

REPORT TO: SCRUTINY COMMITTEE – 26 SEPTEMBER 2018

REPORT ON: INTERNAL AUDIT REPORTS

REPORT BY: SENIOR MANAGER – INTERNAL AUDIT

REPORT NO: 294-2018

1.0 PURPOSE OF REPORT

To submit to Members of the Scrutiny Committee a summary of the Internal Audit Reports finalised since the last Scrutiny Committee.

2.0 RECOMMENDATIONS

Members of the Committee are asked to note the information contained within this report.

3.0 FINANCIAL IMPLICATIONS

None

4.0 MAIN TEXT

4.1 The day-to-day activity of the Internal Audit Service is primarily driven by the reviews included within the Internal Audit Plan. Broadly, on the completion of a specific review, a report which details the audit findings and recommendations is prepared and issued to management for a formal response and submission of management's proposed action plan to take the recommendations forward. Any follow-up work subsequently undertaken will examine the implementation of the action plan submitted by management.

4.2 Executive Summaries for the reviews which have been finalised in terms of paragraph 4.1 above are provided at Appendix A. Within each Executive Summary the prime aim is to provide both Elected Members and management with key information which includes the reason for undertaking the review, a summary of financial data and statistics, the areas encompassed within the review and specific areas which were excluded, the principal audit objectives, an audit opinion on the adequacy of the systems and control framework of the area reviewed, the key conclusions based on the audit findings and recommendations and a summary of management's response to the audit report. The full reports are available to Elected Members on request.

5.0 POLICY IMPLICATIONS

This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management. There are no major issues.

6.0 CONSULTATIONS

The Chief Executive, Executive Director of Corporate Services, Head of Corporate Finance and Head of Democratic and Legal Services have been consulted on the content of this report.

7.0 BACKGROUND PAPERS

None

Pamela Redpath, Senior Manager – Internal Audit

DATE: 5 September 2018

i) INTERNAL AUDIT REPORT 2017/09

Client	Corporate
Subject	BACS

Introduction

BACS is a scheme behind the clearing and settlement of UK automated payment methods, Direct Debit and BACS Direct Credit. It also provides managed services for third parties, such as the Cash ISA Transfer Service, and the development, management and subsequent ownership of the Current Account Switch Service.

The Council uses BACS to make payments to suppliers, clients, employees and pensioners. The service is also used by others to make payments to the Council. The main expenditure streams processed through BACS include purchasing, welfare benefits, payroll and pensions. Payment files are received from various Council services and the Banking Services Team within Corporate Services is responsible for BACS processing.

The main BACS processing system is Microgen Bacstel IP Professional. One-off BACS payments are also processed using Bankline.

There are approximately 1.4 million BACS transactions per year, with a total value of £875 million. This includes approximately 100,000 transactions with a total value of £80 million processed on behalf of other organisations, together with approximately 200,000 transactions with a total value of £120 million in respect of pension payments.

Scope and Objectives

To assess the adequacy of the processes and controls surrounding the preparation, approval and transmission of BACS transactions via the Microgen Bacstel IP Professional System. The controls for one-off payments processed via Bankline were also assessed.

Expenditure initiation and authorisation at transaction level, for example within Civica Authority Financials, were 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:

- The Council is over-reliant on one individual taking on the administrative role on Microgen Bacstel IP Professional. This results in a key person risk as if this individual was absent long term, the Banking Services Team would not be able to add or remove user access rights on the system. To reduce the risk, a second system administrator should be created. This individual should not routinely need access to the BACS system or have permissions in the system to enable them to import or send BACS payments.
- At the beginning of the audit fieldwork some areas requiring improvement were identified surrounding security, more specifically relating to software updates and physical access controls. Steps have since been taken to address these and, going forward, assurances around the enhancements made will be sought from an independent specialist.

