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REPORT TO: **AUDIT AND RISK MANAGEMENT SUB-COMMITTEE**

REPORT ON: **EXTERNAL AUDIT REPORTS**

REPORT BY: **PEARL TATE, SENIOR AUDIT MANAGER**

REPORT NO: **479-2009**

1 PURPOSE OF REPORT

1.1 To submit to Members of the Audit and Risk Management Sub-Committee the External Audit Report finalised since the last Sub-Committee.

2 RECOMMENDATIONS

2.1 Members of the Sub-Committee are asked to consider each of the individual reports and to note the submission of the SPI s and grant claims.

3 BACKGROUND

3.1 The following elements of the 2008/09 Annual Audit Plan have been finalised since the last Sub-Committee meeting:

- Corporate Governance – Systems Assurance

- ICT Review – Change Management

- ICT Review of Grimley Valuation and Asset (GVA) Property Management System

- ICT Review of Authority Financials System

- ICT Review of Resourcelink Payroll System

- Cash Management

- Statutory Performance Indicators (return)

- Grant Claims submitted to date have been completed by the required date.

3.2 External audit are currently concluding the audit of the council's statement of accounts which is on schedule for completion by 30 September. The final report to members is expected to be submitted by the target date of 31 October.

Pearl Tate
Senior Audit Manager
21 September 2009

Dundee City Council

Corporate Governance : Systems Assurance

June 2009

AUDIT SCOTLAND

Contents

Corporate Governance: Systems Assurance

Introduction

1. Our 2008/09 Annual Audit Plan highlighted that we would undertake a review of the council's corporate governance arrangements in a number of key areas. This report summarises our findings from a review of the Internal Audit function and testing of high level controls we plan to rely on for our audit of the financial statements.

Internal Audit

2. As part of our planning process we carried out an early assessment of the internal audit function in accordance with International Standard of Auditing 610 *Considering the Work of Internal Audit*. This included a review of the:

    *   organisational status of internal audit

    *   technical competence of staff within the internal audit section

    *   nature of the assignments undertaken

    *   quality of audit work and

    *   various documents such as internal audit plans and reports.

3. We found that the internal audit function is well managed and staff are experienced and competent. However, there has been some slippage against internal audit plans both this year and in previous years largely due to staffing shortages. This may have a knock on impact on the 2009/10 internal audit plan   Whilst we are aware that the Chief Internal Auditor has been and continues to actively seek ways of addressing this slippage consideration may need to be given either to revisiting the internal audit staffing numbers or planned outputs.

4. In recent years, Internal Audit departments within Scottish Local Authorities have reduced the level of controls testing carried out on key financial systems which has resulted in external auditors taking less assurance from this area of internal audit work. Whilst internal audit findings at Dundee City Council over the last few years have contributed to other areas of our work as external auditors, we are currently liaising with the council's Chief Internal Auditor to build in more controls testing into the internal audit plan to provide us with assurance on the financial systems in future years.

Internal Control Systems

5.   During March to May 2009 we carried out audit testing focussing on the high level central and departmental controls in place within key internal control systems, namely:

- budgetary control,

- payroll,

- pension contributions and investments,

- accounts payable,

- accounts receivable,

- council tax billing,

- non domestic rates billing,

- benefits,

- housing rents,

- Social Work residential homes database,

- cash management and

- capital accounting.

6.   The departments visited as part of this review were: Education, Social Work, Housing, Economic Development, Finance, Leisure & Communities, Planning & Transportation, Contract Services and Waste Management.

7.   In general, we found a good level of control to be in place both centrally and at departmental level although some risks in relation to the following areas were noted:

- Upgrades to the payroll system

- Variations across departments in the use of procurement systems

- The lack of reconciliations between the pensions system and the general ledger and the benefits system and the general ledger.

Action plan, nos 1-4

8.   A separate report on our findings from the cash management review will be issued shortly.

9.   Consideration should also be given to addressing the areas highlighted in Appendix B to further improve the control environment.

