

**REPORT TO: SCRUTINY COMMITTEE – 22 SEPTEMBER 2021**

**REPORT ON: INTERNAL AUDIT REPORTS**

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

**REPORT NO: 256-2021**

**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 subject to an assessment of any impacts on Equality and Diversity, Fairness and Poverty, Environment and Corporate Risk. 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: 3 September 2021

*This page is intentionally left blank*

## i) INTERNAL AUDIT REPORT 2020/24

<b>Client</b>	<b>Corporate Services</b>
<b>Subject</b>	<b>Data Centre</b>

**Introduction**

In April 2019, the Council's Policy & Resources Committee agreed to relocate the Council's corporate IT infrastructure servers and data storage to Brightsolid data centre in Dundee utilising the Public Contract Scotland's Data Hosting Framework. This decision meant that 95% of the Council's information and communications technology would be hosted offsite, bringing with it an increase in resilience and future cost savings. The co-location agreement between the Council and Brightsolid aims to support the Council's long-term goal of relying largely on cloud-based technology. The move to the Brightsolid data centre, which accommodates the Council's own equipment, was due to occur in May 2020, however, following a temporary delay due to Covid-19, took place in September 2020.

Senior management at the Council realised that the existing on-site data centres needed significant upgrades to continue running and therefore wanted to optimise cost without impacting operations. In addition, a number of critical control inefficiencies had been identified with the existing on-site data centres. More specifically, several activities / incidents occurred between February 2018 and February 2020 that resulted in full afternoon / weekend IT shutdowns (some unplanned), prompting IT management to recommend relocating the Council's data centres, including external electrical works and repairs to pipework and a water leak that infiltrated the electrics at Dundee House causing the chiller units for the server room to shut down. In addition, in February 2020, staff were required to work through the night to install temporary cooling in response to an emergency, when non-notified electrical works in the Shore Terrace area shut down the cooling system. With every IT shut down, comes the risk that physical hardware could encounter problems when restarting. This risk came to fruition in February 2018 after the weekend shutdown and subsequently accelerated the planned installation of storage hardware.

An early cost analysis, predominantly arising from identified weaknesses in the backup generator in Shore Terrace, dependent power supply and concerns regarding pipework in Dundee House, indicated that continuing with the existing on-site data centres would have required an investment of up to £1m. The managed service between Brightsolid and the Council should have robust governance arrangements in place to effectively manage the key data centre risks. These should include well defined responsibilities and accountability, an effective reporting line for potential incidents to senior management as defined in the service level agreement, maintaining strong IT security controls for access to the data centre, and monitoring ongoing system performance for availability of services. The level of IT resilience built into any data centre is key to enabling organisations to successfully continue the operations of its services in the event of a major incident.

**Scope and Objectives**

Provision of ongoing support surrounding the upgraded data centres and new third-party supplier, including when appropriate, assessing achievement of expected outcomes.

The objective of this internal audit was to critically assess the governance and resilience arrangements that had been put in place contractually between Brightsolid and the Council, including a progress review against previously raised internal audit feedback. More specifically, the high-level review included:

- assessing the governance and accountability arrangements in place to provide assurance over whether the outsourced service being provided by Brightsolid to the Council is being managed effectively and how information relating to the operation of the service is reported / escalated to the Council.
- reviewing and assessing the level of resilience built into the data centre to ensure operational availability is maintained at an acceptable level in line with the contractual agreement. This included an assessment of the business continuity and disaster recovery arrangements and security protocols.

## i) INTERNAL AUDIT REPORT 2020/24 (Cont'd)

<b>Client</b>	<b>Corporate Services</b>
<b>Subject</b>	<b>Data Centre</b>

**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 move to the co-location Data Centre has been a significant change to the way in which IT services are delivered. This has helped the Council to reduce its risks in relation to the overall stability and reliability of the Council's IT infrastructure. However, given the significant transformation which has resulted from the co-location and the relevant infancy of the contract, there are opportunities to further strengthen the arrangements between the Council and the supplier. Opportunities include clearer definition of roles and responsibilities in relation to, and strengthening the controls in place for, business continuity and disaster recovery processes.

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

- The Council's IT Disaster Recovery Plan has not been updated since the co-location of the data centre took place to reflect the roles and responsibilities of Brightsolid and the Council. Furthermore, there are no ongoing Disaster Recovery testing plans scheduled to take place at the Council. It is recommended that the IT Disaster Recovery Plan is updated to incorporate both the Council and Brightsolid's respective roles and responsibilities. Additionally, the IT Disaster Recovery Plan should be supported by a testing plan to ensure it can be implemented in practice.
- The Council does not have assurance that Brightsolid continues to be accredited with Information technology — Security techniques — Information security management systems — Requirements (ISO/IEC27001:2013) and Information technology — Security techniques — Code of practice for information security controls (ISO/IEC27002:2013), which would demonstrate Brightsolid is adhering to contractual requirements of ensuring its Business Recovery Plan is up to date, tested at least annually and that it has appropriate information security measures in place. The Council should agree with Brightsolid to be provided with evidence of continued accreditation on an annual basis.

