

Address: Pearl Tate CPFA  
Audit Manager  
Osborne House  
1-5 Osborne Terrace  
Edinburgh  
EH12 5HG

Telephone: 0131 625 1916  
Fax: 08456 146 1009

Website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

**REPORT TO: AUDIT AND RISK MANAGEMENT SUB-COMMITTEE - 22 SEPTEMBER 2008**

**REPORT ON: EXTERNAL AUDIT REPORTS**

**REPORT BY: PEARL TATE, SENIOR AUDIT MANAGER**

**REPORT NO: 473-2008**

## **1 PURPOSE OF REPORT**

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

## **2 RECOMMENDATIONS**

- 2.1 Members of the Sub-Committee are asked to consider each of the individual reports and to note the submission of the SPI s and grant claims.

## **3 BACKGROUND**

- 3.1 The following elements of the 2007/08 Annual Audit Plan have been finalised since the last Sub-Committee meeting:
- review of Education Management Information System (SEEMIS)
  - review of Social Work Residential Homes System
  - review of Housing Stock Information Database
  - Corporate Governance – System Assurance
  - Information Handling – Cultural Aspects (Information Security)
  - Capital Project Management
  - Statutory Performance Indicators (return).
  - Grant Claims submitted to date have been completed by the required date.
- 3.2 External audit are currently concluding the audit of the council's statement of accounts which is on schedule for completion by 30 September. The final report to members is expected to be submitted by the target date of 31 October.

Pearl Tate  
Senior Audit Manager  
9 September 2008

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26 June 2008

Mr Alex Stephen  
Chief Executive  
Dundee City Council  
21 City Square  
Dundee  
DD1 3BD

Dear Mr Stephen

### **2007/2008 Audit – Review of the Education Management Information System (SEEMIS)**

As agreed in our 2007/08 Annual Audit Plan, we completed an information technology review of the education services management information system. This system is provided by the SEEMIS group of local authorities (of which the Council is a member) and hosted at South Lanarkshire Council. It holds pupil records for all Dundee schools at every level including enrolment, class attendance and qualifications.

We are pleased to report that the system exhibits strong features for the regulation of users and that it contains built-in safeguards to support appropriate access to pupil records. These are dependent on devolved administration of user records at individual schools, and testing this was outside the scope of audit. Accuracy of records held in this system is critical and is supported by built-in checks at the time of data input and teacher scrutiny. There is also a proactive and knowledgeable support team based in the Education Department.

As the system is externally hosted, there are some aspects that we were unable to review and which the Council does not directly influence. The following are two areas that the Council should continue to track through membership of appropriate forums:

- The Council is dependent on South Lanarkshire Council's arrangements with respect to data backup and security.
- As SEEMIS is owned and developed by a group of local authorities, there are risks over its long term sustainability. The SEEMIS team supply a small market with tight resources and have to meet external requirements for integration with other systems (e.g. GLOW, the national schools intranet), as well as keeping up with technological developments in computer system architecture and delivery.

Yours sincerely

Pearl Tate  
Senior Audit Manager

Cc Mrs A Wilson, Director of Education  
Mr G Bell, Head of Information Technology  
Mrs S Dailly, Chief Internal Auditor

Mr D Dorward, Depute Chief Executive (Finance)  
Mrs M Stewart, Head of Finance  
Mrs G Battison, Performance Audit

# Risk Summary

Risk No	Risk Exposure	Planned Assurance Action	Responsible Officer	Target Date
1.	The Council relies on measures taken at South Lanarkshire Council and the SEEMIS team to assure backups and security (code review and penetration testing).	Through continued attendance at Technical groups, continue to ensure that backup and security responsibilities are carried out in a professional manner.	Support Manager, Information Technology	Ongoing
2.	The Council is dependent on the SEEMIS team for software life-cycle management.	Through attendance at working groups and management forums, continue to ensure that ongoing development priorities of Dundee CC are provided.	MIS Support Officer, ICT Support, Education	Ongoing

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Mr Alex Stephen  
Chief Executive  
Dundee City Council  
21 City Square  
Dundee  
DD1 3BD

14 July 2008

Dear Mr Stephen

### **2007/2008 Audit – Review of the Social Work Residential Homes System**

As agreed in our 2007/08 Annual Audit Plan, we completed an information technology review of the residential homes payments and billing system. This system is an enhancement of the K2 Event Management System and became available to the Social Work Department in October 2007. It is used to ensure that care home fees and resident contributions are correctly raised. At the same time as the new system was introduced, responsibility for the processing of resident's billing information moved from Tayside House to the Claverhouse Community Care Services office.

We are pleased to report that the new system represents a significant improvement on the former spreadsheet based method. There are a number of built-in controls to help ensure that resident's data is input accurately, that charges are correctly calculated and that bills and payments are accurately transferred to the financial system. Furthermore, the Claverhouse staff have implemented a satisfactory system for controlling data input.

We noted that the system does not strictly enforce the Council's recommended requirements for password complexity and expiry

We also noted the opportunity to extend use of the system more widely within Social Work. The system provides up-to-date information on care home residency and this could be of use to other social work professionals. Clearly read-only access would need to be enabled before this could be achieved.

Yours sincerely

Pearl Tate

Senior Audit Manager

Cc Mr A Baird, Director of Social Work  
Mr D Dorward, Depute Chief Executive (Finance)  
Mrs M Stewart, Head of Finance  
Mr G Bell, Head of Information Technology  
Mrs S Dailly, Chief Internal Auditor  
Mrs G Battison, Performance Audit

# Risk Summary

Risk No	Risk Exposure	Planned Assurance Action	Responsible Officer	Target Date
1.	Where systems do not enforce minimum standards for password length, complexity and life-cycle, there is a risk that users will adopt weak passwords and that consequently confidential data will be inappropriately accessed or changed.	Password complexity and expiry standards will be updated accordingly.	Software Manager, Information Technology	31 August 2008

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Mr Alex Stephen  
Chief Executive  
Dundee City Council  
21 City Square  
Dundee  
DD1 3BD

14 July 2008

Dear Mr Stephen

### **2007/2008 Audit – Review of the Housing Stock Information Database**

As agreed in our 2007/08 Annual Audit Plan, we completed an information technology review of the computer system used to store housing condition data. This system became available to the Housing Improvement Unit earlier this year and is intended to help the Council meet its objectives under the Scottish Quality Housing Scheme and assist housing asset management.

Although the system is clearly well-suited to its purpose, we do have some concerns about the way it is provided. At present it is hosted externally by the John Martin Partnership and accessed over the Internet by the Council. The Council should protect its position by arranging the following with John Martin Partnership:

- A Service Level Agreement to clarify respective responsibilities for data security in transit and storage, penetration testing of the internet portal, system availability and the maintenance schedule;
- Evidence for the backup and disaster recovery arrangements that are presumably the responsibility of John Martin Partnership;
- An escrow agreement so that a copy of the application software is held with a trusted third party.

There are also risks associated with the system itself. As might be expected of a very new system, the separation between software support and Council users is not clear. Going forward, we would strongly recommend that proper change control measures are put in place, with provision of a test environment, exclusion of development staff from the live system and restriction of the use of administrator accounts.

There is scope to improve controls in the following significant areas:

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- Council users do not currently have access to an audit trail that covers changes to property and cost rate data;
- The password control over the internet gateway does not enforce the Council's standards for password length, complexity and life-cycle.

