

**REPORT TO:           AUDIT AND RISK MANAGEMENT SUB-COMMITTEE 15/05/06**  
**REPORT ON:           INTERNAL AUDIT REPORTS**  
**REPORT BY:           CHIEF INTERNAL AUDITOR**  
**REPORT NO:           316-2006**

**1.    PURPOSE OF REPORT**

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

**2.    RECOMMENDATIONS**

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

**3.    FINANCIAL IMPLICATIONS**

None

**4.    LOCAL AGENDA 21 IMPLICATIONS**

None

**5.    EQUAL OPPORTUNITIES**

None

**6.    BACKGROUND**

- 6.1. The day-to-day activity of the Internal Audit Service is primarily driven by the reviews included within the Internal Audit Plan. Broadly, on the completion of a specific review, a report which details the audit findings and recommendations is prepared and issued to Management for a formal response and submission of Management's proposed action plan to take the recommendations forward. Any follow-up work subsequently undertaken will examine the implementation of the action plan submitted by Management.
- 6.2. Executive Summaries for the reviews which have been finalised in terms of paragraph 6.1 above are provided at Appendix A. Within each Executive Summary the prime aim is to provide both Members and Management with key information which includes the reason for undertaking the review, summary financial data and statistics, the areas encompassed within the review and specific areas which were excluded, the principal audit objectives, an audit opinion on the adequacy of the systems and control framework of the area reviewed, the key conclusions based on the audit findings and recommendations and a summary of Management's response to the audit report. The full reports are available to Members on request.

**DAVID K DORWARD**  
**DEPUTE CHIEF EXECUTIVE (FINANCE)**

**05 May 2006**

**BACKGROUND PAPERS**

None

## i) INTERNAL AUDIT REPORT 2005/22

<b>Department</b>	<b>Education</b>
<b>Subject</b>	<b>Establishment Review: St Ninian's Primary School</b>

**Introduction**

As part of the planned audit work for 2005/06, an establishment review of St Ninian's Primary School was carried out. At the time of audit fieldwork there were almost 200 pupils in the main school and nursery class.

Under the Devolved School Management Scheme (DSM), the Head Teacher has responsibility for most of the budget allocated to the school and school staff monitor income and expenditure to ensure that this budget is not exceeded. The final devolved budget for 2005/06 is £570,173.

School support staff administer a number of other income and expenditure systems within the school, including monies collected for school meals, the School Fund and collections for charity. However, teaching staff are also involved in some areas, for example, in the collection of monies for school trips.

**Scope and Objectives**

The objective of the audit was to examine the systems operated by staff within St Ninian's Primary School and included systems operated in relation to both Council income and expenditure and the management of School Funds at the school. Areas to be examined included adherence to guidance from the central area office, ordering, receipting and creditor payments, arrangements for receipting, recording and security of income, record keeping and monitoring of expenditure, reconciliation and banking procedures and general security including computer security.

**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:

- To improve the banking and reconciliation procedures within the school, consideration should be given to measures such as more frequent banking and the introduction of additional checking procedures.
- To increase the transparency over the administration of the School Fund and to protect staff, Departmental guidelines should be adhered to.

**Management Response to the Audit Report**

The audit findings and recommendations were formally reported to the Director of Education and appropriate action agreed to address the specific issues raised.

## ii) INTERNAL AUDIT REPORT 2005/27

<b>Department</b>	<b>Education</b>
<b>Subject</b>	<b>Education Maintenance Allowance</b>

**Introduction**

As part of the planned internal audit work a review of the systems pertaining to the Education Maintenance Allowances (EMA) scheme was carried out. This scheme provides financial support for 16 to 19 year olds from low income families who undertake a full time course at school or college. Dundee City Council was one of four Councils who originally piloted this scheme. It was concluded from the pilot that such allowances had a positive impact by increasing the number of young people participating in post-16 education and reducing the numbers who drop out of education. Therefore since August 2004 EMAs have been available nationally across Scotland and it is estimated that 40,000 young people benefit annually from the scheme which enables them to stay on in post-16 education.

The EMA is a means-tested weekly allowance which is payable fortnightly in arrears during term-time. In order to receive an EMA a student must enter into a Learning Agreement, which has conditions linked to attendance and agreed learning goals. The weekly allowance awarded will normally depend on the financial circumstances of the household and consists of a weekly payment of up to £30 which is paid directly into the bank account of the young person. In addition, students may be eligible for two bonuses of £150 each, paid in January and July. Payment of bonuses is subject to certain criteria such as compliance with the Learning Agreement and completion of the course.

In 2004/05 approximately 630 pupils were granted an EMA by the Education Department. The Scottish Executive meets the cost of payments and bonuses arising from these awards. For the 2004/05 financial year the amount reclaimed by Dundee City Council for payments and bonuses was £502,160 and £165,900 respectively.

