing cases in respect of their family or friends.</i></p>	Medium	Principal Pensions Officer	Yes	<p>Staff are rotated when it is felt appropriate and this will continue. The specialist nature of the work does not lend itself to this more often.</p> <p>Staff do not deal with cases which involve family or friends where this is known.</p>	When appropriate.

No.	Finding/Recommendation	Priority	Responsible Officer	Agreed	Management Response	Action Date
Payments are only made to valid recipients						
7	<p>Pensioner bank details are initially captured from a Bank Mandate. Personal and bank details are subsequently changed in writing, in person or by phone.</p> <p><i>Recommendation:</i></p> <p><i>Changes to pensioner bank details should only be processed on receipt of a written notification.</i></p>	Medium	Principal Pensions Officer	No	<p>Due to the fact that we are dealing with pensioners of varying degrees of understanding we accept changes over the phone but verify NI number, date of birth and address before accepting an amendment. It is felt that if a person's pension was not in their bank they would be in touch very quickly and if a person was bent on defrauding someone they would complete a form anyway.</p>	

No.	Finding/Recommendation	Priority	Responsible Officer	Agreed	Management Response	Action Date
Transfer values are promptly paid and received, properly calculated and accurately recorded in the financial ledger						

8	<p>Transfers are correctly accounted for in the financial ledger on a cash basis whereas transfers on Axis are recorded on the date of receipt or payment. This could be different from the date on which monies are physically received or paid through the bank account.</p> <p>The amount disclosed in the Statement of Accounts for transfers in/out is taken directly from the financial ledger.</p> <p>There is currently no reconciliation between the financial ledger and the pensions system for transfer values in or out of the Fund.</p> <p>As part of the audit work, a full reconciliation of transfer values “in” was carried out. A number of different types of reconciling items, amounting to some £350,000, were identified, including misallocations in the ledger/Axis, typing errors, timing differences, and AVC conversions, which were not recorded on Axis report, but are in the ledger.</p> <p><i>Recommendation:</i></p> <p><i>Transfers disclosed in the Fund Accounts, i.e. the ledger balance, should be reconciled to the Axis pension system annually.</i></p>	Medium	Principal Pensions Officer & Principal Treasury and Investment Officer	No	<p>There are two different systems for different reasons and providing the entries are checked at the point of payment or request then there should be no further need for a second check. This would create a large amount of work for little return. There will always be a difference between the date of receipt of cheques for transfers and the date recorded in the axis system as cheques are banked immediately but the paper work may take months.</p>	
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No.	Finding/Recommendation	Priority	Responsible Officer	Agreed	Management Response	Action Date
9	<p>Samples of Priority Payment Vouchers examined for transfers out were in four different styles. Most were signed by only one officer, none were both signed as 'prepared by' and 'authorised by'.</p> <p><i>Recommendation:</i></p> <p><i>Consideration should be given to standardising the Vouchers and procedures should be introduced whereby they are evidenced as independently prepared and authorised.</i></p>	Low	Principal Pensions Officer	Yes	The vouchers were agreed with payments control and some are in different formats so that they can be identified as different aspects of the work. This will be reviewed.	June 2004

No.	Finding/Recommendation	Priority	Responsible Officer	Agreed	Management Response	Action Date
Miscellaneous						
10	<p>In preparing the information required for pension disclosures in the Statement of Accounts to comply with FRS17, a member of staff analysed all the cashbook entries for the year and extracted the contributions received in relation to DCC and each of the admitted/ scheduled bodies. This was a time consuming task.</p> <p>Our review highlighted that the Pensions Section, to a large extent, already record the same information.</p> <p><i>Recommendation:</i></p> <p><i>Consideration should be given to improving co-ordination between Council departments in relation to pension information to prevent duplication of data and work.</i></p>	Low	Principal Pensions Officer	Yes	This will be considered.	December 2004

Investments

No.	Finding/Recommendation	Priority	Responsible Officer	Agreed	Management Response	Action Date
11	<p>The Superannuation Investment Sub-Committee was formed in 1996. Its remit is stated in very broad terms, does not extend to its responsibilities for investment policies or principles and does not reflect the activities of the Sub-Committee.</p> <p><i>Recommendation:</i></p> <p><i>The remit of the Superannuation Investment Sub-Committee should be reviewed and brought into accord with the current responsibilities and activities of the Sub-Committee.</i></p>	High	Principal Treasury and Investment Officer	Yes	It is agreed that the current remit is very broad. This will be made more detailed to specify the current responsibilities and activities whilst still retaining some more general powers to cover other potential areas. This will be reported to the Finance Committee.	April 2004

12	<p>At the time of our review the Financial Regulations did not reflect the requirements of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 1998 and did not adequately provide for pension fund management.</p> <p><i>Recommendation:</i></p> <p><i>The Council should update the Financial Regulations to include the requirements of the 1998 Regulations, to adequately provide for pension fund management and to assign responsibility and delegated responsibility.</i></p>	High	Principal Treasury and Investment Officer	Yes	Whilst the Financial Regulations do provide for pension fund management it is accepted that they should be expanded. This will be done and reported to Policy and Resources Committee.	April 2004
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No.	Finding/Recommendation	Priority	Responsible Officer	Agreed	Management Response	Action Date
13	<p>There are no formalised written procedures concerning the management, monitoring and decision making relating to the Fund.</p> <p><i>Recommendation:</i></p> <p><i>Financial procedures and guidance notes should be developed, approved and adopted by the Superannuation Investment Sub-Committee and issued to appropriate staff. In particular the procedures should include:</i></p> <ul style="list-style-type: none"> • <i>the different types of pension fund transactions;</i> • <i>reconciliation procedures (contributions, pensions, transfer values, investments);</i> • <i>cash management;</i> • <i>actuarial valuation arrangements;</i> • <i>fund management arrangements including, where appropriate, appointment and dismissal procedures for Fund Managers;</i> • <i>benchmarking and fund performance monitoring;</i> • <i>reporting.</i> 	High	Principal Treasury and Investment Officer	Yes	<p>It is acknowledged that controls are robust and working satisfactorily. However it is agreed that practices and procedures should be combined in one document. Accordingly a manual will be prepared. It may be that some of the items listed e.g. contribution and pension reconciliation fall outwith the scope of the Superannuation Sub-Committee and these will be left out.</p>	May 2004