ITEM No …6………..

REPORT TO: SCRUTINY COMMITTEE – 27 SEPTEMBER 2023

REPORT ON: INTERNAL AUDIT REPORTS

REPORT BY: CHIEF INTERNAL AUDITOR

REPORT NO: 267-2023

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

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

4.0 FINANCIAL IMPLICATIONS

None

5.0 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. 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**
General Ledger	Limited
Vehicle Telematics	Substantial
Tay Cities Region Deal	Substantial

4.3. A new format and style of report, including updated assurance levels and action priorites, was introduced earlier this year. Draft reports issued before 28 June 2023, other than those in the pilot testing,will remain in the previous style but the assurance levels and action priorities will be updated before finalisation to maintain continuity in reporting during the 2023/24 audit year. All the reports coming to this committee are in the new style.

6.0 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.

7.0 CONSULTATIONS

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

8.0 BACKGROUND PAPERS

None.

CATHIE WYLLIE, CHIEF INTERNAL AUDITOR **DATE: 5 SEPTEMBER 2023**

i) INTERNAL AUDIT REPORT 2022/17

Client	**Corporate Services**
Subject	**General Ledger**

Executive Summary

Conclusion

Limited Assurance
Weaknesses exist in the system of control which give rise to significant risk. There is no formal documentation of processes, procedures, and controls, inhibiting our ability to assess whether these are adequate to address operational risks. The Finance function has also been affected by issues of capacity and the loss of experienced members of staff. Resolving these issues is the focus of the Service Improvement Plan which is presently in development. Some internal audit recommendations in this area are long outstanding but are yet to be fully implemented. We have raised a number of recommendations with a focus on ensuring that these actions and those set out in the Service Improvement Plan are prioritised and plans are realistic in the context of resourcing pressure.

Background

Civica Financials is a Financial Management Information System (FMIS) created by Civica, a software provider specialising in solutions for public sector organisations. As implemented within the Council, the system comprises the core general ledger which forms the main record of the Council's financial transactions and balances used for the preparation of the annual accounts, and additional integrated modules for the management of purchasing and revenue generation.

The data contained within Civica Financials underpins the generation of financial reporting which is used to monitor income and expenditure against budgets, and the progress of the delivery of financial targets and plans.

Scope

Review of the arrangements in place for the use of General Ledger in developing the budget process, financial monitoring and outturn information and the identification of potential opportunities to make improvements.

The overall objective is to confirm that there are appropriate controls over the entry of information into the financial ledger, and that systems and processes facilitate budgeting and financial monitoring by providing accurate, granular information to support decision making.

Objectives

		Action Priority and No.			
		C	H	M	L
1. Confirm that controls are in place to ensure information recorded in the financial ledger is accurate, timely, and complete.	**Limited Assurance**	-	1	1	-
2. Review the organisation of ledger information and confirm this aligns with the structure of the Council's operations, in order to support effective budgeting and budget monitoring.	**Comprehensive Assurance**	-	-	-	1
3. Confirm that the general ledger facilitates accurate, timely, and detailed reporting of financial performance, which supports decision making.	**Substantial Assurance**	-	1	-	1
4. Review processes for the management of ledger information and confirm they are effective and efficient, automated where appropriate, and minimise the need for manual data processing.	**Substantial Assurance**	-	-	1	1
TOTAL		-	**2**	**2**	**3**

Definitions of levels of Assurance and Action Priorities are set out at Appendix B.

Key Findings

We identified a number of areas of good practice:

- The ledger is subject to access control, appropriate to the individual responsibilities of system users.
- Where practical, authorisation and validation controls over ledger information are automated and enforced through system configuration and implementation.
- The structure of financial ledger information is linked to budget setting processes, providing a clear alignment with organisational structure.
- Regular financial reporting is prepared for operational and executive management, which includes a consistent set of key financial information.

We have identified the following areas for improvement:

- Controls over the accuracy and completeness of information uploaded to the ledger from other financial systems are not well designed. Capacity issues mean that they are not implemented consistently across all financial feeder systems, and as a result are not operating effectively.

- Processes and Procedures are not formally documented, meaning it is difficult for the function to demonstrate that adequate controls are in place and operating as intended. When experienced staff leave the organisation, their knowledge and understanding of processes is lost and may not be transferred to other employees or new employees.
- The design of ledger management processes means that creating Committee reports requires a significant degree of manual compilation and validation of ledger information.
- Financial reporting could be enhanced to support greater scrutiny of the accuracy and movement of forecast outturn over time.
- Manual compilation of financial reporting for Committee and the frequency of reporting means that management and budget holders within Services have limited flexibility to tailor reporting to their needs.
- The Finance function should assess the tools and knowledge available within the department to support reporting, and put in place a plan to identify and address any gaps.