Appendix A - Risk Summary and Action Plan

No.	Issue and risk	Responsible officer	Response and agreed action	Action date
	Payroll			
1	There have been no upgrades or patches run on the Resourcelink system since it was initially implemented. As a result an upgrade from Version 1 to Version 6 was required prior to the start of 2009/10. The process did not go smoothly and officers have expressed concerns to the software provider, Northgate. There are a number of different reasons for the system to be upgraded – statutory changes, system enhancements or critical updates. Some upgrades may relate to changes in regulations in other countries and therefore the council would not need the update. We found no evidence of a systematic approach to determining which upgrades had to be tested and implemented. *Risk: Essential upgrades to the system are not timeously identified, tested and implemented which could have a direct impact on the smooth running of the payroll system.*	Payroll Manager	Throughout the move from Version 1 to Version 6 deliberate decisions were made not to upgrade. This was because the benefits of the upgrade did not outweigh the risks of delaying or destabilising the system when migration was taking place. The test database was also being used for migration so was not available for the level of testing required for upgrade. Going forward each upgrade will be assessed to determine most appropriate time for implementation in light of scope for testing, payroll deadlines and associated risks. The Resourcelink Project Board met regularly throughout this period and there are minutes of these meetings.	Ongoing
	Pension Contributions and Investments			
2	There is no reconciliation carried out between the general ledger and the Axis pension system. The pension scheme accounts are prepared from the general ledger and are used for actuarial reviews. The information contained on Axis is also used by actuaries and officers in making pension scheme decisions. *Risk: The lack of a reconciliation between the general ledger and Axis increase the risk that pension scheme decisions are taken based on inaccurate information.*	Chief Exchequer Officer	Transfer values are reconciled between the systems on a quarterly basis. This has been completed for a 9 month period to 31 December 2008 and work on the next 3 months will start shortly. Refund values are less significant and they will be reconciled on an annual basis. The year to 31 March 2009 has not been started yet.	Ongoing

No.	Issue and risk	Responsible officer	Response and agreed action	Action date
	Accounts Payable			
3	We noted that some departments are continuing to use a manual purchasing system, others use the Authority Purchasing module and a number use both approaches. The Authority Purchasing module (ordering) feeds directly into both the general ledger, to create a commitment, and to the Purchase Ledger where invoices are automatically matched to orders when the order number is input. Due to problems with embedding Authority Purchasing across the council, this matching control was not fully operational during 2008/09. Whilst the majority of invoices were matched to purchase orders a significant number of unmatched orders were carried forward to 2009/10. Those older than a date determined by the Purchasing Section and which could not be matched to an invoice, were deleted. *Risk*: *Departmental variations in the use of Authority Purchasing reduce the level of efficiencies achievable.* *Commitment figures used in budgetary control reports are inaccurate as orders are not being timeously matched to invoices paid.*	Principal Accountant (Procurement Team)	The responsible Officer is aware of the current situation and is currently implementing a plan to roll out the Authority Purchasing System across the council completely by March 2010. This process includes reaffirming current basic procedures (e.g. matching invoices to receipted orders) as well as making available new system developments. Achieving this target is dependant upon sufficient resources being available. Procurement procedures in Key Departments are currently being reviewed to: • inform the roll out process • identify efficiencies through the "systems thinking" approach. In addition, the system is continuing to be developed to make available increased functionality to all users across the council.	March 2010

No.	Issue and risk	Responsible officer	Response and agreed action	Action date
4	**Benefits** There is no reconciliation between the benefits system and the general ledger. This issue has been raised in audit reports for several years. *Risk: The benefits figures in the general ledger are inaccurate which will impact on the accuracy of both the council's annual accounts and the housing benefit and council tax benefit subsidy claim.*	Training & Systems Manager / Senior Council Tax and Benefits Manager	It is accepted that there has been no reconciliation, however, it is considered that the absence of this does not affect the accuracy of the subsidy claim as payables and subsidy are reconciled within I-World for each benefit claim. The subsidy claim is then audited and agreed each year. Investigation is required to ascertain: 1. exactly what is fed into the ledger from Iworld 2. whether this is correct 3. what exactly can be reconciled The interface of SX3 to Authority Financials will also be raised by the General Ledger Controller within the national Authority Financial's user forum and any appropriate action taken thereafter.	March 2010

Appendix B

Findings from 2008/09 audit testing of internal control systems

1.   Payroll

Starters and leavers reports are reviewed monthly to ensure accuracy and completeness. However, these reviews are not always evidenced, thereby reducing assurance that the check has been carried out.