Yours sincerely

Pearl Tate  
Senior Audit Manager

Cc Mrs E Zwirlein, Director of Housing  
Mr D Dorward, Depute Chief Executive (Finance)  
Mrs M Stewart, Head of Finance  
Mr G Bell, Head of Information Technology  
Mrs S Dailly, Chief Internal Auditor  
Mrs G Battison, Performance Audit

# Risk Summary

Risk No	Risk Exposure	Planned Assurance Action	Responsible Officer	Target Date
1.	<p>External hosting exposes the Council to the following risks:</p> <ul style="list-style-type: none"> <li>• Dependence on a continuing relationship between John Martin Partnership (JMP) and their third party software developer;</li> <li>• Dependence on the arrangements by JMP for security and availability through the third party web hosting service</li> <li>• Reliance on JMP's assertions that data is backed up and securely stored</li> </ul>	External hosting risks, to be removed through hosting application through Dundee City Council, IT infrastructure.	IT Implementation Manager	31 October 2008
2.	Lack of arrangements for software change control give rise to the risk that software updates do not achieve the intended effect, resulting in unplanned loss of availability.	Housing Investment Unit to work with Information Technology Department and JMP to ensure appropriate controls are introduced.	Housing Investment Manager	31 October 2008
3.	Currently, Housing Improvement Unit users do not have access to an audit trail showing the changes to property and standing data. This makes it harder to validate changes and can lead to uncertainty over whether standing data is accurate or not.	Housing Investment Unit to work with Information Technology Department and JMP to ensure appropriate controls are introduced.	Housing Investment Manager	31 October 2008
4.	All internet-provided systems have higher risks of external intrusion. Two essential measures to counter the risk are a high standard of password protection and penetration testing.	External hosting risks, to be removed through hosting application through Dundee City Council, IT infrastructure.	IT Implementation Manager	31 October 2008



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Mr Alex Stephen

14 July 2008

Chief Executive  
Dundee City Council  
21 City Square  
Dundee  
DD1 3BD

Dear Mr Stephen

### **2007/2008 Audit – Corporate Governance : Systems Assurance**

Our 2007/08 Annual Audit Plan highlighted that we would undertake a review of the council's corporate governance arrangements in a number of key areas. This report summarises our findings from a review of the Internal Audit function and testing of higher level controls we plan to rely on for our audit of the financial statements.

#### ***Internal Audit***

As part of our planning process we carried out an early assessment of the internal audit function in accordance with International Standard of Auditing 610 *Considering the Work of Internal Audit*. This included a review of the:

- organisational status of internal audit
- technical competence of staff within the internal audit section
- nature of the assignments undertaken
- quality of audit work and
- various documents such as internal audit plans and reports.

We found that the internal audit function is well managed and staff are experienced and competent. Due to staffing shortages there was some slippage against the 2007/08 audit plan and this may have a knock on impact on 2008/09. We are aware that the Chief Internal Auditor is actively seeking ways of addressing the slippage.

The Audit & Risk Management sub-committee's remit includes a requirement to monitor the strategy, plan and performance of internal audit. We noted that, although the sub-committee receives an annual report on the work undertaken by internal audit, it does not include details of slippage. The Chief Internal Auditor has recognised this gap and, we anticipate, it will be addressed in the near future.

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## **Key Systems**

During March to May 2008 we carried out audit testing focussing on the departmental controls in place within key financial systems, namely budgetary control, payroll, accounts payable, accounts receivable and capital accounting. The departments visited as part of this review were: Education, Social Work, Housing, Leisure & Communities, Contract Services and Waste Management. In general, we found a good level of control to be in place at departmental level. The appendix to this report outlines some weaknesses identified from our work excluding capital accounting which will be separately reported. Consideration should be given to addressing the areas highlighted to further improve the control environment.

The transfer of payroll from ISIS to the integrated payroll and personnel system, Resourcelink, has been a protracted process. By 1 April 2008, the council planned to have fully transferred departments to Resourcelink as technical support for ISIS stopped at that date. As at May 2008, two departments, Housing and Leisure & Communities, which together account for 14% of the number of staff employed by the council, had still to transfer to the new system. This is likely to have had a significant resourcing implication for the payroll department in updating both ISIS and Resourcelink with the new single status pay scales and grades. We have been advised that the remaining two departments will transfer to Resourcelink by summer 2008.

The council approved a procurement strategy in March 2007 and became a member of Scotland Excel, the local government centre of excellence for procurement, in April 2008. A Corporate Procurement function has been established, however, this is at a very early stage of development. We noted that the new financial system, Authority Financials, has a number of controls built in to the purchase ledger which have not been activated, for example, tolerance levels, user authorisation levels and budget checks. The sound management of procurement arrangements is a complex and technical area and whilst there is clearly a commitment to improving procurement arrangements at the council, we have some concerns about the level of resources dedicated to improving procurement practices which may result in significant slippage and delays in achieving efficiencies in this area. This will be subject to on-going audit review and the council should consider whether the current level of resources are sufficient to establish a sound control framework for procurement.

Yours sincerely

Pearl Tate

Senior Audit Manager

Cc:

Mr D Dorward, Depute Chief Executive (Finance)  
Mrs M Stewart, Head of Finance  
Mrs S Dailly, Chief Internal Auditor  
Mrs G Battison, Performance Audit

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## **Findings from 2008/09 audit testing of key financial systems.**

1. Within the Social Work department, controls over accounts receivable could be strengthened by reconciling the data held on K2 in respect of non-residential billing to the Authority Financials sales ledger to ensure full and accurate accounting of all income in this area.
2. A significant amount of time has been invested in single status job evaluation which should have had a knock on benefit of ensuring personnel records were up to date. However, we are not aware of any regular reports being issued to departments to confirm that personnel details held are accurate and to ensure that records are kept up to date.
3. Whilst we found the controls within the payroll system to be generally sound , the following control weaknesses were noted:
  - Due to staffing pressures starter and leavers prints were not always checked by departments prior to payroll runs with the effect that assurance over the accuracy of the paybill is reduced;
  - In a drive to complete the single status requirement staff in one department had access to both personnel and payroll information, therefore the risk of fraudulent employees being set up on the system is increased;
  - A number of departments had a “leavers’ checklist” in place but this form was not being used. By using a standard checklist to ensure all necessary actions, such as notifying pensions, have been taken departments would minimise the risk of overpayments.

# Dundee City Council

## **Information Handling Audit 2007/08**

### Cultural Aspects (Information Security)

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# Key messages

This audit looked at cultural aspects of information handling and security. While technical and physical measures are essential elements of information security management, human factors also have a critical effect on the probability and impact of data security incidents. As well as having formal structures to enable security and effective data handling, an organisation must ensure they work in practice and remain effective.

We found the data handling environment at Dundee City Council characterised by:

- Senior management involvement in promoting information security;
- A technical and physical security framework that greatly reduces the likelihood of data handling problems;
- Provision of appropriate materials for user training in data handling and information security;
- A good level of awareness of security issues and security policies among service staff contacted by audit.

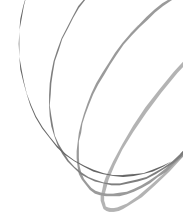
We also noted some opportunities to improve elements of the information security management system:

- The changing environment of technology and data use requires regular review to ensure that exposure to new risks is controlled and security policies updated;
- Routine departmental training could be used as a vehicle to make security awareness and data handling training relevant to day-to-day work.

