

REPORT TO: SCRUTINY COMMITTEE – 12 DECEMBER 2012

REPORT ON: INTERNAL AUDIT REPORTS

REPORT BY: CHIEF INTERNAL AUDITOR

REPORT NO: 477-2012

1.0 PURPOSE OF REPORT

To submit to Members of the Scrutiny Committee a summary of the Internal Audit Reports finalised since the last Scrutiny Committee.

2.0 RECOMMENDATIONS

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

3.0 FINANCIAL IMPLICATIONS

None

4.0 MAIN TEXT

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

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

5.0 POLICY IMPLICATIONS

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

6.0 CONSULTATIONS

The Chief Executive, Director of Corporate Services and Head of Democratic and Legal Services have been consulted on the content of this report.

7.0 BACKGROUND PAPERS

None

Sallie Dailly, Chief Internal Auditor

DATE: 03 December 2012

i) INTERNAL AUDIT REPORT 2011/08

Client	Social Work
Subject	Meals Income

Introduction

A review of the arrangements in place in the Council surrounding the physical collection of Social Work income (cash and cheques) from clients in Council and non-Council establishments for the provision of 'lunch clubs' (lunch and teas) was part of the internal audit work. Traditionally these are referred to as lunch clubs but in practice may provide meals at both lunch and tea times.

Best practice dictates that all income should be collected and recorded timeously, held securely until it is banked and reconciled to the bank account and ledger. Segregation of duties is a key internal control that should be in place when counting, recording and reconciling income.

The 2011/12 Social Work income budget for meals (including establishments receiving meals from Tay Cuisine and four Social Work establishments cooking / preparing meals on-site) in Council and non-Council establishments was £129,280. Actual income for the same period was of the order of £147,000.

Scope and Objectives

To assess the adequacy of the processes and procedures in place locally, in a sample of establishments, surrounding collecting, counting, recording, holding, banking, reconciling and monitoring of income from lunch clubs. In addition, the processes and procedures in place centrally within Social Work, Financial Services for the reconciliation and monitoring of income from this source were also reviewed.

Conclusion

The principal conclusion drawn from this review is that there are weaknesses in the system which should be addressed.

The main areas highlighted in the report are as follows:

- To assist with ensuring income records are complete and accurate, consistent working practices are in place, income is secure and banking, reconciliation and monitoring arrangements are robust, a review of working practices in place locally and centrally surrounding Social Work lunch club income should be carried out.

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.

ii) INTERNAL AUDIT REPORT 2011/30

Client	Environment
Subject	Fuel Management (Cleington Road and Caird Park)

Introduction

A review of the fuel management system operating within the Environment Department at the Cleington Road and Caird Park sites was part of the planned internal audit work.

The majority of fuel used by the Council is purchased in bulk directly from the supplier and is used in the operation of vehicles, plant and machinery. The main fuelling sites across the city are currently Marchbanks, Cleington Road and Caird Park and the fuel types supplied are diesel, petrol and gas oil. Whilst vehicles are re-fuelled directly from the pumps, plant and equipment is re-fuelled indirectly via the use of jerry cans. The withdrawal of fuel is controlled through the use of a vehicle and driver recognition fob system.

An internal audit review of fuel management at the Marchbanks site was undertaken and reported to the Scrutiny Committee as part of the 2011/12 work. This review therefore focussed upon the Cleington Road and Caird Park sites. These sites use SSLfuel an online software package for fuel management supplied by FUELlink Systems.

There are approximately 320 vehicles and 600 pieces of plant and equipment currently being fuelled from the Cleington Road and Caird Park sites and the expenditure on fuel for these two sites during the 2011/12 financial year was of the order of £420,000 and £180,000 respectively.

Scope and Objectives

The overall objective of this review was to examine the fuel management system and supporting process operating within the Cleington Road and Caird Park sites of the Environment Department.

Conclusion

The principal conclusion drawn from this review is that there are weaknesses in the system which should be addressed.

