

**REPORT TO: SCRUTINY COMMITTEE – 16 FEBRUARY 2011**

**REPORT ON: INTERNAL AUDIT REPORTS**

**REPORT BY: CHIEF INTERNAL AUDITOR**

**REPORT NO: 60-2011**

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

**7.0 BACKGROUND PAPERS**

None

Sallie Dailly, Chief Internal Auditor

DATE: 31 January 2011

## i) INTERNAL AUDIT REPORT 2009/36

<b>Department</b>	<b>Education</b>
<b>Subject</b>	<b>School Transport</b>

**Introduction**

A review of the arrangements within the Education Department for the provision of school transport was part of the planned internal audit work.

The Council provides transport for all primary school pupils who live over 2 miles from their designated primary school and for all secondary pupils who live over 3 miles from their designated secondary school. For those pupils who are able to travel independently by public transport, bus passes will be issued to them on receipt of an application from parents/carers. In specific rural cases only, including Camperdown Park, the parent of a child who lives within these limits but who considers that his/her child's journey to school is unreasonable, on grounds of safety, may apply to the Director of Education for consideration for school transport. This applies only where there is no suitable public transport. The Council also provides school transport, where necessary, for pupils with additional support needs and who are placed, at the Education Department's recommendation, within Kingspark Special School or one of the mainstream schools with an enhanced level of provision.

The Education Department is responsible for ensuring that all children who are entitled to school transport are provided with this facility. However, management of the contracts with providers of these services is the responsibility of the City Development Department. Contracts normally run for three years and the current contract is effective for financial year 2009/10 until the end of 2011/12. During financial year 2009/10 services were provided to approximately 600 children. Budgeted and actual expenditure for 2009/10 was approximately £885,000 and £920,000 respectively.

**Scope and Objectives**

The overall objective of this review was to assess procedures operated by staff in the Education Department in respect of the processing of applications and the subsequent provision of transport to and from school, where applicable. Procedures operated by City Development staff were excluded from this review.

**Conclusion**

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

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

- To comply with best practice, staff should compile a short policy statement on school transport. This document and the report detailing school transport contracts should be submitted to the appropriate Committee for approval at the relevant junctures. In addition, in order that it can be clearly demonstrated that all parties are aware of their responsibilities, Education staff should follow up the formal request to Social Work staff to approve and/or amend the various guidance documents as soon as possible.
- Given the financial constraints facing the Council, staff in the Education Department should consider requiring all parents to apply for transport rather than awarding it automatically. In addition, continuing entitlement to free transport should be re-assessed on an annual basis.

**Management Response to the Audit Report**

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

## ii) INTERNAL AUDIT REPORT 2009/40

<b>Department</b>	<b>City Development</b>
<b>Subject</b>	<b>Follow-up Review of Energy Management</b>

**Introduction**

As part of the planned internal audit work, a follow-up review to Internal Audit Report 2007/29 on energy management was undertaken.

The original internal audit report concluded that there were weaknesses in the system which should be addressed. These included the following:

- Reviewing and amending the Council's energy policy.
- Departments appointing energy champions who attend meetings regularly.
- Checking bills to information contained in other sources such as Scottish & Southern Electricity (SSE) website.
- Exploring installation of additional valves and thermostats in buildings where staff are experiencing difficulties.
- Putting systems in place for evaluating projects funded from the Central Energy Efficiency Fund
- Producing the most relevant reports from the STARK, the energy Monitoring and Targeting System used by the Council.
- Putting appropriate arrangements in place to ensure the Directive on Energy Performance Certificates (EPC) can be met.

**Scope and Objectives**

To assess whether or not each of the recommendations agreed by Management in Internal Audit Report 2007/29 has been implemented within the given timescales.

