

**REPORT TO: SCRUTINY COMMITTEE – 13 FEBRUARY 2019**

**REPORT ON: INTERNAL AUDIT REPORTS**

**REPORT BY: SENIOR MANAGER – INTERNAL AUDIT**

**REPORT NO: 57-2019**

**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 Elected Members and management with key information which includes the reason for undertaking the review, a summary of 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 Elected 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, Executive Director of Corporate Services, Head of Corporate Finance and Head of Democratic and Legal Services have been consulted on the content of this report.

**7.0 BACKGROUND PAPERS**

None

Pamela Redpath, Senior Manager – Internal Audit

DATE: 23 January 2019

BLANK PAGE

## i) INTERNAL AUDIT REPORT 2017/10

<b>Client</b>	<b>Corporate</b>
<b>Subject</b>	<b>IR35</b>

**Introduction**

IR35 is tax legislation designed to combat tax avoidance by workers supplying services to an organisation via an intermediary, such as a limited company. Since April 2017, all public sector bodies engaging workers via a personal service company or recruitment agency are required to determine if there is a deemed employment relationship between themselves and the worker under IR35. If there is an underlying employment relationship, the person / organisation paying the personal service company is required to account for Pay As You Earn taxes, employee and employer National Insurance contributions and potentially an Apprenticeship Levy on the amount paid to the personal service company.

HMRC has increased its focus on the engagement of “Off Payroll Workers”, and has setup a specialist “employment status and intermediaries” team to monitor compliance in this area. Therefore, all businesses need to have strong processes and controls in place to ensure that risks are correctly identified and mitigated as far as possible.

The Council’s Finance and Support Services Senior Managers (or equivalent), have responsibility for identifying relevant employment relationships which may fall under the scope of the regulations and for assessing these using an HMRC tool. The Corporate Procurement Team should be consulted in respect of contractual arrangements for any off-payroll worker. The Payroll Team is responsible for subsequently arranging the corresponding deductions and payments. The Corporate Business Support Service maintains a register of all assessed relevant employment relationships. There are over 6,000 FTE staff at the Council, with total remuneration costs of £239 million.

**Scope and Objectives**

Review to assess that the Council’s responsibilities following the reform of IR35 for deducting / paying income tax and NI contributions are being effectively discharged.

**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:

- The Council should ensure that appropriate training is provided to all individuals who have responsibility within services for engaging an off-payroll worker in any capacity.
- To assist with ensuring that the Council applies IR35 tax guidance appropriately, a process should be introduced to ensure that the CEST tool is utilised consistently to test / re-test off-payroll workers periodically, if they continue to provide services to the Council.
- An exercise should be carried out within all Council services whereby the agencies used by these services are asked to confirm that all workers supplied to the Council are employed, and subject to PAYE and NIC, by the agency. Where this is not the case, IR35 may need to be considered and the CEST tool should be used to determine an individual’s employment status.
- To ensure consistency throughout the Council, it is recommended that the process outlined in the Guidance Note whereby the Corporate Procurement Team should be contacted and involved in contracting with off-payroll workers is strictly enforced and that staff are reminded of this requirement.

**Management Response to the Audit Report**

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

## ii) INTERNAL AUDIT REPORT 2017/14

<b>Client</b>	<b>Corporate Services</b>
<b>Subject</b>	<b>Contract Specifications and Management</b>

**Introduction**

Public sector spending on goods and services across Scotland is around £11 billion per year. In 2016/17 the Council incurred £100 million capital expenditure and revenue expenditure, excluding salary costs of £281 million.

The Council has a large number of contracts in relation to capital procurement and the services it provides. The form of contracts ranges from simple agreements regarding short term / low value work to contracts arising from tender activity which comprise detailed technical specifications and bidder responses spanning multiple years.

Between 2012 and 2016, the Council increased procurement spend with contracted suppliers from 65% to 80% and has reported savings of around £3 million as a result of the implementation of procurement policies over the same period. The Council is also a member of the Tayside Procurement Consortium (TPC) which provides collaborative purchasing for all Tayside local authorities.

The process of determining contract specifications and managing contracts to ensure they are delivered in line with expectations is important in ensuring the Council obtains best value and delivers on its objectives. In addition, the Council is required to comply with the Procurement Reform (Scotland) Act 2014 and Procurement (Scotland) Regulations 2016 which include regulation in respect of certain aspects of contract specification.

The Council has a Procurement Strategy and Standing Orders, through the Scheme of Administration – Delegation of Powers to Officers, which were in the process of being redrafted at the time of audit fieldwork to reflect the centralisation of the purchase to payment process and Category Management Team from 2013/14. A Corporate Procurement Strategy 2018-2020 and Community Benefits Policy for the Council have also since been compiled and were presented to the Policy and Resources Committee on 25 June 2018 and an update to the Tender Procedures within the Standing Orders of the Council was agreed by the Policy and Resources Committee on 24 September 2018.

