ITEM No …6……..

REPORT TO: **SCRUTINY AND AUDIT COMMITTEE - 24 JUNE 2026**

REPORT ON: **INTERNAL AUDIT REPORTS**

REPORT BY: **CHIEF INTERNAL AUDITOR**

REPORT NO: **108-26**

1.0 PURPOSE OF REPORT

To submit to Members of the Scrutiny and Audit Committee a summary of the Internal Audit Reports finalised since the last Scrutiny and Audit 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. On 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. In arriving at the overall assurance level for each audit, the assurance levels within the individual objectives do not always carry equal weighting. Findings from the audit are considered in total against the scope and risk levels to arrive at the overall assurance opinion.

4.3. Executive Summaries for the reviews which have been finalised in terms of paragraph 4.1 above since the last Scrutiny meeting are provided at Appendix A. The full reports are available to Elected Members on request. Reporting in Appendix A covers:

Audit	**Assurance level**		
Social Work Contracts and Payments	Substantial Assurance		
Cash Handling	Claverhouse Cash Office - No Assurance	East Cash Office - Limited Assurance	General Findings - Substantial Assurance
HRA Budgetary Control	Substantial Assurance		
Housing Stock / External Wall Insulation	Limited Assurance		
AI Governance	Advisory		

Homelessness	Substantial Assurance

4.4. Internal audit recommendations are categorised as either relating to the design of the control system (Design) or compliance with the operation of the controls (Operational).

5.0 POLICY IMPLICATIONS

This report has been subject to the Pre-IIA Screening Tool and does not make any recommendations for change to strategy, policy, procedures, services, or funding and so has not been subject to an Integrated Impact Assessment. An appropriate senior manager has reviewed and agreed with this assessment.

6.0 CONSULTATIONS

The Council Leadership Team have been consulted in the preparation of this report.

7.0 BACKGROUND PAPERS

None.

CATHIE WYLLIE, CHIEF INTERNAL AUDITOR **3 JUNE 2026**

(i) INTERNAL AUDIT REPORT 2023/13

Client	**Dundee Health and Social Care Partnership**
Subject	**Social Work - Contracts and Payments**

Executive Summary

Conclusion

Substantial Assurance
Processes to manage expenditure under the National Care Home Contract are generally operating effectively, however we have observed weaknesses in payment administration processes which could result in failures to detect inaccuracies arising from error or changes in circumstance. We have raised a small number of recommendations, however strengthening these processes may depend on negotiation of corporate support resources between the HSCP and the Council.

Background

Dundee Health and Social Care Partnership (DHSCP) is responsible for delivering person centred adult health and social care services to the people of Dundee. The Partnership consists of Dundee City Council, NHS Tayside and providers of health and care services from across the third and independent sectors.

There is a National Care Home Contract (NCHC) in place which defines the terms of local authority placements into private or voluntary sector care homes. The fee structure is negotiated annually between COSLA, Scottish Care and Coalition of Care & Support Providers in Scotland (CCPS). All 28 care homes in Dundee have signed up to the NCHC, with three homes owned and operated by Dundee City Council.

In order to meet the needs of the people within Dundee, the Partnership also purchases services from a number of third-party voluntary bodies. These organisations provide services to many sectors of the community, including older people and adults with disabilities. The provision of these services is covered by contracts with the relevant organisation. Monitoring arrangements require to be robust in order to ensure that the Partnership is receiving best value for money and that the service specification is being met.

For financial year 2024/25, there are over 200 different services being provided by approximately 100 voluntary bodies under these contracts. Payments to these bodies are made via the Mosaic system for regular monthly block payments, with other payments made as part of the 'purchase to pay' process on the Civica ledger system.

Budgeted payments for 2024/25 are approximately £106m which includes £36m paid to care home providers.

Scope

Review of contract and commissioning arrangements (including payments) within DHSCP to assess their adequacy and effectiveness, excluding areas already covered in the previous Viability of External Providers audit report.

Objectives

		Action Priority			
		C	H	M	L
Objective 1: Ensure the system for contract arrangements in DHSCP has adequate internal controls in place.	**Limited Assurance**	-	1	1	-
Objective 2: Confirm commissioning arrangements are adequate and provide best value.	**Comprehensive Assurance**	-	-	-	-
Objective 3: Review payments made by Social Work for adults and ensure they have been authorised correctly using the Mosaic system and/or Civica.	**Substantial Assurance**	-	-	1	-
Objective 4: Ensure adequate budget monitoring is in place on a regular basis.	**Comprehensive Assurance**	-	-	-	-
TOTAL		-	1	2	-

Nature of Recommendations

All of the recommendations made relate to the design of controls, indicating that there are areas where the existing control framework could be strengthened to provide greater assurance that controls are operating effectively.

Key Findings

We identified a number of areas of good practice:

- Payment processes are semi-automated, and make use of provider and contract rate information which is pre-configured in MOSAIC, helping to ensure that payment arrangements entered by Care staff use accurate rates.
- At a Council level, Care Home placements are commissioned on an individual basis. Contract monitoring is led nationally, and work is underway to develop a Contract Monitoring approach within the Council which does not duplicate these processes.
- The approvals required to issue payments are integrated into MOSAIC functionality which automatically retains audit trails. Audit testing did not identify any issues with payment authorisation.
- National Commissioning arrangements mean that the primary task of the HSCP is managing demand and budget. Budgetary information is regularly prepared, and reporting formats are tailored for senior management and operational budget holders.

