

REPORT TO: SCRUTINY COMMITTEE – 18 AUGUST 2010

REPORT ON: INTERNAL AUDIT REPORTS

REPORT BY: CHIEF INTERNAL AUDITOR

REPORT NO: 439-2010

1.0 PURPOSE OF REPORT

To submit to Members of the Scrutiny Committee a summary of the Internal Audit Reports finalised since the last Audit and Risk Management Sub-Committee.

2.0 RECOMMENDATIONS

Members of the Committee are asked to note the information contained within this report.

3.0 FINANCIAL IMPLICATIONS

None

4.0 MAIN TEXT

4.1. The day-to-day activity of the Internal Audit Service is primarily driven by the reviews included within the Internal Audit Plan. Broadly, on the completion of a specific review, a report which details the audit findings and recommendations is prepared and issued to Management for a formal response and submission of Management's proposed action plan to take the recommendations forward. Any follow-up work subsequently undertaken will examine the implementation of the action plan submitted by Management.

4.2. Executive Summaries for the reviews which have been finalised in terms of paragraph 4.1 above are provided at Appendix A. Within each Executive Summary the prime aim is to provide both Members and Management with key information which includes the reason for undertaking the review, summary financial data and statistics, the areas encompassed within the review and specific areas which were excluded, the principal audit objectives, an audit opinion on the adequacy of the systems and control framework of the area reviewed, the key conclusions based on the audit findings and recommendations and a summary of Management's response to the audit report. The full reports are available to Members on request.

5.0 POLICY IMPLICATIONS

This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management. There are no major issues.

6.0 CONSULTATIONS

The Chief Executive, Depute Chief Executive and Director of Finance have been consulted on the content of this report.

7.0 BACKGROUND PAPERS

None

Sallie Dailly, Chief Internal Auditor

DATE: 09 August 2010

i) INTERNAL AUDIT REPORT 2009/14

| | |
|-------------------|----------------------------|
| Department | City Development |
| Subject | Property Management |

Introduction

A review of property management was undertaken as part of the planned internal audit work.

The Property Division within the City Development Department comprises a multi-disciplinary team of professionals in management, maintenance and valuation, all working towards the common goal of creating and retaining as many jobs as possible in the city through ensuring sufficient provision of land and property. Strategies have been devised and implemented for increasing the amount of investment and employment opportunities in the city, with start-up businesses, inward investment and indigenous companies of every size benefiting from the Council's extensive portfolio of industrial properties. The Council can also assist businesses seeking industrial and commercial land and advance factory units.

The Property Management team has responsibility for maximising the use of all property and ensuring that good management techniques lead to the most efficient return on assets. The team's activities include acquisitions and disposals. Staff are also responsible for management of leases which includes negotiation of lettings, rent reviews, use clause and dilapidations. The Department currently manages in the region of 600 leased properties.

Scope and Objectives

The overall objective of this review was to examine the procedures operated in respect of property management, assess the effectiveness of the controls and formally report the findings. Audit fieldwork focussed on procedures operated in respect of properties leased by Dundee City Council and excluded arrangements for undertaking property development.

Conclusion

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

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

- In order to improve controls over property management, staff should continue to strive to ensure that leases are renewed as soon as possible after the end date and review the systems operated to assess if further process improvements can be made to enable rent increases to be applied more timeously. In addition, the process for acceptance and receipting of keys should be formalised.

Management Response to the Audit Report

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

ii) INTERNAL AUDIT REPORT 2009/35

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|-------------------|----------------------|
| Department | Social Work |
| Subject | Cash Imprests |

Introduction

A review of the arrangements for the management of cash imprests within the Social Work Department was undertaken as part of the planned internal audit work.

In common with other departments of the Council, the Social Work Department uses the Council's financial system, Authority Financials, for the payment of the vast majority of goods and services it orders. It also has cash imprests which are used for a variety of purchases. These could include small incidentals which are required for the day to day running of the establishment, the purchase of clothing for children in residential units or emergency payments to clients in need.

In some cases, establishments will be re-imbursed in cash for expenditure made and which is supported by the appropriate receipts. In situations where the establishments maintain their own bank account all expenditure supported by the appropriate receipts will be re-imbursed via a payment to the establishment's bank account. The Department operated 66 cash imprests for the financial year 2009/10 with an associated total value of approximately £53,000. Cash imprests range from £40, allocated to some of the smaller establishments, to £35,000 which is managed centrally by Social Work staff in Tayside House and used to re-imburse the imprests of all other locations within the Department.

Scope and Objectives

The overall objective of this review was to examine procedures operated in respect of imprests within the Social Work Department. The areas to be reviewed and establishments to be visited were agreed with staff in the finance section of the Social Work Department.

Conclusion

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

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

- In order to ensure consistency across the Department and to avoid confusion, the guidance notes should be updated and consideration given to rationalising the forms in use. In addition, the necessary improvements to working practices should be discussed with the relevant establishments.