2.   Pension Contributions and Valuations

The Axis pension system is updated for pension increases on the first Monday of the new tax year, as is the Resourcelink pension payroll. Spot checks between these two systems are carried out by the Pensions Manager to ensure they agree. However, as no evidence of this control is retained we could not determine whether the control was operating effectively.

3.   Accounts Receivable

The Head of Finance authorises amounts to be written off as uncollectable debts. We were unable to find evidence that the amounts authorised for write-off are agreed to the actual amounts written off in the general ledger.

Council comment: Invoices are sometimes paid or credited during the period between when this list is approved and the entries are processed in the ledger, this can result in the actual figure being processed in the ledger differing form that of the total approved by the Head of Finance. In future, a reconciliation will be produced agreeing the ledger amount to the approved total.

4.   Council Tax

We noted that the last review of exempt properties was carried out in January 2008. A report on exempt properties had been produced in January 2009 but due to workload pressures no checking had been done on the 2009 report.

Council comment: The above statement is correct, although we would point out that exempt properties will be again reviewed in 2009/10.

We were advised that spot checks are carried out on debts to be written off at the year end. However, as these checks were not evidenced, we were unable to determine whether this control was operating effectively.

Council comment: Procedures are changing to reduce the volume of reports we print and store, so now the write off report is produced and stored electronically. It has been noted that this means that no details are with it to prove that spot checks have taken place. A standard form will be drafted to record the checks carried out for future years.

5.   Social Work Residential Homes System

The National Care Home contract sets out the rates to be paid and the Social Work & Health Committee agrees the rates to be paid annually. The rates update to the Residential Homes system was carried out by the IT department in consultation with the Social Work department. Whilst we were advised that this process was complete and accurate for the first payment period in 2008/09, there was no evidence available to support this.

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Mr Alex Stephen
Chief Executive
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14 July 2009

Dear Mr Stephen

2008/2009 Audit – ICT Change Management

As agreed in our 2008/09 Annual Audit Plan, we completed an information technology review of change management processes within the IT Department. Change management controls are necessary to ensure the stability of computer installations, continuous service delivery and the continuous achievement of security objectives. Effective change management underpins all aspects of the Council's IT environment.

We asked management to describe the controls they use and we are pleased to report that testing showed the controls to be operating as described, with the exception of the provision of a monthly list of leavers by the Payroll section. Although we understand that this control was immediately reinstated, there is a risk that the list of approved network users is out-of-date. We also noted the following issues that are recognised as longer term:

- At present there is a lack of a detective control to confirm that infrastructure is built and configured to defined standards. We understand that the IT department are procuring an asset management tool to cover this weakness;

- Application changes are not subject to full separation of duty between development and live operations. This involves the risk of inadequate testing before an application change is implemented and unforeseen consequences if a developer circumvents the formal change management process;

- The process for evaluating application changes depends on a significant amount of senior manager input and knowledge. This is mostly undocumented. There may be a risk that if key personnel leave, the ability to provide ongoing support for some applications may be impaired.

We also considered change management more generally because of its importance to operational efficiency. When changes have a low success rate [i], a significant amount of an organisation's IT budget can be spent on operations and maintenance, instead of the deployment of new capabilities. The IT department currently uses performance measures to show whether Service Levels are met, and there is a risk that these may encourage quick rather than long-term solutions. Accurate and regular reporting of information on downtime, emergency changes, unplanned work and change success rate would improve the balance in performance reporting and may lead to efficiency gains.

