

**REPORT TO:           AUDIT AND RISK MANAGEMENT SUB-COMMITTEE**  
**REPORT ON:           INTERNAL AUDIT REPORTS**  
**REPORT BY:           CHIEF INTERNAL AUDITOR**  
**REPORT NO:           412-2004**

**1       PURPOSE OF REPORT**

To submit to Members of the Audit and Risk Management Sub-Committee a summary of the Internal Audit Reports finalised since the last Sub-Committee.

**2       RECOMMENDATIONS**

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

**3       FINANCIAL IMPLICATIONS**

None

**4.      LOCAL AGENDA 21 IMPLICATIONS**

None

**5.      EQUAL OPPORTUNITIES**

None

**6.      BACKGROUND**

6.1     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.

6.2     Executive Summaries for the reviews which have been finalised in terms of paragraph 6.1 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, summary 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.

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**DEPUTE CHIEF EXECUTIVE (FINANCE)**

**14 May 2004**

**BACKGROUND PAPERS**

No background papers as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any confidential or exempt information) were relied on to any material extent in preparing the above Report.

<b>Department</b>	<b>Finance</b>
<b>Subject</b>	<b>Construction Industry Scheme (C.I.S.)</b>

<b>Introduction</b>
<p>As part of the planned internal audit work a review of the systems followed by the Finance Department's Purchase Ledger Section in the operation of the Inland Revenue's Construction Industry Scheme (C.I.S.) was undertaken.</p> <p>C.I.S. is a special tax deduction scheme applicable to the construction industry and the Scheme has in place for some 30 years. In broad terms the Scheme was initially introduced to deal with problems within the Construction Industry whereby there was a culture of engaging workers on a "cash in hand" basis and there was a poor record of complying with tax obligations. The arrangements currently operated were introduced in 1999 and enable a contractor to make payments to a subcontractor for construction operations. However before a subcontractor can be paid through this scheme they must be registered with the Inland Revenue and hold either a Registration Card or a Subcontractors Tax Certificate. If a subcontractor holds a Registration Card the contractor must deduct from all payments for labour an amount on account for the subcontractor's liability to tax and national insurance. If a subcontractor holds a Subcontractors Tax Certificate the payment to the subcontractor is made gross.</p> <p>There are of the order of 500 companies and individuals which are currently used by the Council which fall within the Scheme. It is important that the Council complies with the terms and conditions of the scheme as laid down by the Inland Revenue. Failure to do so exposes the Council to a range of financial penalties depending on the severity of the offence.</p>
<b>Scope and Objectives</b>
<p>As part of the review the validity of the certificates and the subsequent payments were examined in order to ensure that the correct payments had been made to contractors depending on the type of registration card/certificate held, i.e. payments had been made gross where appropriate.</p> <p>The principal objective of the audit work undertaken was to ascertain the adequacy of the Council's approach to implementing the requirements of the Construction Industry Scheme and to evaluate the robustness of its operation of the scheme.</p>
<b>Conclusion</b>
<p><i>The overall conclusion drawn from this review is that the procedures operated by the Finance Department's Purchase Ledger Section in relation to the Construction Industry Scheme are in general satisfactory.</i></p> <p>The key areas where it is viewed improvements can be made are as follows:</p> <ul style="list-style-type: none"> <li>• Ensuring that all the Council's sub-contractors falling within C.I.S. hold a valid tax certificate or registration card.</li> <li>• Certificates should be date stamped on receipt.</li> <li>• Companies or individuals who have been suspended for a significant period should be removed from the C.I.S. Suppliers Accounts Master List.</li> </ul>
<b>Management Responses to the Audit Report</b>
<p>The audit findings and recommendations were formally reported to the Financial Services Manager and appropriate action agreed to address the specific issues raised.</p>

**b) INTERNAL AUDIT REPORT 2003/18**

<b>Department</b>	<b>Support Services</b>
<b>Subject</b>	<b>Registrar – Income Security and Banking Procedures</b>