We have identified the following areas for improvement. All of the recommendations raised in this report have been addressed by management at time of reporting, although the resolution to the first area related to corporate support for the MOSAIC system is a temporary solution and subject to the completion of longer-term initiatives to find a permanent solution.

- There are limited resources made available to the HSCP by Council IT functions for the update and maintenance of information on which payment processes rely. More broadly, no structured arrangement is in place to negotiate and agree the level of support available to the HSCP from Council functions. There may be opportunities to reduce reliance on IT administrative resource by designing MOSAIC workflows which allow tasks to be carried out by clerical staff, however this may require upfront investment of resource.

- The main internal control providing assurance over the accuracy of Care Home payments is a requirement that providers verify and sign off remittances, however these are not systematically retained. As such, we are unable to provide assurance that this process is operating as expected.
- Payment process provides a means for Care Homes to raise any issues in returned remittances, but there is no systematic tracking which provides assurances that all such issues are resolved. Implementing stronger record keeping would provide assurance that issues notified by providers are followed up and tracked to resolution.

Impact on risk register

The Corporate and Service risk registers included, at time of audit, the following risks:

- DCC001 Financial Sustainability (inherent risk score 5x4, residual risk score 5x5)
- DCC012 Integration Joint Board/Dundee Health and Social Care Partnership (inherent risk score 5x5, residual risk score 5x4)
- HSCR00a1 Restrictions on Public Sector Funding (inherent risk score 4x5, residual risk score 5x5, target risk score 4x3)

This review relates to a payment process, and as such has a direct impact on financial sustainability risks. In addition to this, the review considered issues relating to the HSCP's relationship with providers, and the corporate services support provided to the HSCP by Dundee City Council which are not explicitly identified in the HSCP's high level risk registers.

The review has raised recommendations in terms of strengthening controls which provide assurance that payment processes are operating effectively to ensure that payments to providers are accurate and complete, which in turn impacts on the HSCP's relationship with providers.

Issues with these processes appear to have root causes which relate to the level of resource available to implement and manage effective process, and in particular the level of support available to the HSCP from Dundee City Council. The HSCP recognises these risks in a specific Workforce risk register, and in initiatives currently taking place to transfer some clerical and administrative responsibilities and the associated staff to Dundee City Council Corporate Business Support Services (CBSS).

Risk owners should consider the extent to which they have adequate assurance that staffing resource and availability is adequate to support control processes, and where this has been identified as an issue, whether this is appropriately reflected in risk scoring.

(ii) INTERNAL AUDIT REPORT 2025/01

Client	**Corporate Finance / Dundee Health and Social Care Partnership**
Subject	**Cash Handling**

Executive Summary

Conclusion

No Assurance: Claverhouse Social Work Office
Limited Assurance: East Cash Office
Substantial Assurance: General Findings
There are significant weaknesses in Cash Handling controls at the Claverhouse Social Work office, and to a lesser extent the East Cash Office. Controls at Council locations which handle smaller petty cash and imprest accounts are generally proportionate and work effectively. We have made recommendations specific to the Claverhouse Social Work Office and the East Cash Office, presented as site specific action plans, as well as a small number of lower priority general recommendations applicable to all Council locations which handle cash. Since the completion of audit fieldwork additional issues have arisen relating to the staffing of the East Cash Office and the recruitment of an internal cash courier driver. The controls we have assessed depend on adequate staffing being in place in order to be effective. The issues arising from this report were discussed with management during the completion of this audit and immediate action was initiated to address them.

Background

The Council handles significant cash volumes across multiple service areas for operational purposes. Cash handling operations are managed through the central cash office at the East Cash Office, which is staffed by a cash office supervisor, a cashier and a securities courier. This team coordinates cash activities across various Council services alongside Corporate Business Support Services and accountancy. Secure transportation of cash between the East Cash Office and the bank is carried out by Loomis, a cash in transit / cash collection organisation. Cash transported within other locations is done so through an internal courier driver.

The main types of cash handling include:

- Cash that is collected from various Council services and operations
- Cash that is held centrally or in other locations across Council services
- Cash that is managed on behalf of vulnerable clients under statutory arrangements

Cash handling activities are dispersed across many different locations throughout the Council and may present challenges in ensuring consistent procedures and adequate oversight. Areas of risk include those handling vulnerable people's money and locations with limited supervision.

Scope

Review of the arrangements in place within the Council for the management and handling of cash.

This review was conducted alongside an investigation carried out by the Council's Counter Fraud function, which impacted some of the locations visited by Internal Audit in the course of the review. Where appropriate, we have taken cognisance of the findings of that investigation in forming our conclusions. Co-ordination of action plans arising from both this report and the Corporate Fraud report is ongoing.

Processes were reviewed across a sample of locations, which hold different volumes of cash. The locations visited throughout fieldwork were:

- East Cash Office
- Claverhouse Social Work Office
- Marchbanks Depot
- Brown Street Kennels
- Craigie Cottage Residential Home
- Millview Cottage Residential Home

Objectives

		Action Priority			
		C	H	M	L
Objective 1 - Cash is handled in accordance with established policies and procedures	**Limited Assurance**	-			
Objective 2 - Cash that is collected, held and managed is properly authorised, accurately recorded and subject to appropriate reconciliation and monitoring	**Limited Assurance**	-	3	-	-
Objective 3 - Physical security arrangements for cash storage and banking are adequate to prevent loss and there is segregation of duties throughout cash handling processes	**Substantial Assurance**	-	1	-	1
Objective 4 - Management information is regularly compiled and reported on to monitor cash handling activities, identify discrepancies and highlight developing risks across dispersed locations	**Substantial Assurance**	-	-	-	-
TOTAL		-	6	1	1

Nature of Recommendations

5 of the recommendations relate to the design of controls, of which 4 are graded as high priority. This primarily reflects the inadequacy of controls observed at the Claverhouse Social Work Office, and the level of risk associated with operations at that location and the East Cash Office.