Yours sincerely

M. Tate

Pearl Tate
Senior Audit Manager
cc:
Mrs M Stewart, Head of Finance
Mr G Bell, Head of Information Technology
Mrs S Dailly, Chief Internal Auditor
Mrs G Battison, Performance Audit

Risk Summary

Risk No	Risk Exposure	Planned Assurance Action	Responsible Officer	Target Date
1.	The list of approved users to the council's network may be out of date.	Payroll linked process now fully in place - to be augmented by regular verification process - Implementation team Leader.	IT Manager - Implementation	31 July 2009
2.	System changes and obsolete equipment builds may not be detected.	IT Asset Management database to be fully implemented.	IT Manager - Implementation	31 Dec 2009
3.	A developer could destabilise a live system by carrying out and implementing an uncontrolled change.	Risk assessment based process to be fully implemented in Software Section. Will be subject to change control discipline.	Software Manager - Software Development	30 Sep 2009
4.	If key applications personnel leave, the ability to provide ongoing support for some systems may be impaired.	Develop key systems/personnel matrix, to identify and resolve coverage arrangements.	Head of Information Technology	31 Oct 2009
5.	Scope to achieve efficiency savings through improving change management processes may not be recognised.	Enhanced measurement and reporting of change management implications to be reported to Monthly management Team.	Support Manager - Information Technology	31 Oct 2009

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[i] Change success rate can be defined as successfully implemented changes (those that did not cause an outage, service impairment or an episode of unplanned work) as a percentage of actual changes made (Global Technology Audit Guide 2 – Change and Patch Management Controls (2005) The Institute of Internal Auditors).

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Mr Alex Stephen
Chief Executive
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22 June 2009

Dear Mr Stephen

2008/2009 Audit – ICT Review of Grimley Valuation and Asset (GVA) Property Management System

As agreed in our 2008/09 Annual Audit Plan, we completed an information technology review of the computer system used by Economic Development to store property asset management data. This system stores rents and repairs information for all Council-owned non-housing property and has interfaces to the financial system and to the Dundee Contract Services management system.

This initial review of the GVA system focussed on the software application and did not extend to an assessment of the accuracy or completeness of information held on GVA. This letter highlights only those matters which came to our attention during this ICT review.

We noted that between March 2008 and February 2009, following the Authority Financials migration, the interface for transferring a memorandum of repair costs to GVA from the financial system did not operate reliably. This may affect the quality of property asset management data and we understand work is currently on-going to update GVA and prove its completeness.

During our audit, we noted some opportunities to improve controls built into the system. In particular:

- There are a large number of user accounts covering staff in all departments. The system for updating the list of users is reliant on departmental managers to notify the administrator of changes. Although consistent with the security policy, managerial responsibility is prone to result in delays to notification. This coupled with the lack of a formal process to support the periodic audit of access rights, increases the risk that access rights of staff are not consistent with business requirements;

- Password policy in the system is not set to enforce the part of the council's password standard that requires repeated unsuccessful logon attempts to lead to denial of service and subsequent investigation.

Yours sincerely

Pearl Tate
Senior Audit Manager

Cc
Mrs M Stewart, Head of Finance
Mr D Grimmond, Director of Economic Development
Mr M Galloway, Director of Planning & Transportation
Mr G Manzie, Accounting Manager
Mrs S Dailly, Chief Internal Auditor
Mrs G Battison, Performance Audit

Risk Summary

Risk No	Risk Exposure	Planned Assurance Action	Responsible Officer	Target Date
1.	GVA may not include a complete account of property expenditure between March 2008 and February 2009.	It is acknowledged that differences may exist for this period although since the interface between GVA and Authority Financials was completed this risk has been removed. Manual updates are being undertaken to ameliorate the position for the above period.	Team Leader (Information & Support)	September 2009
2.	There is a risk that access rights of staff are not consistent with business requirements.	Access rights will be permitted to satisfy Departmental requirements subject to the necessary safeguards which are in place to protect the integrity of the database. Regular auditing of access permissions will be undertaken.	Team Leader (Information & Support)	Completed
3.	System password policy is not set to enforce the council's password standard.	Settings have been changed to lock out user if password entered wrongly > 3 times.	Team Leader (Information & Support)	Completed

