

**REPORT TO: SCRUTINY COMMITTEE – 28 SEPTEMBER 2016**

**REPORT ON: INTERNAL AUDIT REPORTS**

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

**REPORT NO: 295-2016**

**1.0 PURPOSE OF REPORT**

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

**2.0 RECOMMENDATIONS**

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

**3.0 FINANCIAL IMPLICATIONS**

None

**4.0 MAIN TEXT**

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

**4.2** Executive Summaries for the reviews which have been finalised in terms of paragraph 4.1 above are provided at Appendix A. Within each Executive Summary the prime aim is to provide both Members and Management with key information which includes the reason for undertaking the review, 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 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 2016

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## i) INTERNAL AUDIT REPORT 2014/17

<b>Client</b>	<b>Neighbourhood Services</b>
<b>Subject</b>	<b>Performance Indicators</b>

**Introduction**

A review of the systems in place to capture the data for the Scottish Social Housing Charter performance indicators was part of the planned internal audit work.

The Scottish Housing Regulator (SHR), established on 1 April 2011 following the introduction of the Housing (Scotland) Act 2010 (the Act), is the independent regulator of Registered Social Landlords and local authority housing services in Scotland.

In line with the Act a Scottish Social Housing Charter was compiled by Scottish Ministers to help improve the quality and value of services provided by social landlords and support the Scottish Government's long-term aim of creating a safer and stronger Scotland. The standards and outcomes that all social landlords should aim to achieve when performing their housing activities are set out in the Charter, which came into effect on 1 April 2012 following Scottish Parliament approval.

The SHR is responsible for assessing social landlords' performance against the Charter and has issued guidance setting out the 37 Charter and 32 Contextual Indicators that will be used to measure and report progress towards achieving the Charter's specified standards and outcomes. In addition, technical guidance for landlords has been issued by the SHR providing detailed information on the data that should be included for each indicator in the social landlords' return for the Annual Return on the Charter (ARC).

**Scope and Objectives**

Review of data capture systems used by the Housing Service to compile the charter indicators required by the Scottish Housing Regulator to assess landlord performance. This review focussed on the four indicators relating to anti-social behaviour, abandoned properties and evictions, more specifically indicators C11, C12, 19 and 24.

**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:

- In relation to indicator 19 - *Percentage of anti-social behaviour (ASB) cases reported in the last year which were resolved within locally agreed targets*, inconsistencies were identified in the numbers of ASB cases received / resolved per the ASB system for the same periods. Steps should be taken in conjunction with the Information Technology Service to ensure that the reasons behind these inconsistencies are determined and addressed within a reasonable timeframe.

**Management Response to the Audit Report**

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

## ii) INTERNAL AUDIT REPORT 2014/31

<b>Client</b>	<b>Neighbourhood Services</b>
<b>Subject</b>	<b>Trade Waste</b>

**Introduction**

A review of the arrangements in place to support the Council's trade waste service was part of the planned internal audit work.

Local authorities have a statutory duty under the Environmental Protection Act 1990 to collect, or arrange for the collection of any commercial waste from premises within their area if the occupier of those premises requests it. The Waste (Scotland) Regulations 2012 detail the future strategic direction for the management of waste, including the requirement for local authorities to collect a number of prescribed commodities separately from residual waste. More specifically, with effect from January 2014 it became mandatory for businesses to make arrangements for the separate collection of glass, metals, plastics, paper and card. In addition, with effect from January 2016, food businesses in non-rural areas generating more than 5kg of food waste per week are legally required to have it collected separately for recycling.

The Council's Environment Service provides waste collection and recycling services for businesses in Dundee via tailored trade waste contracts. The services provided include commercial refuse collection, skip hire, commercial recyclables collections and recycling centres. The three main receptacles used to present commercial waste for collection in Dundee are skips, refuse bins and sacks / bags.

There are currently of the order of 1250 trade waste contracts in operation. Income generated from these contracts during 2015/16 was of the order of £1.189m.

**Scope and Objectives**

Systems review of the end to end process in respect of trade waste including steps taken to ensure income maximisation. This review focused on trade waste contracts, including corresponding invoicing and income collection arrangements. Skip Hire and Special Collections, together with contractual arrangements with third parties, have been specifically excluded from 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:

- Information input to the Trade Waste System from the combined Trade Waste Contract / Waste Transfer Note is not currently checked for accuracy and therefore there is a potential risk that invoices generated may not be in line with contract details. Going forward, the utilisation of the Trade Waste System to produce the combined Trade Waste Contract / Waste Transfer Note should reduce this risk. In addition, a number of Waste Transfer Notes for bin contracts had expired at the time of the audit fieldwork.