The remaining actions relate to issues of control operation at lower risk locations.

This suggests that the control framework at the higher risk sites visited as part of audit fieldwork requires review.

Key Findings

We carried out fieldwork across a sample of locations which represent a broad range of complexity of procedures and volume of cash handled. A number of our findings relate to particular Council locations which represent areas of higher risk, and as such, we considered it appropriate to present findings for these locations separately.

- In respect of the Claverhouse Social Work Office, we found the following areas for improvement:
- No documented processes and procedures for cash handling are in place.
- Record keeping is not adequate to reliably record cash uplifted by Adult Social Work (Dundee Health and Social Care Partnership) staff.
- Different Adult Social Work (Dundee Health and Social Care Partnership) Teams use different record keeping systems to record cash deliveries and collections, creating a risk that these are mis-recorded.
- Records of cash collection do not provide any assurance that staff adhere to Council policy limiting the amount of cash permitted to be carried by a single person.
- Cash balances are not periodically counted.
- Although outside the scope of this review, we also observed that the Claverhouse cash safe is used by Adult Social Work (Dundee Health and Social Care Partnership) staff to hold non-cash valuables and property belonging to clients, but no records are kept of ownership or responsibility for these items.

In respect of the East Cash Office, we found the following areas for improvement:

- There is limited documentation of processes and procedures.
- The loss of the internal courier function has resulted in cash office staff regularly delivering cash themselves. This change removes the segregation of duties that previously existed between cash preparation and delivery.

In addition to the above, we make the following other observations:

- Some generic procedure documentation is in place, particularly for petty cash and imprest balances, however these are not comprehensive.
- Petty cash balances in residential homes exceed the £100 limit set out in the Petty Cash Guidance.
- Petty Cash and imprest balances are reconciled to the ledger annually as part of accounts preparation. We observed one instance in which a return did not appear to have been fully completed and signed off.

Audit Actions Completed

All of the recommendations in the report have now been completed with evidence of completion as outlined in the action plan provided.

Impact on risk register

The Corporate and Corporate Finance risk registers included, at time of audit, the following risks:

- DCC001 Financial Sustainability (Inherent Risk 5x4, Residual Risk 5x5)
- DCC013 Fraud & Corruption (Inherent Risk 4x5, Residual Risk 4x3)
- CSCF008 Compliance (Inherent Risk 5x5, Residual Risk 4x3)
- CSCF010 Finance - Management (Inherent Risk 5x5, Residual Risk 5x5)

The most relevant risks are DCC013 Fraud & Corruption and CSCF008 Compliance. DCC013 captures the potential for financial loss through misappropriation, while CSCF008 addresses the risk of failing to operate in accordance with procedures and policies, these risks capture broad fraud and compliance implications. Our review found that while strong cash handling processes exist across most locations, control weaknesses were concentrated at one site managing vulnerable client funds. These risks do not explicitly reference the vulnerabilities associated with cash held under appointeeship arrangements for vulnerable clients, nor the heightened safeguarding and reputational consequences if these arrangements fail.

The risk registers identify job-related training and awareness as a mitigating control, assessed as partially effective, which aligns with our observation of inconsistent staff awareness of procedures observed during the audit. Other controls that would strengthen resilience, such as documented exception procedures and physical verification of cash, are not currently recorded.

Risk owners should consider whether the nature of appointeeship arrangements and the vulnerabilities of the client group warrant more explicit recognition in the risk registers and whether additional mitigating controls recommended by this audit should be added to support a more accurate residual risk position.

(iii) INTERNAL AUDIT REPORT 2025/03

Client	**Neighbourhood Services**
Subject	**HRA Budgetary Control**

Executive Summary

Conclusion

Substantial Assurance
The Council has established policy guidance for revenue and capital budget monitoring through corporate Budgetary Control Manuals, supported by a structured framework of monthly monitoring meetings and regular reporting through governance forums to committee. While monitoring processes are generally operating effectively, Housing is unable to independently monitor or verify Construction Services costs which represent a significant element of HRA expenditure, and there are design weaknesses in capital monitoring tools which reduce the effectiveness of variance monitoring. Management have already taken positive steps through the development of a Financial Recovery Plan and supporting Action Plan to strengthen the control environment.

Background

The Housing Revenue Account (HRA) is a ring-fenced financial account governed by the Housing (Scotland) Act 1987 which sets out the requirements for local authorities to maintain a dedicated housing revenue account in relation to their housing stock. It is one of a number of accounts forming part of the usable reserves of the Council. The HRA underpins Council housing finances for 12,503 housing stock as well as other non-housing properties across Dundee with the total gross expenditure requirement for 2025/26 amounting to £64.102 million. Legislative requirements mandate that all income from Council housing rents, service charges and housing related grants must be allocated specifically to housing services, which prevents cross-subsidisation with General Fund Council activities. The HRA comprises specific revenue streams and expenditure categories dedicated to housing operations.