**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 interface between the Council's major energy supplier's bill and STARK has been completed but the one between Scottish Power and STARK is still work in progress.
- The majority of the physical measures recommended for the 41 highest energy consuming properties have not have not been carried out.
- The number of properties requiring EPCs has risen from 57 to 71 since the original internal audit report due mainly to alterations which were scheduled in a number of properties and which have either now been completed or deferred. As at December 2010, 69 of the 71 properties had EPCs.

**Management Response to the Audit Report**

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

## iii) INTERNAL AUDIT REPORT 2009/42

<b>Department</b>	<b>Education</b>
<b>Subject</b>	<b>Control Self Assessment</b>

**Introduction**

A review of control self assessment (CSA) within the Education Department was part of the planned internal audit work.

It is the responsibility of all managers and budget holders to ensure that there are appropriate controls in place to safeguard the assets for which they are responsible. Staff within schools are therefore responsible for ensuring adherence to devolved school budgets, all aspects of managing school funds and petty cash, handling of school meal monies where appropriate, ordering and receipting goods and services, maintenance of the building and security of cash, keys and equipment including computer equipment.

In order to assess adherence to best practice, Education staff re-introduced CSA in Spring 2009. As part of the CSA process, a questionnaire was sent to all schools which staff at each school were required to complete and return in order to assess if there were appropriate controls in place or if there were areas which could be improved. There are 57 schools in total, 9 secondaries, 37 primaries, 1 special school and 10 nurseries. The CSA returns and supporting documentation submitted by schools were examined by staff at headquarters to highlight areas to be improved and identify any training needs.

**Scope and Objectives**

The overall object of the review was to examine the systems operated in respect of control self assessment within the Education Department. The review considered procedures operated in respect of all schools and nurseries.

**Conclusion**

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

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

- To improve the self assessment process, the mechanism for school staff to provide supporting documentation should be reviewed, the matrices used for analysis should have a provision to capture all the responses, a timetable of significant milestones should be established for each future exercise and consideration should be given to reducing the interval between CSA exercises.

**Management Response to the Audit Report**

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

## iv) INTERNAL AUDIT REPORT 2010/01

<b>Department</b>	<b>Education</b>
<b>Subject</b>	<b>Follow-up Review of Nursery Fees</b>

**Introduction**

As part of the planned internal audit work, a follow-up review to Internal Audit Report 2006/51 on nursery fees was undertaken.

The original internal audit report concluded that there were weaknesses in the system which should be addressed. These included the following:

- Ensuring completeness of childcare contracts.
- Invoicing for services provided on a timeous basis.
- Lack of a formalised system with organisations paying fees on behalf of parents.
- Lack of appropriate charge codes being set up in the ledger for all categories of income.
- Anomalies in procedures operated in respect of Whitfield Community Early Years Centre.
- Completeness of education pupil data base and reconciliation procedures.
- Lack of a guidance manual.

**Scope and Objectives**

To assess whether or not each of the recommendations agreed by Management in Internal Audit Report 2006/51 has been implemented within the given timescales.

**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 area where action agreed by management is still outstanding is as follows:

- A comprehensive guidance manual should be drafted to ensure that all staff are aware of processes to be followed in respect of data input, contracts, invoicing and reconciliation procedures.

**Management Response to the Audit Report**

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

## v) INTERNAL AUDIT REPORT 2010/04

<b>Department</b>	<b>Housing Department</b>
<b>Subject</b>	<b>Rent Recovery</b>

**Introduction**

A review of rent recovery within the Housing Department was part of the planned internal audit work.

Dundee City Council provides council housing to approximately 13,700 households throughout the city. Renting from the Council provides tenants with a Scottish secure tenancy on a property at an affordable rent and for which no deposit is required. The average weekly rent of £55.42 is due on each Monday and tenants can pay weekly, fortnightly or monthly. Rent is paid over a 48 week period with the non chargeable weeks being the first week in April, the first week of the Dundee fortnight and the Christmas and New Year weeks. Tenants can pay rent in a variety of ways: online using a debit or credit card; by direct debit or standing order; by cash, cheque, credit or debit card in person at the District Offices or City Square; by phone using a debit or credit card; in person at Paypoint outlets or the Post Office or by post. A collection service is available on application for the elderly, disabled or housebound.

