

REPORT TO: SCRUTINY COMMITTEE – 27 SEPTEMBER 2017

REPORT ON: INTERNAL AUDIT REPORTS

REPORT BY: SENIOR MANAGER – INTERNAL AUDIT

REPORT NO: 307-2017

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: 7 September 2017

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i) INTERNAL AUDIT REPORT 2016/17

Client	Corporate
Subject	Journal Entries

Introduction

A review of the working practices and procedures in place over general ledger journal entries was part of the planned internal audit work.

Journal entries are the mechanism by which entries are made in the Council's general ledger (the main ledger recording financial accounting transactions). Journals can be automated, to reflect the financial outcomes of a feeder system, or manual, to incorporate judgemental or adjusting entries. Manual journals tend to be higher risk due to their ad-hoc nature and there is a need for appropriate authorisation and review controls to be in place to ensure that this risk is appropriately mitigated.

User groups have been set up on the Council's general ledger, Civica Financials, which set the level of access and authority of each user group member. In addition to these automated access controls, manual controls are in place over journals (identified as 'JTRAN' on the financial system) which span two or more services and require additional approval before they are posted to the financial system.

Of the order of 15,000 manual journals were posted during the twelve month period to 31 August 2017.

Scope and Objectives

Review of the working practices and procedures in place surrounding the creation, authorisation, posting, evidencing and monitoring of journal entries. In addition, as part of the review a range of Management Information from Halo was provided to management at a workshop held to highlight and discuss key messages.

Conclusion

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

The main areas highlighted in the report are as follows:

- To enhance the consistency and quality of journal preparation and documentation, procedures for the creation, authorisation and posting of general ledger journals should be formally documented. These procedures should include definitions for sufficient justification and adequate supporting documentation. The procedures should be used to supplement the one to one training that is currently provided and reviewed regularly to ensure they remain up-to-date and relevant.
- The Civica Financials system should be reconfigured to automatically enforce, as a minimum, independent authorisation of higher risk journal types prior to posting. In addition, the Council should establish whether or not levels of authorisation can be incorporated into the control, to allow a risk based approach to be introduced around who should authorise certain types of journal.

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 2016/25

Client	Leisure and Culture Dundee
Subject	Risk Management

Introduction

A review of Leisure and Culture Dundee's risk management arrangements against recognised good practice was part of the planned internal audit work.

Leisure and Culture Dundee is an independent Scottish charity with responsibility for delivery of leisure, sport, library, information and cultural services in Dundee City. The services provided by Leisure and Culture Dundee are delivered on behalf of and partly funded by Dundee City Council.

Within Leisure and Culture Dundee, risk management is the responsibility of the charity trustees, of which there are 13, four of whom are Elected Members from the Council. The Board of Trustees conduct reviews of risk within the organisation and a formal business risk assessment is undertaken periodically. The latest business risk assessment was performed in July 2016 and highlights risks identified under the categories of financial, compliance, operational, governance and environmental/external.

Leisure and Culture Dundee is entrusted with the delivery of numerous and varied public services across Dundee, including Leisure and Sport services, Library and Information services and Cultural services, all of which provide community engagement and education. It is, therefore, important that there are sound risk management arrangements in place to capture and record all risks and manage and escalate these appropriately. Effective communication and reporting on risk between Leisure and Culture Dundee and the Council are also vital to ensuring that risks are being managed in line with the Council's risk management arrangements. This will also allow the Council to remain aware of the risk profile of Leisure and Culture Dundee and any risks that the Council faces from its activity.

Scope and Objectives

Review of Leisure and Culture Dundee's risk management arrangements against recognised good practice.

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 business risk assessment / register document should be updated to consider the risk of non-compliance with relevant regulations. In particular, as Leisure and Culture Dundee is a Scottish Charitable Incorporated Organisation and as such is subject to charity-specific regulations, a formal assessment of the risks relating to the retention of its charitable status should be carried out.
- In order to ensure that the business risk assessment / register document remains up-to-date, complete and accurate, formalised processes should be implemented to ensure that current risks, corresponding controls (including implementation of actions) and scores are considered on a regular basis and evolving risks are timeously identified and considered for inclusion in the document. Inherent (gross) risk scores should be incorporated into the document so that the evaluated strength of existing mitigating controls and the reliance placed on them can be easily determined.

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.

iii) INTERNAL AUDIT REPORT 2017/01

Client	Neighbourhood Services
Subject	2016/17 Grant Claim : Local Authority Air Quality Action Plan

Introduction

The Council was awarded grant funding of £151,500 by Scottish Ministers for the 2016/17 financial year to assist the Council in progressing its Air Quality Action Plan. An additional amount of £19,000 was included in this claim, which relates to the authorised carry forward from 2015/16 for the purposes of completing the Active Travel Schools Programme. In respect of this grant, £117,065.98 was expended during 2016/17 and approval was given to carry over and utilise a further £35,934 to fund the Crichton Street / Whitehall Street / Nethergate bus movement review and the completion of the assessment of traffic and urban realm issues on the Seagate. The remaining £17,500.02 was not claimed due to a delay in the Fibre Comms for Traffic Signals project and instead a new bid will be submitted in 2017/18 to contribute to the cost of additional traffic data collection for the CAFS (NMF) National Modelling Framework for Dundee.

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 the 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.

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.

iv) INTERNAL AUDIT REPORT 2017/02

Client	Neighbourhood Services
Subject	2016/17 Grant Claim : Local Air Quality Management

Introduction

The Council was awarded grant funding of £9,000 by Scottish Ministers for the 2016/17 financial year to assist them with Local Air Quality Management. In respect of this grant £3,355 was expended during 2016/17 and approval was given to carry forward the balance of £5,645 to 2017/18 for the purposes of funding the Source Characterisation and Identification project. An additional amount of £45,000, which had been carried forward from 2015/16, has not been included in this claim due to a delay in the Cleaner Air for Scotland - The Road to a Healthier Future (CAFS) project around the National Monitoring and Modelling Framework (NMF) methodology. A new bid will be submitted in 2017/18 to fund this work.

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 the 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.

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.