Monthly budget monitoring commences with the first report covering the period ending 31 May, providing a breakdown of the variances and projections including reasons for variances, which is then reported to the City Governance Committee. Projections showed significant concerns around forecasting accuracy, indicating a £4 million overspend for 2024/25, and £2.7 million for 2025/26. This highlighted potential weaknesses in forecasting methodologies and raised questions regarding the effectiveness of current risk management approaches in providing reliable management information.

Management are reviewing HRA budget monitoring and control processes to improve forecasting accuracy and strengthen financial oversight.

Scope

Review of budget management and monitoring processes in relation to Housing Revenue Account funds.

Objectives

		Action Priority			
		C	H	M	L
Processes are in place to monitor HRA revenue spending against approved budgets, identify variances when they occur, enable appropriate mitigating action when required and produce reliable forecasts.	**Substantial Assurance**	-	-	1	-
Processes are in place to monitor HRA Capital spending against approved budgets, identify variances when they occur, enable appropriate mitigating action when required, and produce reliable forecasts that include appropriate estimates for project costs.	**Substantial Assurance**	-	-	1	-
HRA transactions are coded to identifiable budget areas and budget responsibilities are clearly allocated within the ledger structure to enable budget monitoring.	**Comprehensive Assurance**	-	-	-	1
Budget monitoring information is reviewed through appropriate forums and compiled into regular reports that provide clear and relevant information to senior management and elected members.	**Substantial Assurance**	-	-	1	-
TOTAL		-	-	3	1

Nature of Objectives

Three of the recommendations (two medium, one low) relate to the design of controls, and one (medium/low) to the operation of an existing control. This indicates that while the overall monitoring framework is generally sound, enhancements are needed in both design and operational practices to strengthen compliance and reduce risk.

Key Findings

We identified a number of areas of good practice:

- Within system limitations, financial monitoring processes include all expected controls, which operate as designed.
- Budgets and forecasts are informed by historical performance and operational experience, and are reviewed and updated monthly.
- Management have developed a Financial Recovery Plan and supporting Action Plan to strengthen HRA revenue monitoring.
- The Housing Capital Investment Management Team provides monthly oversight of individual capital projects.
- Guidance is in place which sets out the principles and responsibilities for HRA revenue and capital budget monitoring.
- The HRA ledger structure has been rationalised to support effective budget monitoring, and budget responsibilities are clearly allocated. Routine Monitoring includes review for transaction coding accuracy and non-HRA transactions.

- The oversight structure includes the Repairs Operations Board, with a remit to provide operational and financial governance for HRA repairs.
- HRA budget monitoring information is compiled into regular reports that provide clear and relevant information to senior management and Elected Members.

We identified the following area for improvement, which is reflected in improvement plans that the Service had already put in place:

- Legacy systems restrict the ability of Construction Services to produce good quality financial information, complicating budget monitoring and the process by which Housing is billed for Construction Services work. Construction cost information requires extensive manual preparation and analysis, however a project is underway to implement a replacement costing system.

We have identified the following areas for improvement:

- We identified design weakness in the spreadsheet used for capital monitoring, which could affect scrutiny of budget variances at the level of individual projects.
- Staff have received training to support them in the budget monitoring process but operational level procedural guidance is limited.
- The Repairs Operations Board provides operational and financial governance for HRA repairs, but has not met consistently.

Impact on Risk Register

The (Service) risk register included, at time of audit, the following risks:

- DCC010 Major Project Delivery (Inherent risk 5x3, Residual Risk 4x3)
- NSCo003 Finance / Sustainability (Inherent Risk 4x5, Residual Risk 4x3)
- NSCo009 Procurement / Supply Chain (Inherent risk 5x4, Residual risk 4x3)
- NSHC001 Finance Inherent Risk (4x5) Residual Risk (4x3)

The most relevant risks to this audit are the two finance risks (NSHC001 and NSCo003), which capture the potential for insufficient funding due to increasing costs, reduced budgets and loss of income, and DCC010 which covers the risk that major projects are not delivered on time or to budget. All three list capital and revenue monitoring as a key mitigating control, while NSCo003 specifically references monthly monitoring meetings and various forums in place to review budget expenditure. These controls are directly relevant to the scope of this review.

The audit found that while the core monitoring controls are generally operating effectively, there are areas where control effectiveness is weaker than the risk register implies, including design weaknesses in capital monitoring tools, inconsistent operation of a key governance forum, and key-person dependency in revenue monitoring processes. Risk owners should consider whether their current assessment of control effectiveness remains appropriate in light of these findings.

Implementation of the findings from this review would strengthen the effectiveness of the monitoring controls listed in the risk register and support the current residual risk assessments. Risk owners should review whether the control descriptions in Pentana accurately reflect the current operating position and update their assessment of control effectiveness where appropriate.

(iv) INTERNAL AUDIT REPORT 2024/20

Client	**Corporate**
Subject	**Housing Stock-External Wall Insulation**

Executive Summary

Conclusion

Limited Assurance

This audit covered both advisory and assurance objectives. The advisory objectives focused on identifying the root causes of two past failures and capturing lessons learned in relation to:

I. Works identified after August 2021

II. Building Warrants and Completion Certificates relating to the British Gas works

The other objectives require to provide assurance on the effectiveness of the Council's current arrangements for the delivery of housing capital works.

We reviewed the delay in implementing recommendations from the September 2022 Design & Property Architecture Services report, as commissioned by the Housing Service. There was a two-year gap between the time when the recommendations were initially proposed and fully implemented; while we found the various council services maintained ongoing discussions relating to costs and the procurement route, the absence of a formal instruction to progress and late appointment of technical officers, resulted in unclear roles, ineffective action tracking and unclear/limited oversight.

