

**REPORT TO: SCRUTINY COMMITTEE – 13 DECEMBER 2017**

**REPORT ON: INTERNAL AUDIT REPORTS**

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

**REPORT NO: 422-2017**

## **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: 22 November 2017

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## i) INTERNAL AUDIT REPORT 2015/17

<b>Client</b>	<b>Corporate</b>
<b>Subject</b>	<b>Online Payments</b>
<b>Introduction</b>	
<p>A review of the arrangements in place to process online payments through the Council's website was part of the planned internal audit work.</p> <p>Dundee City Council provides a range of services for which payment is required. Traditionally, all payments for these services would have been made by post or in person at Council offices. However, like other service providers, the Council has recognised the benefits of allowing customers to pay via other more automated, convenient and faster methods, including online payments.</p> <p>The Council allows customers to pay for a range of services including Council Tax, Non-domestic Rates, Rent, Council invoices, penalties and fines via its website and through their "My Dundee" account. "My Dundee" is an online service that enables registered users to view their Council accounts, letters and invoices as well as request and pay for services such as bulky uplifts. Payments made via these two routes, as well as payments taken over the phone by members of staff, are processed by Pay360 by Capita, the Council's online payments solution. All of the Council's website's "Pay Online" pages have SSL encryption to keep data secure.</p> <p>During the period 1 April 2016 to 31 March 2017, the Council received of the order of £15.5m via Pay360 by Capita.</p>	
<b>Scope and Objectives</b>	
Review of the arrangements in place to process online payments through the Council's website to provide assurance that the systems are secure and well controlled.	
<b>Conclusion</b>	
<p><i>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.</i></p> <p>The main areas highlighted in the report are as follows:</p> <ul style="list-style-type: none"> <li>Other than the annual certification of Pay360 by Capita as a Payment Services Provider in line with the Payment Card Industry Data Security Standard, there is no formal review process over the service provided by Pay360 by Capita to ensure that any issues with the security or service provision of their payment systems are identified and remediated on a timely basis.</li> </ul>	
<b>Management Response to the Audit Report</b>	
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 2016/04

<b>Client</b>	<b>Children and Families</b>
<b>Subject</b>	<b>Children in Residential Care</b>

### Introduction

A review of the arrangements underlying the placing of children in residential care was part of the planned internal audit work.

The Council has a legal duty to look after children and young people placed in its care either through a voluntary agreement with their parents, a relevant court order, or as a result of a compulsory supervision order being issued by the Children's Hearings System. The aim of the Children and Families Service is to promote the wellbeing of children and families and help support parents, wherever possible, to care for their own children. In order to meet service demands for children in Dundee, the Children and Families Service is required to supplement the Council's residential establishments through the procurement of services from a number of Independent Children's Residential Care providers.

Getting it Right for Every Child (GIRFEC) is the Scottish Government's approach to making a positive difference for all children and young people in Scotland. Its principles help shape all policy, practice and legislation that affects children and their families. GIRFEC provides a consistent way for people to support and work with all children and young people in Scotland. It aims to improve outcomes for children and make sure that agencies work together to take action when a child is at risk or needs support. The GIRFEC approach is supported by the Children and Young People (Scotland) Act 2014. In addition to this Act, the Council is required to comply with a number of other pieces of relevant legislation, including the Children (Scotland) Act 1995 and the Children's Hearings (Scotland) Act 2011.

For the 2015/16 financial year the budget for Children in Residential Care was £3.6m and the actual expenditure was of the order of £4.4m. For 2016/17 the budget was £3.9m and the actual expenditure was of the order of £8.8m.

### Scope and Objectives

High level review of the arrangements in place to support the decision making process surrounding children being placed in residential care and ensure compliance with relevant legislation.

### 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 order to ensure that the needs of the child can be fully assessed and appropriate actions and available resources considered, every effort should be made to ensure that all cases are presented to the Resource Allocation Panel. In addition, where residential accommodation is to be explored, details of a number of potentially suitable residential establishments, preferably from within the Scotland Excel Framework Agreement for Children's Residential Care and Education Services, should be presented to the Residential Resources Management Group, along with a placement recommendation from officers, for final consideration and placement purchase approval.
- All sections in the Individual Placement Agreement should be completed, particularly in relation to desired outcomes for the child. The Individual Placement Agreement should then be monitored, reviewed and revised on an ongoing basis to ensure that adequate progress is being made towards achieving the agreed outcomes and to ensure that these outcomes remain relevant.

### Management Response to the Audit Report

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

### iii) INTERNAL AUDIT REPORT 2016/07

<b>Client</b>	<b>City Development</b>
<b>Subject</b>	<b>Follow-up Review of PVG Scheme</b>

#### **Introduction**

As part of the planned internal audit work, a follow-up review of Internal Audit Report 2014/15, PVG Scheme 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:

- To ensure that all drivers / escorts used by suppliers to deliver home to school transport contracts have been assessed by the Council for suitability, an initial reconciliation of the information held within the CTX System and the Driver.escort Spreadsheet should be carried out with steps being taken thereafter to obtain and review any outstanding Scheme Records and follow-up any queries. Going forward, reconciliations should be carried out on an ongoing basis and staff should be reminded of the importance of accurately and timeously updating both systems.