The main areas highlighted in the report are as follows:

- To improve effectiveness in the management and monitoring of fuel, steps should be taken to ensure records within SSLfuel and the departmental costing system are kept up-to-date. As part of this reconciliations should be undertaken on a regular basis of the data held in the computerised systems and also between the computerised records and the actual fuel stock. In addition, the management reporting functionality of SSLfuel should be assessed to formalise management information requirements.
- To reduce the potential risk of unauthorised access to fuel stock, the controls over the issue, return, storage and monitoring of fuel fobs should be reviewed. In addition, staff should liaise with the supplier of SSLfuel to obtain assurance in respect of the backup arrangements for this system.

Management Response to the Audit Report

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

iii) INTERNAL AUDIT REPORT 2012/05

Client	Environment
Subject	Sub-Contractors

Introduction

A review of procedures operated within the Construction Division in respect of sub-contractors was part of the planned internal audit work.

The Construction Division undertakes a range of work including responsive maintenance, planned maintenance, emergency repairs, refurbishment and new build on the council's housing stock and non-housing property portfolio. In order to provide these services the Division employs of the order of 400 operatives covering the key building trades. Work is scheduled throughout the year to ensure that as far as possible there are sufficient resources available to carry out the various contracts. The Division may however be required to utilise the services of sub-contractors to supplement in-house resources where a shortfall in a particular skill set has been identified. This includes tradesmen with specialist skills which are not available in-house.

It is important that there are robust procedures in place to mitigate the potential risks of using sub-contractors. This includes comprehensive pre-qualification assessments covering such areas as financial and technical competence.

During the 2011/12 financial year total expenditure in relation to sub-contractors was of the order of £3.4 million. Turnover in respect of Construction Services during this period was of the order of £27m. Approximately 55% of the total expenditure on sub-contractors related to non-housing refurbishment and new-build contracts.

Scope and Objectives

The overall objective of this review was to examine the procedures operated by the Construction Division in respect of the selection, vetting, appointment and performance of sub-contractors. The focus of this assignment related to sub-contractors utilised in respect of refurbishment and new build of non-housing properties.

Conclusion

The principal conclusion drawn from this review is that there are weaknesses in the system which should be addressed.

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

- Until the procurement agenda is more fully developed steps should be taken to improve current practices to demonstrate and evidence that potential sub-contractors are competent in both technical and financial matters and have been selected and vetted in line with good practice.
- To improve the control framework the letter of offer to the sub-contractor should included a more defined timeframe for return of the prescribed documents and steps should be taken to ensure that post-contract evaluation forms are completed and input to the database for all sub-contractors.

Management Response to the Audit Report

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

iv) INTERNAL AUDIT REPORT 2012/15

Client	Corporate
Subject	Follow-up Review of Winter Maintenance - Communication
Introduction	
<p>As part of the planned internal audit work, a follow-up review of Internal Audit Report 2011/24, Winter Maintenance - Communication was undertaken.</p> <p>The original internal audit report concluded that there were weaknesses in the system which should be addressed. In summary these related to the following:</p> <ul style="list-style-type: none"> • Implementation of specific actions to improve the Council's communication strategy on winter maintenance. These actions were categorised under five key themes namely agreeing priorities, service provision, customer services, internal and external communication and were assigned target dates of November 2011 through to November 2013. • Consideration being given to planning a number of local community initiatives to run in parallel with the Scottish Government's 2011 "Ready for Winter" week. 	
Scope and Objectives	
<p>The objective of this follow-up was to assess whether or not the specific actions due to be implemented by November 2011 which were agreed by management in Internal Audit Report 2011/24 had been appropriately implemented and to ensure that, where little or no progress had been made towards implementation, that plans are in place to progress them.</p>	
Conclusion	
<p><i>The principal conclusion drawn from the follow-up work undertaken is that the actions taken by management have addressed the control weaknesses highlighted in the original review that were to be dealt with by implementing the short timescale recommendations. In addition, evidence obtained and reviewed as part of this follow-up process demonstrated that some of the medium and long term recommendations are already progressing.</i></p>	

v) INTERNAL AUDIT REPORT 2012/19

Client	Corporate
Subject	Follow-up Review of Amendment of Creditors' Standing Data

Introduction

As part of the planned internal audit work, a follow-up review of Internal Audit Report 2011/19, Amendment of Creditors' Standing Data, was undertaken.