We investigated why building warrants and completion certificates weren't secured for the External Wall Insulation (EWI) work carried out by British Gas (BG) in 2013/14. Based on the available documentation, we identified BG had the contractual obligation to carry out the building warrant process, with the Housing Service having overall responsibility for the oversight and governance for this programme of work. A potential over-reliance on BG to apply for building warrants and a lack of contract management and oversight during and after the works were identified as key contributing factors.

We recommend that Housing Service should define and communicate roles and responsibilities for housing projects, and ensure that appropriately qualified staff are allocated to carry out these roles. This will ensure clear lines of responsibility for specific tasks, including the building warrant process. Secondly, we recommend updating the partnership agreement between Housing and Design & Property, which outlines the principles for the oversight of housing capital project delivery.

In terms of the compliance, Design & Property projects are managed within a fully externally accredited quality management system (QMS), ensuring a systematic approach to project delivery. Using such a system ensures there are touch down checks throughout the process which details specific tasks, for example, building standard applications are administered at relevant stages of each project. This external reviewer reviews the QMS system on a 6 monthly basis with 3 yearly certification renewal. The current certification was renewed in February 2025.

Our findings confirm that continued formal appointments of technical officers, along with updates to the Partnership agreement will enhance support for both ongoing and future capital projects.

The Housing Service have appointed Design and Property to review the entire estate to check for any historic issues with building warrants, with a view to delivery of a thorough, council-wide compliance check.

Background

This background has been summarised from the two reports noted as reference sources.

Dundee City Council Housing Service commissioned an installation programme of External Wall Insulation (EWI) between 2011 and 2013 directly with British Gas, for a selection of housing stock across the city (10 x Multi Storey Blocks and low rise at Kirk Street and Yeaman's Lane). As was common practice at the time, Dundee City Council engaged with utility companies to identify the funding which could be made available.

The project was taken forward under a Utility providers own contract based on the principles of design and build. All permissions and approvals, including building regulation compliance, planning, and building controls, are the responsibility of British Gas. This programme of work started in July 2013 and completed in October 2014.

In August 2021, there was fire damage to the stairwell and bedroom above at 37-48 Yeaman's Lane. The Housing Service appointed the Design and Property Service to carry out site investigations, which reported that the EWI at this block had not been installed in accordance with the design and specification contained within the contract agreed between British Gas and the Housing Service. Following the fire, it was also established that no building warrant had been sought for the EWI installation works.

The Housing Service included the fire damage reinstatement at 37-48 Yeaman's Lane into an existing EWI contract between the Housing Service and OVO Energy Solutions Limited. It is noted that due to the urgent nature of the works being carried out, the appropriate procedure for reporting matters to Committee was not followed. Under appointment by Housing, Design & Property City Engineers certified the structural integrity of OVO Energy Solutions Limited's replacement EWI proposals as part of the warrant process. The rectification was complete in January 2023, and the completion certificate was accepted April 2023.

Design & Property Architectural Services were appointed to review and assess the wider development of 1-48 Yeaman's Lane and 39-120 Kirk Street and to present their findings to the Housing Service. Their assessment indicated that the expected procedures may not have been fully followed and recommended that the EWI on the remaining 13 low-rise blocks be inspected, with any necessary rectification work undertaken. The report considered three options and recommended that only option 3 was viable (being to remove completely the existing EWI system and install a new system comparable to the stair façade reinstatement at 37-48 Yeaman's Lane).

To proceed with the work outlined in the Report, Design & Property staff clarified that a survey was required for the tasks to be undertaken.

Scope

The review covered both advisory and assurance aspects of housing capital works. The advisory review focused on identifying root causes of past failures and lessons for improvement, while the assurance review assessed current processes to evaluate their effectiveness.

Conclusion

		Action Priority			
		C	H	M	L
Advisory Objective 1: *Identify why the recommendations in option 3 of the report were not implemented fully before 2025 through:* • A review of the decision-making process used to assess the conclusions in the September 2022 Design & Property Architecture Services report issued in November 2022 and decide on what action to take, and • A review of activity in services to implement the agreed action(s).	Advisory	-	1	-	-
Advisory Objective 2a: *Identify why the required building warrants and completion certificates were not obtained in 2013/14 through:* • Consideration of adequacy of Housing Service controls over direct appointment Design and Build contracts to ensure that building warrants and completion certificates were obtained, and • Compliance with controls ***Advisory Objective 2b:*** *Review the role of the Housing Service in commissioning, approving and monitoring the British Gas project through:* • Interviews with relevant staff, and • Review of available documentation including where possible contracts, correspondence, contract monitoring reports, committee reports, and procedural guidance	Advisory	1	-	-	-
Assurance Objective 1: Current arrangements within Housing are designed to ensure that conclusions in commissioned reports are reviewed appropriately and relevant recommendations taken forward within a reasonable timeframe.	Limited Assurance	-	-	1	-
Assurance Objective 2: Current arrangements are designed to ensure full compliance with building regulations and legislation for all capital projects regardless of the delivery method used to commission the work.	Substantial Assurance	-	-	-	1
TOTAL		1	1	1	1

Nature of Recommendations

Four recommendations - including the one designated as critical priority and one as high priority - relate to issues identified with the design of existing controls, and represent instances in which the Housing Service process requires revision to adequately address and manage risks.