The Housing Department has a formalised procedure for the management of rent arrears. The process is that when a tenant's rent account goes into arrears Housing staff send out a variety of reminder letters, arrange home visits and issue a final letter. Thereafter, a 28 day notice is hand delivered by a Sheriff Officer and if the tenant does not make contact or reach agreement with the Housing Department, court action will follow with eviction being a possible outcome.

Information on rent arrears is provided on the Council's website and the document stresses the need for the tenant to make contact so that the matter can be addressed. As at March 2010 there were approximately 3,800 tenants with arrears totalling in the region of £1.2m.

**Scope and Objectives**

To review the adequacy of procedures operated by the Housing Department in respect of rent recovery. Procedures operated in respect of housing benefit were only considered insofar as they impacted on the build up of rent arrears of properties included in the sample of rent arrears selected.

**Conclusion**

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

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

- To minimise arrears arising as a result of incomplete housing benefit applications, the Department should review the systems operated with a view to involving the Finance Revenues staff who are based in both District Offices at an early stage of the letting process so that applications can be fully completed prior to the keys being handed over.

**Management Response to the Audit Report**

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

## vi) INTERNAL AUDIT REPORT 2010/06

<b>Department</b>	<b>Corporate</b>
<b>Subject</b>	<b>Completeness of Data Fields in ResourceLink</b>

**Introduction**

A review of payroll and personal data within ResourceLink was part of the planned internal audit work.

Dundee City Council currently operates ResourceLink, an integrated payroll and personnel system supplied by Northgate Arinso. Implementation of this system was fully completed in November 2008 and as at March 2010 there were of the order of 8,800 records in the system relating to Council employees.

Completion of some fields in ResourceLink is mandatory for the effective operation of the system. These include fields such as post number and grade which are dependent upon the employee's post. ResourceLink also holds other information such as address, home, work and mobile telephone numbers, next of kin/emergency contact details and religion and this is requested from employees. For new employees and amendments to existing records, departments are responsible for providing accurate and up-to-date information to the relevant payroll staff.

In order to carry out this review, data from the ResourceLink system was downloaded for analysis using IDEA. This is a specialised computer audit software package which facilitates many techniques including random sampling, summarisation, production of statistics and comparison of data from different sources.

**Scope and Objectives**

The overall objective of this review was to examine the completeness of employee payroll and personal data within the ResourceLink system. Records for Elected Members, pensioners and employees of external bodies for whom the Council provides payroll services were excluded from this review.

**Conclusion**

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

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

- In order to ensure the integrity of the database, Payroll staff, in conjunction with Personnel staff, should decide the key data which must be recorded in ResourceLink and thereafter the data should be updated. In addition, now that the single status exercise is complete, departments should be issued with a list of all staff and grades and required to confirm that all grades are correct or highlight changes to be made, where applicable.

**Management Response to the Audit Report**

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

## vii) INTERNAL AUDIT REPORT 2010/07

<b>Department</b>	<b>Corporate</b>
<b>Subject</b>	<b>Business Credit Cards</b>

**Introduction**

A review of business credit cards was part of the planned internal audit work.

The Council has a policy that, where possible, goods are ordered and paid through Authority Financials, the Council's financial system. This helps to ensure that only goods required for Council business are bought and that there is a complete audit trail of all purchases from ordering through to payment of the supplier. However, to a much lesser extent, business credit cards are used. These are primarily intended to be used in situations where goods or services can be purchased more economically. This includes travel and accommodation, goods bought on the internet, specialist purchases such as IT equipment and purchases made by Social Work staff on behalf of clients.