**Scope and Objectives**

The scope of the audit was to examine the Education Maintenance Allowances that were rolled out with effect from 5 April 2004 and to provide an audit opinion on the adequacy of the systems and procedures in place. The review included an examination of the application form, financial assessment and approval process, compliance with the Learning Agreement and payment procedures.

**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 that improvements can be made.*

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

- To ensure that the Department can demonstrate full compliance with the Terms and Conditions of the Grant, specific requirements such as quality management, fraud avoidance and continuous monitoring arrangements should be implemented.
- To minimise the risk of grants being awarded to recipients who do not meet the necessary eligibility criteria, supporting documentation should be complete and of a sufficient standard to enable the appropriate verification checks to be undertaken.
- To improve the accessibility of the EMA documentation, publication of the application form and associated guidance on the Council's web site should be explored.

**Management Response to the Audit Report**

The audit findings and recommendations were formally reported to the Director of Education and appropriate action agreed to address the vast majority of the issues raised.

## iii) INTERNAL AUDIT REPORT 2005/32

<b>Department</b>	<b>Support Services - Environmental Health and Trading Standards</b>
<b>Subject</b>	<b>Ordering, Receipting and Creditor Payments</b>

**Introduction**

As part of the planned audit work for 2005/06, a review of the systems operated in relation to ordering, receipting and creditor payments in Environmental Health and Trading Standards (EHTS) within the Support Services Department was undertaken. EHTS has three main functions, Environment, Food/Health & Safety and Trading Standards which, as a result of the recent move to accommodation on the Claverhouse West Industrial Park, are now all located in the same Council premises. EHTS staff have been responsible for processing of orders and invoices on the Council's computerised Creditors System (Powersolve) since April 2004. In 2004/05, expenditure on the creditors' system was in the region of £657,000, and approximately 400 orders and 900 invoices and sundry payments were processed.

For most goods and services which require to be ordered, a requisition form is completed and authorised by a designated member of staff. Staff within the section requesting the goods or services are responsible for checking goods received, delivery notes and invoices and for signing the invoices to certify that the goods or services have been received. EHTS reception staff generate orders and process invoices on the computerised Creditors System. All invoices are passed to the Head of Environmental Health and Trading Standards to be authorised for payment prior to being input to the computerised Creditors System.

**Scope and Objectives**

The objective of the review was to provide an opinion on the adequacy and effectiveness of the controls over the systems operated in relation to ordering, receipting and creditor payments within EHTS with regard to the appropriateness of the goods ordered, procedures for the placement and authorisation of orders, receipt of goods and payment of invoices.

**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:

- To facilitate checking of invoices and monitoring of charges and recharges for veterinary services, records should be maintained of all amendments to orders, checks on goods received, payments known to have been made direct to the veterinary group by other parties and recharges to owners for veterinary treatment.
- To ensure that the VAT reclaimed by the Council is maximised and the Department has appropriate supporting documentation, suppliers who are registered for VAT purposes should be asked to forward a VAT invoice where this has not been provided.
- To reduce the risks associated with operation of cash floats, consideration should be given to reducing the size of the petty cash float held by the Department and ensuring that this is only used for reimbursement of expenditure which cannot be processed by other Council systems.

**Management Response to the Audit Report**

The audit findings and recommendations were formally reported to the Head of Environmental Health and Trading Standards and appropriate action agreed to address the specific issues raised.

## iv) INTERNAL AUDIT REPORT 2005/33

<b>Department</b>	<b>Corporate</b>
<b>Subject</b>	<b>Telecommunications - Mobile Phones</b>

**Introduction**

As part of the planned internal audit work for 2005/06 a review of the procedures operated within Dundee City Council in relation to the issue and use of mobile phones was carried out.

Applications for mobile phones received from departments are sent to and processed by the Telephone Services section within Support Services. Telephone Services staff record details of phones issued on a central register and departments should advise staff if phones have been re-allocated or are no longer required so that the register can be kept up to date.

Mobile phones are issued to facilitate contact with staff who are working on site rather than Council offices or to allow lone workers to summon assistance if faced with potentially hazardous situations. The number of mobile phones in use throughout the Council has increased significantly in the past few years and there are currently approximately 2,200 mobile phones being used by employees. Expenditure on mobile phones has increased from £177,000 in 2002/03 to £311,000 in 2004/05. The majority of mobile phones are held under a contract with T-Mobile which was renewed in autumn 2005.

Each month T-Mobile sends departments itemised bills for the contract cost and call charges incurred on phones allocated to them. Recouping the cost of any private calls made is the responsibility of individual departments but there are no standardised procedures for this within the Council. Support Services staff send Chief Officers details of high users within their department on a monthly basis so that bills can be investigated and remedial action taken, if necessary.