The original internal audit report concluded that whilst there was basically a sound system of control there were some areas where it was viewed improvements could be made.

The main areas commented upon in the original report were as follows:

- To reduce the risk of diversion of material payments from genuine creditors, departmental staff should be instructed that requests for set-up of new creditors should be made before placement of orders and all requests to update the creditors system should be appropriately authorised. Prior to updating any creditors' data, creditors team staff should check the profile of previous payments. Where these are significant, additional checks such as written verification should be considered and the changes should be authorised by supervisory staff.

Scope and Objectives

To assess whether or not each of the recommendations agreed by management in Internal Audit Report 2011/19 had been implemented within the given timescales. The follow-up review was restricted to areas included in the original report.

Conclusion

The principal conclusion drawn from the follow-up work undertaken is that whilst some action has been taken to strengthen the control weaknesses highlighted in the original review there are still some recommendations which require to be implemented by management.

The main areas where actions agreed by management are still outstanding are as follows:

- To further enhance control over creditors' standing data, an updated Dundee City Council New Supplier Request Form is in the process of being implemented.

Management Response to the Audit Report

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

vi) INTERNAL AUDIT REPORT 2012/20

Client	Social Work
Subject	Follow-up Review of Control Self Assessment for Social Work Establishments
Introduction	
<p>As part of the planned internal audit work, a follow-up review of Internal Audit Report 2011/16, Control Self Assessment for Social Work Establishments, was undertaken.</p> <p>The original internal audit report concluded that whilst there was basically a sound system of control there were some areas where it was viewed improvements could be made.</p> <p>The main area commented upon in the original report was as follows:</p> <ul style="list-style-type: none"> To maximise utilisation of available resources in the provision of assurance to management and reduce the level of inspection activities required, consideration should be given to the introduction of control self assessment. 	
Scope and Objectives	
<p>To assess whether or not the recommendation agreed by management in Internal Audit Report 2011/16 had been implemented within the given timescale. The follow-up review was restricted to areas included in the original report.</p>	
Conclusion	
<p><i>The principal conclusion drawn from the follow-up work undertaken is that the actions taken by management have addressed the control weaknesses highlighted in the original review.</i></p>	

vii) INTERNAL AUDIT REPORT 2012/21

Client	Education
Subject	Follow-up Review of Control Self Assessment for Education Establishments
Introduction	
<p>As part of the planned internal audit work, a follow-up review of Internal Audit Report 2011/17, Control Self Assessment for Education Establishments, was undertaken.</p> <p>The original internal audit report concluded that whilst there was basically a sound system of control there were some areas where it was viewed improvements could be made.</p> <p>The main areas commented upon in the original report were as follows:</p> <ul style="list-style-type: none"> To further strengthen the content of the questionnaire prior to it being issued consideration should be given to the inclusion of contextual narrative to underpin the linkage between risk assessment and the control self assessment process. In addition, to assist in the assessment of the effectiveness of internal controls the questionnaire should be amended to include the designations for example of committee members and personnel having access to computerised systems. 	
Scope and Objectives	
<p>To assess whether or not the recommendations agreed by management in Internal Audit Report 2011/17 have been implemented within the given timescale. The follow-up review was restricted to areas included in the original report.</p>	
Conclusion	
<p><i>The principal conclusion drawn from the follow-up work undertaken is that the actions taken by management have addressed the control weaknesses highlighted in the original review.</i></p>	