There are currently 50 credit cards allocated to DCC staff and these are held by individuals within a number of departments. The spending limit on the cards varies from £500 to £6,000 and balances are cleared monthly to avoid attracting interest and late payment charges. Spend varies from month to month and averages approximately 26% of the card spending limits.

**Scope and Objectives**

The overall objective of this review was to examine the procedures operated in respect of business credit cards issued to the Finance Department, Trading Standards, IT, City Development, Corporate Planning, Support Services, Leisure and Communities, Dundee Contract Services, Public Relations and Architectural Services. Procedures operated in respect of business cards issued to the Education and Social Work Departments are the subject matter of separate reviews.

**Conclusion**

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

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

- To ensure that controls over credit cards are robust, in the event that credit cards continue to be used, fuller guidance should be issued to staff in the use and security of cards and passwords. Thereafter, prior to purchasing cards being issued, guidance should be prepared which details appropriate and inappropriate use, card security, best practice in relation to security of card details when making online payments, the need to keep passwords/PIN numbers private, accounting for VAT and authorisation procedures. In addition, departments should also be requested to develop specific guidance covering all local arrangements.

**Management Response to the Audit Report**

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

## viii) INTERNAL AUDIT REPORT 2010/16

<b>Department</b>	<b>Leisure and Communities</b>
<b>Subject</b>	<b>Follow-up Review of Fuel Management (Camperdown Park)</b>

**Introduction**

As part of the planned internal audit work, a follow-up review to Internal Audit Report 2008/13 on fuel management (Camperdown Park) was undertaken.

The original internal audit report concluded that there were weaknesses in the system which should be addressed. These included the following:

- Arranging for a comprehensive risk assessment to be undertaken in conjunction with the Risk and Business Continuity Manager
- Reminding staff of the importance of competing documentation and continuing to monitor fuel usage stock sheets on a weekly basis.

**Scope and Objectives**

To assess whether or not each of the recommendations agreed by Management in Internal Audit Report 2008/13 had been implemented within the given timescales.

**Conclusion**

*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.*

## ix) INTERNAL AUDIT REPORT 2010/21

<b>Department</b>	<b>Finance</b>
<b>Subject</b>	<b>Performance Indicators</b>

**Introduction**

A review of the arrangements for the compilation of performance indicators (PIs) was part of the planned internal audit work.

Prior to 2009/10 Councils were required to compile the Statutory Performance Indicators (SPIs) set by the Accounts Commission. The remit of the Commission under the Local Government Act 1992 was to give such direction as it thought fit for requiring Councils, Fire and Police Authorities to publish such information relating to their activities in any financial year or such other period to facilitate comparison.

The 2008 Direction which set out the requirements for performance reporting in 2009/10 stated that "SPI arrangements would be aligned with the responsibilities that Councils have under Best Value to drive continuous improvement in services, and for reporting those aspects of performance that are of most importance to local communities, to service users and to citizens". As a result, Councils have a much reduced list of specified indicators where the parameters are set by the Commission. However, each Council has had to devise its own non-specified indicators which can be used as a meaningful basis for demonstrating improvement in performance. These should cover key areas such as corporate issues including equalities and asset management, and the impact made by front line services and how this relates to the service user.

Committee Report No. 34-2009 was submitted to the Best Value Sub-Committee on 28 April 2009 and set out the twenty five indicators which were specified in the Direction and also the non-specified indicators which would assist the Council demonstrate continuous improvement. Departmental returns for figures for 2009/10 were due to be returned to the Principal Accountant with responsibility for this area by the end of June 2010.

**Scope and Objectives**

To review the adequacy of systems operated in respect of the compilation of a sample of specified and non-specified performance indicators.

**Conclusion**

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

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

- To ensure that the Council's PIs can be validated and submitted timeously to Audit Scotland, departments should be instructed that all PIs should be compiled and submitted by the due date in June, that both specified and non-specified indicators should be included on the assurance statement and that all supporting documentation must be available.
- Consideration should be given to the mechanism to be used to ensure that Elected Members are kept fully apprised of any amendments to the indicators to be reported by the Council.