#### **Scope and Objectives**

To assess whether or not each of the recommendations agreed by management in Internal Audit Report 2014/15 have 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:

- In order to ensure that information is, and remains, complete and accurate, staff should be reminded that it is essential to regularly maintain and reconcile the CTX System and the Driver.escort spreadsheet. In addition, timeframe requirements for suppliers submitting information should be stipulated in all contract documentation and operational procedures.

#### **Management Response to the Audit Report**

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

#### iv) INTERNAL AUDIT REPORT 2016/21

<b>Client</b>	<b>Corporate</b>
<b>Subject</b>	<b>Revenue Monitoring</b>

##### **Introduction**

A review of the revenue monitoring arrangements in place within the Council was part of the planned internal audit work.

Local Authorities in Scotland receive the majority of their funding from the Scottish Government in the form of a block grant. This funding stream can be broken down into three constituent parts: the General Revenue Grant (also known as the Revenue Support Grant), non-domestic rates income and ring-fenced grants. The largest of these is the General Revenue Grant, which funds the majority of revenue expenditure incurred by local authorities. The remainder of revenue required to fund revenue expenditure is generated through Council Tax paid by households, the rate of which is set annually by the local authorities and charges for services.

Dundee City Council's Provisional 2017/18 Revenue Budget was presented and approved, subject to agreement on revised charges and savings proposals, at a Special Meeting of the Policy and Resources Committee on 23 February 2017. The total approved revenue budget for 2017/18 was noted as £343.787m. It was agreed that the Council Tax rate would increase by 2.5%.

Following the approval of the revised Council structure on 8 June 2015 (with slight revision in February 2016 to address the establishment of Dundee Integration Joint Board), work has been ongoing internally to bring together arrangements within the newly formed services and ensure that they support the revised structure appropriately. Along with the Chief Executive's Service, there are four Services within the new structure, two of which have changed significantly, namely Neighbourhood Services and Children and Families. In addition, Leisure and Culture Dundee and the Dundee Health and Social Care Partnership report into the Chief Executive.

##### **Scope and Objectives**

High level review of the revenue monitoring arrangements in place within the Council, including work carried out centrally in Corporate Services and locally by the Finance and Support Service Managers.

##### **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:

- To assist with business continuity and ensuring a consistent approach going forward, the Revenue Budgetary Control Manual should be reviewed and revised to reflect the Council's current revenue monitoring process, including updated roles and responsibilities.
- To ensure that there is sufficient time available to enable adequate scrutiny at all stages of the revenue monitoring process, management should review the timetable in place.
- The revenue monitoring report submitted to the Policy and Resources Committee should be expanded to include, as appropriate, a section detailing remedial actions already taken and / or high level plans in place to address any significant net overspends reported.

##### **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 2016/28

<b>Client</b>	<b>City Development</b>
<b>Subject</b>	<b>Dangerous Buildings and Public Safety</b>
<b>Introduction</b>	
<p>A high level review of the arrangements in place within the Council to ensure that its statutory duties under the Buildings (Scotland) Act 2003 are discharged appropriately was part of the planned internal audit work.</p> <p>All local authorities in Scotland have duties under the Buildings (Scotland) Act 2003 in relation to carrying out appropriate responses where a building within their locality constitutes a danger to persons in or around it, to the public generally or to adjacent buildings or places.</p> <p>Section 29 of the Buildings (Scotland) Act 2003 requires that where a local authority identifies such a building they must carry out works necessary (including demolition) to ensure the following:</p> <ul style="list-style-type: none"><li>• Access to the dangerous part of the building, or surrounding areas, is prevented for the public; and</li><li>• Members of the public and surrounding property are protected.</li></ul> <p>These duties require that all local authorities have in place monitoring procedures to identify such buildings within their locality and have supporting policies and procedures in place to ensure that they respond appropriately and proportionately.</p> <p>Failure to adequately execute these duties can lead to exposure of the public to the dangers associated with unsafe buildings. It is, therefore, imperative that a robust supporting framework is in place.</p>	
<b>Scope and Objectives</b>	
<p>High level review to ensure that the Council is discharging its statutory duties in relation to dangerous buildings under the Buildings (Scotland) Act 2003.</p>	
<b>Conclusion</b>	
<p><i>The principal conclusion drawn from this review is that there are weaknesses in the system which should be addressed.</i></p> <p>The main areas highlighted in the report are as follows:</p> <ul style="list-style-type: none"><li>• The operating procedures for responding to reports of public safety or dangerous buildings have not been documented and the processes that are operating are highly reliant on the knowledge and expertise of some of the most senior and experienced surveyors within Building Standards. The operating model for how Building Standards manages its mandated responsibilities regarding dangerous buildings and public safety should be defined, documented, approved and implemented, with both roles and responsibilities and key documentation identified.</li><li>• The majority of all assessments of dangerous building and public safety risks are performed by one senior officer within Building Standards. Management should define and identify appropriate resource requirements to fulfil the roles currently delivered by this officer and prioritise a succession planning arrangement to ensure that legislative requirements can continue to be delivered should that individual be absent for long periods of time or leave the organisation.</li></ul>	
<b>Management Response to the Audit Report</b>	
<p>The audit findings and recommendations were formally reported to the Executive Director of City Development and appropriate action agreed to address the matters raised.</p>	

## vi) INTERNAL AUDIT REPORT 2016/32

<b>Client</b>	<b>Neighbourhood Services</b>
<b>Subject</b>	<b>Stocks and Inventories – 2016/17 Year End</b>

### Introduction

A review of the year end arrangements for stocks and inventories at Camperdown Nursery and Glasshouse, which is within Neighbourhood Services, was part of the planned internal audit work.