**Scope and Objectives**

High level review of the arrangements in place to ensure that the specification of requirements in procured contracts is compiled in line with good procurement practice. Contract management arrangements were also reviewed, to ensure that compliance with specification of requirements is being adequately monitored and, where appropriate, remedial action is being taken.

**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 fulfil legal obligations under s.18 of the Procurement Reform (Scotland) Act 2014, the Council should extend the coverage of the Annual Procurement Report, as summarised in the new Dundee City Council Corporate Procurement Strategy 2018-2020, to ensure that it adequately reports on each of the required areas.
- In order to reduce the potential risk of specifications being developed that do not meet Council requirements or are potentially beneficial to certain suppliers, all specifications and tender evaluation criteria / scoring produced by the service should be subject to formal proportionate authorisation in line with the Financial Regulations, Tender Procedures and Delegation of Powers to Officers. Evidence of the authorisation should be shared with the Corporate Procurement Team (CPT) and retained on file.
- To establish clear, consistent contract management processes, including principles and routes to seek resolution of concerns prior to the adoption of formal dispute resolution processes or implementation of sanctions, standard paragraphs should be created for insertion into the Invitation to Tender / Quote documents.

## ii) INTERNAL AUDIT REPORT 2017/14 (Cont'd)

<b>Client</b>	<b>Corporate Services</b>
<b>Subject</b>	<b>Contract Specifications and Management</b>
<b>Conclusion (Cont'd)</b>	
<ul style="list-style-type: none"> <li>To assist with ensuring that the Council obtains the benefits expected from its contracts and in achieving a consistent approach, risk based contract monitoring procedures, to be adhered to by services, should be introduced by the CPT for relevant contracts. Compliance with these new arrangements should be monitored centrally by the CPT.</li> </ul>	
<b>Management Response to the Audit Report</b>	
The audit findings and recommendations were formally reported to the Executive Director of Corporate Services and appropriate action agreed to address the matters raised.	

## iii) INTERNAL AUDIT REPORT 2017/18

<b>Client</b>	<b>Children and Families Service</b>
<b>Subject</b>	<b>Trips and Holidays</b>

**Introduction**

There are around 27,000 children aged 0-17 in Dundee, and the Council's schools serve around 18,000 pupils, including approximately 2,700 nursery aged children at a mixture of Dundee Nursery Schools, Dundee Early Learning & Childcare ('ELC') Centres and partner providers. There are also 24 children in Council-run residential care homes. In addition to primary and secondary schools, the Council has a purpose-built school, Kingspark, serving 175 children with complex additional support needs, including physical disabilities and medical demands.

The Children and Families Service places children, young people and their families at the heart of the decision making process to provide them with the best possible start in life. The Service is responsible for organising trips and holidays for school pupils and children in residential care.

The Council encourages opportunities for learning to take place outside the classroom in the form of education trips and visits. These can include local, national and international trips and visits.

It is practice for schools and residential care homes to have planned trips and holidays throughout the year. These range from conventional trips to a local park or swimming pool, to more complex arrangements such as holidays abroad.

**Scope and Objectives**

Review of the risk assessment process and related arrangements within the Children and Families Service for trips and holidays attended by school pupils and children in residential care.

**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:

- In order to reduce the risk of a school trip or holiday taking place without the necessary risk assessment having been completed and approved, the existing exception reporting process, which is being completed in line with procedure, should be brought forward operationally by at least one week and supplemented by an enhanced escalation process where instances of non-compliance are identified. During the audit fieldwork, some instances of non-compliance were identified and staff should, therefore, be reminded of the importance of timeously completing the risk assessment process and the potential consequences if it is not.

In relation to children in residential care, good practice was noted in that the risk assessment arrangements were found to be working as intended for the sample of trips and holidays reviewed.

**Management Response to the Audit Report**

The audit findings and recommendations were formally reported to the Executive Director of Children and Families Service and appropriate action agreed to address the matters raised.

## iv) INTERNAL AUDIT REPORT 2017/26

<b>Client</b>	<b>Construction Services</b>
<b>Subject</b>	<b>Follow-up Review of Sub-contractors</b>

**Introduction**

As part of the planned internal audit work, a follow-up review of Internal Audit Report 2015/30, Sub-contractors, was undertaken.