Key Findings

We identified the following areas of good practice:

- A Partnership Agreement was in place between the 'Construction Services'', 'Housing' and 'Design & Property' Service areas for the period from April 2021 to March 2024. This agreement provides oversight for the delivery of housing programmed works through the council's internal construction/maintenance contractor, while outlining roles and responsibilities of each of the three service areas within the council and their partnership roles. The Partnership Agreement assists in providing a proactive statement of approach and more efficient management of planned maintenance, reactive repairs, and capital projects.
- There is an Overarching Framework Agreement developed in 2022 which sets out the provisions of the relationship between the Head of Housing & Construction and the Head of Design & Property in relation to the delivery of construction projects utilising the internal construction services service.
- Under the current Overarching Framework Agreement, there are clear roles and responsibilities that set out which officers across the Housing Service and Design & Property Service are responsible to submit the building warrant application and to see it through to completion, whilst ensuring compliance with the overall design.
- Design & Property have building standards and legislative checks within the design process, including reviewing the design against the Building Regulations, submitting applications for Planning Permission and Building Warrant where necessary. This process is encompassed within the departmental quality management system. The QMS is audited by an experienced external reviewer, who confirmed that the current process is efficient. Additionally, City Development recently received a LRQA Certificate, the outcome is 'the organisation demonstrated appropriate knowledge of certification, management systems ISO standard requirements. This indicates that the process is effective to manage construction projects. Regular internal audits are conducted every few months, with spot checks on ongoing projects to help ensure continued compliance.
- Building Standards Service, Design & Property and the Housing Service are carrying out a cross-checking review of all Dundee City Council properties that have had EWI installations to assess if the relevant Building Warrant certification is in place. Seven have been finalised, two are in progress, and the remaining six are to be extended with the wider estate review.

We have identified the following areas for improvement:

- There was no formal action plan, clearly defined roles or robust oversight to ensure the implementation of the recommendations of the September 2022 report commissioned by the Housing Service in an efficient and effective manner.
- There was a lack of Housing Service oversight to ensure regulatory compliance before, during and after the EWI construction work undertaken by British Gas.
- There was limited arrangement in place to ensure that conclusions in the commissioned report were reviewed by either Housing Service or Design and Property, and the recommendations acted upon within a reasonable timeframe.
- There is limited visibility of Building Standards compliance at Executive or Governance Board level, which may reduce the effectiveness of scrutiny and assurance across capital projects.

Impact on Risk Register

The Dundee City Council's Corporate and Service risk registers include the following risks relevant to this review: Neighbourhood Services Service Risk Register:

- NHSC006 Health and Safety (Current - Impact 4 x Likelihood 3)
- NHSC007 Partners and Suppliers (Current - Impact 4 x Likelihood 4)
- NHSC009 Property Management (Council Housing) (Current Impact 4 x Likelihood 3)

(v) INTERNAL AUDIT REPORT 2025/25

Client	**Corporate**
Subject	**Artificial Intelligence (AI) Governance**

Executive Summary

Conclusion

Advisory Report
Our review identified that the Council has recognised key processes required as part of efficient and effective adoption of AI tools. The Council is cognisant of the need to build a robust framework to support the lifecycle of AI tools within the organisation, and has begun to plan for and implement key elements of this. An AI Usage Policy has been implemented to provide a framework for the procurement, adoption and use of AI tools within the Council. This sets out practical requirements that the Council has or plans to integrate into processes to ensure that the use of AI tools is managed appropriately. The adoption of AI within the Council remains an evolving project, and there are a number of key procedural elements which have not yet been implemented in practice. These include: • Development of an end-to-end procurement process including requirements for business cases and appropriate approval. • The need for a standard, repeatable risk assessment to be carried out across all AI procurements. • The creation of an AI Supplier Evaluation Checklist to be used as standard across all AI procurements. • Inclusion of benefits realisation and lessons learned as standard parts of the project management process, particularly during the pilots of AI tools. • Development and implementation of an annual review process to conduct ongoing monitoring over the ethical, security and data protection controls afforded by AI tools. The Council should continue to work to address these areas as a priority to prevent further shadow AI tools (AI solutions that have been deployed without having formal, corporate approval) being used or procurements being undertaken without sufficient risk management and governance oversight. The Council should also perform a review to identify where shadow AI is currently in place and assess how its use complies with policy.

Background

The opportunities afforded to organisations from adopting AI technologies are regular discussion points in organisations and in the media.

AI systems provide organisations with the potential to drive significant benefits through automation and machine learning. This allows organisations to potentially enhance operational efficiency, enable innovation, and improve decision-making.

AI implementation can be complex, costly, and contain significant risk. If AI systems are not implemented with due consideration of ethics and governance issues, organisations can suffer significant reputational, financial, and operational consequences.

At present, there is no formal legislation in relation to AI within the UK. Instead, the UK Government is, for now, taking a cross-sector approach to AI regulation. Regulators are expected to set out how they plan to implement five AI principles in their respective sector. In time, it is expected that the UK will introduce legislation, based around the EU AI Act.

ISO42001, the AI Management Standard, provides leading practice and requirements for establishing, implementing, maintaining and continually improving AI within organisations.

The Council is committed to exploring the opportunities of adopting AI. Examples of AI technologies being explored or being used are Magic Notes for health and social care staff and CoPilot as part of the Microsoft 365 suite to improve use of productivity tools.