Impact on risk register

The Council's Corporate risk register and Corporate Services risk register included, at the time of audit, the following risks relevant to the review:

- **DCC001- Financial Sustainability** (residual score 20, target range 4-9)
- **DCC005 – Governance** (residual score 10, target range 1-3)
- **DCC013/CSCF011 - Fraud and Corruption** (residual risk score 12)
- **CSCF008 – Compliance** (residual risk score 15)
- **CSCF010 – Finance – Management** (residual score 20)

The findings raised in this report directly relate to the Council's arrangements to manage risks related to compliance with financial regulations and accounting standards, and the prevention of fraud and corruption. The Council's risk management system specifically identifies and assesses the following controls, examined as part of this review, as mitigating actions for these risks:

- Capital and Revenue Monitoring (rated fully effective)
- Formal Timetable for Revenue and Capital Monitoring (rated fully effective)
- Report Checking Procedures (rated fully effective)
- The Finance Reconciliation Framework (rated partially effective)
- Systems access controls (rated fully effective)

Our most significant findings relate to the general lack of documentation of financial controls, and to the effectiveness of the reconciliation framework by which assurance is gained over the completeness and accuracy of information entered into the ledger through financial feeder systems. Risk owners should consider whether they have appropriately assessed the effectiveness of these controls, and thus accurately scored these risks, particularly where the reconciliation framework is identified as a mitigating control. As assurance in these areas is weak, the possibility exists that there are areas of risk that have not been identified.

Strengthening controls in these areas will provide additional assurance that these risks are being effectively mitigated. We have also raised recommendations which, if implemented, could enhance financial scrutiny and improve financial management within the council, which may in turn, contribute towards bringing financial sustainability risk scores within their target range.

ii) INTERNAL AUDIT REPORT 2022/25

Client	**Construction Services**
Subject	**Vehicle Telematics**

Executive Summary

Conclusion

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. Construction Services have made use of telematics data within the purposes outlined in the Telematics Policy, however record keeping issues mean that use of the system can only be reviewed where it has resulted in formal disciplinary action. The limited extent to which the system is used does not suggest that the system is used inappropriately or excessively. The policy itself should be reviewed, and the audit identified opportunities for Construction Services and other services to make more effective use of the system.

Background

Vehicle telematics combines GPS systems, onboard vehicle diagnostics and other technologies to record and transmit vehicle data such as location, speed and driving style. Vehicle telematics provide information to organisations to assist with health and safety, security, and can provide valuable information in the event of accidents and insurance claims as well as assisting in driver training to reduce fuel costs.

The current version of the Telematics Policy has been in place within the Council since January 2013. The Telematics Policy covers vehicles used in all services of the Council including Neighbourhood Services, and Social Care.

The Council currently uses the Movolytics vehicle telematics system to collect data on the use of Council vehicles. It is currently installed on 166 vehicles made use of by Construction Services as part of its operations, representing approximately half of 377 active vehicles fitted with trackers.

The Telematics Policy and the administration of the Movolytics system are the responsibility of the Corporate Fleet Team within Sustainable Transportation and Roads.

Approach

The audit sought to determine how the policy and Movolytics system has operated within the Council, initially through discussions with the Corporate Fleet Team. The auditor engaged with managers and drivers from within Construction Services and reviewed data and reports from the Movolytics system to determine the extent and use of the system. The auditor also sought views from Trade Union representatives on the policy and its application.

Scope

Review of compliance by Construction Services with the Telematics Policy and whether use and compliance with the associated IT Solution, Movolytics has been in line with Telematics Policy.

Objectives

		Action Priority and No.			
		C	H	M	L
1 - Review of Construction Services implementation of, and compliance with, the requirements of the Council's Telematic Policy including communication of the policy, training and reporting.	**Substantial Assurance**	-	1	-	-
2 - Review of the content of the Telematics Policy to determine whether it is still relevant, up to date and consistent with current practice.	**Substantial Assurance**	-	1	-	2
3 - Review of the arrangements for providing access to Movolytics and determination of how access to Movolytics is administered, monitored and reported.	**Substantial Assurance**	-	-	-	1
TOTAL		-	2	-	3

The action noted in Objective 1 is also relevant to Objective 3.

Definitions of levels of Assurance and Action Priorities are set out at Appendix B.

