

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

**REPORT ON: INTERNAL AUDIT REPORTS**

**REPORT BY: CHIEF INTERNAL AUDITOR**

**REPORT NO: 479-2008**

**1.0 PURPOSE OF REPORT**

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

**2.0 RECOMMENDATIONS**

Members of the Sub-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 and Head of Finance have been consulted on the content of this report.

**7.0 BACKGROUND PAPERS**

None

Sallie Dailly, Chief Internal Auditor

DATE: 11 September 2008

## i) INTERNAL AUDIT REPORT 2007/20

<b>Department</b>	<b>Social Work</b>
<b>Subject</b>	<b>Payroll – Variations to Pay</b>

<b>Introduction</b>
<p>A review of Social Work Payroll - Variations to Pay was carried out as part of the planned work of the Internal Audit Service.</p> <p>The main aim of the Social Work Department is to help people both young and old and the Department works in partnership with other agencies with a view to achieving this aim. There are several residential establishments across the city but staff also support people who wish to live in their own homes. Due to the nature of the work Social Work staff may not work routine hours and consequently there are occasions when payments are due for additional hours, sleepovers, night working and overtime.</p> <p>The review looked at procedures operated in respect of variations to pay at three residential establishments and also by Home Care Organisers who make arrangements for people requiring care at home. Administration staff within the Homecare team introduced a pay variation sheet in 2006 which means that staff no longer complete timesheets but only record hours for which they are due payments over and above their normal salary.</p>
<b>Scope and Objectives</b>
<p>The overall aim of the assignment was to undertake a review of the systems operated in relation to processing variations to salary for Social Work staff. Areas examined included guidance issued to staff, documentation completed by staff with variations in hours, documentation completed by managers for leavers or staff with changes in conditions, adequacy/ timeliness of information provided by staff, verification and authorisation procedures operated by managers, procedures operated to ensure Payroll staff are advised timeously of variations and procedures operated in respect of recouping overpayments.</p>
<b>Conclusion</b>
<p><i>The principal conclusion drawn from this review is that there are weaknesses in the system which should be addressed.</i></p> <p>The main areas commented upon in the report are as follows:</p> <ul style="list-style-type: none"> <li>• To minimise the risk of salary overpayments, staff within the Social Work Department should write to the relevant line managers reminding them of the importance of timeously notifying any changes in salaries to designated staff within the Social Work Department.</li> <li>• To improve controls relating to variations to pay, staff within Social Work establishments should complete variation sheets which should be authorised by a more senior member of staff. In addition, the Social Work Department should provide Payroll staff within the Finance Department with details of members of staff permitted to authorise variations to pay.</li> </ul>
<b>Management Response to the Audit Report</b>
<p>The audit findings and recommendations were formally reported to the Director of Social Work and appropriate action agreed to address the specific issues raised.</p>

## ii) INTERNAL AUDIT REPORT 2007/29

<b>Department</b>	<b>Economic Development</b>
<b>Subject</b>	<b>Energy Management</b>

**Introduction**

A review of the Council's arrangements for energy management was part of the planned internal audit work for 2007/08.

Energy Management within Dundee City Council was the subject of a Best Value Review in 2002 and the Council subsequently produced a revised Energy Policy in 2003. The Energy Policy highlighted the need for Local Authorities to effectively manage their use of energy due to increasing public concern about environmental issues and Government legislation on reducing the impact of burning fossil fuels. The Council also has an Energy Management Action Plan which is updated annually.

The objectives of the Energy Policy are to reduce energy consumption through long and medium term corporate policy goals, identifying energy saving targets, implementing strategic energy efficiency best practice plans, adopting low cost, energy saving, good housekeeping measures and monitoring and reporting results. The Policy highlights that delivery of the goals requires the continuous commitment of all staff including Chief Officers. The Council in line with all other Scottish local authorities has signed Scotland's Climate Change Declaration which includes a commitment to mitigate impact on climate change through reducing greenhouse gas emissions.

The Economic Development Department is responsible for energy management in all Council properties but responsibility for managing billing for water consumption lies with departments. A report detailing consumption of electricity, gas, and oil for the preceding 12 months and comparative figures for the previous year is prepared quarterly for the Council's Management Team (Operational Issues). The associated costs are also shown. For financial year 2006/07 energy costs incurred were approximately £5.3m of which £3.6m related to electricity, £1.4m related to gas and £0.3m was for oil.