**Scope and Objectives**

Audit fieldwork was carried out across a sample of Council departments. The overall aim of the review was to obtain assurance that sufficient controls are in place to ensure that mobile phones are only issued to employees with a genuine need, accurate records are held detailing the person in possession of a mobile phone at any given time, the number and value of calls made is monitored, the Council is reimbursed for personal use and employees are aware of the procedures for reporting lost or stolen phones.

**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:

- To ensure that mobile phones are appropriately controlled across all departments of the Council, a Corporate policy on the issue and use of mobile phones should be prepared.
- In order to minimise the risk of the Council paying for non-Council activity, Support Services staff should explore with T-Mobile the feasibility of blocking services not required for Council business.
- In order to protect the Council from costs incurred through calls made on mobile phones which have been lost or stolen, staff should be advised of the hotline number for reporting missing phones and the use of access PIN numbers should be encouraged where appropriate.
- In order to ensure that the central database is accurate, Support Services staff should send a list to each department on an annual basis showing details held centrally and requesting that staff update it to reflect current users.

**Management Response to the Audit Report**

The audit findings and recommendations were formally reported to the Depute Chief Executive (Support Services) and appropriate action agreed to address the vast majority of the issues raised.

## v) INTERNAL AUDIT REPORT 2005/34

<b>Department</b>	<b>Leisure and Communities</b>
<b>Subject</b>	<b>Follow-up Review of Cemeteries and Burial Grounds</b>

**Introduction**

As part of the planned internal audit activity, a follow-up review of Cemeteries and Burial Grounds was carried out.

The original report, Internal Audit Report No 2002/15, which was issued in February 2003 concluded that there were a number of areas which required to be addressed.

The principal areas where action was required were as follow:

- Consultation with the City Archivist and the Principal Insurance and Risk Management Officer was required to ensure that interment registers stored in the Leisure and Arts Department were held securely.
- Leisure and Arts staff should liaise with Information Technology staff in order to produce the required system documentation and manual for the cemeteries database which should be made available to relevant staff. The feasibility of unique logins and passwords for all users of the cemeteries database should be discussed with Information Technology and incorrect data held in the cemeteries database deleted or amended as appropriate.
- Individuals should be invoiced for the purchase of lairs in the same manner as funeral directors and any cash received should be receipted using the MRM cash receipting system, thereby eliminating the need to use the Kalamazoo receipting system.
- Stationery used should be reviewed and any that is out of date replaced.

Since completion of the original review, there have been fundamental changes to the system operated for Cemeteries and Burial Grounds. This has had implications for some of the recommendations contained in the original report.

**Scope and Objectives**

The objective of the follow-up review was to assess whether or not each of the recommendations agreed by Management in Internal Audit Report 2002/15, Cemeteries and Burial Grounds, had been fully implemented within the given timescales. The review was restricted to areas included in the original report.

**Conclusion**

*The principal conclusion drawn from the follow-up work undertaken is that whilst some action has been taken to address the weaknesses highlighted in the original review there are still some recommendations which require to be implemented by management.*

The main areas where actions agreed by management are still outstanding are as follows:

- To minimise the risk of irreplaceable records being lost, arrangements for the interment registers currently held on shelves on Floor 13 should be reviewed.
- To ensure the security of the system and an adequate audit trail of activity, staff who have access to the Cemeteries computer system should be given individual logins/passwords.

**Management Response to the Audit Report**

The audit findings and recommendations were formally reported to the Director of Leisure and Communities and appropriate action agreed to address the specific issues raised.

## vi) INTERNAL AUDIT REPORT 2006/36

<b>Department</b>	<b>Leisure and Communities</b>
<b>Subject</b>	<b>Follow-up Review of Communities Payroll</b>

**Introduction**

As part of the planned internal audit activity, a follow-up review of Communities Payroll was carried out.

The original report, Internal Audit Report No 2002/18, which was issued in January 2003 concluded that although in general the systems operating were satisfactory, there were areas where controls could be improved. These included the following:

- The Department did not have an authorised signatory list to enable staff to confirm that input documents were appropriately authorised.
- There was a lack of evidence to confirm that checks were being operated in terms of the verification of payroll input and the correction of errors.
- There was inconsistency between some of the standing data held on the Payroll system and that in the Personnel system and employees' personal files.

**Scope and Objectives**

The objective of the follow-up review was to assess whether or not each of the recommendations agreed by management in Internal Audit Report 2002/18 on Communities Payroll had been fully implemented. The review was restricted to areas included in the original report.

**Conclusion**

*The principal conclusion drawn from the follow-up work undertaken is that whilst some action has been taken to strengthen the control weaknesses highlighted in the original review there are still some recommendations which require to be implemented by management.*

The main area where action agreed by management is still outstanding is as follows:

- In order to improve controls over payroll procedures, the authorised signatory list should be completed as soon as possible.