Management Response to the Audit Report

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

iii) INTERNAL AUDIT REPORT 2009/37

| | |
|-------------------|------------------------|
| Department | Corporate |
| Subject | Sundry Payments |

Introduction

A review of the sundry payments system operated within the Council was undertaken as part of the planned internal audit work.

The Creditors module within the Council's financial system Authority Financials is used to make payments on behalf of Dundee City Council and other external parties to whom it provides financial services under Service Level Agreements. The majority of creditors are set up on a permanent basis. These are suppliers which the Council uses on a regular basis and where there are multiple payments.

Where one-off payments are required, details are recorded on a sundry payment system which then interfaces with Authority Financials. A temporary creditor is set up within Authority Financials enabling the relevant payment to be made. A sundry payment would be appropriate, for example, for council tax refunds and rent rebates or for payment of invoices where the department does not expect to use the supplier more than once. Staff check Council records for any outstanding debts prior to refunds or rebates being paid, and if these exist, they are netted off against sums due before the payment is made. Payments are made by Bankers' Automated Clearing System (BACS) wherever possible to minimise costs but it is not always possible to obtain creditors' bank details to facilitate this.

Dundee City Council makes of the order of 80,000 BACS and cheque payments with a value of £250m annually. Of these, approximately 5,000 payments with a value of £5m relate to temporary creditors.

Scope and Objectives

The objectives of this audit were to examine the systems operated in respect of sundry payments, assess the effectiveness of the controls and formally report the findings. Areas examined included accuracy and availability of guidance, ensuring that sundry payments are not used as a regular payment method and authorisation procedures.

Conclusion

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

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

- To ensure that the sundry payments system operates effectively, all departments should be reminded of appropriate use of the system and of the importance of only requesting a new creditor record where they have checked extensively that a record does not already exist. In addition, guidance should be updated and made available to staff via the intranet.
- In order to reduce costs and improve efficiency, departments should be instructed that payments should be made by BACS wherever possible.

Management Response to the Audit Report

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

iv) INTERNAL AUDIT REPORT 2009/39

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|-------------------|---------------------------------|
| Department | Dundee Contract Services |
| Subject | Major Contracts |

Introduction

A review of processes operated in respect of major projects carried out by Dundee Contract Services (DCS) was part of the planned internal audit work.

DCS is a contracting arm of Dundee City Council. The Department provides building services to its clients and covers all aspects of the building trade including joinery, electrical works, plumbing and tiling. In order to ensure delivery of a quality service to its customers, the Department has established a quality management system which meets BS EN ISO 9001:2008.

DCS staff project manage, plan and undertake major contract works of approximately £5m and around £1.5m of minor contract works per annum. Major works include projects such as installations of kitchens and bathrooms in Council housing whilst minor works will include maintenance and repair of other Council properties and Council housing.

Activity on major works usually covers a span of several months and payments are made at various points throughout the life of the project. DCS staff value the works done at regular intervals and prepare an interim certificate. They pass this information to Quantity Surveyors within Architectural Services who will confirm the accuracy of the certificated work and arrange for payment. At the end of the project a final certificate is prepared when all outstanding sums should be paid.

Scope and Objectives

The objective of this review was to examine the systems operated in respect of major projects within DCS and report the findings. Audit fieldwork included examination of systems operated by both DCS and Architectural Services staff.

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 highlighted in the report are as follows:

- In order to ensure that contract payments are timeous and cash flow is maximised, DCS staff should arrange a meeting with Architectural Services staff to resolve the lack of a uniform approach, formally agree procedures to be followed in future and include a mechanism for handling any complaints. To assist the process, DCS should consider the feasibility of providing actual costs with each valuation.

Management Response to the Audit Report

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

v) INTERNAL AUDIT REPORT 2010/08

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| Department | Finance |
| Subject | Assessment of Debtors' Income and Expenditure |

Introduction

A review of housing benefits overpayments was part of the planned internal audit work. During this review the auditor was provided with departmental guidance which included income and expenditure forms. The Council's Anti-Poverty Strategy included in the Housing Benefit Overpayment Recovery Policy states that "Any repayment arrangement will be realistic". Income and expenditure forms detail a debtor's incomings and outgoings for the month in order that a realistic repayment amount can be set. The sum agreed should be set with a view to minimising the period over which the debt is repaid whilst being realistic in order that the debtor does not default on the arrangement made. As the forms provided during the review of housing benefit overpayments were different to those which had been provided for other audits which have been undertaken, an exercise was carried out to identify differences in departmental working practices.

Scope and Objectives

The overall objective was to compare income and expenditure procedures operated by different services within the Council.

Conclusion

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

The area commented upon in the report is as follows:

- In order to ensure consistency across the Council, a corporate income and expenditure sheet should be compiled with guidance being provided on high priority and low priority expenditure items and the level of surplus income to be requested which meets the requirements of the Council's Anti-Poverty Strategy.

Management Response to the Audit Report

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