Scope

The objective of this audit was to review the Council's approach to adoption of AI and to confirm that there is adequate governance over proposed and actual use of AI systems. In addition, we also sought to confirm that ethical, fair and legal use of data is a key consideration in the decision-making process when proposing and approving the use of AI systems.

The following service was in scope for this review:

Corporate Services – Digital and Customer Services (Digital)

Objectives

		Action Priority			
		C	H	M	L
1. There are adequate policies and procedures in place for adoption of AI systems.	**Advisory**	-	-	2	-
2. There are adequate risk assessment and governance processes over adoption of AI systems.	**Advisory**	-	6	1	-
3. Processes are in place to confirm that externally developed AI systems are secure and process data in line with regulatory requirements.	**Advisory**	-	2	1	-
4. There are formal processes to measure the performance and success of AI systems in place.	**Advisory**	-	2	-	-
TOTAL		-	10	4	-

Nature of Recommendations

12 recommendations relate to issues identified with the design of existing controls, and represent instances in which the control framework requires revisions to adequately address risks. The remaining two recommendations relate to issues identified with the operation of existing controls.

Key Findings

We have identified the following areas for improvement:

- The AI Usage Policy does not sufficiently outline requirements surrounding roles, responsibilities and governance requirements.
- There is not yet a standardised process for proposing and procuring a new AI tool, with no mandated need for a business case, benefits realisation, and lessons learned activities.

- Policy requirements relating to risk assessment, training and awareness, and ongoing monitoring have not yet been implemented in practice.
- There is inconsistent completion of Data Protection Impact Assessments, with varied approaches to risk assessment taken.

Impact on Risk Register

The Corporate and Service Risk Registers include the following risks relevant to this review:

- CSIT011 Failure to Modernise (Inherent Risk 4x5, Residual Risk 3x2)

Our review has identified findings against the above risks:

- While the risk of failing to modernise is being considered and managed, AI related risks are not currently captured on the corporate risk register. Although the inclusion of AI risk is planned, the weaknesses identified in our review underscore the importance of considering the wider impacts of AI on the corporate risk register.

Management has provided a formal response on how the recommendations contained within this report will be addressed. The response, set out in Appendix 1, is aligned to the implementation of the ISO 42001 AI Management System (AIMS).

(vi) INTERNAL AUDIT REPORT 2025/15

Client	**Neighbourhood Services**
Subject	**Homelessness**

Executive Summary

Conclusion

Substantial Assurance
The Council's arrangements to develop and monitor the Rapid Rehousing Transition Plan are broadly sound, however the Service is operating under significant structural pressure, managing approximately 1,000 open homeless cases against a capacity of approximately 500 within existing resource constraints. The review found that planning processes were well evidenced, and monitoring and reporting processes are operating effectively, including processes for reporting to, and engaging with, Scottish Government. We have identified two medium risk areas for improvement, which are related to recording of management decisions, and the strength of contract monitoring processes with housing providers.

Background

Dundee City Council's Rapid Rehousing Transition Plan (RRTP) sets out the Council's approach to addressing homelessness with six key objectives:

- Ending rough sleeping
- Preventing homelessness
- Improving temporary accommodation standards
- Reducing time spent in temporary accommodation
- Increasing the supply of permanent accommodation
- Providing appropriate support and accommodation

Originally intended as a five-year plan, it has been extended beyond its original 2019 - 2024 timeframe in line with continued Scottish Government funding (£286,000 for 2025/26).

Significant demand pressures have emerged with homelessness applications increasing by 18% to 1,638 in 2024/25. Temporary accommodation usage stood at 431 households at the end of 2024/25 (a 5% decrease from 456 at the end of 2023/24), but this remains approximately 70% higher than the baseline year and significantly above the projected reduction to 153 households by 2022/23. Contributing factors include COVID-19 impacts, economic pressures, legislative changes affecting private landlords, and humanitarian crises requiring emergency accommodation.

The Scottish Parliament declared a national housing emergency in May 2024, with the Scottish Housing Regulator identifying heightened risk of systemic failure in several local authorities' homelessness services including Dundee City Council.

This review will examine the effectiveness of the Council's homelessness planning and monitoring arrangements in response to these performance and regulatory concerns.

Scope

Review of the development and progress of the Council's plans to address Homelessness.

Objectives

		Action Priority			
		C	H	M	L
The Council's processes for developing and updating the RRTP ensure realistic targets are set based on appropriate evidence and stakeholder engagement.	**Comprehensive Assurance**	-	-	-	1
The development and progression of the RRTP appropriately address Scottish Housing Regulator requirements and upcoming legislative changes.	**Comprehensive Assurance**	-	-	-	-
Processes exist to identify and respond to significant changes in demand and external factors that impact plan delivery.	**Comprehensive Assurance**	-	-	-	1
Progress monitoring arrangements effectively track plan delivery and prompt appropriate action when performance deviates from targets.	**Substantial Assurance**	-	-	2	-
TOTAL		-	-	2	2

Nature of Recommendations

Two of the recommendations relate to the design of controls (one medium and one low) and two relate to the operation of existing controls (one medium and one low). This indicates that while the overall planning and monitoring framework is broadly sound, enhancements are needed in both the design and operation of supporting controls to strengthen governance arrangements and reduce the risk of gaps in the documentary record.

