

**REPORT TO: SCRUTINY COMMITTEE - 26 JUNE 2019**

**REPORT ON: 2018/19 INTERNAL AUDIT ANNUAL REPORT**

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

**REPORT NO: 221-2019**

## **1.0 PURPOSE OF REPORT**

To submit to Members of the Scrutiny Committee the 2018/19 Internal Audit Annual Report. This report provides an independent annual internal audit opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and control framework and a summary of the key activities of the Council's Internal Audit Service during the period from which the opinion is derived.

## **2.0 RECOMMENDATIONS**

Members of the Committee are asked to consider and note the contents of this report.

## **3.0 FINANCIAL IMPLICATIONS**

None

## **4.0 MAIN TEXT**

**4.1** The terms of reference of the Scrutiny Committee, as detailed in Report No 274-2014 (Policy and Resources Committee 10 November 2014, Article V), includes consideration of the strategy, plan and performance of the Council's Internal Audit Service. In addition, the Committee is also required to consider internal audit reports and seek assurance that appropriate action has been taken, monitor the implementation of internal audit recommendations agreed with management and receive the Annual Report of the Senior Manager – Internal Audit.

**4.2** The Public Sector Internal Audit Standards (PSIAS), which came into effect on 1 April 2013 (updated 1 April 2017), apply to all internal audit service providers within the public sector and set out the requirements in respect of professional standards for these services. Professional Standard 2450, Overall Opinions, states that *"the chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement"*. In the context of Dundee City Council, the *"chief audit executive"* is the Senior Manager – Internal Audit.

**4.3** The PSIAS also states that the annual report prepared by the chief audit executive must incorporate:

- the annual internal audit opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control;
- a summary of the information that supports that opinion;
- a disclosure of any impairments to scope and / or independence;
- a statement of conformance with the PSIAS; and
- the results of the quality assurance and improvement programme (External Quality Assessment) and progress against any improvement plans.

**4.4** It should also be noted that the Local Authority Accounts (Scotland) Regulations 2014 became effective in October 2014. Under these regulations *"a local authority must operate a professional and objective internal auditing service in accordance with recognised standards and practices in relation to internal auditing"*. In this context, recognised standards and practices are deemed to be those set out in the PSIAS. These Regulations also require that *"the local authority must conduct a review at least once a year of the effectiveness of its system of internal control"*. In respect of this and from an internal audit perspective there is a requirement that *"the findings from assessments must be considered as part of the consideration of the system of internal control"*.

**4.5** The Internal Audit Annual Report for the 2018/19 financial year, which is attached for consideration by Elected Members, has been prepared on the basis of the requirements outlined above.

## **5.0 POLICY IMPLICATIONS**

This report has been subject to an assessment of any impacts on Equality and Diversity, Fairness and Poverty, Environment and Corporate Risk. 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: 10 June 2019

# 2018/19 INTERNAL AUDIT ANNUAL REPORT

## 1. PURPOSE OF REPORT

- To summarise the key activities undertaken by the Council's Internal Audit Service during the 2018/19 financial year and highlight any matters of significance that have arisen as a result of the audit process.
- To provide an independent annual internal audit opinion, derived from the above, on the overall adequacy and effectiveness of the organisation's governance, risk management and control framework.