# Introduction

1. Recent years have seen a huge increase in the risks associated with information systems. Not only are databases larger, more comprehensive and more accessible, but data is easier to move around, whether over networks, the internet or through simply using physical media. System incompatibility and data fragmentation no longer provide barriers to large scale data loss.
2. At the same time the potential impact from data loss is increasing. Many efficiency savings depend on data sharing and on-line services, and these could be jeopardised if poor data handling leads to low adoption of on-line and joined-up services. Computer crime provides a ready market for assumed identities and personal information and many people have been affected by credit card fraud.
3. International studies of information security incidents have shown that the greatest weaknesses in security systems are often not technical or physical, but cultural. An organisation's own staff are significant contributors to information security incidents, often through carelessness or failure to understand the importance or value of data they create, store and maintain.
4. This audit focused on the cultural aspects of information security. The three key themes were information awareness, security governance and operational discipline. The audit was directed at the governance level, not the operational one. Although individual systems may be mentioned, their security was outside the scope of this audit.
5. The management of the council is responsible for implementing appropriate internal control systems including risk management processes. Communication by auditors of matters arising from the audit or of weaknesses does not absolve management from its responsibility to address the issues raised and for maintaining an adequate system of internal control.
6. The risks outlined are only those which have come to our attention during the course of our normal audit work in accordance with the Code of Audit Practice and are not necessarily, therefore, all of the risks which may exist.
7. 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 work is gratefully acknowledged.

# Information Awareness



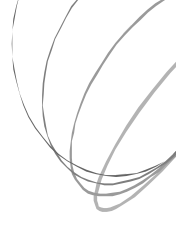
## *Risk overview*

8. The main legislative background for this audit is the Data Protection Act 1998 (DPA). The DPA sets out a framework for the handling of personal information that includes citizen rights, proportionality and security. The DPA also created the Information Commissioner's Office, a body with the power to issue fines, enforcement notices and prosecute criminal offences under the Act.
9. Where an organisation raises taxes, fees and charges from service users, payment cards are increasingly accepted as an efficient means of payment. As a response to fraud losses running at over £500 million a year, payment card issuers jointly produced the Payment Card Industry (PCI) Data Security Standard (DSS). This has been mandatory in Europe since July 2007 and merchants who are not compliant risk penalty charges and suspension of service.
10. Possible scenarios for serious data loss include:
  - Harvesting of personal information such as bank details and family relationships from old, lost or stolen computer hardware and use to commit fraud or blackmail;
  - Incidents where a council system is used to trace people or property as a service to an external third party outside a formal data-sharing agreement;
  - Interception of personal data in transit at a point of weakness and use to commit fraud;
  - Creation of a personal management reporting database using case data from a major system that happens to include sensitive information but is not appropriately secured;
  - Copying of a council database as an administration activity and movement of the copy outside the approved software location, where it becomes accessible to unauthorised users.

## *Identification of systems containing sensitive personal information*

11. The council holds sensitive personal information relating to various areas, including education, community care and benefits. The main systems that store sensitive information are known. System enhancements and the increasing integration of systems mean that boundaries and connections change. This makes the maintenance of comprehensive information asset registers very challenging.
12. We are pleased to report that:
  - The IT service desk holds details of system locations, administration and ownership, as part of configuration management, however information about the type and sensitivity of the data is limited;
  - Information was classified by Legal Services for the purposes of the Freedom of Information (Scotland) Act in 2004, which is a useful guide to sensitivity, but may not be fully up-to-date;
  - Data classification falls within the scope of the project to acquire a records management system;



- 
- System and database administrators are concentrated in the IT department which aids the communication and consistent application of standards.
13. In the face of continually changing systems, data sources, transfers and connections, it is very difficult for any organisation to recognise and appropriately protect all its data. Yet lack of this knowledge presents a weakness which is at the root of many potential data handling problems.
  14. We are pleased to report that in the council's case, the foundations of an information classification system are present and records classification is a priority output of the records management project.

### **Information security environment**

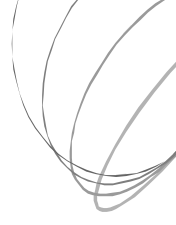
15. Many of the known threats to security come from outside the council, and technical and physical controls at the boundary are crucial. We are pleased to report that the council gave us assurances that:
  - Information security management is guided by the principles of ISO17799 (international standard for information security management systems);
  - Physical access to council offices and computer terminals is restricted and controlled;
  - The council has completed the PCI-DSS self-assessment questionnaire covering payment card security;
  - least privilege principles in application and network administration mean that users tend only to have the access rights required for their job;
  - The council network is protected by firewalls and other gateway security devices.
16. A key feature of the council's security environment is the thin-client infrastructure for computer service delivery. With thin-client, nearly all data is held centrally and only exists temporarily on users' screens. This distribution method applies in principle to portable devices as well as fixed ones. It substantially reduces the risk of recovery of sensitive information from hardware and means that sensitive information is stored centrally, where it is protected.
17. However, the information environment does change constantly, for example through the arrival of bootable high-capacity portable memory sticks (devices like these and MP3 players allow users to run operating systems and applications independently). This means that there is a regular need to evaluate the effect of changing technology and usage patterns, and whether part of the environment has acquired characteristics that require special protective measures.

**Risk No. 1**

# Security Governance

## **Leadership**

18. The evolution of information technology has led to service delivery models where many staff have the access and the means to contribute to a serious data handling error. While it is essential to have



security policy documents and technical security measures, front-line staff must know that information and data security is critical to success, and this will only be the case if senior management effectively and regularly communicate its importance.

19. We are pleased to report that:

- The Chief Executive recently circulated all managers with a reminder of security policies;
- The Depute Chief Executive (Support Services) has formal responsibility for information security;
- Senior officers of each department are designated Data Protection Champions;
- The IT division recognise the importance of IT security and have prioritised resources to manage IT security;
- All computer users are currently being asked to complete information security training.

20. These measures give considerable credibility to the council's efforts to treat data appropriately and are helping to instil a culture of information security awareness.

## *Policies and procedures*

21. Service delivery is the primary concern of staff and the security policy and training are tools that help ensure delivery in a way that protects data. While a security policy should be a relatively static document (as security principles do not change), operational procedures and training ought to adapt and improve in response to new situations.

22. We are pleased to report that:

- The roles of IT Security Officer and Data Protection Officer at the council have been established for a number of years;
- The IT Security Officer operates as a corporate resource, providing advice and training to all services, as well as IT;
- A security training package is being used to survey users, assess weaknesses and target further training;
- We have found staff awareness of security issues in a number of services to be good;
- Security policies and guidelines are published on the intranet;
- The information security policy and acceptable use policy are communicated to all contractors using the network as well as staff;
- Induction of new staff members who are to be given access to IT systems includes the requirement to sign-up to the acceptable use policy.

23. All the major operational systems of the council are supported by training staff or training materials based in the service departments. There is an opportunity to use operational training to draw attention to data handling aspects, such as security awareness, social engineering techniques and

safe data transport. This would help to support the developing security culture and increase the accessibility and relevance of the security policy. The IT Security Officer has expertise that could be applied when developing service training products.

