

**REPORT TO: SCRUTINY COMMITTEE – 15 JUNE 2011**

**REPORT ON: INTERNAL AUDIT REPORTS**

**REPORT BY: CHIEF INTERNAL AUDITOR**

**REPORT NO: 323-2011**

## **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 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.

## **5.0 POLICY IMPLICATIONS**

This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management. There are no major issues.

## **6.0 CONSULTATIONS**

The Chief Executive, Depute Chief Executive and Director of Finance have been consulted on the content of this report.

## **7.0 BACKGROUND PAPERS**

None

Sallie Dailly, Chief Internal Auditor

DATE: 31 May 2011

## i) INTERNAL AUDIT REPORT 2010/10

<b>Department</b>	<b>Corporate</b>
<b>Subject</b>	<b>Management of Portable Assets</b>

### **Introduction**

As part of the planned internal audit work a review of procedures for the management of portable assets was undertaken.

Information provided under a Freedom of Information request received in July 2010 highlighted that of the order of 87 items with a value of £17,216 were lost, stolen or removed from stores due to being damaged beyond reasonable repair in the financial year 6 April 2009 to 5 April 2010.

In line with good practice organisations should have inventories which record details of assets held. Such inventories should be regularly updated to reflect items which have been sold, lost, stolen or disposed of. In addition, inventories should be checked regularly to ensure that they match the assets owned and that the assets listed are still in the possession of the organisation. Generally, large assets are less susceptible to loss or theft owing to their size and the difficulty associated with removing and transporting them. The risk with smaller items is greater, particularly if items are desirable and easily disposed of.

The relocation of staff from Tayside House to other Council buildings is due to commence in summer 2011 and this will be a major undertaking. It is essential that there are robust inventory records detailing assets owned, the associated value and their location in order that they can be tracked throughout the move.

### **Scope and Objectives**

The overall objective of this review was to assess the arrangements in place for recording, safekeeping and notification of loss or theft of portable assets. The arrangements for the management of corporate inventories for IT equipment and mobile phones and for equipment held by Dundee Contract Services were excluded from this exercise.

### **Conclusion**

*The principal conclusion drawn from this review is that there are weaknesses in the system which should be addressed.*

The main areas highlighted in the report are as follows:

- To improve controls over portable assets not included on a corporate inventory, Dundee House Move Champions should be advised that desirable portable assets such as cameras and specialised equipment or assets which require regular maintenance should be uniquely numbered, permanently marked as Council property and recorded on a departmental inventory which should include dates of any maintenance or safety checks. There should be adequate procedures in place to record the issue and return of communal assets.

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

The audit findings and recommendations were formally reported to the City Architectural Services Officer and appropriate action agreed to address the matters raised.

## ii) INTERNAL AUDIT REPORT 2010/24

<b>Department</b>	<b>Leisure and Communities</b>
<b>Subject</b>	<b>Starters and Leavers</b>

**Introduction**

A review of starters and leavers within the Leisure and Communities Department was part of the planned internal audit work.

Staff costs account for a significant proportion of any organisation's expenditure and it is extremely important that all details relating to new employees are input correctly and promptly to the payroll system. It is essential that employees are placed on the correct spinal point and the correct grade in order that any future increments are processed correctly and that salaries cannot progress beyond the upper limit of the grade for the post to which employees have been appointed. Details of leavers should also be accurately recorded in the system timeously to ensure that ResourceLink, the Council's Integrated payroll and personnel system, is accurate and up to date.

In order to mitigate risks associated with management of payroll, various forms have been devised to ensure that all necessary information is captured and recorded at the appropriate time. Information collected by departments is input to Resourcelink by payroll staff. Leisure and Communities payroll input is carried out by payroll staff within the Finance Department on receipt of the relevant information from Leisure and Communities staff

**Scope and Objectives**

The overall objective of this review is to examine procedures operated in respect of starters and leavers within the Leisure and Communities Department.

**Conclusion**

*The principal conclusion drawn from this review is that whilst there is basically a sound system of control there are some areas where it is viewed improvements can be made.*

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

In order to improve working practices, all supply employees should be provided with a letter of appointment confirming the terms and conditions of their employment. Thereafter, holiday pay should be processed on a monthly basis thereby ensuring that the P45 reflects all payments made.