## 2. GOVERNANCE, RISK MANAGEMENT AND CONTROL FRAMEWORK

- The Council has been operating within a significantly challenging and changing environment for some time and, as a result of continuing resource constraints, it is expected that the level and pace of change will require to increase progressively for the foreseeable future. Cumulative savings required between 2019/20 and 2021/22, to achieve a balanced budget, range from £38.3m to £55.1m.
- Key events and changes during 2018/19 that have impacted on the organisation have included, or are related to, the continued evolution of the Dundee Integration Joint Board (IJB) and Dundee Health and Social Care Partnership (DH&SCP), the ongoing Waterfront development (including the opening of the V&A), the fire at Braeview Academy, the Tay Cities Deal, the planned closure of the Dundee Michelin factory, the introduction of GDPR, the turnover of strategic and operational-level management, a new approach to the organisation's transformational change agenda (C2022) to assist with achieving the required savings mentioned above, as well as the approval of a number of new corporate policies and strategies (and updates) e.g. Communication Strategy 2018 - 2021, Corporate Procurement Strategy 2018 - 2020, Risk Management Policy and Strategy, Digital Strategy, Capital Strategy 2019/20 and IT Strategy, which have in themselves brought about changes to working practices and procedures. As a result of this constantly changing and complex environment, it is essential that the framework of governance, risk management and control continually evolves to support it.
- The governance framework comprises the systems, processes, culture and values by which the activities of the Council are directed and controlled and through which they are accountable to, engage with and, where appropriate, lead the community. It enables the Council to monitor the achievement of its strategic objectives and consider whether those objectives have led to the delivery of appropriate cost-effective services.
- Risk management is a fundamental element of good governance and decision making. The Council's risk management arrangements are intended to support the identification, documentation, scrutiny and management of both current and emerging risks. The range and extent of services provided by the Council result in a varied and complex risk profile. It is, therefore, important that there are sound risk management arrangements in place to capture all risks and manage and escalate these appropriately. This year the organisation's risk management arrangements have been enhanced significantly at both a strategic and operational level, with the establishment of a new Corporate Risk Management Co-ordinator post and senior officer Corporate Risk Management Working Group, approval of a new Risk Management Policy and Strategy document with agreed standard assessment criteria and risk appetite and ongoing development of supporting processes and procedures.
- The system of control is a significant part of this framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can, therefore, only provide reasonable and not absolute assurance of effectiveness. It is based on an ongoing process designed to identify and prioritise the risks that may impact on the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact they may have if they come to fruition, and to manage them economically, efficiently and effectively.

## 3. ROLE OF INTERNAL AUDIT

- Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It is a fundamental element of Dundee City Council's governance and assurance framework and assists the organisation to accomplish its

objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of its governance, risk management and control framework. This role includes the requirement to have a full understanding of the key risks to which the Council is exposed.

- During 2018/19, the Internal Audit Service was independent of the activities it audited, with the exception of the organisation's risk management arrangements; the Senior Manager – Internal Audit is operationally responsible for managing the Risk Management Function, including the Corporate Risk Management Co-ordinator. This impairment has, however, been fully addressed through the approach taken to deliver the assignment and report on the findings, conclusions and recommendations. More specifically, the assignment was delivered by the Council's co-sourcing partner, KPMG, and reported directly to the Principal Internal Auditor. Independence is essential and helps ensure the Service provides unbiased judgements and impartial advice to management.
- The Internal Audit Service, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to all of the organisation's records, physical properties and personnel relevant to carrying out any engagement and effectively discharging its remit.
- The primary purpose of internal audit is to provide an annual opinion on the adequacy and effectiveness of the organisation's governance, risk management and control framework. The Internal Audit Plan, therefore, requires to include a programme of work that is sufficient and diverse enough to enable the annual opinion to be informed. The types of review undertaken are grouped into key themes, which are integral to the assurance gathering process across the organisation's activities, specifically governance, ICT, systems, procurement / contract and financial. In addition, the Internal Audit Service may also provide advice and guidance on governance, risk management and control matters, including during specific investigations.
- The existence of an Internal Audit Service does not diminish the responsibility of management to ensure that resources are utilised appropriately, in a manner and on the activities intended, and governance, risk management and control arrangements are sufficient to address the risks that their services are exposed to.
- The Internal Audit Charter, updated in 2018 (Article VI of the minute of meeting of this Committee of 14 February 2018 refers) sets out in more detail, within the context of Dundee City Council, the purpose, authority and responsibility of the Internal Audit Service.

#### **4. AUDIT PLANNING**

- A key component in the effective management of internal audit is planning audit work to ensure that objectives are met, priorities are established, resources are targeted and used effectively, best value is achieved and cognisance is taken of the risk(s) associated within each area.
- To ensure planning is operationally effective, Internal Audit is required to have a clear understanding of the Council's functions / activities, associated risks and potential range and breadth of audit areas for inclusion within the plan. The Internal Audit Plan is compiled on an annual basis and provides a summary of the areas where it is planned that work will be carried out during the forthcoming year. The Internal Audit Plan for the 2018/19 financial year (Report No. 119-2018, Article VI of the minute of meeting of this Committee of 18 April 2018 refers) provides more detail surrounding its development. In line with recognised good practice, however, the Internal Audit Plan was prepared on the best information available at that time.
- The internal audit arrangements are assessed on an annual basis by the Council's External Auditor. In 2018/19 the External Auditor was Audit Scotland. As part of this assessment, the External Auditor considers the activities of internal audit, principally to obtain an understanding of the work carried out and determine the extent to which assurance can be placed on its work. This approach helps to minimise duplication of effort and unnecessary disruption to Council services.