**Management Response to the Audit Report**

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

## x) INTERNAL AUDIT REPORT 2010/22

<b>Department</b>	<b>Housing</b>
<b>Subject</b>	<b>2009/10 Performance Indicators</b>

**Introduction**

A review of the arrangements for the compilation of performance indicators (PIs) was part of the planned internal audit work.

Prior to 2009/10 Councils were required to compile the Statutory Performance Indicators (SPIs) set by the Accounts Commission. The remit of the Commission under the Local Government Act 1992 was to give such direction as it thought fit for requiring Councils, Fire and Police Authorities to publish such information relating to their activities in any financial year or such other period to facilitate comparison.

The 2008 Direction which set out the requirements for performance reporting in 2009/10 stated that "SPI arrangements would be aligned with the responsibilities that Councils have under Best Value to drive continuous improvement in services, and for reporting those aspects of performance that are of most importance to local communities, to service users and to citizens". As a result, Councils have a much reduced list of specified indicators where the parameters are set by the Commission. However, each Council has had to devise its own non-specified indicators which can be used as a meaningful basis for demonstrating improvement in performance. These should cover key areas such as corporate issues including equalities and asset management, and the impact made by front line services and how this relates to the service user.

The Housing Department has 6 PIs, all of which are specified by the Accounts Commission.

**Scope and Objectives**

To review the adequacy of systems operated in respect of performance indicators compiled by the Housing Department.

**Conclusion**

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

The areas commented upon in the report are as follows:

- To improve procedures operated in respect of PIs and allow sufficient time for checking, the PI reported to the Accounts Commission in future years should be brought in line with that used for Capital Monitors and IT staff should be requested to complete the necessary improvements to the homeless unit's computer system. In addition, Housing staff should provide IT staff with sufficient lead in time to produce all reports required for compilation of PIs.

**Management Response to the Audit Report**

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

## xi) INTERNAL AUDIT REPORT 2010/23

<b>Department</b>	<b>City Development</b>
<b>Subject</b>	<b>2009/10 Performance Indicators</b>

**Introduction**

A review of the arrangements for the compilation of performance indicators (PIs) was part of the planned internal audit work.

Prior to 2009/10 Councils were required to compile the Statutory Performance Indicators (SPIs) set by the Accounts Commission. The remit of the Commission under the Local Government Act 1992 was to give such direction as it thought fit for requiring Councils, Fire and Police Authorities to publish such information relating to their activities in any financial year or such other period to facilitate comparison.

The 2008 Direction which set out the requirements for performance reporting in 2009/10 stated that "SPI arrangements would be aligned with the responsibilities that Councils have under Best Value to drive continuous improvement in services, and for reporting those aspects of performance that are of most importance to local communities, to service users and to citizens". As a result, Councils have a much reduced list of specified indicators where the parameters are set by the Commission. However, each Council has had to devise its own non-specified indicators which can be used as a meaningful basis for demonstrating improvement in performance. These should cover key areas such as corporate issues including equalities and asset management, and the impact made by front line services and how this relates to the service user.

For the City Development Department PIs require to be reported in relation to assets, carbon dioxide emissions, planning, transportation, street lighting and local plans.

**Scope and Objectives**

To review the adequacy of systems operated in respect of the compilation of a sample of performance indicators within the City Development Department.

**Conclusion**

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

The areas commented upon in the report are as follows:

- To improve systems operated in respect of the compilation of PIs, staff should investigate the possibility of adapting reports from the GVA system, the Council's main property database, to provide accurate reports for compiling the Condition and Suitability of Operational Accommodation PI. In addition, systems should be put in place to ensure that the required energy consumption information can be obtained by Council staff in future years.

**Management Response to the Audit Report**

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