

REPORT TO: SCRUTINY COMMITTEE – 20 OCTOBER 2010

REPORT ON: INTERNAL AUDIT REPORTS

REPORT BY: CHIEF INTERNAL AUDITOR

REPORT NO: 635-2010

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: 07 October 2010

i) INTERNAL AUDIT REPORT 2009/34

Department	Corporate
Subject	Authority Purchasing

Introduction

A review of general ledger was part of the planned internal audit work.

The Authority Purchasing system feeds into the general ledger which is a key cornerstone in the preparation of the Council's financial statements and is a formal record of the income and expenditure relating to all transactions undertaken by the Council. The ledger is divided initially by department and is further subdivided into various cost centres. Cost centres may represent a separate entity such as a school or a function within a department, for example, Internal Audit.

Expenditure and income is organised in line with the CIPFA classification code which differentiates between different types of expenditure and within the ledger there are columns for actual, commitment, budget and variance figures. Most departments within the Council use Authority Purchasing for the procurement of goods and services and a commitment is created when an order has been raised. This reflects the obligation to pay for goods and is shown in the ledger. Once the goods have been received and the invoice has been matched to the order, the system removes the expenditure from the commitments column to the actuals column.

The information contained within the ledger is the basis for the revenue and capital monitoring activities undertaken throughout the year and it is essential that the information contained is accurate in order that the Director of Finance can be satisfied that the budget set is to be achieved.

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

The audit review identified areas for improvement in both Authority Purchasing and General Ledger. This report details the recommendations to be implemented by the Procurement section. Internal Audit Report 2010/14 details the recommendations to be implemented by General Ledger staff.

Scope and Objectives

The overall objective of this review was to examine departmental use of Authority Purchasing, assess the extent of the risk of expenditure appearing twice in the ledger and to confirm the appropriateness of user logins and approval limits. Adherence to the list of recommended suppliers was outwith the scope of this review.

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 commitments are recorded accurately and updated timeously within the Council's ledger, development of an interface between the Grimley Valuation and Asset Property Management System and the Authority Purchasing system should be finalised.
- To ensure that users of Authority Purchasing have appropriate access, a review of user logins and approval limits should be undertaken in conjunction with relevant departments and thereafter a periodic review process of this area should be put in place.

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.

ii) INTERNAL AUDIT REPORT 2010/02

Department	Education
Subject	Follow-up Review of School Placing Requests

Introduction

As part of the planned internal audit work, a follow-up review to Internal Audit Report 2007/23 on school placements 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 revising guidance documents provided to parents.
- Reminding staff of the importance of checking the addresses of pupils being enrolled in the catchment area.
- Reminding staff of the importance of allocating the correct priorities, evidencing that this has been done and when a placing request is refused and the decision overturned, the reason should be clearly documented.
- Considering allocating the overall responsibility for placing requests to a member of staff who can issue guidance and provide advice as required.

Scope and Objectives

To assess whether or not each of the recommendations agreed by Management in Internal Audit Report 2007/23 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:

- To improve the availability of information, the revised guidance documents on enrolment and placing request applications should be made available on the internet.
- To ensure there is a clear audit trail, the reasons for overturning refused applications should be recorded in the Support for Pupils Database beside the original refusal.

Management Response to the Audit Report

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

iii) INTERNAL AUDIT REPORT 2010/11

Department	Finance
Subject	Follow-up Review of Service Level Agreements

Introduction

As part of the planned internal audit work, a follow-up review to Internal Audit Report 2008/25 on service level agreements (SLAs) was undertaken.

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

- Identifying a member of staff to be responsible for co-ordinating the management of SLAs.
- Compiling a standard template for SLAs which includes key details such as fees, names of contacts and termination periods.
- Ensuring that the charges are appropriate through discussion with the relevant manager.

Scope and Objectives

To assess whether or not each of the recommendations agreed by Management in Internal Audit Report 2008/25 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.