#### **5. AUDIT REPORTS**

- Each audit assignment results in an internal audit report, which includes an executive summary as well as audit findings, recommendations and management responses, where appropriate. The audit report provides management with an action plan, which assigns responsibility and details the timetable for implementation of audit recommendations.

- Within all audit reports a judgement is given on the importance of each audit finding i.e. critical, significant or routine. These judgements are utilised to determine the overall level of assurance / opinion to be assigned to the area that has been subject to review. There are generally four overall levels of assurance i.e. full, reduced, limited and no assurance with corresponding standard opinions. The overall opinion is detailed in the executive summary of each report.
- The findings and recommendations arising from the audit assignments reported upon since the last Annual Report have been discussed and agreed with appropriate officers of the Council and action plans have been put in place to address the areas identified for improvement. The executive summary from each report has been submitted to the Scrutiny Committee for consideration.
- To confirm that management is discharging its responsibility in terms of implementing audit recommendations within the agreed timescales, Internal Audit undertakes formal follow-up work and progress reviews. The outcomes from these exercises are also formally reported to relevant officers and the Scrutiny Committee, along with revised implementation dates where appropriate. The implementation of internal audit recommendations is now being monitored via Pentana, the Council's corporate performance / risk management system.

## 6. KEY EVENTS

- Key operational and strategic events impacting on the Internal Audit Service during 2018/19 include the creation of a new corporate Risk Management Function within the Service and appointment of a new Corporate Risk Management Co-ordinator, utilisation of Pentana for the recording of internal audit recommendations, turnover of strategic and operational-level management / key stakeholders and reporting of the outcomes from the first External Quality Assessment (EQA), carried out by East Lothian Council, a summary of which can be found below.
- Going forward, changes to the way the Council delivers its services will be driven by a number of internal and external factors including future Local Government finance settlements; the C2022 transformational change agenda; Tay Cities Deal; the Waterfront Development; the Education Reform Agenda; GDPR compliance and Brexit. In addition, governance arrangements for the DH&SCP and its IJB will continue to evolve.
- The continuous impact of reduced funding and corresponding changes to the way Council services are delivered has resulted, and will continue to result, in a challenging environment in which internal audit services require to be planned and delivered. Steps will continue to be taken to ensure that any related potential difficulties are identified and managed timeously.
- The Internal Audit Service operated in 2018/19 in conformance with the PSIAS. A requirement of the PSIAS is that the Chief Audit Executive develops and maintains a Quality Assurance and Improvement Programme (QA&IP) that covers all aspects of the internal audit activity. The QA&IP must include both periodic internal self-assessments and five-yearly external assessments, carried out by a qualified, independent assessor from outside the organisation, and enable evaluation of the internal audit activity's conformance with the PSIAS, including the Definition of Internal Auditing and Code of Ethics. In addition, the QA&IP should also assess the efficiency and effectiveness of the Internal Audit Service and identify opportunities for improvement. The PSIAS came into effect in April 2013 and thereafter an initial self-assessment exercise was undertaken. The outcome of that exercise, including potential areas for improvement contained within a QA&IP Action Plan, was formally reported to Scrutiny Committee in 2014 (Article VI of the minute of meeting of this Committee of 10 December 2014 refers). Since then, further self-assessments have been undertaken periodically to monitor progress towards implementing the QA&IP Action Plan, ensure that the Service continues to conform to the requirements of the PSIAS as it evolves / is revised and identify further areas for improvement. A copy of the 2017/18 QA&IP Action Plan, which incorporates the elements outstanding from the original Action Plan, with the most recent progress updates can be found at Appendix C. It should be noted that none of the areas that are partially implemented represent a significant deviation from the requirements contained within the PSIAS.
- To assist its members to meet the five-yearly external assessment requirement detailed in the PSIAS, the Scottish Local Authorities Chief Internal Auditors' Group (SLACIAG) established a collaborative system of formal peer reviews. The Internal Audit Service's first EQA was undertaken by East Lothian Council's Internal Audit Manager and her team during 2017/18 under the SLACIAG arrangement. The outcome of this exercise was very positive, with the report

concluding that the Council's Internal Audit Service fully conforms with 11 of the 13 standards and generally conforms with the remaining 2 standards. A copy of the full report was presented to the Scrutiny Committee in June 2018 (Article VII, Report No. 208-2018).