Key Findings

We identified a number of areas of good practice:

- Historical demand data is actively analysed using detailed tools, and this analysis demonstrably feeds into Homelessness planning assumptions year on year.
- Lived experience and stakeholder feedback are actively gathered and feed into homelessness planning.
- Regulatory compliance processes are well-established, with Scottish Housing Regulator engagement and production of the Annual Assurance Statement operating through a structured annual reporting cycle.
- Legislative and policy changes are monitored through multiple channels including sector forums, professional memberships and national working groups, and are incorporated into strategic planning and service delivery arrangement.
- Demand pressures are actively monitored and emerging risks identified through a range of data tools and sector engagement.
- Budget monitoring is operating effectively with variances escalated promptly to senior management.
- Performance is reported through a structured framework, including annual reporting to Committee and regular review at governance forums.

- Quarterly statutory homelessness returns are submitted to Scottish Government and are subject to external quality assurance.

We have identified the following areas for improvement:

- The Council chairs the Homelessness Strategic Partnership Group (SPG) which provides a forum for collaboration between the Council, NHS, and third sector partners. The SPG is one of the groups which oversees performance against plan targets. The departure of a member of Council staff has resulted in the loss of most of the records of the Group's proceedings and agreed actions. We have recommended that the Service implements a more robust means of recording the group's proceedings.
- Some records of monitoring meetings with third sector service providers have been lost due to the departure of a second member of staff, meaning that we were unable to evidence that provider performance monitoring processes have operated as intended. Agreeing a designated location to retain these records will provide assurance over the integrity of these processes.
- Actions noted in the monthly revenue monitoring spreadsheets are not systematically recorded, meaning it cannot always be determined that actions which have been agreed have been implemented.
- There is no documentation of the rationale or data underpinning planning assumptions that are incorporated into plans. While the specific assumptions used are recorded in the published output documents, maintaining a record of the rationale for the assumptions chosen will help to support assessment of their validity when plans are reviewed.

Impact on Risk Register

The (Service) risk register included, at time of audit, the following risks:

- DCC004a CITY PLAN - Failure to Adequately Address Poverty / Inequalities Inherent Risk (5x4) Residual Risk (5x3)
- NSHC004 Compliance Inherent Risk (5x5) Residual Risk (3x3)
- NSHC009 Property Management (Council Housing) Inherent Risk (5x4) Residual Risk (4x3)
- NSHC010 Emergency Response Inherent Risk (5x5) Residual Risk (4x3)

The most relevant risk to this audit is NSHC004, which lists a number of controls directly relevant to this review, including the Annual Assurance Statement, SHR engagement, budget monitoring, third sector partner oversight, Committee reporting and quarterly governance monitoring through the SPG. The audit found that the majority of these controls are operating effectively and the residual risk assessment is broadly consistent with the findings of this review. The loss of SPG minutes and gaps in records of provider monitoring arrangements arose from specific circumstances rather than systemic control failures, and steps are already being taken to address both. Risk owners should nonetheless consider whether the current residual risk assessment remains appropriate pending full resolution of these issues.

The audit identified a number of controls, which operate effectively, that are not currently listed as mitigating controls against NSHC004. The Unsuitable Accommodation Order (UAO) breach tracking and associated Scottish Government reporting process, the RRTP annual monitoring return, and the legislative monitoring arrangements through sector membership and the TFC Housing Options Hub all provide meaningful mitigation against the compliance risk and may warrant inclusion in the risk register to more accurately reflect the control environment in place.

The external and emerging risks identified during audit planning, including the projected rise in national homelessness demand, growing reliance on unsuitable temporary accommodation, the resource implications of the Housing (Scotland) Act 2025 Ask and Act duties, and legacy IT system constraints, are not explicitly reflected in the current risk register entries. Risk owners should consider whether these risks warrant specific documentation, particularly given the service is currently managing approximately 1,000 open homeless cases against a designed capacity of approximately 500.

Implementation of the recommendations from this review would strengthen the effectiveness of the controls listed in the risk register. Risk owners should review whether control descriptions in Pentana accurately reflect the current operating position and update their assessment of control effectiveness where appropriate.

Definitions of Levels of Assurance

Comprehensive Assurance	The system of controls is essentially sound and supports the achievement of objectives and management of risk. Controls are consistently applied. Some improvement in relatively minor areas may be identified.
Substantial Assurance	Systems of control are generally sound, however there are instances in which controls can be strengthened, or where controls have not been effectively applied giving rise to increased risk.
Limited Assurance	Some satisfactory elements of control are present; however, weaknesses exist in the system of control, and / or their application, which give rise to significant risk.
No Assurance	Minimal or no satisfactory elements of control are present. Major weaknesses or gaps exist in the system of control, and / or the implementation of established controls, resulting in areas of unmanaged risk.
Advisory	No assurance level is provided as the report is advisory

Definitions of Action Priorities

Critical	**Very High-risk exposure to potentially major negative impact** on resources, security, records, compliance, or reputation from absence of or failure of a fundamental control. Immediate attention is required.
High	**High risk exposure to potentially significant negative impact** on resources, security, records, compliance, or reputation from absence of or non-compliance with a key control. Prompt attention is required.
Medium	**Moderate risk exposure to potentially medium negative impact** on resources, security, records, compliance or reputation from absence or non-compliance with an important supporting control, or isolated non-compliance with a key control. Attention is required within a reasonable timescale.
Low	**Low risk exposure to potentially minor negative impact** on resources, security, records, compliance, or reputation from absence of or non-compliance with a lower-level control**, or areas without risk exposure but which are inefficient, or inconsistent with best practice.** Attention is required within a reasonable timescale.