Management Response to the Audit Report

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

ii) INTERNAL AUDIT REPORT 2017/12

Client	Corporate
Subject	Follow-up Review of Regulation of Investigatory Powers

Introduction

As part of the planned internal audit work, a follow-up review of Internal Audit Report 2015/12, Regulation of Investigatory Powers, was undertaken.

The original internal audit report concluded that there were weaknesses in the system which should be addressed. The main areas highlighted in the report were as follows:

- Steps should be taken to finalise the Council's Regulation of Investigatory Powers (Scotland) Act 2000 (RIP(S)A) policy statement and submit it for approval to the Policy and Resources Committee. The role of senior responsible officer should be formalised in the policy and the remit should include the requirement to ensure that adequate contingency arrangements are in place for absence of key staff. Thereafter, in line with general best practices, arrangements should be put in place to enable Elected Members to review the policy and scrutinise the Council's use of RIP(S)A.
- A training strategy should be developed for staff with responsibilities in respect of the authorisation or use of covert surveillance and a formal method of cascading information on the key areas of RIP(S)A legislation and the revised Council Guidance Note should be introduced so that staff throughout the Council have an awareness of the activities which are governed by the legislation.

Scope and Objectives

To assess whether or not each of the recommendations agreed by management in Internal Audit Report 2015/12 had been implemented within the given timescales. The follow-up review was restricted to areas included in the original report.

Conclusion

The principal conclusion drawn from the follow-up work undertaken is that whilst some action has been taken to strengthen the control weaknesses highlighted in the original review there are still some recommendations which require to be implemented by management.

The main areas where actions agreed by management are still outstanding are as follows:

- Following the original audit, the RIP(S)A Guidance was updated and approved by the Policy and Resources Committee on 13 June 2016. In March 2018 a copy of the RIP(S)A Guidance, which had been updated to reflect the revised Codes of Practice on Covert Surveillance and Covert Human Intelligence Sources, was issued to staff who use / authorise covert surveillance activities, together with the Codes of Practice. Arrangements in respect of authorising officers are in the process of being finalised and once concluded, a list of these individuals is to be appended to the Council's RIP(S)A Guidance which will then be presented to the Council Management Team.
- A training session was held in 2016 prior to the Office of Surveillance Commissioners' inspection in June 2016, however, there was no further training for all authorising officers and other relevant staff until April 2018. Going forward it would be beneficial if RIP(S)A training could be held more frequently and also following significant events and developments such as future inspections by the Office of Surveillance Commissioners. It would also be beneficial for a representative from each Council service to be in attendance.

Management Response to the Audit Report

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

iii) INTERNAL AUDIT REPORT 2017/15

Client	Corporate Services
Subject	Pension Fund

Introduction

Dundee City Council is the administering authority of the Tayside Pension Fund. The fund is one of 11 Local Government Pension Schemes in Scotland. The Tayside Pension Fund is managed for the benefit of its membership, which includes the majority of Local Government employees (excluding teachers) within Dundee City, Perth and Kinross and Angus councils as well as 41 other scheduled and admitted bodies.

The Dundee City Council Pensions Team (the Pensions Team) is responsible for administering pension records in respect of approximately 18,000 active members, a further 8,500 who have deferred benefits, and the payment of pensions to approximately 15,000 pensioners.

The software solution utilised by the Pensions Team for recording personal data relating to pension entitlements, calculating all such entitlements and producing extracts for fund valuation purposes is the Aquila Haywood's system Altair. Aquila Haywood is contractually bound to ensure that the system is enhanced to keep it configured in line with legislation.

During 2015/16, a self-service module, LGPS PensionsWEB, a CIVICA product which interacts with Altair, was implemented. The module enables scheduled and admitted bodies to share information securely and individual members to access their own pension records via a secure file exchange. The facility is controlled by a combination of username and password access ensuring confidentiality of data.

Scope and Objectives

Review to assess if the LGPS PensionsWEB self-service module is being fully utilised by scheduled and admitted bodies and anticipated benefits are being realised.