## **7. PLAN ACHIEVEMENT**

- For the 2018/19 financial year there was a total of 782.50 productive days used for direct audit activities, an increase of approximately 9% on the previous year and broadly in line with the 800 budgeted productive audit days. In terms of total productive days (audit and non-audit), approximately 78% was spent on direct audit activities and 22% was spent on support activities such as strategic management of the Internal Audit Service, audit planning, attendance at / contribution to national groups and staff training and development.
- The 2018/19 Internal Audit Plan included 29 specific internal audit assignments, both at a corporate and service level across the organisation. It also included an allocation of audit days for follow-up reviews, progress reviews, finalisation of audit assignments that commenced in the previous financial year, the provision of advice and guidance to services and specific investigations. Whilst work on the majority of the planned areas for corporate and service reviews included within the plan commenced in 2018/19, there was, due to a number of factors, some changes to the plan and re-scheduling of work into the 2019/20 work programme. These were reported to Scrutiny Committee at its meeting on 17 April 2019 (Article VI, Report No. 154-2019). The reasons behind these changes varied and included, uncertainty surrounding the subject area (Brexit), unsuitable initial timing of planned reviews, efficiencies and an increasing number of enquires in respect of ad-hoc advice and guidance.
- As part of the continuous improvement process within the Internal Audit Service, client feedback questionnaires are issued at the conclusion of each audit. Feedback from this process is used, where appropriate, to improve the quality of the Internal Audit Service going forward. During 2018/19, 15 completed client feedback questionnaires were received. Responses were generally very positive across the Audit Approach and Audit Report statements with 94% rated as strongly agree / agree. In relation to the Communication and Conduct section, the positive rating was slightly down at 86%. This was as a result of some less favourable responses relating to one of the statements within the section, specifically 'the auditor had a good understanding of the area under review'. Having reflected on the last point, Internal Audit believe that the wording of the statement may require to be amended to clarify that it relates to the knowledge level of the auditor on conclusion of the assignment. The positive rating in the Timing section was also lower at 82%, with 5 of the returned questionnaires disagreeing with the statement that the audit was completed within an acceptable timescale. Overall, with one exception, the returned questionnaires indicated that the review was beneficial to the client's area of responsibility.

## **8. OVERALL ASSESSMENT OF GOVERNANCE, RISK MANAGEMENT AND CONTROL**

- Internal Audit activity covered a diverse range of areas including Out of Hours Service, BACS, IR35, Regulation of Investigatory Powers, Contract Specifications, Contact Management, Pension Fund, Health and Safety, ParentPay, Trips and Holidays, Performance Management (Pentana, PPR & Data Integrity), Pupil Equity Fund, Gas Safety, Housing Capital Plan, Fleet Management, GDPR, Communication Strategy, Internal Financial Controls, Risk Management Arrangements, DH&SCP, Grant Claims and Follow-up Reviews. The range of areas covered within the organisation continues to reflect the changing landscape and nature of internal audit work and focusses on evaluating, and contributing towards the improvement of, the organisation's governance, risk management and control framework.
- The 2018/19 reviews of corporate and service systems identified that many of the expected controls are in place and operating satisfactorily in the areas examined. However, audit work also identified a number of areas requiring improvement and, consequently, Internal Audit reports included a range of recommendations and action plans (developed in consultation with management), which, once implemented, will improve the organisation's governance, risk management and control framework.
- In addition, whilst not necessarily directly informed through the planned programme of work, the Internal Audit Service has assisted the Council, through the provision of advice and guidance, to make a number of improvements during 2018/19 to its governance, risk management and control framework, including improvements around the organisation's fraud governance arrangements,

specifically the new draft Anti-Bribery Policy, gas safety, stocktaking arrangements, compliance framework, Mosaic, assurance gathering and resilience in general via the Integrity Group.