**Management Response to the Audit Report**

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

## iii) INTERNAL AUDIT REPORT 2015/06

<b>Client</b>	<b>Corporate</b>
<b>Subject</b>	<b>Financial Systems</b>

**Introduction**

A review of the reconciliation framework in place for key financial systems was undertaken as part of the planned internal audit work.

As a local authority, Dundee City Council has a wide range of key financial systems, including the general ledger, payroll, fixed assets, council tax and cash receipting systems. It is essential for strong financial management that there are satisfactory controls in place to reconcile the data within these systems and that these operate as intended. Reconciliations are a key control, which should be performed regularly. Examples of key reconciliations which should be undertaken include bank reconciliations, payroll to general ledger reconciliations and reconciliations between the council tax system and the assessors roll.

It was noted in previous financial years that a number of reconciliations were either not being performed on a regular basis or not adequately documented. Management agreed to develop a framework outlining key reconciliations that should be performed on a regular basis along with details of individuals responsible for performing and reviewing these reconciliations.

**Scope and Objectives**

Review and assessment of the Council's framework, associated processes and controls underpinning the reconciliation of key financial systems. The focus of this review was to ensure that the actions agreed by management had been implemented.

**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 this report are as follows:

- Whilst reconciliations are being undertaken, in some cases insufficient evidence was available to demonstrate that they had been performed appropriately and that reconciling items had been considered, investigated and resolved. In addition, specific areas for improvement were identified in a small number of reconciliations reviewed and steps should be taken to ensure that these matters are resolved within a reasonable timeframe to ensure they are fully effective.
- A summary of key systems and corresponding reconciliations has been drafted, however, before a Reconciliation Framework can be fully established, further work is required surrounding the identification of other key systems and corresponding reconciliations as well as the development of guidance for staff that includes a definition of a reconciliation, how they should be performed, how the independent review process should work in practice and what supporting evidence should be retained for both the reconciliation itself and the review.

**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 2015/16

<b>Client</b>	<b>Corporate</b>
<b>Subject</b>	<b>Procurement</b>

**Introduction**

A review of the arrangements in place within the Council to mitigate procurement fraud risk was part of the planned internal audit work.

The CIPFA Counter Fraud Service and the Local Government Association published a report entitled 'Managing the risk of procurement fraud' in June 2015. The report estimated that procurement fraud costs local government in the region of £876 million a year making it the largest single area of financial loss to fraud in local government.

It is important that local authorities are vigilant to the procurement fraud risks they face and maintain sound systems of internal control to mitigate these. In addition, the Council should keep abreast of emerging risks in this area as fraudsters employ more sophisticated techniques to assist them e.g. cybercrime and organised criminal activity.

**Scope and Objectives**

Review within the Council's centralised procurement activities and practices to assess the effectiveness of these in supporting the delivery of the procurement reform agenda. This review specifically focused on the arrangements in place within the Council for reducing the risk of procurement fraud.

**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:

- Key members of staff should be reminded of the requirement to disclose all Directorships and office bearer roles and update their Register of Interests (RoI) records as new potential conflicts of interest arise. Going forward, consideration should be given to reviewing the current senior officers' RoI process with a view to expanding the scope to include other key members of staff, introducing the requirement to disclose any personal or business relationships with Council suppliers and developing corresponding appropriate internal information sharing protocols.
- To assist with the mitigation of procurement fraud risk, the Council should develop processes and procedures to ensure that national and local frameworks are utilised where appropriate across all service areas. In addition, steps should be taken to address the areas for improvement identified in relation to segregation of duties and approval limits. Consideration should also be given to a longer term objective of adopting a single corporate approach to all procurement and payment activity.

**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.

## v) INTERNAL AUDIT REPORT 2016/01

<b>Client</b>	<b>Neighbourhood Services</b>
<b>Subject</b>	<b>2015/16 Grant Claim – Air Quality Action Plan</b>

**Introduction**

The Council was awarded grant funding of £156,000 by Scottish Ministers for the 2015/16 financial year to assist in progressing its Air Quality Action Plan. In respect of this grant, £137,000 was expended during 2015/16 and approval was obtained to carry forward and utilise the balance of £19,000 to help fund the Travel Active Measure during 2016/17. There was also an additional amount of £11,908 included in the claim, relating to the authorised carry forward from 2014/15 for the purposes of completing the Air Dispersion Modelling System (ADMS) project.

The funding conditions of this grant state that at the end of the 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 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 had 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.*