Conclusion

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

The main areas highlighted in the report are as follows:

- In order to reduce the risk of inappropriate access to LGPS PensionsWEB, an access administration procedure should be developed which includes delegation of responsibility, template user administration forms, details of acceptable use and the requirement to complete relevant training before accessing the system. New user accounts should only be set up following completion of an appropriately authorised user administration form. An annual staff in post check should also be conducted.
- The use of LGPS PensionsWEB is limited and bodies that are using it are not utilising the system to its full potential in line with expectations. In order to ensure accuracy of pension information and achievement of anticipated benefits a monthly routine should be established to monitor submission of expected information by all scheduled and admitted bodies. If LGPS PensionsWEB is not utilised as expected, this should be escalated to senior officers within the scheduled and admitted bodies along with a reminder concerning their Tayside Pension Fund responsibilities.

Management Response to the Audit Report

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

iv) INTERNAL AUDIT REPORT 2017/16

Client	Leisure and Culture Dundee
Subject	Health and Safety

Introduction

Leisure and Culture Dundee is a Scottish Charitable Incorporated Organisation. It was established by the Office of Scottish Charity Regulator and has been in operation since 1 July 2011. It is an independent Scottish Charity with responsibility for the delivery of leisure, sports, library, information and cultural services in Dundee City. Its overarching purpose is, 'to deliver, for the citizens of Dundee, and those who visit the City, high quality Leisure, Sport, Cultural and Learning Experiences which improve their quality of life.'

Overall strategic direction and control of the organisation is the responsibility of the Board of Trustees. This comprises thirteen members, three of whom are Elected Members from Dundee City Council. The Council also appoints the Managing Director. One Trustee is appointed by the Board as the strategic lead for health and safety whilst the Head of each service area is the designated operational lead for their particular service. Each person employed by the organisation has responsibility for maintaining health and safety standards.

Leisure and Culture Dundee is responsible for ensuring the health, safety and welfare of its employees at work and the health and safety of others who may be affected by its activities. The nature of certain activities requires specific consideration, and Quality Leisure Management has been contracted to provide advice, guidance and support on health and safety matters relating to leisure and sport services.

A Health and Safety Policy and Management Framework sets out the main management arrangements, having been endorsed by the Managing Director and approved by Leisure and Culture Dundee's Health and Safety and Property Committee.

Scope and Objectives

High level review of the arrangements in place within Leisure and Culture Dundee to identify, manage and mitigate health and safety risks, including the arrangements in place to deliver a safe working environment for employees who are required to work alone.

Conclusion

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

The main areas highlighted in the report are as follows:

- The H&S Policy and Management Framework should be updated and approved by the Board on an annual basis to ensure compliance with legislation. The Section 9 for each service area should also be reviewed and approved on an annual basis, as per the requirements outlined in the Policy.
- A review of fire risk assessments should be carried out as soon as possible by City Development in conjunction with Leisure and Culture Dundee with a view to highlighting any facilities that have outstanding or overdue fire risk assessments. Steps should then be taken to ensure that fire risk assessments are carried out as required at those facilities. A representative from L&CD should be in attendance, as appropriate, when the fire risk assessments are carried out.
- A detailed register of all risk assessments should be maintained to ensure completeness of arrangements across services within L&CD. This should be reviewed regularly by each Service Manager / Head of Service. Completed risk assessments should also be signed by the Service Manager / Head of the Service to evidence that they are checking risk assessments are being completed and reviewed timeously.

Management Response to the Audit Report

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

v) INTERNAL AUDIT REPORT 2017/27

Client	Corporate
Subject	Stocks and Inventories – 2017/18 Year End

Introduction

A review of the year end arrangements for stocks and inventories across the Council was part of the planned internal audit work.