The overall term stocks and inventories includes consumables such as materials and components which are kept at designated stores and locations and are required to be used by the services. In respect of Camperdown Nursery and Glasshouse, the stock figures include shrubs, plants and trees located at Camperdown Park and a small number of trees at an area of land owned by the Council at Belmont, Perthshire.

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. Such responsibilities include ensuring that there are adequate arrangements in place with regard to the control and reconciliation of stock and that a physical count of stock is carried out at least annually by personnel who are independent of the day to day operation of the store. As a minimum, all stores should undertake a year end stock check as close as possible to the Council's financial year end, which is the 31 March. Some locations, however, 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. Any material adjustments arising from the stock count and subsequent reconciliation process require to be authorised by the Executive Director of Corporate Services.

Per the Certified Statement of Stocks completed for Neighbourhood Services as part of the 2016/17 year end process, the stock balance in respect of Camperdown Nursery and Glasshouse at 31 March 2017, which includes trees on Council land at Belmont, was £76,025.

### Scope and Objectives

Review of the arrangements in place to ensure that procedures and processes are to the required standards and records are complete and accurate. The focus of this review was the stock of shrubs, plants and trees within the Nursery and Glasshouse at Camperdown Park.

### 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 line with good practice, written guidance should be prepared in respect of the procedures to be followed for the preparation and completion of the year end stock take including instructions to be followed by stock checkers and review and follow-up procedures. This guidance should be made readily accessible as appropriate to staff. It is also recommended that an independent member of staff should be present at future year end stock checks.

### 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.



**vii) INTERNAL AUDIT REPORT 2017/06**

<b>Client</b>	<b>Corporate</b>
<b>Subject</b>	<b>Interreg Create Converge Project</b>

**Introduction**

The Interreg North Sea Region Programme 2014-2020 supports transitional regional development projects in regions from 7 countries by the North Sea. With a programme of action to embed greater co-operation across the North Sea Region, the vision is to join efforts to lead the way to stronger, more sustainable economies and societies and to support development and foster sustained economic growth across the region. Funding / support is given to enterprises, institutions, public administrations, non-governmental organisations and others to pool expertise, share their experience and co-operate to develop realistic solutions to problems shared by organisations across the region.

The Create Converge project is an EU Interreg North Sea Region grant funded project. Dundee City Council is the Lead Beneficiary and the project includes other partners from the UK, Germany, Denmark, The Netherlands and Sweden. The project is about getting visualisation and games technology to work together and, with other sectors from architecture to science, deliver on the promise of converging creative technologies (CCT's). It aims to develop new or improved knowledge partnerships between businesses, knowledge institutions, public administrations and end-users with a view to long term co-operation and to contribute to the North Sea Region as an international hub for CCT's.

The total eligible expenditure for the project is €3,244,829 with total EU Grant Funding of 50% (i.e. €1,622,415). Of this total, Dundee City Council's total eligible expenditure is €375,700 with 50% Grant Funding and 50% match funding (€187,850) from City Development's revenue budget. The project runs from October 2015 until April 2019, although there were initial delays in starting the project which may result in an extension to the end date.

It is a requirement that each beneficiary of the project appoints a First Level Controller responsible for ensuring that no ineligible expenditure is included in applications for payment to the European Commission. The First Level Controller should take a critical view at all project expenditure and verify that it is line with relevant regulations and guidelines. The Council's appointed FLC is the Senior Manager – Internal Audit.

**Scope and Objectives**

The overall aim of this review is to ensure that no ineligible expenditure is claimed in respect of this project by DCC.

**Conclusion**

*Having examined the accounts and records of this grant claim, obtaining such explanations and carrying out such tests as deemed necessary, adjustments required to be made to the expenditure statements submitted to the European Union (European Regional Development Fund), Interreg North Sea Region. Whilst these adjustments did not on this occasion result in loss of grant to the Council, it is considered that some improvements to systems are required.*

The main areas commented upon in the report are as follows:

- The Partnership Agreement should be agreed and signed by all beneficiaries as a matter of urgency. Also, going forward, the Programme rules and where applicable European Union and National laws regarding eligible expenditure should be studied, understood and strictly adhered to. In addition, a separate cost centre should be established in order to record all Create Converge transactions.

**vii) INTERNAL AUDIT REPORT 2017/06 (Cont'd)**

<b>Client</b>	<b>Corporate</b>
<b>Subject</b>	<b>Interreg Create Converge Project</b>

**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 City Development and appropriate action agreed to address the matters raised.