Key Findings

The audit identified a number of areas of good practice:

- The audit trail information available does not support concerns that the use of vehicle tracking is excessive, or that the system is being used to monitor drivers in real time.
- Where formal investigations have been conducted and disciplinary action taken, the audit found that Construction Services has reviewed telematics data for purposes which are within the terms of the policy.
- To the extent it is documented, the approach to making use of Telematics data within Construction Services is consistent with other Services within Dundee City Council.
- Provision of login credentials to the Telematics system requires individual approval from a Head of Service, and there is periodic review of existing users to ensure that access remains appropriate.
- The Telematics system is configured to restrict the ability to view vehicle activity in line with responsibility.

The audit identified the following areas for improvement:

- The Telematics Policy should be reviewed. Its stated purposes encompass elements of people management and asset management, but its ownership is unclear. As a consequence, the policy has not been reviewed and updated since 2013.
- The policy implies that each instance in which access is granted to review tracking data must be individually approved by a Head of Service, however unless the tracker was accessed as part of a formal investigation and disciplinary process administered by Human Resources or Corporate Fraud, Construction Services have not retained detailed audit trail information of these approvals, meaning it is not possible to determine if this aspect of the policy has been complied with. Where tracking data has led to disciplinary action there is sufficient information to confirm that the policy of prior approval has been adhered to.
- A process has been designed to address approval to extract data, however this process has only been implemented from the end of 2022.

- While there are processes in place to ensure that drivers are made aware of the telematics policy, comprehensive records of these acknowledgements are not retained, creating a risk that some drivers may not be aware of its contents.
- The telematics system has the capability to monitor driver behaviour, and automatically issue alerts and reports to managers according to specified criteria. The Telematics Policy sets out a process for automated reporting, however this form of monitoring is not in active use.
- While training has been provided to individuals with access to the Telematics system, there are no ongoing arrangements to ensure this is refreshed and kept up to date.

Impact on risk register

The Construction Services risk register included, at time of audit, the following risks:

- **NSCo002 Workforce** (residual risk score 12)
- **NSCo012 Fraud & Corruption** (residual risk score 12)

Controls which relate to systems and processes for people management are directly relevant to Workforce risks, and this risk includes impacts such as effects on staff morale, unrest, and industrial action. These can arise where systems of management are or are perceived to be inconsistently, unreasonably, or arbitrarily applied.

The audit identified a number of areas in which controls relating to the use of vehicle telematics could be strengthened such that they can be shown to be applied more consistently and fairly, with less reliance on the judgement of individual managers and accordingly less scope for misuse. These controls are not set out as mitigating actions against the Workforce risk within the Construction Services risk register, and so risk owners should consider whether these should be included in their assessment of the adequacy of mitigating actions.

Fraud & Corruption includes impacts such as financial losses, and the exposure of Council property to misappropriation or misuse. Our review of the cases in which vehicle tracking data had been used in disciplinary proceedings included instances of the misuse of council vehicles, with a corresponding indirect financial cost.

The risk register does not explicitly include the vehicle telematics system as a mitigating control in relation to Fraud & Corruption, however the audit has raised recommendations that represent opportunities to make more effective use of the system's capabilities to detect misuse, and accordingly reduce costs.

ii) INTERNAL AUDIT REPORT 2022/25

Client	**Corporate**
Subject	**Tay Cities Region Deal**

Executive Summary

Conclusion

Substantial Assurance
Governance Structures and processes for the Tay Cities Region Deal are robust and well-designed. However, the failure of projects to present business cases in line with their originally agreed timescales presents a risk to the delivery of the Deal programme. We can observe that the Partnership is taking action to address this and other developing risks, such as the impact of inflation on the viability of proposed and ongoing projects. We have raised recommendations with a view to strengthening arrangements for monitoring, reporting, and risk management.

Introduction

The Tay Cities Region Deal Grant Offer terms for 2022-23 were issued by the Scottish Government on 1 July 2022 and signed by the Chief Executive of Dundee City Council, as Accountable Body, on behalf of the Tay Cities Region Deal.

The terms require that the Tay Cities Region Deal "should be subject to an audit, forming part of the Accountable Body's Risk Based Internal Audit Plan every second year as a minimum." This report is presented to the Tay Cities Region Joint Committee in fulfilment of that remit.

Background

The Tay Cities Region Deal (the Deal) is a programme of investment to deliver economic growth across the region. The Tay Cities Region Partnership (the Partnership) comprises Angus, Dundee City, Fife, and Perth & Kinross councils; the Higher and Further Education sectors; the business sector; the region's third sector interface bodies; Scottish Enterprise, Skills Development Scotland, Tactran, and Visit Scotland.