- A number of areas are identified as requiring further improvement / development during 2019/20, including the Council's risk management arrangements, assurance mapping, fraud governance arrangements and awareness raising in general, GDPR, business continuity planning, procurement, asset management, leavers process, performance management framework and the introduction of a new risk-based compliance framework. In addition, the recommendations for improvement detailed in the Joint Inspection of Adult Support and Protection report published in July 2018 and the aspects for development detailed in the Education Scotland Inspection of Local Authorities report for Dundee City Council published in June 2018 will continue to be progressed. Senior officers in the Council are aware of these areas and steps are being taken to address them. Some of these areas will feature alongside other areas requiring improvement in the Continuous Improvement Agenda of the Council's Annual Governance Statement and will be formally reviewed and reported on by Internal Audit during the 2019/20 financial year.
- A total of 29 Dundee City Council internal audit reports, including one report on Contract Specifications and Management that brought together the findings and recommendations from 2 separate review areas in the Internal Audit Plan, have been finalised since the last Annual Report was issued. Also included in the total, albeit with a different scoring mechanism, is the Internal Financial Controls review, delivered as part of the 2018/19 Internal Audit Plan to determine the progress made by the Council towards implementing the recommendations made by PwC in two reports issued following the serious fraud incident. A summary of these reports is attached at Appendix A. In general, these reports have been well received by clients, with management agreeing to implement 100% of the recommendations made. Excluding the Internal Financial Controls report, which contained a total of 11 recommendations, a total of 83 recommendations were made in the reports issued on behalf of Dundee City Council. Of these, 6 were categorised as critical (2 of which were classed as critical in the original audit report but mitigating actions had reduced the risk by the time of the follow-up review was carried out), 48 were significant and the remaining 29 were considered to be routine. In comparison, 89 recommendations were made the previous year. Details of 2 audit reviews undertaken on behalf of the IJB, one of which was delivered by the Council's Internal Audit Service, and a summary of the outcome of the progress review exercise carried out during 2018/19 can also be found at appendix A.
- Analysis of the overall audit opinion for the reports issued on behalf of Dundee City Council (excluding the Internal Financial Controls report, which has a different scoring mechanism) highlighted that 14% of the areas reported upon were considered to be well controlled (full assurance), 43% were adequately controlled (reduced assurance) and 43% required improvement (limited assurance). None of the areas reviewed were assessed as having no assurance. A watching brief will continue to be kept on the profile of the overall audit opinions.
- The PSIAS requires the Senior Manager – Internal Audit to provide an internal audit annual opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control, which should be used to inform the Council's Annual Governance Statement. This principle is also affirmed in the Local Authority Accounts (Scotland) Regulations 2014. Attached at Appendix B is the Senior Manager – Internal Audit's annual opinion, which is supported by the audit work carried out by the Internal Audit Service and other relevant information. On the basis of the areas used to inform this process for the year to 31 March 2019, the overall audit opinion reached is that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's framework of governance, risk management and control.





## Summary of Internal Audit Reports and 2018/19 Progress Review Exercise

| Key - Overall Level of Assurance  |   |   |  |
|---|---|---|--|
| <b>F = Full</b><br>The principal conclusion drawn from this review is that there is a sound system of control designed to achieve the system objectives and that the controls are being consistently applied. | <b>R = Reduced</b><br>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. | <b>L = Limited</b><br>The principal conclusion drawn from this review is that there are weaknesses in the system which should be addressed. | <b>N = No</b><br>The principal conclusion drawn from this review is that there are significant weaknesses in the system which must be addressed. |