The Council's Financial Regulations with respect to stores and inventories state that the safe custody of stores and equipment shall be the responsibility of the Executive Director concerned and the Executive Director shall make a return of all material stocks and stores to the Executive Director of Corporate Services at the end of each financial year. Services are responsible for ensuring that there are adequate stocktaking arrangements and formal written guidance in place for staff who are involved in stock checks and the guidance should be reviewed on an annual basis and updated as appropriate. The year-end stock check should be undertaken as close as possible to the Council's financial year end, which is the 31 March. Some locations may also undertake interim stock checks during the course of the year. On completion of a stock check, the physical stock count records are reconciled to the book stock. No adjustments in respect of stocks and stores shall be made to write-off deficiencies or to bring surpluses into charge unless authorised by the Executive Director of Corporate Services.

The value of stocks and work in progress across the Council at the end of the 2017/18 financial year was of the order of £1.1 million.

Scope and Objectives

Review of stocktaking arrangements for the year ending 31 March 2018 including attendance at the year-end stock count within Construction Services.

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:

- A review of the items classed as stock should be carried out by staff within Construction Services in conjunction with accounting staff in Corporate Finance. Thereafter, accounting staff should assess any relevant findings / recommendations and, in conjunction with service areas, implement revised arrangements where required.
- Procedures should be developed within Construction Services to identify, account for and, where possible, put measures in place to eliminate, variances between physical stock and stock records throughout the year, including a system to monitor the van stock and improve the accuracy of records maintained by staff.

Management Response to the Audit Report

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

vi) INTERNAL AUDIT REPORT 2017/28

Client	Chief Executive's Service
Subject	Dundee Partnership Grant Funding – Community Regeneration Fund

Introduction

Since 2004 Dundee City Council has made available a Community Regeneration Fund to support community activities, administered by the Dundee Partnership Team. This team is part of the Community Planning Service within the Chief Executive's Service. The Dundee Partnership itself brings together the strengths of key City agencies including the Council, Scottish Enterprise, Tayside Police and NHS Tayside, along with local academic institutions and representatives of the business, voluntary and community sectors.

Funding is allocated to projects that make a strong and direct contribution to the delivery of outcomes agreed as part of The City Plan for Dundee and / or Local Community Plans. Dundee has six wards containing Community Regeneration areas and funding is allocated to each, totalling £966,188 for the year ended 31 March 2018. Additional allocations of £20,000 were also made available to Dundee's two other Wards in the year.

Each of the six Community Regeneration wards has a Community Regeneration Forum, with up to 15 local community representative members on each, to consider and make recommendations on funding applications to the Building Stronger Communities Group each month. The funding is made available for projects which contribute to outcomes in respect of Youth Inclusion activities, Physical and Environmental Improvement and for Small Grants. In respect of the two further other wards, the Local Community Planning Partnership is responsible for commissioning agencies / groups to carry out work.

The Youth Inclusion Fund provides financial assistance for community initiatives aimed at working with children and young people. The Physical and Environmental Improvement Fund provides assistance to capital projects aimed at improving the local area and Small Grants (up to £5,000) are awards that contribute towards the Local Outcome Improvement Plan, which prioritises development areas in the City.

Community Regeneration Funding is available to local groups, voluntary sector agencies and public sector bodies (including Dundee City Council). Private sector companies are also able to apply where their aims meet the Dundee Partnership aim of reducing inequalities and tackling deprivation. Applicants applying for funding use an application form which is available from the Dundee Partnership website, with around 200 applications received across the wards each year. Grant letters are issued to successful applicants setting out their responsibilities and the conditions of award. These responsibilities include: the maintenance of financial records for the related projects; submission of activity and outcome reports; submission of supporting evidence for all expenditure; and agreement to comply with employment legislation.

Scope and Objectives

Review of the processes in place for receiving, recording, assessing, approving, allocating and monitoring Community Regeneration Fund applications.