**Management Response to the Audit Report**

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

## iii) INTERNAL AUDIT REPORT 2010/27

<b>Department</b>	<b>Corporate</b>
<b>Subject</b>	<b>Corporate Governance</b>

**Introduction**

A review of the Council's arrangements for gathering assurances and identifying improvement areas for inclusion within its Annual Governance Statement (AGS) was undertaken as part of the planned internal audit work.

Scottish Local Authorities are not required by statute to conduct an annual review of the effectiveness of their systems of internal control and include an AGS reporting the findings of this review within the Statement of Accounts. However, the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice (2009 SORP) states that they should consider doing so voluntarily. An AGS for inclusion in the Council's Statement of Accounts was prepared for the first time for the 2009/10 financial year. Previously the Council prepared a Statement on the System of Internal Financial Control (SSIFC).

As part of the assurance gathering arrangements in place to inform the content of the 2009/10 AGS, a Self Assessment Checklist (SAC) for departmental heads was introduced. The purpose of this was to seek information from senior management about the areas for which they are responsible, contribute to forming a view on the effectiveness of the internal control system and identify potential areas for improvement for inclusion within the AGS. Introduction of the SAC resulted from a previous piece of work undertaken by internal audit. The compilation of the AGS and associated assurance gathering arrangements, including the SAC, are relatively new and still evolving within the Council and it is anticipated that the findings from this piece of work will feed into identifying potential improvements to the process for the 2010/11 financial year.

**Scope and Objectives**

The overall objective was to obtain an overview of the arrangements in place at departmental and corporate level for identifying and reporting governance improvement areas for the purposes of compiling and publishing the AGS.

**Conclusion**

*The principal conclusion drawn from this review is that there are weaknesses in the system which should be addressed.*

The main areas highlighted in the report are as follows:

- In order to ensure that a full assessment of the Council's internal control system is carried out timeously with areas for improvement being systematically identified and addressed, the Council should ensure that there is a 100% response rate by the due date. In addition, to assist with ensuring compliance with recommended and good practice, the SAC should be reviewed as part of the 2010/11 exercise.
- In order to ensure that the 2010/11 AGS is in line with recognised good practice and contains, as a minimum, the information detailed at Section 8 of the 2009 SORP; the Council should ensure that the 2010/11 AGS features the salient points from the example AGS contained in Application Note to Delivering Good Governance in Local Government: A Framework. Effective processes should be introduced to ensure that areas requiring improvement in relation to corporate governance are captured and monitored.

**Management Response to the Audit Report**

The audit findings and recommendations were formally reported to the Head of Financial Services and appropriate action agreed to address the matters raised.

## iv) INTERNAL AUDIT REPORT 2011/03

<b>Department</b>	<b>Environmental Health and Trading Standards</b>
<b>Subject</b>	<b>2010/11 Grant Claim: Local Air Quality Management</b>

**Introduction**

In the 2010/11 financial year Scottish Ministers offered a grant to Dundee City Council for Local Air Quality Management. The grant provision made to the Council for the 2010/11 financial year was £123,318 and the actual expenditure totalled £139,649.

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 are properly due and have been used in accordance with the terms and conditions of the Offer of Grant*

## v) INTERNAL AUDIT REPORT 2011/05

<b>Department</b>	<b>Finance</b>
<b>Subject</b>	<b>Payment of Pensions for Former Employees of ex List D Schools</b>

**Introduction**

Pension payments to former employees of ex List D schools can have funded and unfunded elements. Funded pension is the amount to which the employee is entitled by virtue of his/her contributions to the pension fund. This element depends on length of service and final salary and the cost is borne by Tayside Superannuation Fund. Unfunded pension relates to pension increases and any enhancements which have been provided to staff when the employee retires before 65 e.g. in the case of redundancy. These costs are recoverable from the Scottish Government and Pensions Administration staff invoice the Scottish Government on a regular basis. It is a requirement of the payment for unfunded pensions that the claims are audited annually by the Internal Audit Service at the end of each financial year.

**Scope and Objectives**

The overall objective of this review was to examine and confirm the accuracy of the information provided by the Pensions Section in support of the claim for payment of pensions for former List D employees in order that the Chief Internal Auditor had the assurance required to validate the claim. Audit fieldwork was restricted to validity of pensions paid to former List D school employees.

**Conclusion**

*The principal conclusion drawn from this review is that there is a sound system of control designed to achieve the system objectives and that the controls are being consistently applied.*