The Scottish and UK governments have each agreed to invest up to £150 million in the Deal. This investment has the potential to secure over 6,000 jobs and generate £400 million of investment over 15 years. It will enable the region to "empower and promote inclusion", "innovate and internationalise" and "connect". The Deal was signed on 17 December 2020.

An internal audit was carried out in 2020/21 (Year 1), which considered the developing governance structures, and processes for approval of business cases and monitoring of project implementation. Responsibility for administering these rests with the Project Management Office (PMO) which comprises a group of officers employed by Dundee City Council as Lead Authority and Accountable Body for the Deal. Two projects had progressed to the stage of drawing down funds at the time of the previous audit.

There is an agreed Governance Structure set out in the signed Deal Document (https://www.taycities.co.uk/sites/default/files/tay_cities_deal_doc_feb_8.pdf). This includes the Tay Cities Region Joint Committee (the Joint Committee) which was established by Local Authority Partners in 2017. It is governed by the Joint Committee Governance Agreement. It has two roles: to lead economic regional collaboration and be the ultimate regional decision making body for the Deal.

The Joint Committee is the decision making body for the release of any funding. It is supported by a broad range of boards, groups and forums. These include three advisory groups, two forums to provide an interface with the Education and Business Sectors, and five Thematic Boards with remits aligned to the Regional Economic Strategy priorities. Going forward, the Joint Committee will continue to have a role in considering and approving business cases. In addition to this, it will have a key role in monitoring and evaluation of delivery of the commitments within the Deal.

At the time the review was planned in September 2022, 17 projects, 2 programmes, and 1 fund had received approval from the Joint Committee, and the programme was forecasting a £0.75m underspend against a draw down profile of £38m in capital and revenue funding for Year 3.

Since the outset of the review, the Partnership has reported that a total of £33.9m acceleration has been awarded by the Scottish Government, and just over £100m of funding has been released. £231m of Investment has been approved by Joint Committee and £123m of leverage secured. The Deal has thus far created 677 jobs. These are set out in more detail in the Annual Performance Report (https://www.taycities.co.uk/sites/default/files/2023-03/Annual%20Performance%20Report%20Oct%202021%20-%20Sep%202022.pdf)

The Partnership have stated that they have undertaken two Annual Conversations with the Scottish and UK Governments, in which they have been complimented on their progress of delivering the Deal, and recognised as an exemplar, developing and leading the national PMO networking group and sharing best practice with other Deals.

Scope

High level review of progress with Tay Cities Region Deal projects and compliance with grant offer guidance.

The overall objective is to confirm that there are adequate controls in place to ensure that projects are approved in a timely manner, and that compliance with grant award conditions and project progress is monitored and reported.

Objectives

		Action Priority and No.			
		C	H	M	L
1 Review the effectiveness and efficiency of arrangements for the submission, scrutiny, approval, and change of business cases, including alignment with the timing requirements of the funding agreement.	**Substantial Assurance**	-	1	-	-
2 Confirm that projects are required, through governance and grant conditions, to apply adequately robust project management to support monitoring and reporting.	**Comprehensive Assurance**	-	-	-	-
3 Review the arrangements for the monitoring and reporting of project progress, and escalation procedures where projects do not achieve planned milestones or deliver planned objectives.	**Substantial Assurance**	-	1	-	2
4 Confirm that funding is only drawn down from Scottish Government on submission of a complete, timely drawdown request in compliance with a clearly defined procedure.	**Comprehensive Assurance**	-	-	-	-
TOTAL		-	2	-	2

Definitions of levels of Assurance and Action Priorities are set out at Appendix B.

Key Findings

We identified a number of areas of good practice:

- There is a clearly articulated and well-established approval pathway for Tay Cities Region Deal Business Cases, supported by a coordinated forward plan for committee work.
- Grant Conditions require that funded projects establish, monitor, and communicate their progress, in terms of adherence to financial plans and achievement of planned milestones.
- Drawdown requests are submitted to the Scottish Government through a well documented process which includes multiple levels of approval, assessment of eligibility of claimed spend, and appropriate segregation of duties.
- A structured approach to Benefits Realisation management is in development, with good progress on developing reporting on project benefits and commitments. A Benefits Realisation Plan is in place, and a reporting cycle for reporting has been agreed with both Governments.
- The Project Management Office (PMO) has successfully advertised and filled two of its three vacant posts during the completion of fieldwork. Fully staffing the PMO

will take pressure off the current team, maintaining its existing high level of delivery and reducing overall delivery risk to the Deal programme.