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:

- There is no formal process in place to ensure that applications for activities which are expected to deliver the best outcomes receive funding, regardless of the month in which the application is received. The current process is based on a first come, first served premise which means that "high outcome" applications may be rejected if there is no funding remaining in ward budgets. To reduce this risk, it is recommended that rules and guidelines are introduced into the application process to ensure parity across all application types and for applications received throughout the

year. This could be achieved through introducing application deadlines.

- In order to reduce the risk of grants being approved for amounts greater than necessary and therefore compromising Value for Money, a more robust process is required to ensure that candidates always provide three quotes to support the costs in their applications. The requirement to submit three quotes for grant applications over £6,000 (being the threshold for 2018/19) should be adhered to, and applications should not progress to evaluation stage without them. The £6,000 threshold for quotations should also be clarified as to whether it refers to the full award or just the capital element of the related costs.

Management Response to the Audit Report

The audit findings and recommendations were formally reported to the Chief Executive and appropriate action agreed to address the matters raised.

vii) INTERNAL AUDIT REPORT 2018/01

Client	Neighbourhood Services
Subject	2017/18 Grant Claim – Local Authority Air Quality Action Plan

Introduction

The Council was awarded grant funding of £141,500 by Scottish Ministers for the 2017/18 financial year to assist with progressing its Air Quality Action Plan. An additional amount of £35,934 was included in this claim, which relates to the authorised carry forward from 2016/17 for the purposes of completing the traffic assessment in the Seagate and the bus movement review in Crichton Street, Whitehall Street and Nethergate. The total amount of funding available in 2017/18 was, therefore, £177,434.

The amount expended during the 2017/18 financial year in respect of this grant totalled £147,239, of which £117,239 was spent directly by the Council. The remaining £30,000, which relates to work undertaken by NMF Modelling procured on behalf of the Council by Transport Scotland, was paid by the Scottish Government directly to Transport Scotland. In addition, approval was given to carry over and utilise a further £30,195 to 2018/19 for the purposes of extending the contracts of some graduate trainees.

The funding conditions of this grant state that at the end of each financial year, the Council is required to prepare an account showing the expenses reasonably and properly incurred by it in executing the Project during that financial year and the amount of funding support received by it from Scottish Ministers. This account requires to be certified as true and accurate and in addition, where the amount exceeds £10,000, requires to be audited by a member of a recognised accountancy body.

Scope and Objectives

The overall aim of this review was to enable the Senior Manager – Internal Audit to provide an opinion as to whether or not the grant funding received in respect of the above subject has been spent in accordance with the related Terms and Conditions. The £30,000 paid directly to Transport Scotland from the Scottish Government was excluded from the scope of this review.

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.

viii) INTERNAL AUDIT REPORT 2018/02

Client	Neighbourhood Services
Subject	2017/18 Grant Claim – Local Air Quality Management

Introduction

The Council was awarded grant funding of £105,000 by Scottish Ministers for the 2017/18 financial year to assist with Local Air Quality Management. In addition, permission was obtained to carry forward £5,645 from 2016/17 for the purposes of funding the Source Characterisation and Identification Project. The total amount of funding available in 2017/18 was, therefore, £110,645.

The full amount of £110,645 was expended during the 2017/18 financial year, £65,645 of which was spent directly by the Council. The remaining £45,000, which relates to work undertaken by NMF Modelling procured on behalf of the Council by Transport Scotland, was paid by the Scottish Government directly to Transport Scotland.

The funding conditions of this grant state that at the end of each financial year, the Council is required to prepare an account showing the expenses reasonably and properly incurred by it in executing the Project during that financial year and the amount of funding support received by it from Scottish Ministers. This account requires to be certified as true and accurate and in addition, where the amount exceeds £10,000, requires to be audited, by a member of a recognised accountancy body.

Scope and Objectives

The overall aim of this review was to enable the Senior Manager – Internal Audit to provide an opinion as to whether or not the grant funding received in respect of the above subject has been spent in accordance with the related Terms and Conditions. The £45,000 paid directly to Transport Scotland from the Scottish Government was excluded from the scope of this review.

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.