## i) Summary of Internal Audit Reports

| Report No. | Area Reviewed  | Level of Assurance      | Recommendations |            |             |         |
|------------|--|-------------------------|-----------------|------------|-------------|---------|
|            |  |                         | Total No.       | Importance |             |         |
|            |  |                         |                 | Critical   | Significant | Routine |
| 2017/08    | Out of Hours Service*  | L                       | 4               | -          | 4           | -       |
| 2017/09    | BACS   | L                       | 5               | -          | 2           | 3       |
| 2017/10    | IR35   | L                       | 4               | -          | 4           | -       |
| 2017/12    | Follow-up Review of Regulation of Investigatory Powers         | R                       | 4               | -          | 3           | 1       |
| 2017/14    | Contract Specifications and Management                         | L                       | 5               | -          | 3           | 2       |
| 2017/15    | Pension Fund   | L                       | 3               | -          | 2           | 1       |
| 2017/16    | L&CD Health and Safety   | L                       | 3               | 1          | 1           | 1       |
| 2017/17    | ParentPay  | R                       | 3               | -          | 1           | 2       |
| 2017/18    | Trips and Holidays   | L                       | 2               | 1          | -           | 1       |
| 2017/22    | Pentana  | L                       | 4               | -          | 2           | 2       |
| 2017/23    | Public Performance Reporting (PPR)                             | R                       | 1               | -          | 1           | -       |
| 2017/24    | Data Integrity   | L                       | 4               | -          | 2           | 2       |
| 2017/26    | Follow-up Review of Sub-contractors                            | R                       | 2               | 2          | -           | -       |
| 2017/27    | Stocks and Inventories - 2017/18 Year End                      | L                       | 2               | -          | 1           | 1       |
| 2017/28    | Dundee Partnership Grant Funding – Community Regeneration Fund | R                       | 4               | -          | 2           | 2       |
| 2017/29    | Pupil Equity Funding*  | R                       | 3               | -          | 2           | 1       |
| 2018/01    | 2017/18 Grant Claim – Local Authority Air Quality Action Plan  | F                       | 0               | -          | -           | -       |
| 2018/02    | 2017/18 Grant Claim – Local Air Quality Management             | F                       | 0               | -          | -           | -       |
| 2018/03    | Gas Safety   | R                       | 4               | -          | 2           | 2       |
| 2018/04    | Housing Capital Plan*  | R                       | 5               | -          | 3           | 2       |
| 2018/05    | Fleet Management   | L                       | 5               | -          | 3           | 2       |
| 2018/06    | General Data Protection Regulation (GDPR)*                     | L                       | 8               | 2          | 6           | -       |
| 2018/12    | Communication Strategy*  | F                       | 1               | -          | -           | 1       |
| 2018/19    | Internal Financial Controls*                                   | Follow-up of PwC Report |                 |            |             |         |
| 2018/20    | Risk Management Arrangements*                                  | R                       | 3               | -          | -           | 3       |
| 2018/22    | Follow-up Review of Revenue Monitoring*                        | R                       | 1               | -          | 1           | -       |

| Report No.    | Area Reviewed                               | Level of Assurance | Recommendations |            |             |           |
|---------------|---|--------------------|-----------------|------------|-------------|-----------|
|               |   |                    | Total No.       | Importance |             |           |
|               |   |                    |                 | Critical   | Significant | Routine   |
| 2018/23       | Follow-up Review of Financial Systems*      | R                  | 1               | -          | 1           | -         |
| 2018/24       | Follow-up Review of ICT Risk Management*    | F                  | 0               | -          | -           | -         |
| 2018/29       | Follow-up Review of Information Governance* | R                  | 2               | -          | 2           | -         |
| <b>TOTALS</b> |   |                    | <b>83</b>       | <b>6</b>   | <b>48</b>   | <b>29</b> |

\* Submitted to June Scrutiny Committee (Report 220-2019)

## ii) Summary of IJB Internal Audit Reports

| Report No.                      | Area Reviewed  | Category of Assurance | Recommendations |            |            |            |            |
|---------------------------------|--|-----------------------|-----------------|------------|------------|------------|------------|
|                                 |  |                       | Total No.       | Importance |            |            |            |
|                                 |  |                       |                 | Priority 1 | Priority 2 | Priority 3 | Priority 4 |
| D04/18                          | Risk Maturity Assessment (Review undertaken by Fife, Tayside and Forth Valley Audit and Management Services (FTF) / NHS Tayside) | N/A                   | 1               | -          | 1          | -          | -          |
| D05/18 (DCC Report No. 2017/30) | Transformation and Service Redesign (Review undertaken by Dundee City Council Internal Audit Service)                            | D                     | 6               | -          | 6          | -          | -          |

### IJB Categories of Assurance:

A - Good, B - Broadly Satisfactory, C - Adequate, D - Inadequate, E - Unsatisfactory, F - Unacceptable