**Scope and Objectives**

The overall aim of this review was to examine the systems operated in respect of energy management within the Council. Areas examined included the adequacy of the Council's Policy, the arrangements and contracts in place for the purchase of electricity, gas and oil, initiatives put in place to increase staff awareness of energy issues and minimise use of scarce resources, arrangements for monitoring consumption, progression of the improvements identified in the Best Value Review and the extent of monitoring and remedial action.

**Conclusion**

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

The main areas highlighted in the report are as follows:

- To ensure that the Energy Policy reflects the Council's commitment to energy management and climate change, the Policy should be reviewed and updated. When the associated action Energy Management Action Plan is next reviewed, consideration should be given to revising the relevant target levels where required, assessing the benefits of publishing annual performance indicators and identifying alternative ways of raising employee awareness.
- To improve the effectiveness of the Energy Champions Group, all departments should fulfil their obligations in appointing a Champion who attends meetings regularly, training should be made available and appropriate mechanisms should be put in place for the dissemination of information.
- To identify adverse energy trends in areas where remedial action may be appropriate, detailed energy consumption information should be collated, monitored and analysed, meter readings on bills should be confirmed through readings taken by staff and the content of reports produced should be reviewed to ensure that more meaningful information is produced.

**Conclusion (cont'd)**

- To ensure that the Energy Performance Certificates required under the EU Energy Performance of Buildings Directive can be produced for relevant Council buildings by suitably qualified assessors within the relevant timescales, management should put in place appropriate arrangements for meeting the Directive.

**Management Response to the Audit Report**

The audit findings and recommendations were formally reported to the Director of Economic Development and appropriate action agreed to address the specific issues raised.

## iii) INTERNAL AUDIT REPORT 2007/38

<b>Department</b>	<b>Information Technology</b>
<b>Subject</b>	<b>Information Technology Back-ups</b>
<b>Introduction</b>	
<p>As part of the planned internal audit work, the procedures operated for information technology backups were reviewed.</p> <p>In order to ensure that systems can be restored in the event of an incident which results in data loss or corruption, data should be backed up regularly, a copy should be stored off-site in a fireproof location and simulated recoveries should be carried out to ensure that data can be successfully restored if required.</p> <p>The Council uses many software packages in the delivery of its service. The vast majority of these systems are located on the network and they include the authority's key financial system Authority Financials, the payroll system, Resourcelink and many other systems used by departments across the Council. The data relating to these systems is held on various servers located on Floor 1 Tayside House and Information Technology staff are responsible for backup procedures. In line with good practice data is backed up nightly and one tape is taken off-site and stored in a fire-proof location.</p> <p>However, there are various software packages in use across the Council which are not located on the network and responsibility for backup of data relating to these lies with staff within the department concerned. There are also some packages whereby the responsibility lies with the supplier as backup procedures form part of the maintenance contract.</p>	
<b>Scope and Objectives</b>	
<p>The overall objective of the review was to examine the systems operated by departments to ensure that data can be successfully restored in the event of an incident. Areas examined included guidance relating to backup procedures, frequency of backups, security of tapes/disks containing backup material, the adequacy of testing to ensure that data can be successfully restored if required and the duration for which backup is held.</p>	
<b>Conclusion</b>	
<p><i>The principal conclusion drawn from this review is that there are weaknesses in the system which should be addressed.</i></p> <p>The main areas highlighted in the report are as follows:</p> <ul style="list-style-type: none"> <li>• To ensure that Information Technology staff are fully apprised of all software in use within the Council and can facilitate recovery of systems in the event of an incident, an inventory of software should be created for all departments and regularly updated, with a copy being held both within the Information Technology Department and the department concerned.</li> <li>• To safeguard data for systems which are currently backed up by users or external parties, Information Technology staff should write to departmental IT representatives detailing best practice and reminding them of the importance of adhering to this.</li> </ul>	
<b>Management Response to the Audit Report</b>	
<p>The audit findings and recommendations were formally reported to the Head of Information Technology and appropriate action agreed to address the specific issues raised.</p>	