**Risk No. 2**

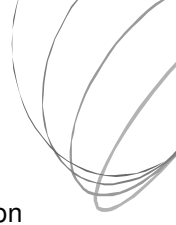
# Operational Discipline

## *Access control systems*

24. Although specific information systems are outside the scope of this audit, there are two design factors influencing operational security that should be considered when acquiring new systems:
- The type of personal information held and made accessible to the user. A well designed system ensures that users are provided with no greater level of detail than required. For example, if a user only needs summary information, displays should not include detailed records;
  - The versatility of the access control system. Well designed access control systems allow the restriction of groups of users to specific tasks and types of information and facilitate accountability and reporting. In systems with personal information, access control can be used to separate the role of data input from service provision and to restrict access to users who have completed appropriate training.
25. We are pleased to report that the council gave us assurances that system access control lists are reviewed regularly. Furthermore, in our recent systems reviews, we have found access control lists to be appropriately configured and reasonably up-to-date.
26. Monitoring plays an important part in the management of information security. Experience of other organisations shows that problems are sometimes evident in log files months before security breaches are identified. The challenge of monitoring is how to make sense of the large quantities of data in a way that respects users' privacy.
27. We are pleased to report that monitoring to report specific events that threaten network or server operation is carried out within IT. Furthermore, security reviews of specific systems are carried out periodically on a risk basis.

## *Staff training and support*

28. Analysis of the cause of security breaches worldwide has shown that in a significant proportion of cases, user error was a major contributor. Investment in training staff to recognise and deal with data handling issues is a successful strategy for reducing risk. At the same time, technical support should facilitate the use of tools such as encryption.

- 
29. As noted above, the council is rolling out a security training programme. Together with recent communications by senior management, departmental training initiatives and the profile of security on the intranet, the council has an appropriate strategy for reducing information handling risk.
  
  30. The council often requires people who are not direct employees to carry out work on their behalf, and in this case, normal training and induction procedures may not apply. The council operates a sponsorship system, whereby an access agreement is individually signed by non-employees and sponsored by a council manager.

# Risk Summary

3.1 Risk No	3.2 Risk Exposure	3.3 Planned Assurance Action	3.4 Res ponsible Officer	3.5 Target Date	T
○	○ The technology available to staff changes fast and is difficult for the council to control, for example with portable memory devices becoming commonplace. If relevant guidance is not available, staff sometimes assume that the use of new tools is acceptable, especially to meet a service need.	3.6 Information Security Officer to formalise regular review of technology deployment to identify and manage emerging risks.	3.7 Team Leader - Support 3.8 (Information Security)	3.9 1 August 2008	3
○	○ Information security policies and guidance often seem abstract to users. Training can be hard to relate to day-to-day activities and can be seen as a nuisance that stands in the way of efficient service delivery. Internal service training that includes data handling can omit to mention the connection with information security.	3.10 Information Security and Data Handling awareness to be incorporated within user application training.	3.11 Team Leader - Support 3.12 (Information Security)	3.13 1 August 2008	3

# Dundee City Council

**Capital project management report**

**September 2008**

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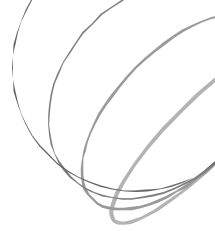
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Other capital projects	29		

# Introduction

4. In accordance with our Annual Audit Plan for 2007/08, we have performed a review of the Council's capital project management arrangements. The Council has embarked upon several ambitious long term capital projects, including the 10 year plan to meet the Scottish Housing Quality Standard program, ending in 2015 and the 30 year Central Waterfront project, which has a planned completion date of 2031. In addition to these programs is a PPP school replacement program, which is due to end January 2010.
5. Three year capital plans are produced for both general and housing services. The current three year capital plans were approved by the Policy & Resources Committee in February 2008.
6. The Policy & Resources Committee monitors capital expenditure monthly between August and March each year. At the end of January 2008, the projected outturn on the capital budget for 2007/08 was £37.2 million, £21.2 million relating to General Services and £16 million for Housing (HRA).
7. Capital spending for the three years ending 31 March 2011 is projected at £197.5 million. Table 1 shows the four most significant elements of the Council's General Services capital plan, net of ring fenced contributions, over the next three financial years. The total capital spend for Housing HRA will be targeted at delivering the Scottish Housing Quality Standard (SHQS) by 2015. This covers various elements, for example, modernising facilities, meeting health, safety and security standards and increasing supply of council housing. Given the significance of the SHQS and the fact that all of the HRA projects are designed to meet the standard, this is deemed to be one project for the purposes of this report.

<b>Table 1 Capital project</b>	<b>Total £'000</b>	<b>2008/09 £'000</b>	<b>2009/10 £'000</b>	<b>2010/11 £'000</b>
<b>General Services Total</b>	<b>132,913</b>	<b>41,999</b>	<b>55,881</b>	<b>35,033</b>
Dundee House	28,035	5,440	17,825	4,770
New swimming pool	14,900	1,500	5,150	8,250
Waterfront project	13,014	4,338	4,338	4,338
Kingspark school	11,850	3,950	7,900	-
<b>Housing HRA Services Total:</b>				
Meeting the Scottish Housing Quality Standard	64,578	17,252	24,394	22,932
<b>Total General and HRA</b>	<b>197,491</b>	<b>59,251</b>	<b>80,275</b>	<b>57,965</b>

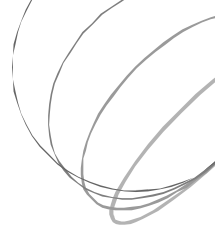




8. Given the scope of the Council's capital plans, it is vital that capital project management arrangements are robust. A range of monitoring arrangements are in place and this report reviewed these under the following headings:
  - Scottish Housing Quality Standard
  - Central Waterfront Project
  - Dundee Schools PPP Project
  - Other capital projects
9. In addition, the report also considers the Corporate Property Unit, asset management planning and planning gains.

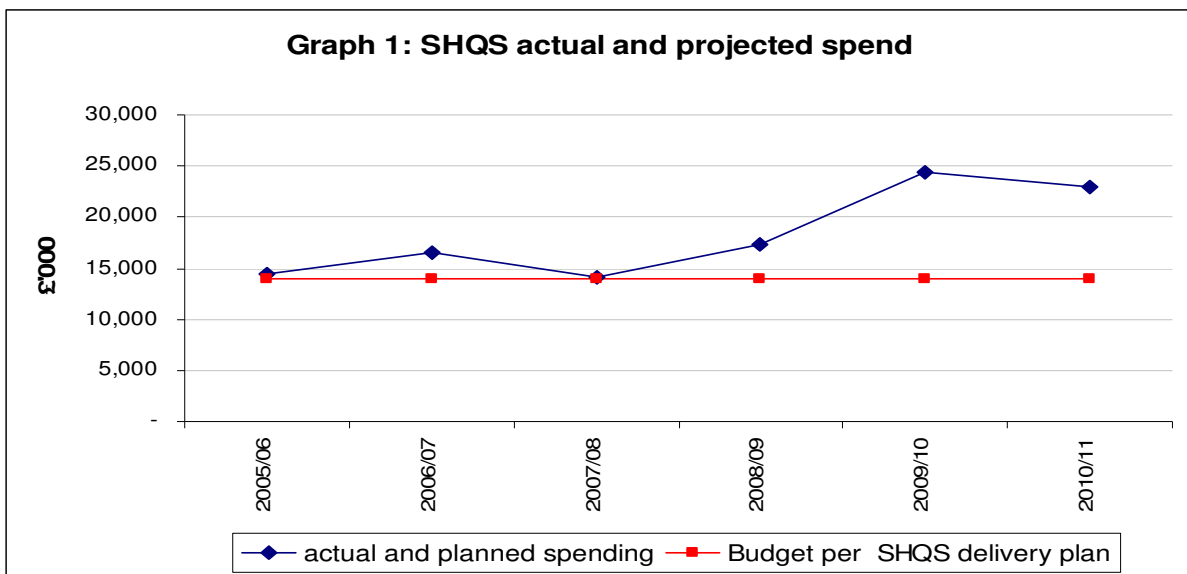
## **Scottish Housing Quality Standard**