## iii) Summary of 2018/19 Progress Review Exercise

As part of the 2018/19 Audit Plan, a total of 57 internal audit reports, 35 of which were also part of the 2017 Progress Review Exercise, were subject to a progress review. In total, there were 119 outstanding recommendations from these audit reports. A summary of the outcome of the progress review exercise is detailed in the table below. A report providing more detail on the progress made towards implementing internal audit recommendations previously reported to and agreed by management was presented to Scrutiny Committee in September 2018 (Article VI of the minute of meeting of this Committee of 26 September 2018 refers).

| No. of Recommendations Outstanding | Fully Implemented | Partly Implemented | Not Implemented |
|------------------------------------|-------------------|--------------------|-----------------|
| 119                                | 45%               | 55%                | -               |

For the recommendations that were partly implemented, assurances were provided to Internal Audit by management that the outstanding areas would be addressed and, where feasible, revised timelines were provided for completion. In terms of management responses to the progress reviews that were undertaken as part of the 2018/19 Plan, it was evident as in previous years that there had been slippage in the anticipated timeframes provided by management for the implementation of the recommendations in full. Whilst the specific reasons for this were varied, there were recurring themes surrounding the introduction of new legislation since the time of the original audit, delays in the replacement or implementation of IT systems and further progress being dependent on the outcome of decisions in terms of service provision.

An update on progress made towards full implementation of the outstanding recommendations will be sought, via Pentana, during the 2019/20 Progress Review Exercise and reported to Scrutiny Committee in September 2019.

## **To the Members of Dundee City Council, Chief Executive and Executive Director of Corporate Services**

As Senior Manager – Internal Audit of Dundee City Council, I am pleased to present my annual opinion for the year ended 31 March 2019. It should be noted that the statement does not include assurances on group activities.

### **Respective Responsibilities of Management and Internal Audit in Relation to the Governance, Risk Management and Control Environment**

It is the responsibility of the Council's officers to determine, establish and maintain sound systems of governance, risk management and control to ensure that the organisation's resources are properly applied in a manner and on the activities intended and that these arrangements are sufficient to address the risks facing their services. This includes responsibility for the prevention and detection of fraud. Management is also charged with monitoring the continuing effectiveness of these arrangements and taking action as appropriate. It is the responsibility of the Senior Manager – Internal Audit to provide an annual assessment of the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

### **Control Environment**

This comprises the governance, risk management and control processes in the context of the Council's defined goals and objectives. The key elements include the following:

- Consistency of operations with established goals and objectives.
- Efficiency and effectiveness of operations and deployment of resources.
- Compliance with significant policies, plans, procedures, laws, and regulations.
- Reliability and integrity of management and financial information processes, including the means to identify, measure, classify and report such information.
- Safeguarding of assets.

A sound control environment reduces, but cannot eliminate, the possibility of poor judgement in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances. It therefore provides reasonable but not absolute assurance that control weaknesses or irregularities do not exist or that there is no risk of material errors, losses, fraud or breaches of law or regulations. Accordingly, the Council is continually seeking to improve the adequacy and effectiveness of its control environment.

### **The Focus of Internal Audit Work**

Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. Through its work, internal audit helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of governance, risk management and control. The Council's Internal Audit Service operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and the Local Authority Accounts (Scotland) Regulations 2014. The requirements under PSIAS represent best practice and these, along with the Regulations, are mandatory.

The Senior Manager – Internal Audit prepares an annual internal audit plan which outlines the work to be undertaken. The internal audit plan is developed utilising a risk-based methodology based on the audit universe and takes into account the requirement placed upon the Senior Manager – Internal Audit to provide an annual internal audit opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. In compiling the plan, input from Elected Members, senior management and any other relevant parties are sought and cognisance is taken of emerging issues. The plan needs to be flexible to be able to reflect the changing risks and priorities of the organisation. The plan, any material changes to the plan during the course of the financial year and any significant matters that may impact upon the delivery of the plan are reported to the Scrutiny Committee as appropriate.

The Internal Audit Service formally reports upon the areas subject to review. Such reports, which identify system weaknesses and / or non-compliance with expected controls, are issued for the attention of service managers and include appropriate recommendations and agreed action plans. It is management's responsibility to ensure that due consideration is given to internal audit reports. This includes management taking remedial action where appropriate or accepting that there may be a level of risk exposure if the weaknesses identified are not addressed for operational reasons. The Senior Manager – Internal Audit must establish a follow-up process to monitor and ensure that audit recommendations have been effectively implemented or, as noted above, that senior management has accepted the risk of not taking action. Matters arising from internal audit work are also reported to the Council's Scrutiny Committee, the Chief Executive, the Council Management Team and Audit Scotland, the Council's External Auditor.