We have identified the following areas for improvement:

- No funding can be claimed without an approved Business Case. Projects are requested to secure approval ahead of the financial year in which they are profiled to drawdown funding. This requirement has been in place since Heads of Terms were agreed and is to ensure that funding can be drawn down from government in line with the agreed Deal funding profile. The Deal is now in Year 4 of Delivery. Some Projects are failing to present Business Cases in line with these timescales, with the result that they are not securing approval ahead of their awarded funding profile. Failure to achieve planned timetables and financial profiles on the part of individual projects places risk on both the Project Owner and the Partnership's management and delivery of the Programme. This has to date been primarily managed through acceleration of drawdown for those projects which are able to spend ahead of their planned profile, however the programme is entering a period in which there are fewer options to accelerate funding in this way. It is therefore important that the Partnership address the issue of late submission of business cases as a matter of urgency. Partnership Sponsors should reiterate to Project Owners the requirement to adhere to business case deadlines, and the consequences of failing to do so.

- A risk register reporting process has been agreed with the Partnership and both Governments. While there is good evidence of action to quantify and put in place mitigations for new and emerging risks, these actions and their impact is not always clearly reflected in the programme risk register. Where risk scores are persistently high, the risk register does not clearly distinguish whether this is a result of external factors or if there are required enhancements to internal control.

- The form and content of reporting to the Management Group, Joint Committee and both Governments has been developed from Heads of Terms. There is not currently a formal review process of this. Putting in place a mechanism to confirm that the content of reporting meets the needs of the Partnership would enhance scrutiny.

- There is limited visibility of issues of compliance with monitoring requirements. Overall project governance would be enhanced by regular reporting to the Management Group of the extent to which projects are providing, on a timely basis, the monitoring information set out in their grant terms.

- A small number of housekeeping matters were also discussed and resolved during the audit.

In some areas, we found that changes to processes were already under development which addressed matters which may otherwise have been raised as findings:

- There is an agreed change control process developed by the Partnership with both Governments. However, it is recognised by both Governments and the Partnership that due to the impact of inflation, the process requires a review and refresh. This is underway with a target completion date of 31 December 2023.

- The PMO has recently developed an early warning process to highlight any significant risks around the delivery of a Project or commitments to the Management Group.

Impact on risk register

The Tay Cities Region Deal risk register included, as at July 2023, multiple red-rated risks:

- **Global Supply Chain Issues. Combined effect of Brexit / Covid / Ukraine Conflict** (residual risk score 25) (note that this risk encapsulates the impact of inflation arising from these factors)
- **Programme Management** (residual risk score 25)
- **PMO resource and capacity issues** (residual risk score 25)
- **Delays in development and approval of business cases** (residual risk score 16)
- **Failure to deliver individual projects within the TCD programme** (residual risk score 16)

The risk titled “Global Supply Chain” brings together a number of existing pressures impacting upon the viability of individual projects. The maximum scoring (impact 5, likelihood 5) reflects that these risks are not yet fully quantified, and not yet mitigated. In particular, the impact of Inflation has been discussed in detail by the Partnership since spring 2022, and is reflected in standing items on both the Management Group and Joint Committee agendas. The Tay Cities Region Deal PMO has also led a discussion through the PMO network, with contributions from both Governments.

Since the completion of audit fieldwork, we have been provided with additional evidence outlining the work that the Partnership has undertaken to assess the impact on business case assumptions and the viability of projects. The present inflationary environment means that financial assumptions may no longer hold, or will need to be revised, and as noted above the change process is being reviewed to take account of the impact of inflation. It is likely that within the medium term either a project will indicate, or the Partnership will determine, that a project or projects is either no longer viable or no longer capable of delivering its planned benefits.

Recommendation 2 notes that risks linked to inflation arise as a consequence of factors that are outwith the control of projects or the Partnership, meaning that it may not be possible to fully mitigate their impact. This can present a reporting issue as it may be deemed appropriate for residual risk scoring to remain high, potentially obscuring the effect of those controls which can be applied within the scope of the Partnership’s influence. We have proposed a means of factoring this into the Programme risk register to better support scrutiny of risk management.

Delays in the submission of business cases exacerbate the risk that a project’s viability will be threatened by increasing costs. We have made recommendations which relate to the controls around the management of business case presentation.

The majority of mitigations for these risks relate to the management of the timetable for business case approval, management of project expenditure against the Deal funding drawdown profile, and monitoring of project progress. Our findings indicate that there is scope for more proactive management of these issues.

Projects themselves must, under the terms of their grant agreements, monitor and report on delivery risk to the PMO. Recommendation 4 relates to the controls which enable the Partnership to gain additional assurance that these arrangements are operating effectively and that these risks are being managed.

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.

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.