10. In February 2004, the Minister for Communities announced details of the Scottish Housing Quality Standard (SHQS) which requires housing to be free from serious disrepair, to be energy efficient and provided with modern facilities and services. Houses in the social rented sector have to be SHQS compliant by 2015.
11. The Council has a SHQS delivery plan in place which was approved by Communities Scotland. The plan estimates £140 million will be incurred over ten years on bringing housing stock up to the standard, funded from a combination of borrowing, land sales and sales of council houses.
12. In responding to the Council's delivery plan, Communities Scotland noted in 2006 that less than 5% of the Council's housing stock met SHQS. To achieve full compliance by 2015, strong coordination of the demolition and stock replacement program would be required. Communities Scotland also noted that more than 40% of the program would be funded from external sales and Right to Buy receipts. The risk associated with achieving this level of return was noted as very high and the margin for error very low. They highlighted that the Council would need to closely monitor and review the program if it was to be delivered on budget and time.
13. The Council identified the key risks that could impact on its ability to deliver the investment plan by 2015. A "root and branch" review is planned for 2008/09 to comprehensively and critically assess the position three years into the SHQS program. A revised housing plan will then be submitted to the Housing and Regeneration Directorate in April 2009. The review has a wide scope and, as well as assessing the risks identified in the SHQS delivery plan and progress made towards crucial milestones, will cover the following areas:
  - Housing conditions in 2008/09



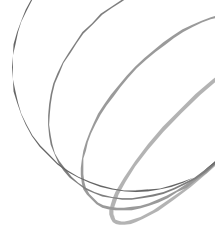
- Evaluation of the costs of outstanding improvement work
- Long term costs for maintaining stock in a SHQS compliant position
- Level of resources available to the Council, including impact of house and land sales on the program.

14. The Council has prepared a business plan in support of the SHQS project which outlines how the annual capital expenditure of £14 million will be spent over the life of the program. The housing capital budget has an element for slippage built in to provide a degree of flexibility, for example, to bring projects forward if others are delayed. In 2007/08, the level of built-in slippage was £2 million or 15% of the housing capital budget.
15. We noted that the Council has spent £3 million more in the first three years than it had anticipated when the business plan was prepared. The cumulative additional spend is projected to increase to £26 million over the next three years. Graph 1 shows the actual and planned spend against budgeted expenditure for first six financial years of the program:



16. About £16 million of this projected additional spend is due to increasing the scope of the SHQS program to include the construction of 135 new-build council houses, 40 of which will be wheelchair accessible. We have been advised that £4.5 million of the remaining £10 million relates to an acceleration of program timescales due to expected increases in proceeds from houses and land sales to 2011. It is not clear, however, whether the remaining £5.5 million relates to other extensions to the scope of planned work or acceleration of program timescales.

**Action plan, no 1**



17. Once the housing stock has been brought up to SHQS, it must be maintained at a compliant level. We are not aware of any long term income plans or projections to evidence whether future housing rents will be sufficient to maintain houses at the SHQS level.

***Action plan, no 2***

18. In 2006, the Council entered into a partnership with the John Martin Partnership (JMP) to develop a database that would track progress towards meeting SHQS. The Stock Information Database (SID), developed by JMP, has been operational since January 2008. As this system will be key to providing assurance over the delivery of the SHQS program, we have carried out a software application review of the database which has been reported separately. Although refinement is ongoing, the data on SID is not yet robust enough to inform the capital planning process or progress made to date in terms of jobs completed.

***Action plan, no 3***

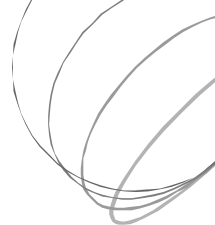
19. The Council's Internal Audit team undertook a review of SHQS in 2007 and recommended the formation of a Project Board and Project Management Team to strategically manage the project, monitor progress and address emerging issues. We note that while the Project Management Team (Housing Capital Investment) has regularly met, there have been no Project Board meetings.

***Action plan, no 4***

## **Central Waterfront Project**

20. In 2001, the Council finalised its master plan for the development of the Central Waterfront at an estimated value of £268 million. The Council, in partnership with Scottish Enterprise, will make infrastructure improvements estimated at £79 million to 2018. This will enable the development phase of the project, building offices, apartments, shops and visitor attractions, to be undertaken by developers. In pursuing this ambitious 30 year project, the Council expects to achieve a number of benefits including:

- the creation of employment in the city
- new residential apartments, offices and commercial enterprises
- a refurbished railway station for the city
- a new major civic space



- significant improvements to a major city entry point and improvement in Dundee's image
- attracting people and investment and contributing to the Scottish economy

21. In March 2004, the Dundee Waterfront Partnership was formed with Scottish Enterprise and a structure for managing the project was put in place. The Partnership Board monitors progress of the project, however, Board minutes are not in the public domain. In addition, we are not aware of any current monitoring of the project's progress and performance at committee level.

***Action plan, no 5***

22. We noted that a development agreement is currently being prepared between the Council and Scottish Enterprise which will formally document the roles and responsibilities of the partners.

23. No formal business plan has been prepared, although a full economic appraisal of the project to demonstrate financial viability and the benefit to the local economy was undertaken by external consultants in 2006. A working financial forecast for the project is in place, however, actual spend is not compared to the forecast to ensure the expenditure is contained within the financial forecast. Actual and estimated project costs and income are not reported to committee and no formal committee approval for the financial forecast was sought.

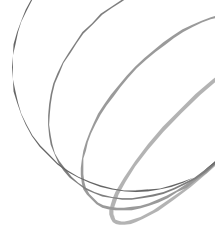
***Action plan, no 6***

24. Waterfront project tenders are subject to the Council's tendering procedures. An option appraisal has been prepared for stage 3 of the project and approved by the Dundee Waterfront Partnership Board. It has not, however, been reported to the Policy & Resources Committee.

***Action plan, no 5 & 10***

25. It is recognised that there are very significant resource and technical constraints on the project, for example funding, design and implementation skills and major engineering challenges. At April 2008, the estimated funding shortfall on the infrastructure element of the project was £1.6 million. Most of the planned funding streams from central government, public sector partners and sale of land, were not confirmed.

***Action plan, no 7***



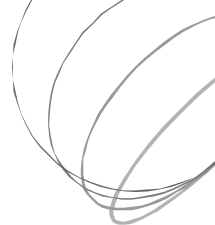
## Dundee Schools PPP Project

26. A school replacement programme is underway which will see the replacement of 2 existing nursery schools, 10 existing primary schools and three existing secondary schools with six new primary schools with nursery facilities and two new secondary schools under a Public Private Partnership (PPP) program. In March 2001, a robust structure was set up to manage the PPP procurement process. The hierarchical structure included elected members, senior officers, officers across a wide range of disciplines, representatives from trade unions, school boards and churches, in addition to external advisors, advising on financial, legal and technical matters.
27. Discovery Education was appointed by the Council as the PPP provider and, in return for a Unitary Charge, is responsible for financing and constructing the schools and providing facilities management for 30 years. Facilities management services include buildings repairs and maintenance, security, cleaning, energy management, caretaking, IT infrastructure and telecommunications.
28. The first school opened in May 2008 and the final school is scheduled to open in 2010. The Unitary Charge will come on stream as each school is opened building up to a full year cost of £9.5 million by 2010/2011. This charge is index-linked and will rise, in line with the retail price index each year. This will be offset by revenue support grant from the Scottish Government of £6 million, however this funding is not index-linked.