### **Summary of Internal Audit Activity**

A total of 29 Dundee City Council internal audit reports, including one report on Contract Specifications and Management that brought together the findings and recommendations from 2 separate review areas in the Internal Audit Plan, have been finalised since the last Annual Report was issued. These covered a diverse range of areas including Out of Hours Service, BACS, IR35, Regulation of Investigatory Powers, Contract Specifications, Contact Management, Pension Fund, Health and Safety, ParentPay, Trips and Holidays, Performance Management (Pentana, PPR & Data Integrity), Pupil Equity Fund, Gas Safety, Housing Capital Plan, Fleet Management, GDPR, Communication Strategy, Internal Financial Controls, Risk Management Arrangements, DH&SCP, Grant Claims and Follow-up Reviews. The Internal Audit Service also undertook a comprehensive progress review exercise during the year and provided advice and guidance as required surrounding the Council's governance, risk management and control framework.

The audit work during 2018/19 has identified that many expected controls are in place and operating satisfactorily, however, there is scope for improvement. The Internal Audit Service has made a range of recommendations in the areas examined and action plans have been developed in consultation with management which, once successfully implemented, should strengthen the Council's governance, risk management and control framework further.

### **Limitation of Scope or Independence**

In the financial year under review there was no limitation of scope or independence ultimately placed upon the work undertaken by the Internal Audit Service.

### **Basis of Opinion**

My evaluation of the framework of governance, risk management and control is informed by a number of sources which include the following:

- Audit work undertaken by the Internal Audit Service.
- The assessment of risk carried out during the preparation of the 2018/19 and 2019/20 internal audit plans.
- Knowledge of the Council's culture, governance, risk management and performance monitoring arrangements.
- The Self-assessment Checklists completed by the relevant Executive Directors / Heads of Service (including the checklists received from the DH&SCP) for providing formal assurances in respect of the general control environment within individual services.
- Reports issued by the Council's External Auditor together with relevant reports from other external review and inspection bodies.

### **Opinion**

It is my opinion, based on the above, that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's framework of governance, risk management and control for the year to 31 March 2019.

*Pamela Redpath FCCA*

**DATE: 10 June 2019**

**Senior Manager – Internal Audit  
Dundee City Council**

## Quality Assurance and Improvement Programme – 2017/18 Action Plan

| Standard / Area                                 | Action  | Implementation Date | Progress Update  | Revised Implementation Date                           |
|---|---|---------------------|--|---|
| 1100 / Reporting                                | Consider how best to provide updates and reports on Internal Audit Plan progress to the Scrutiny Committee.   | 31 December 2018    | Fully Implemented & Ongoing  | N/A   |
| 1200 / Job Descriptions & Person Specifications | Refresh Internal Auditor Job Description and Person Specification.  | 30 September 2018   | Partially Implemented – benchmarking exercise ongoing  | 31 July 2019  |
| 1200 / Continuing Professional Development      | More formal recording of training / awareness raising for all staff in the team.  | 30 June 2018        | Fully Implemented & Ongoing  | N/A   |
| 1300 / Performance Monitoring                   | Develop performance management / monitoring framework for the Service to feed into the Corporate Finance Service Scorecard.   | 30 September 2018   | Partially Implemented – being developed at the same time as wider Corporate Finance Service                    | 31 August 2019  |
| 2000 / Assurance Mapping                        | Develop the use of assurance mapping.   | 30 September 2018   | Partially Implemented – being developed and taken forward as part of the formal Risk Management Roll-out plan. | 30 September 2019 – per Risk Management Roll-out Plan |
| 2100 / Risk Management                          | Link Internal Audit plan and reviews to risk registers once these have fully developed in the organisation.   | 31 March 2019       | Fully Implemented & Ongoing  | N/A   |
| 2400 / Audit Opinions                           | Refresh standard recommendation / overall conclusions levels and associated terminology following conclusion of benchmarking exercise and stakeholder consultation. | 31 March 2019       | Partially Implemented - benchmarking exercise ongoing  | 31 December 2019                                      |