The original internal audit report concluded that there were significant weaknesses in the system which must be addressed. The areas of concern highlighted in the report were as follows:

- At the time of the audit fieldwork Construction Services was maintaining an 'Assessed Sub-contractors List' and whilst any sub-contractor could apply to be accepted onto the list, its existence had not been advertised. There were 85 sub-contractors on the list, which was being utilised to competitively tender contracts instead of advertising publicly in line with The Public Contracts (Scotland) Regulations. Since completion of the audit fieldwork a significant amount of work has been undertaken by Construction Services and the Council's Corporate Procurement Team to move towards establishing a compliant route to market. In particular, letters were issued to sub-contractors advising them to register on the Public Contracts Scotland portal, on which in excess of 35 Quick Quote packages have subsequently been published to date. In addition, work surrounding the development of a construction and building services framework is ongoing, with two Prior Information Notices already published, another one expected to be published before the end of June 2017 and an aim to have final arrangements in place before the end of the calendar year.

**Scope and Objectives**

To assess whether or not each of the recommendations agreed by management in Internal Audit Report 2015/30 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:

- The Corporate Procurement Team (CPT) has identified appropriate existing public sector frameworks for the procurement of sub-contractors for some trade disciplines (workstreams), and Construction Services has been guided to utilise them. In respect of workstreams where there are no appropriate existing public sector frameworks available to utilise, the CPT together with Construction Services management, has considered and prioritised these from a local framework / contract development perspective. For each of the highest priority workstreams, it is envisaged that frameworks will be in place by the beginning of the new financial year. A number of these are currently progressing with tender opportunities published and / or closing dates approaching. In the interim, both prior to, and as part of, the development of these frameworks, there has been a significant amount of work carried out between Construction Services and the CPT to move towards achieving an appropriate compliant route to market. Construction Services has been utilising the Public Contracts Scotland portal to procure sub-contractors, more specifically utilising the Quick Quote system where spend is under £50,000 and the open tenders process for spend above this value. This has reduced the risk of legal challenge and associated financial penalties.
- The CPT is currently reviewing the evaluation and quality assessment processes in conjunction with Construction Services, with revised guidance and procedures being developed for staff in both services to use to ensure that best practice is followed.

## iv) INTERNAL AUDIT REPORT 2017/26 (Cont'd)

<b>Client</b>	<b>Construction Services</b>
<b>Subject</b>	<b>Follow-up Review of Sub-contractors</b>

**Management Response to the Audit Report**

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



## v) INTERNAL AUDIT REPORT 2018/03

<b>Client</b>	<b>Neighbourhood Services</b>
<b>Subject</b>	<b>Gas Safety</b>
<b>Introduction</b>	
<p>In common with other landlords, the Council has a duty under the Gas Safety (Installation and Use) Regulations 1998 to ensure that its residential properties are well maintained. As part of that duty it has a specific statutory obligation to maintain gas fittings and flues in a safe condition for tenants and carry out safety checks at intervals of not more than 12 months. Approximately 89% of Council residential properties have gas fittings and flues and there is a cyclical programme of inspections in place to ensure that all of these properties are visited over the course of a year. All gas safety checks within Council residential properties are carried out by staff within Construction Services.</p> <p>The Scottish Housing Regulator's (SHR's) objective is to safeguard and promote the interests of tenants and others who use local authority and registered social landlord housing services. The SHR reviews Scottish social landlords as part of this objective by monitoring, assessing, comparing and reporting on performance. As part of this performance review the SHR focussed in the last two years on gas safety checks within Dundee City Council. The compliance score for the Council with the performance measure for these checks is over 99%, however, the legislative requirement is 100% and the Council is currently ranked in the bottom quartile for all social landlords. A national thematic inquiry report on gas and tenant safety was published by the SHR in December 2017, highlighting that across all social landlords in Scotland the current performance score for gas safety checks is 99.9%.</p> <p>The Housing Service within Neighbourhood Services has carried out a significant amount of work to improve their processes and corresponding compliance score, however, some areas of difficulty have been identified which are preventing full compliance from being achieved. Specifically, gaining access to residential properties in order for these safety checks to be undertaken timeously can be problematic in some instances.</p>	
<b>Scope and Objectives</b>	
High level review of the adequacy of the systems in place within Neighbourhood Services to ensure that it can meet its statutory obligations in respect of gas safety checks.	
<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>• Since the additional measures were introduced to supplement the current gas safety arrangements, all properties have received a gas safety check prior to the anniversary date. However, in order to ensure that this continues, relevant staff should be formally reminded not to arrange appointments with tenants within 4 weeks of their gas safety check due date. In addition, a process should be introduced to ensure that the manual interventions required to ensure gas safety checks are carried out on time, continue when key staff are absent from work. Consideration should also be given to the introduction of verification checks being carried out on the gas safety check dates input to the Housing Repairs System.</li> </ul>	
<b>Management Response to the Audit Report</b>	
The audit findings and recommendations were formally reported to the Executive Director of Neighbourhood Services and appropriate action agreed to address the matters raised.	