*Action plan, no 8*

## Other capital projects

29. Per the Council's Standing Orders, the Policy & Resources committee is responsible for reviewing the capital budget and expenditure and, from August to March each financial year, the committee reviews capital expenditure monitoring reports. Officers from a variety of professional disciplines are involved in producing these reports. Officers actively manage the capital budget to ensure that the projected outturn is in line with both the available resources and the revised capital budget. This is achieved through a combination of budget adjustments, virements, and managing the slippage of capital projects into the following financial year.
30. The Council's Architectural Services Division plays a key part in the management of capital projects. The Division's internal ISO 9001 manual requires staff to report extensions of contract and excess expenditure to committee where final project costs will exceed the approved amount by £50,000 or 10%, whichever is the lesser amount. However, these reports tend to be submitted to service committees rather than the Policy & Resources committee which has the responsibility for approving and reviewing budgets.



31. In the 2007/08 financial year, the following reports on additional expenditure on capital contracts were submitted:
- Architectural Services Division reported additional costs on 6 projects totalling £0.75 million, or on average 41% in excess of original tender amounts, to various service committees.
  - Service directors reported cost overruns on 1 project of £1.97 million, or 22.5% in excess of agreed project funding, to the Policy & Resources committee.
32. We noted that there is no requirement in the Standing Orders to report overspends on individual projects to the Policy & Resources committee. In addition, the process for obtaining approval for cost overruns is not clearly set out in the Financial Regulations. The Financial Regulations are also unclear on capital budget virement, although virement is accepted practice in the Council and is allowed by the Capital Budgetary Control Manual.

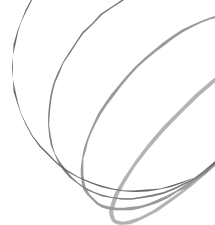
***Action plan, no 9***

33. The Capital Budgetary Control Manual requires option appraisals to be carried out for all projects over £100,000. We found that this approach is not yet fully embedded in the Council's culture. It is unclear from the manual whether the Head of Finance and/ or committee approval is required before legally committing to a project. There is also no process in place to ensure that post implementation reviews are performed within 12 months of the completion of projects over £1 million.

***Action plan, no 10***

## **Corporate Property Unit**

34. In order to ensure that the Council's property portfolio is utilised in the most cost effective and efficient manner, the Council established a Corporate Property Unit (CPU) late in 2005. This Unit forms part of the Property Management and Valuation section within the Economic Development department. The CPU is an amalgamation of property maintenance personnel who deal with the "condition" of the Council's buildings in terms of both reactive and planned maintenance.
35. The CPU is deemed to be of strategic importance to the Council as it maintains its property portfolio. However, whilst we have been advised that the role and remit of the CPU is being developed alongside the Asset Management Plan, this is not yet clearly documented. The establishment of the CPU has been an evolving process over the last few years but no formal review of the Unit has been undertaken to determine whether it is operating as envisaged and delivering on the reasons for its



establishment. There is no formal strategy for the future development of the CPU, clarifying its role in asset management.

***Action plan, no 11***

## **Asset Management**

36. Proper asset management is a vital part of an efficient organisation and includes arrangements to ensure there are:

- strategies to reduce maintenance costs;
- proactive asset disposal policies;
- long-term capital planning and budgeting; and
- robust asset management information for monitoring and decision-making purposes.

37. Asset management is a complex area and requires various disciplines, for example architectural, building, maintenance, health & safety, IT, procurement and finance professionals to work together to maximise benefits. Asset management planning represents a major part of the financial planning process.

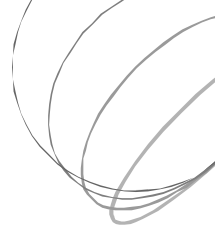
38. In December 2007 the Council approved its Corporate Asset Management Plan (AMP) “Building our Future”, which covered the property portfolio of around £109 million, excluding Housing stock and roads infrastructure. The total value of assets held by the Council as at 31 March 2007 was over £730 million, including investment properties, social housing, schools, and infrastructure assets e.g. roads and bridges. Whilst, the corporate AMP is a good starting point it currently relates to only 15% of the council’s asset base.

***Action plan, no 12***

39. A well developed AMP should inform asset decisions, including investment and maintenance, over the long term. We recognise that there is tension between investment/maintenance needs and available financial resources, however, ensuring asset management is both well resourced and supported by all services should lead to efficiencies in the longer term.

***Action plan, no 13***

40. We understand that the Corporate Property Unit is currently preparing 10 year maintenance and investment plans. These plans will be used to determine the maintenance and investment needs of properties and will inform a rolling program of planned works for each property. Although we have



been informed that these plans will be prepared over the next 18 months, no formal target date has been set for completing the 10 year plans and linking these into capital plans and budgets and the corporate AMP.

***Action plan, no 14***

## **Planning Gains**

41. The Town and Country Planning (Scotland) Acts of 1972 and 1997 and the 1980 Highways Act permit councils to enter into enforceable planning obligations with developers which restricts or regulates the development or use of land. These restrictions may require developers to use the land in a certain way or to carry out specific operations and activities, and may involve funds being paid to the Council. For simplicity these are refer to as “planning gains” or “developers contributions”, examples of which would be:
- a housing developer contributing towards enhancing educational provision (e.g. contributing to the building of a new school) or community provision (e.g. contributing to the building of a community centre)
  - requiring a developer to undertake environmental works, such as play areas or open spaces
  - a contribution towards building a roundabout or changing road layout to facilitate access to a development site
42. Accounting for planning gains can be complex, requiring analysis of the legal agreements between the Council and developers. Agreements need to be analysed individually to ascertain:
- whether expenditure to be incurred (by the Council or developer) in response to conditions are of a revenue or capital nature
  - the conditions attached to the receipt of income from developers (income recognition)
  - whether assets and liabilities need to be recognised on the Council's Balance Sheet
43. The Council is further developing its approach to identifying, monitoring and accounting for planning gains. At this stage, there is a need to systematically:
- identify all legal agreements containing planning gains
  - record, for each agreement, the rationale for revenue or capital accounting treatment, amortisation period, and valuation of assets gained