## iv) INTERNAL AUDIT REPORT 2007/32

<b>Department</b>	<b>Corporate</b>
<b>Subject</b>	<b>Sickness Absence</b>

<b>Introduction</b>
<p>As part of the planned audit work for 2007/08, a review of the Council's sickness absence policy and procedures was undertaken.</p> <p>In August 2005 a report was submitted to the Personnel Committee (Report No 485-2005) on Sickness Absence Management. This report provided Elected Members with statistics and information relating to sickness absence within the Council and detailed the actions that had been agreed by the Council's Management Team to tackle it. The report acknowledged that there were key drivers for reducing sickness absence which included top level commitment, tools to do the job, training and support for managers and promoting health and well-being. In particular, it was recognised that clear procedures are essential for sickness management to be effective and therefore the opportunity was taken to revise the Council's Procedure for Managing Sickness Absence. Teachers were excluded from this exercise at that point. A further report was submitted to the Personnel Committee in October 2006 (Report No 519-2006) and provided Elected Members with a progress report on the Action Plan which had previously been approved. Sickness absence is included as a standing item in the meetings of the Council's Management Team (Operational Issues) and information reported includes percentage actuals to date and previous months' comparative figures.</p> <p>Dundee City Council is committed to reducing employee sickness absence, recognising not only the significant financial cost of sickness absence but also the impact on service provision. On an annual basis the Accounts Commission also publishes various statutory performance indicators (SPIs) for all local authorities. The SPIs for sickness absence measure the percentage of working days lost through sickness absence. For 2006/07 the Council's SPIs for sickness absence for chief officers and other local government employees, craft employees and teachers were 5.5%, 5.8% and 4.4% respectively.</p>
<b>Scope and Objectives</b>
<p>The scope of the audit was to examine the current procedures operating within the Council to assess the extent of adherence to the Council's sickness absence policy and procedures. Procedures operated in managing teachers' sickness absence were outwith the scope of this audit.</p>
<b>Conclusion</b>
<p><i>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.</i></p> <p>The main areas commented upon in the report are as follows:</p> <ul style="list-style-type: none"> <li>• To ensure consistency in the application of good practice, Heads of Service should be reminded that it is essential to adhere to the fundamental principles set out by the Council and of the importance of maintaining comprehensive sickness absence records.</li> <li>• Personnel staff should ensure that the review of the Council's sickness absence policy and procedures scheduled for 2009 comprehensively covers both strategic and operational considerations.</li> </ul>
<b>Management Response to the Audit Report</b>
<p>The audit findings and recommendations were formally reported to the Assistant Chief Executive (Management) and appropriate action agreed to address the specific issues raised.</p>

## v) INTERNAL AUDIT REPORT 2007/44

<b>Department</b>	<b>Finance</b>
<b>Subject</b>	<b>Payroll – Variations to Pay</b>
<b>Introduction</b>	
<p>Staff within the Payroll section of the Finance Department are responsible for processing payroll on behalf of some departments within the Council including Economic Development, Finance, Leisure, Planning and Transportation, Social Work, and Support Services. Other departments including Communities, Dundee Contract Services, Education, Housing, and Waste Management for example, process their own payroll.</p> <p>A review of Social Work Payroll - Variations to Pay was carried out as part of the planned work of the Internal Audit Service and salary overpayments were examined as part of the review. Overpayments arise when there are changes to employees' remuneration and there is a delay in information being passed to the relevant parties in order that details in the payroll system can be amended. Arrangements then have to be made for overpayments to be recouped from the member of staff concerned.</p> <p>The review highlighted areas where improvements could be made to the system. This report details the improvement in respect of procedures operated by the Finance Department. Details of findings and recommendations relating to the Social Work Department and at a Corporate level are included in Internal Audit Reports 2007/20 and 2007/45 respectively.</p>	
<b>Scope and Objectives</b>	
<p>The overall aim of the original assignment was to undertake a review of the systems operated in relation to processing variations to salary for Social Work staff.</p>	
<b>Conclusion</b>	
<p><i>The principal conclusion drawn from this review is that whilst there is basically a sound system of control there is one area which could be improved.</i></p> <p>The area commented upon in the report is as follows:</p> <ul style="list-style-type: none"> <li>To ensure that any leavers who have salary overpayments are identified and allow appropriate action to be taken, Payroll staff should maintain a log of overpayments which should be checked against leavers' details prior to the final salary payment being processed. In addition, the Payroll Manager should instruct staff within departments which process their own payroll that they should put similar procedures in place in respect of overpayments.</li> </ul>	
<b>Management Response to the Audit Report</b>	
<p>The audit findings and recommendations were formally reported to the Chief Exchequer Officer and appropriate action agreed to address the specific issues raised.</p>	