**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.

## ii) INTERNAL AUDIT REPORT 2020/31

<b>Client</b>	<b>Chief Executive's Service</b>
<b>Subject</b>	<b>Brexit</b>

**Introduction**

The UK's future relationship with the EU commenced 1 January 2021 and with it comes new trading conditions, regulation, and processes. These changes come at a time when the Council, government and business leaders are also managing COVID-19's disruptive impacts on their organisations. Taken together it increases the risk associated with managing transition to the new post-Brexit environment.

While change is inevitable, opportunity also arises for those sufficiently prepared to take it. To build business resilience, it's important for organisations to have short, medium, and long-term responses to Brexit. With a Brexit deal now negotiated, the Council should continue to consider the following matters, amongst others:

- The impact of international trade changes, on the Council, its suppliers, and the local economy.
- The impact on supply chain, both for Council operations and in respect of those businesses it engages with in order to deliver services and priorities (such as construction projects).
- Responding to legal and compliance requirements.
- How to build business resilience in response to potential disruption.

The Policy and Resources Committee meeting on 12 February 2018 received a 'Brexit – update and implications' report prepared by the Chief Executive. It set out the background and recent developments in respect of EU withdrawal together with specific implications for Dundee City Council across various areas. As recommended in the report, a Brexit Advisory Team was formed to advise on a strategy to mitigate the impact of Brexit and take advantage of any opportunities which may arise. The remit of the Brexit Advisory Team, which has continued to meet regularly since 2018, is to:

- Continue to monitor political and legal developments regarding Brexit, particularly the progress of negotiations and progress with the Withdrawal Bill.
- Ensure that the Council keeps informed of, and influences, the work of COSLA and other professional bodies, in representing the interests of Scottish local government.
- Consider the impact of the ending of EU funding for services such as employability, social inclusion, regeneration, and support for key business sectors.
- Monitor the impact on Council finances, including interest rates on borrowing and the value of the Pension Fund.
- Consider the impact on the local economy, including inward investment.
- Consider the impact on the Council's own workforce and ability to deliver services (e.g. social care and early years) as well as the ability of local businesses to recruit the workers they need.
- Work with partners to develop a deeper understanding of the impact of Brexit on local businesses, universities etc.
- Provide ongoing briefings and reports to the Council Management Team and Elected Members.

The Brexit Advisory Team membership includes senior Council officers and reports regular updates to the Policy and Resources Committee. The most recent updates have included a summary and assessment of the impact of the EU (Future Relationship) Bill, Internal Market Bill, and Scottish EU Continuity Bill, along with regular updates to the Council's Brexit risk register.

The Council has also established a dedicated section of its website to provide guidance to citizens, businesses and students and explain how the Council is responding.

## ii) INTERNAL AUDIT REPORT 2020/31 (Cont'd)

<b>Client</b>	<b>Chief Executive's Service</b>
<b>Subject</b>	<b>Brexit</b>

**Scope and Objectives**

Review the arrangements in place to assess and report on the potential impacts of Brexit, including the development and implementation of a comprehensive contingency plan. More specifically to review the Council's:

- Arrangements in respect of monitoring and reporting the impact of Brexit to ensure there is appropriate oversight and management at an operational and strategic level.
- Understanding and assessment of the impact of the Brexit deal and associated legislation. Assessing the extent to which it includes workforce, funding, economy and regulation, and balances risks and opportunities and comparing the assessment against Internal Audit's expectations to identify any potential gaps in consideration.
- Future Brexit impact assessment activities and transition approach, in the form of a roadmap, or similar outline, and provide guidance on expected next steps.

**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:

- Risks in relation to the supply chain should be assessed holistically with consideration being given to both the legal and practical implications. This should include consideration of the impact of tariffs or duties on the Council's own suppliers. When reviewing the supply chains and identifying those suppliers most at risk, the Council's Corporate Procurement Team should liaise with Scotland Excel.
- The Brexit Risk Register should be routinely considered by the Brexit Advisory Team and submitted to the Policy and Resources Committee as part of the Brexit Update Report. In addition, the Brexit Risk Register should be updated to introduce and incorporate risk owners, statuses as to whether the risk has been adequately mitigated, and dates of updates. Once risk owners are assigned, they should be required to review risks at least quarterly.
- In order to continue to manage risk and, in particular, benefit from opportunities, it is recommended that the Brexit Advisory Team continues in operation through to the end of the financial year 2022/23 and focusses on a roadmap of priorities. Internal Audit has provided an analysis of the key areas of Brexit impact to assist, along with an assessment of the Council's considerations to date and suggested future activities by area.