***Action plan, no 15***



# Risk Summary and Action Plan

No.	Issue and risk	Responsible officer	Response and agreed action	Action date
<b>Scottish Housing Quality Standard</b>				
1	<p>The housing capital budget has an element for slippage built in to provide a degree of flexibility, for example, to bring projects forward. For 2007/08, the level of built-in slippage was £2 million or 15% of the housing capital budget. A cumulative overspend of £26 million is projected in the first six years of the program. We have been advised that £16 million of this relates to an increase in the scope of the program, and £4.5 million is due to an acceleration of the program. However, it is unclear whether the remaining £5.5 million relates to extensions to the scope or acceleration of the timescales.</p> <p><b>Risk:</b> <i>The SHQS program is delivered at a cost well in excess of the delivery plan. Variations from the Delivery Plan are not identified and remedial action to bring the program back on target is not taken.</i></p>	Director of Housing	<p><b>Agreed.</b></p> <p>The SHQS Delivery Plan set out investment at £14m per year. The factors increasing planned expenditure over 2008-11 are as follows: (1) revised assumptions on kitchen replacement - revised upward to 100% - (cost £2.80M) and acceleration of the programme, (2) the Council's new build housing programme has now been included in the three year projected capital plan - this expenditure was not included in the SHQS delivery plan and increases capital expenditure by £16M, (3) increased uptake of installation of showers (cost £3.50M). Note that over the 3 year period increased rent attributable to shower installations is estimated at £454K.</p> <p>To date capital receipts from the sale of land and council house sales have run ahead of budget, anticipated income to 2007/08 being £13.29M and actual income £17.5M. Capital receipts from land sales to 2007/08 were £1.76M under budget. The overall effect being that there is a surplus of £2.43M with £1.76M due from future capital receipts from land sales becoming available later in the programme.</p> <p>On individual projects within the capital programme overspends of 10% of the project cost or £50K (whichever is the lesser) must be reported to Housing Committee. Any overspends on SHQS will be reported to Policy and Resources Committee as part of end of year accounting.</p> <p>A root and branch review of the SHQS Delivery Plan is currently underway and will be concluded by March 2009. This review will inform the update of the Delivery Plan and the forward investment plan.</p>	31 March 2009

No.	Issue and risk	Responsible officer	Response and agreed action	Action date
2	<p>Once the Council's housing stock has been brought up to SHQS, it will need to be maintained at a compliant level. We are not aware of the existence of any long term income plans or projections to show whether future housing rents will be sufficient to maintain houses at SHQS.</p> <p><b>Risk:</b> <i>Future rent levels are insufficient to fund ongoing housing stock maintenance requirements.</i></p>	Director of Housing	<p><b>Agreed.</b></p> <p>The SHQS submission assumes rent increases over the period of the plan of inflation + 1%. The annual rent setting process (which involves tenants) takes account of income/expenditure and requires that rents are set at levels which meet the necessary expenditure. To date rent increases have been maintained below inflation +1%. The root and branch review will analyse the affordability of delivery of the plan and re-examine assumptions surrounding capital receipts, rental income and borrowing. This will influence the development of the forward 30 year investment plan.</p>	31 March 2009
3	<p>The Council entered into a partnership with the John Martin Partnership (JMP) to develop a database that would track progress towards meeting SHQS. The Stock Information Database (SID) includes data from housing surveys performed by JMP. Eventually, the Council plans to use this database to inform the housing capital plan and budget. Although refinement is ongoing, the data on this database is not yet robust.</p> <p><b>Risk:</b> <i>SID does not provide robust data to inform the housing capital planning process or to track progress towards meeting the SHQS.</i></p>	Director of Housing	<p><b>Agreed.</b></p> <p>The stock condition survey has now been updated in 2007/08. The survey was completed on a 30% sample and the Council has completed sample on-site checks validating the data. SID is constantly being updated with actual information from the capital investment programme as contract completions are achieved. The information from the database will provide accurate data to ensure delivery of the Plan. There are discussions ongoing surrounding the finalisation of the development of the database and related issues (please refer to separate response to Housing SID audit).</p>	31 March 2009

No.	Issue and risk	Responsible officer	Response and agreed action	Action date
4	<p>The Council's Internal Audit team undertook a review of SHQS in 2007 and recommended the formation of a Project Board and Project Management Team to strategically manage the project, monitor progress and address emerging issues. Whilst the Project Management Team (Housing Capital Investment) has regularly met, there have been no Project Board meetings.</p> <p><b>Risk:</b> <i>The SHQS program is not robustly managed on a strategic level.</i></p>	Director of Housing	<p><b>Agreed.</b></p> <p>To date minutes from the meetings of the Project Management Team have been circulated to and considered by the members of the Project Board, however the Project Board has not met. Going forward minutes will continue to be circulated and arrangements will also be made for the Project Board to meet every 4 months.</p>	31 March 2009
<b>Central Waterfront Project</b>				
5	<p>In March 2004, the Dundee Waterfront Partnership was formed with Scottish Enterprise and a structure for managing the project was put in place. The Partnership Board monitors progress of the project, however, Board minutes are not in the public domain. In addition, we are not aware of any on-going monitoring of the project's progress and performance at committee level.</p> <p><b>Risk:</b> <i>Decisions around the Central Waterfront Project are not open and transparent.</i></p>	Director of Planning & Transportation	<p><b>Agreed.</b></p> <p>Minutes should be entered on either or both the Council website and the Dundee Waterfront Website (approval of Waterfront Board to be sought on 8 Sept 2008).</p> <p>In addition, to the above the Partnership Board will provide annual progress reports that will be submitted to the Council's Policy &amp; Resources Committee.</p>	30 September 2008

No.	Issue and risk	Responsible officer	Response and agreed action	Action date
6	<p>No formal business plan has been prepared, although a full economic appraisal of the Waterfront project to demonstrate financial viability and the benefit to the local economy was undertaken by external consultants in 2006. A working financial forecast for the project is in place, however, actual spend is not compared to the forecast to ensure the expenditure is being controlled. Actual and estimated project costs and income are not reported to committee and no formal committee approval for the financial forecast was sought.</p> <p><b>Risk:</b> <i>Variations from the forecast are not identified and remedial action to bring the project back on target is not taken.</i></p> <p><b>Risk:</b> <i>The lack of approval and monitoring of the financial forecast at committee level is contrary to the council's standing orders.</i></p>	Director of Planning & Transportation	<p><b>Agreed.</b></p> <p>Capital Plan has an item 'Cities Growth Fund' under the Chief Executive and this is monitored on a monthly basis within the Capital Monitoring report. The individual projects comprising the Waterfront Project (funded by Cities Growth Fund and other contributions) are subject to corporate capital monitoring. An annual report on the Cities Growth fund including the financial forecast will be reported to P&amp;R Committee including a table indicating variation on forecasts from the previous year.</p>	31 March 2009
7	<p>It is recognised that there are very significant resource and technical constraints on the project, for example funding, design and implementation skills and major engineering challenges. At April 2008, the estimated funding shortfall on the infrastructure element was £1.6 million. Most of the planned funding streams from central government, public sector partners and sale of land, were not confirmed.</p> <p><b>Risk:</b> <i>the levels of funding anticipated from the various sources does not materialise and the Council has to bear the cost of finalising the project.</i></p>	Director of Planning & Transportation	<p><b>Agreed.</b></p> <p>This is a long term project that will run over several spending review periods. The funding is continually monitored and will be reviewed in the light of any new situations. The programme will be adjusted to funding availability.</p>	31 December 2011