## vi) INTERNAL AUDIT REPORT 2007/45

<b>Department</b>	<b>Corporate</b>
<b>Subject</b>	<b>Payroll – Variations to Pay</b>

<b>Introduction</b>
<p>As part of the planned work of the Internal Audit Service a review of Social Work Payroll - Variations to Pay was carried out.</p> <p>The overall aim of the assignment was to undertake a review of the systems operated in relation to processing variations to Social Work staff salaries. Staff are entitled to additional payments for working additional hours, sleepovers, night working and overtime which is required due to the nature of services provided by the Department.</p> <p>As part of the review salary overpayments were considered. These can arise when there is a change to an employee's salary entitlement and there is a delay in information being passed to staff who process salaries. Payroll staff in the Finance Department had previously indicated to the Internal Audit Service that the number and value of salary overpayments arising within the Social Work Department were giving cause for concern. As a result procedures to be followed in such instances were drafted in January 2005.</p> <p>The review highlighted improvements which could be made to the system. This report highlights the improvement which could be made at a Corporate level. Internal Audit Reports 2007/20 and 2007/44 relate to Social Work and Finance respectively.</p>
<b>Scope and Objectives</b>
<p>The overall aim of the original assignment was to undertake a review of the systems operated in relation to processing variations to salary for Social Work staff.</p>
<b>Conclusion</b>
<p><i>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.</i></p> <p>The area commented upon in the report is as follows:</p> <ul style="list-style-type: none"> <li>To ensure that any salary overpayments due to the Council are repaid in full as soon as possible and that staff are treated equitably, staff within the Personnel Department should compile a Corporate Overpayments Policy and Guidelines detailing procedures to be followed in such situations.</li> </ul>
<b>Management Response to the Audit Report</b>
<p>The audit findings and recommendations were formally reported to the Assistant Chief Executive (Management) and appropriate action agreed to address the specific issues raised.</p>



## vii) INTERNAL AUDIT REPORT 2008/03

<b>Department</b>	<b>Planning and Transportation</b>
<b>Subject</b>	<b>2007/08 Grant Claim : Tayside &amp; Central Scotland Regional Transport Partnership (TACTRAN)</b>

<b>Introduction</b>
<p>In the 2007/08 financial year Scottish Ministers offered under the powers contained in Section 70 of the Transport (Scotland) Act 2001 a capital grant to Tayside and Central Scotland Transport Partnership (TACTRAN) for transport projects. TACTRAN subsequently offered specific capital grant assistance to Dundee City Council for the 2007/08 financial year of up to a maximum of £946,500. The purpose of this grant was to develop and implement regionally strategic public transport, cycling and walking projects and regionally strategic road projects included in TACTRAN's approved capital plan.</p> <p>Subsequent to the initial grant offer, approval was given for Dundee City Council to carry forward the allocation for a specific project within the original submission, to the 2008/09 financial year, to enable further development of this project. The grant claimed in the 2007/08 financial year totalled £634,303.</p> <p>It is a requirement of the Conditions of the Grant that Dundee City Council "shall by 15 May 2008 submit to TACTRAN a statement of compliance with the grant conditions" and that the audit certificate be signed by "either the Head of Finance / Finance Director, Head of Internal Audit or external auditor".</p>
<b>Scope and Objectives</b>
<p>The overall aim of this review was to enable the Chief Internal Auditor to provide an opinion as to whether or not the grant funding received in respect of the above subject has been spent in accordance with the related Terms and Conditions.</p>
<b>Conclusion</b>
<p><i>On the basis of examining the accounts and records of this grant claim, obtaining such explanations and carrying out such tests as deemed necessary, it is considered that the entries in the claim form are fairly stated, and that the sums claimed are properly due and have been used in accordance with the terms and conditions of the Offer of Grant.</i></p>