AUDIT SCOTLAND

Mr A Stephen
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25 August 2009

Dear Mr Stephen

2008/2009 Audit – ICT Review of Resourcelink Payroll System

As agreed in our 2008/09 Annual Audit Plan, we completed an information technology review of the Resourcelink Payroll and Human Resources system. This system now handles all Council payrolls, and completed its first major upgrade this year. It also hosts the payroll of external bodies such as the Tayside Pension Scheme, Tayside Police and Tayside Fire and Rescue. It has the potential to play an important role in the efficiency programme, for example sickness/absence. Our review focussed on technical aspects of system administration and support.

We are pleased to report that the system administration team was strengthened last year with an additional member. The following control points arise out of the development of the system from implementation and roll-out to business-as-normal.

- As a combined payroll and human resources system, with a large and growing user-base, system security controls are a significant consideration. We are pleased to report that the system has adaptable security controls, which we were informed, are used to tailor access rights to user needs. However, at the time of the audit, reports were not available to demonstrate that users are organised in appropriate groups, with appropriate access rights, in accordance with principles of separation of duty and "least access" [1].

- In a mature system it is usual for separation of duty controls to be applied to separate business management from system administration functions. Although we understand that separation of duty controls are applied operationally to payroll administration, the payroll managers are also Resourcelink system administrators. Whilst we note that this approach gives operational flexibility, it dilutes the impact of separation of duty controls.

- The system does not record who made changes to standing data, such as the creation of employees and the amendment of user profiles and banking details, and who ran significant processes. Audit trails give users accountability for their actions and are an essential control when separation of duty principles are not strictly enforced. Without an audit trail, it is not possible to confirm that all changes to system parameters have been authorised.

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[1] Least Access Principle: the information management principle that a user should be granted on the least level of access required to do the job.

The further development of controls embedded in the system to give transparency, and possibly workflow controls, would reduce the requirement for paper-based evidence of control operation and the probability of internal control issues.

Yours sincerely

M. Tate

Pearl Tate
Senior Audit Manager

cc:
Mrs M Stewart, Head of Finance
Mr A Mooney, Payroll Manager
Mrs S Daily, chief Internal auditor
Mrs G Battison, Performance Audit

Risk Summary

Risk No	Risk Exposure	Planned Assurance Action	Responsible Officer	Target Date
1.	Without reports detailing the members of each user profile and the rights attached to each profile, it is hard to detect inappropriate or anomalous permissions.	In the initial set-up of the system security a separate Security Profile was created for each type of user within the relevant department to ensure that the 'least access' principles were applied. The individual access rights of each operator can be determined within the Resourcelink HR System by referring to their Security Profile and 'drilling-down in order to determine which Structure Units that the operator has access to. The absence of these reports is not considered to diminish the level of control which has been set up within Resourcelink, however, it is agreed that when the new Business Objects universe is created, a report will be developed to assist in providing the 'transparency' that is required.	Payroll Manager	31 Dec 2009
2.	System administrators have significant business roles, reducing the effectiveness of separation of duty controls.	There are only 4 users within the Central Payroll Team who have 'full' security access to enable them to access all system menus and tasks and all records. The diversity of requests from users, both internal and external dictates that this level of security flexibility is provided. In order to provide adequate cover for annual and sick leave, it would not be possible to separate 'operational-support' users from the 'system administrators' without increasing the number of users who would require to have access to each of these categories.	No action	Not applicable
3.	The combination of the lack of reporting tools and audit trail makes it difficult to confirm compliance with management controls, particularly with regard to separation of duty and the possibility of control over-ride.	The Council is aware that another Scottish Local authority has experienced severe operational problems as a result of maintaining the audit log within Resourcelink. However, it is accepted that it would be possible to only audit the transactions applied to key tables within the Resourcelink database and this item will therefore be considered as a system development.	Payroll Manager	31 Oct 2009