**Management Response to the Audit Report**

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

## iii) INTERNAL AUDIT REPORT 2021/03

<b>Client</b>	<b>Corporate</b>
<b>Subject</b>	<b>Stocks and Inventories – 2020/21 Year End</b>

**Introduction**

A review of the year end arrangements and the returns for stocks and inventories across the Council was part of the planned internal audit work.

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 and the Executive Director shall make a return of all material stocks and stores to the Executive Director of Corporate Services at the end of each financial year. Services are responsible for ensuring that there are adequate stocktaking arrangements and formal written guidance in place for staff who are involved in stock checks and the guidance should be reviewed on an annual basis and updated as appropriate. The year-end stock check should be undertaken as close as possible to the Council's financial year end, which is the 31 March. Some locations 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. No adjustments in respect of stocks and stores shall be made to write-off deficiencies or to bring surpluses into charge unless authorised by the Executive Director of Corporate Services.

Due to the COVID-19 pandemic and in order to safeguard staff, no physical stock counts were carried out at the end of 2019/20 as part of the year end stocktaking arrangements. Stocktaking arrangements, including physical stock counts were reintroduced for year-end 2020/21 with appropriate protection measures being put in place for safety of staff. Internal Audit staff were included in consultations on the stocktaking arrangements for 2020/21, but did not attend any of the stock counts.

The estimated total value of stocks and work in progress across the Council at the end of the 2020/21 financial year was of the order of £1,205,919.

**Scope and Objectives**

Review of stocktaking arrangements and returns for the year ending 31 March 2021.

**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 area commented upon in the report is as follows:

- The processes and procedures in place for recording, administering and updating stock items within Construction Services, which support overall stocktaking arrangements, were reviewed by Corporate Finance. The review highlighted areas for improvement surrounding the updating of prices in the ordering system and the goods receipting process. A further review of these processes and procedures should be carried out by the Senior Accountant (in conjunction with the new Procurement Category Officer) with a view to ensuring robust stock management arrangements are established and maintained.

**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 Neighbourhood Services and appropriate action agreed to address the matters raised.

## iv) INTERNAL AUDIT REPORT 2021/04

<b>Client</b>	<b>Corporate</b>
<b>Subject</b>	<b>Corporate Complaints</b>

**Introduction**

The Public Services Reform (Scotland) Act 2010 gave the Scottish Public Services Ombudsman (SPSO) the authority to lead the development of Model Complaint Handling Procedures (MCHP) across the public sector, with the aim of providing simple, consistent processes for complainants to follow and promoting learning from complaints. The first MCHP was introduced in 2012 and was adopted by the Council from 1 October 2012.

A number of changes have been made by the SPSO to the MCHP which all local authorities were required to adopt by 1 April 2021. Changes that the Council was required to adopt relate to complaint resolution, complaint timelines, supporting staff, social media and equality to name a few. The changes to the MCHP include ensuring that organisations report on and publish complaints statistics in line with performance indicators published by the SPSO.

The Council implemented the changes by updating the electronic database for complaints, providing revised guidance to staff and the public and updating performance reports that are submitted to the Scrutiny Committee. Further changes were also implemented to ensure adoption by the 1 April 2021 deadline.

Six monthly reports are currently reported to the Scrutiny Committee on corporate complaints with the annual report submitted in June each year to cover the previous full financial year. These reports include key performance indicators relating to complaints that have been closed.

In the year to 31 March 2021 the Council recorded of the order of 500 complaints. This was down from 666 in the year to 31 March 2020. 67.7% were closed at Stage 1 within the required 5-day target time. A further 9.4% of complaints at Stage 1 in 2020/21 were dealt with and closed within an extended target time. 65.4% of complaints progressing to Stage 2 were closed within the required 20 days, with a further 19.2% closed at that stage within an extended target time.

The average number of days taken to close complaints at Stage 1 in 2020/21 was 5.6, compared with 4.5 in 2019/20. The average number of days taken to close complaints at Stage 2 in 2020/21 was 27.0, compared with 23.0 in 2019/20.

**Scope and Objectives**

Review to assess compliance of the Council's complaints handling and reporting arrangements against the revised Model Complaints Handling Procedures, introduced on 1 April 2021.

**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 area commented upon in the report is as follows:

- The Council's Complaints Handling Procedure states that regular refresher courses should be offered to appropriate staff members, however, due to COVID-19 restrictions these were suspended until face to face training could be delivered. While email correspondence has kept staff up to date on changes to the MCHP and two virtual sessions were held, not all relevant staff have had recent training. A number of discrepancies were noted in the sample testing carried out as part of the audit fieldwork, which also indicated that it would be beneficial to reinstate refresher training courses, albeit virtually, at this time.

**Management Response to the Audit Report**

The audit findings and recommendations were formally reported to the Chief Executive and appropriate action agreed to address the matters raised.