<b>Introduction</b>
<p>The Principal Administration Officer within Support Services requested Internal Audit to review the procedures adopted in relation to the security of cash and banking arrangements currently operated by the staff at the Registrar's Office, following the discovery of a £100 shortfall.</p> <p>The City Registrar is responsible for ensuring that all births, deaths, still-births and marriages occurring in Dundee Registration District are registered within the statutory time limits. The registration staff also deal with changes of name, marriages abroad, re-registration of births and declarations of paternity. A Genealogy Unit has also been established to cater for the growing interest in genealogical research, both locally and worldwide. The Registrar had expenditure of £279,000 and income of £146,000 in the financial year 2002/03 (per the Management Accounts).</p>
<b>Scope and Objectives</b>
<p>The principal aim of this review was to examine the procedures currently in place at the Registrar's Office for handling and recording income, to identify possible weaknesses in control which may have led to the loss and to suggest improvements to the systems being operated in order to minimise the risk of any future losses.</p>
<b>Conclusion</b>
<p><i>It is considered that there are number of aspects within the procedures currently operated by staff at the Registrar's Office in relation to income security and banking procedures which require to be addressed.</i></p> <p>The principal areas where action is required are as follows:</p> <ul style="list-style-type: none"> <li>• A float for the cash register should be introduced to enable each day's takings to be banked intact.</li> <li>• The recording of transactions, the procedures for the preparation of income for banking and subsequent banking arrangements require to be reviewed and amended to reflect best practice.</li> <li>• Arrangements for holding money during business hours and transporting it to the bank should be revised in order to ensure the safety of staff and minimise the risk of theft.</li> </ul>
<b>Management Responses to the Audit Report</b>
<p>The audit findings and recommendations were formally reported to the Depute Chief Executive (Support Services) and appropriate action agreed to address the specific issues raised.</p>

<b>Department</b>	Housing
<b>Subject</b>	Management & Collection of Rent Arrears

<b>Introduction</b>	
<p>As part of the planned internal audit work a review of the systems operated in respect of the management and collection of rent arrears was carried out. The Housing Department has three area offices and 2 sub-offices which serve Council House Tenants in Dundee. Housing staff manage approximately 17,000 dwellings with an associated gross rent in the region of £38.6m. The unaudited Abstracts Of Accounts for 2002/03 shows rent arrears of £1.1m as at 31 March 2003 which represents approximately 2.9% of rent collectable from tenants. However, this figure will include rent arrears for tenants who were awaiting the outcome of Housing Benefit applications.</p> <p>Housing records are maintained on an in-house developed computer system. This system gives details of rent due, benefit awarded, and rent arrears. It also holds details of other arrears due such as charges arising from legal action taken or for work done on Council houses and for which the tenant is liable.</p>	
<b>Scope and Objectives</b>	
<p>The principal aims and objectives of the audit were to ensure that:</p> <ul style="list-style-type: none"> <li>• Procedures are operated in accordance with Legislation and the Council's Policy</li> <li>• There are adequate records and documentation to support the rent arrears transactions</li> <li>• The records for arrears transactions are adequately maintained</li> <li>• There are adequate procedures for monitoring and initiating recovery action</li> </ul> <p>Audit fieldwork was carried out at the three area offices, namely Central, Lochee and Happyhillock. The review examined procedures for identifying arrears, steps taken to recover arrears, the procedures implemented when tenant does not pay arrears and arrangements for rehousing tenants evicted for non payment of arrears. Records maintained in relation to rent arrears were also examined as part of the review.</p>	
<b>Conclusion</b>	
<p><i>The overall conclusion drawn from this review are that whilst the procedures operated by all three Area Offices are satisfactory and are generally in accordance with Council Procedures there are, however, some areas in relation to the rent account arrears system where improvements could be made.</i></p> <p>The principal areas commented upon included the following:</p> <ul style="list-style-type: none"> <li>• Considering requesting Social Work Welfare Rights Team to assist tenants in the completion and submission of housing benefit forms in order to prevent rent arrears occurring</li> <li>• Ensuring staff complete and review the appropriate repayment forms in order to ensure that agreed payments towards rent arrears are based on sound principles and recorded</li> <li>• Ensuring that income and debts for rechargeables are treated in the Council's financial statements in accordance with the Code of Practice on Local Authority Accounting and that debts are pursued where possible</li> <li>• Establishing a protocol to be adopted in respect of cases to be pursued through the Courts with Legal services staff to ensure efficient use of resources.</li> </ul>	
<b>Management Responses to the Audit Report</b>	
<p>The audit findings and recommendations were formally reported to the Director of Housing and appropriate action agreed to address the specific issues raised.</p>	