**Management Response to the Audit Report**

The audit findings and recommendations were formally reported to the Director of Leisure and Communities and appropriate action agreed to address the specific issues raised.

## vii) INTERNAL AUDIT REPORT 2006/42

<b>Department</b>	<b>Corporate</b>
<b>Subject</b>	<b>Follow-up Review of Prudential Code</b>

**Introduction**

At the request of the external auditor, Audit Scotland, a follow-up review to External Audit Report 2004/05 - Prudential Code was undertaken.

The original external audit report concluded that some weaknesses had been identified within the Prudential Code system adopted by the Council. Recommendations made included the following:

- A composite file containing the working papers for each indicator should be maintained centrally providing a readily accessible audit trail.
- All 17 indicators should be reported. In this way positive assurance is provided to Members and Officers that all the indicators have been considered.
- Consideration should be given to amending the current Capital Monitoring report to reflect the new Prudential monitoring regime.
- To improve clarity of the figures presented, the illustrative presentations provided in the CIPFA guidance should be adopted.

**Scope and Objectives**

The objective of the follow-up review was to assess whether or not each of the recommendations agreed by Management in External Audit Report - Prudential Code had been fully implemented. The review was restricted to areas included in the original report.

**Conclusion**

*The principal conclusion drawn from the follow-up work undertaken is that the recommendations agreed with management require to be implemented to overcome the control weakness highlighted in the original review.*

The main areas where actions agreed by management are still outstanding are as follows:

- In order to ensure that there is a readily accessible audit trail, a composite file containing the working papers for each Indicator should be maintained centrally.
- In order to ensure that Members are kept apprised of the impact on Indicators arising from variances between budgeted and actual capital expenditure, the format of the monthly Capital Monitoring reports should be reviewed and updated when required.
- In order to facilitate understanding of information submitted to Committee, the presentation format included in the CIPFA guidance should be adopted.

**Management Response to the Audit Report**

The audit findings and recommendations were formally reported to the Depute Chief Executive (Finance) and appropriate action agreed to address the specific issues raised.



## viii) INTERNAL AUDIT REPORT 2006/05

<b>Department</b>	<b>Environmental Health and Trading Standards</b>
<b>Subject</b>	<b>2005/06 Grant Claim - Local Air Quality Management</b>

**Introduction**

In the 2005/06 financial year Scottish Ministers offered a grant to Dundee City Council to assist in undertaking PM<sub>10</sub>, NO<sub>2</sub> and SO<sub>2</sub> monitoring, dispersion modelling and action plan work. The grant provision made to the Council for financial year 2005/06 was £118,000.

It is a requirement of the Conditions of the Grant that at the end of each Financial Year, the Council is required to prepare an account showing the expenses reasonably and properly incurred by it in executing the Project during that Financial Year and the amount of Grant received by it from the Scottish Ministers under the Agreement. The conditions also state that such account shall be certified as true and accurate, and where the amount exceeds £10,000 shall be audited, by a member of a recognised accountancy body.

**Scope and Objectives**

The overall aim of this review was to enable the Chief Internal Auditor to provide an opinion as to whether or not the grant funding received in respect of the above subject has been spent in accordance with the related Terms and Conditions.

**Conclusion**

*On the basis of examining the accounts and records of this grant claim, obtaining such explanations and carrying out such tests as deemed necessary, it is considered that the entries in the claim form are fairly stated, and that the sums claimed have been used in accordance with the terms and conditions of the Offer of Grant.*

## ix) INTERNAL AUDIT REPORT 2006/06

<b>Department</b>	<b>Education</b>
<b>Subject</b>	<b>2005/06 Grant Claim – School Travel Co-ordinator(s)</b>

**Introduction**

In the 2005/06 financial year Scottish Ministers offered a grant to Dundee City Council to enable the Council to employ one or more School Travel Co-ordinator(s). The grant provision made to the Council for financial year 2005/06 was £26,000.

It is a requirement of the Conditions of the Grant that the Council shall by 30 June in the financial year following receipt of any grant submit to the Scottish Ministers a statement of compliance with the grant conditions signed by the Head of Internal Audit.

**Scope and Objectives**

The overall aim of this review was to enable the Chief Internal Auditor to provide an opinion as to whether or not the grant funding received in respect of the above subject has been spent in accordance with the related Terms and Conditions.

**Conclusion**

*On the basis of examining the accounts and records of this grant claim, obtaining such explanations and carrying out such tests as deemed necessary, it is considered that the entries in the claim form are fairly stated, and that the sums claimed have been used in accordance with the terms and conditions of the Offer of Grant.*