iv) INTERNAL AUDIT REPORT 2010/12

Department	Education
Subject	Public Private Partnership - Operational Phase
Introduction	
<p>A review of Public Private Partnership (PPP) was part of the planned Internal audit work.</p> <p>The Dundee Schools PPP Project comprises two secondary and six primary schools having a capital value of £100m. In addition to the key function as locations for the provision of education, the facilities are available for community and leisure activities outwith the normal core educational hours. Dundee City Council has entered into a contract with Discovery Education plc (DE), a special purpose vehicle, for the provision of the schools and certain facilities. The unitary charge is of the order of £10m per annum, index linked, for a duration of thirty years.</p> <p>The construction phase of the contract has now been completed and all schools are fully operational. During the construction phase, the contract was managed by the Project Manager in conjunction with a Finance and Resources Manager, a Quantity Surveyor and a Facilities Officer with the assistance of two Education Advisers. Owing to the nature of the project, the contract is extremely complex and substantial in length.</p> <p>The contract has many of the characteristics of an operating lease with DE having responsibility for the provision of the buildings, specialist heavy equipment including heating and ventilation, fixed furniture and installed equipment such as fire and security alarms. Maintenance, both breakdown and planned, and certain services including cleaning are subcontracted by DE to Robertson Facilities Management Limited (RFM).</p> <p>Monthly meetings are held at each school to discuss matters arising and these are attended by members of the schools management team, RFM staff, facilities staff and Dundee City Council PPP staff.</p>	
Scope and Objectives	
<p>The objective of this review was to assess the arrangements in place for management of the operational phase of the PPP contract.</p>	
Conclusion	
<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"> • In order to protect the interests of Dundee City Council, a small monitoring team comprising a part-time Monitoring Officer, an Administration/Facilities Officer and a Facilities Officer should be formed, initially for a trial period of between eighteen months and two years, after which time this arrangement should be evaluated. • To minimise the risk of disruption in the event of an interruption to service and ensure continuity of service delivery, business continuity and disaster recovery plans should be compiled for all PPP schools. In addition, PPP staff should ensure that RFM and DE have adequate business plans in place. 	
Management Response to the Audit Report	
<p>The audit findings and recommendations were formally reported to the Project Manager (PPP) and appropriate action agreed to address the matters raised.</p>	

v) INTERNAL AUDIT REPORT 2010/14

Department	Corporate
Subject	Authority Purchasing - General Ledger

Introduction

A review of general ledger was part of the planned internal audit work.

The Authority Purchasing system feeds into the general ledger which is a key cornerstone in the preparation of the Council's financial statements and is a formal record of the income and expenditure relating to all transactions undertaken by the Council. The ledger is divided initially by department and is further subdivided into various cost centres. Cost centres may represent a separate entity such as a school or a function within a department, for example, Internal Audit.

Expenditure and income is organised in line with the CIPFA classification code which differentiates between different types of expenditure and within the ledger there are columns for actual, commitment, budget and variance figures. Most departments within the Council use Authority Purchasing for the procurement of goods and services and a commitment is created when an order has been raised. This reflects the obligation to pay for goods and is shown in the ledger. Once the goods have been received and the invoice has been matched to the order, the system removes the expenditure from the commitments column to the actuals column.

The information contained within the ledger is the basis for the revenue and capital monitoring activities undertaken throughout the year and it is essential that the information contained is accurate in order that the Director of Finance can be satisfied that the budget set is to be achieved.

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

The audit review identified areas for improvement in both Authority Purchasing and the General Ledger. This report details the recommendations to be implemented by General Ledger staff. Internal Audit Report 2009/34 details the recommendations to be implemented by the Procurement section.

Scope and Objectives

The overall objective of this review was to examine departmental use of Authority Purchasing, assess the extent of the risk of expenditure appearing twice in the ledger and to confirm the appropriateness of user logins and approval limits. Adherence to the list of recommended suppliers was outwith the scope of this review.

Conclusion

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

The area highlighted in the report is as follows:

- To improve controls over committed expenditure, a practicable solution to prevent the insufficient funds flag in Authority Purchasing being routinely overridden should be explored.

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 matter raised.

vi) INTERNAL AUDIT REPORT 2010/15

Department	Education
Subject	Follow-up Review of Attendance Management (Primary Schools)
Introduction	
<p>As part of the planned internal audit work, a follow-up review to Internal Audit Report 2008/20 on attendance management (primary schools) was undertaken.</p> <p>The original internal audit report concluded that there were weaknesses in the system which should be addressed. These included the following:</p> <ul style="list-style-type: none"> • Completion and issue of the draft policy on attendance management which should state clearly the deadlines for both parents and schools • Update of in-school guidance to reflect the revised policy • Ensuring there are procedures in place for identifying outstanding parent/carer details and retention of the latest contact form from parents. 	
Scope and Objectives	
<p>To assess whether or not each of the recommendations agreed by management in Internal Audit Report 2008/20 had been implemented within the given timescales.</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 2010/17

Department	City Development
Subject	2009/10 Grant Claim - Cycling Walking and Safer Streets Projects

Introduction

Under Section 70 of the Transport (Scotland) Act 2001 Scottish Ministers have powers to award grant assistance for specific projects. For the 2009/10 financial year grant assistance totalling £249,000 was awarded to Dundee City Council for the development of projects associated with local cycling, walking and safer streets. The grant awarded for 2009/10 was expended in full.

Under the conditions of the grant it is a requirement that the "Council shall by the 30 June in the financial year following receipt of any grant submit to Scottish Ministers a statement of compliance with the grant conditions signed by the Head of Internal Audit".

Scope and Objectives

The overall objective 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 cycling, walking and safer streets grant had been expended in accordance with the grant's terms and conditions.

Conclusion

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.