No.	Issue and risk	Responsible officer	Response and agreed action	Action date
<b>Dundee Schools PPP Project</b>				
8	<p>The full year cost of the PPP Unitary Charge once all schools are complete is £9.52 million. This is index-linked and will rise in line with RPI every year, to in excess of £19 million per annum. However, the Revenue Support Grant from the Scottish Government to help pay for the Unitary Charge is not index-linked and will stay at £6 million per year. The Council will have to meet this large and rising affordability gap in its budget planning process.</p> <p><i><b>Risk:</b> the Unitary Charge is unaffordable over the medium to long term and this financial burden may impact on the Council's ability to provide services.</i></p>	Head of Finance	<p>Whilst it could also be argued that without the new schools existing budgets would also have increased substantially to maintain the old properties this risk is acknowledged by the Council. The schools replacement programme is reflected in the Council's long term revenue budget projections and this cost pressure will require to be managed through the established budget planning process, along with the various other financial risks faced by the Council.</p>	Ongoing
<b>Other capital projects</b>				
9	<p>There is no requirement in the Standing Orders to report overspends on individual projects to the Policy &amp; Resources committee, although this committee approves and is responsible for reviewing the capital budget. The process for obtaining approval for cost overruns is not clear from the Financial Regulations. The Financial Regulations are also unclear on capital budget virement, although virement is accepted practice in the Council and is allowed by the Capital Budgetary Control Manual.</p> <p><i><b>Risk:</b> The Policy &amp; Resources Committee is not fully aware of additional expenditure on individual projects and the impact this can have on the capital program therefore can not fully comply with the Standing Order requirement to review and monitor capital expenditure.</i></p> <p><i><b>Risk:</b> The practice of capital virement contradicts the financial regulations.</i></p>	Head of Finance	<p>As departments are required to contain their capital budget with the approved capital programme cost overruns on individual projects will continue to be approved by the relevant service committees. This is consistent with the original tender reports. Where additional funding is required over and above approved levels then this will be approved by Policy &amp; Resources Committee. At the next review of Financial Regulations they will be amended to clarify these procedures. In addition, the regulations will also be amended to confirm virements in the capital programme are allowed. It should be noted that no review of the financial regulations is planned until after the next local government election.</p>	30 Sept 2011

No.	Issue and risk	Responsible officer	Response and agreed action	Action date
10	<p>The Capital Budgetary Control Manual requires option appraisals to be carried out for all projects over £100,000.</p> <p>We found that this approach is not yet fully embedded in the Council's culture. It is unclear from the manual whether the Head of Finance and/ or committee approval is required before legally committing to a project. There is also no process in place to ensure that post implementation reviews are performed within 12 months of the completion of projects over £1 million.</p> <p>Waterfront project tenders are subject to the Council's tendering procedures. An option appraisal has been prepared for stage 3 of the project and approved by the Dundee Waterfront Partnership Board. It has not, however, been reported to the Policy &amp; Resources Committee</p> <p><i><b>Risk:</b> Options that are best suited to the Council's needs are not systematically identified and reported to committee for decision. Post implementation reviews are not systematically carried out to ensure the selected option delivered the project aims.</i></p>	Head of Finance	<p><b>Agreed.</b></p> <p>It is proposed that this limit will now be increased to £1m. A review of Option Appraisal Guidance will be undertaken detailing that Option Appraisals in excess of £1m require Committee approval. As part of this review we will also issue guidance to departments on procedures to follow for undertaking post implementation reviews.</p>	31 December 2008

No.	Issue and risk	Responsible officer	Response and agreed action	Action date
<b>Corporate Property Unit</b>				
11	<p>The CPU is deemed to be of strategic importance to the Council as it maintains its property portfolio. However, whilst we have advised that the role and remit of the CPU is being developed alongside the Asset Management Plan, this is not yet clearly documented. The establishment of the CPU has been an evolving process over the last few years but no review of the Unit has been undertaken to determine whether it is operating as envisaged and delivering on the reasons for its establishment. There is no formal strategy for the future development of the CPU, clarifying its role in asset management.</p> <p><b>Risk:</b> <i>The CPU does not operate as envisaged and does not effectively and efficiently oversee the property portfolio.</i></p>	Director of Economic Development	As acknowledged this is an evolving process, and through time there will be a move from reactive maintenance to planned maintenance which will then lead to changes in the role of the CPU. The strategy for the future development of the CPU will be addressed as part of a wider ranging review of the Property Management & Valuation Section.	31 March 2009
<b>Asset Management Plan</b>				
12	<p>In December 2007 the Council approved its Corporate Asset Management Plan (AMP) "Building our Future", which covered the property portfolio of around £109 million, excluding Housing stock and roads infrastructure. The total value of assets held by the Council as at 31 March 2007 was over £730 million, including investment properties, social housing, schools, and infrastructure assets e.g. roads and bridges. Whilst, the AMP is a good starting point it currently relates to only 15% of the council's asset base.</p> <p><b>Risk:</b> <i>The Council has no corporate strategy and plan for managing its entire asset portfolio.</i></p>	Various Chief Officers	<p><b>Partly agreed.</b></p> <p>It must be recognised that Asset Management Planning is an evolutionary process and that it will take some time to bring together the various sub-plans that currently exist or are in the process of being developed. It is a fact that a significant proportion of the Council's asset base is already covered by asset management plans and that this proportion will continue to increase over time. The Corporate Asset Management Plan makes reference to the ultimate aim being "...to integrate these plans into a single strategic framework". Once this integration has been achieved, this will then enable the development of an over-arching corporate strategy for managing the entire asset portfolio and also facilitate stronger linkage between asset management and financial planning.</p>	30 June 2011

No.	Issue and risk	Responsible officer	Response and agreed action	Action date
13	<p>A well developed AMP should inform property maintenance and capital investment plans over the long term. We recognise that there is tension between investment/maintenance needs and available financial resources, however, ensuring asset management is both well resourced and supported by all services should lead to efficiencies in the longer term</p> <p><b>Risk:</b> <i>Lack of integrated asset management and financial planning leads to operational and cost inefficiencies and service failure.</i></p>	Various Chief Officers	<p><b>Partly agree.</b></p> <p>The asset management plans that are already in place are, in fact, informing property maintenance and capital investment plans over the long term. The ultimate integration of various sub-plans will facilitate stronger linkage between asset management and financial planning.</p>	30 June 2011
14	<p>We understand that the Corporate Property Unit is currently preparing 10 year maintenance and investment plans. These plans will be used to determine the maintenance and investment needs of properties and will inform a rolling program of planned works for each property. Although we have been informed that these plans will be prepared over the next 18 months, no formal target date has been set for completing the 10 year plans and linking these into capital plans and budgets and the corporate AMP.</p> <p><b>Risk:</b> <i>Planned property maintenance is not incorporated within budgets leading to increased reactive maintenance costs and capital investment requirements in future.</i></p>	Director of Economic Development	<p><b>Agreed.</b></p> <p>The CPU will prepare planned maintenance and investment plans for each operational property (be it for 10 years or otherwise). The information obtained will inform the AMP and the budgetary process over this period.</p>	31 March 2010



No.	Issue and risk	Responsible officer	Response and agreed action	Action date
<b>Planning Gains</b>				
15	<p>The Council is developing its system for identifying, monitoring and accounting for planning gains. At this stage, the following parts of the accounting process need further development:</p> <ul style="list-style-type: none"> <li>• a system for identification of all legal agreements containing planning gains</li> <li>• a system for recording, for each agreement, the rationale for revenue or capital accounting treatment, amortisation period of contributions received, and valuation of assets gained</li> </ul> <p><i><b>Risk:</b> Planning gains are not properly monitored and accounted for, leading to lost contributions.</i></p>	Head of Finance	The complexities of this area are acknowledged and it is agreed that the Council's existing procedures with regard to the treatment of planning gains requires to be developed further. A review of these procedures is being undertaken, with a view to developing guidance for the accounting for planning gains.	31 March 2009