

Dundee City Council

Management Report – Interim audit 2017/18



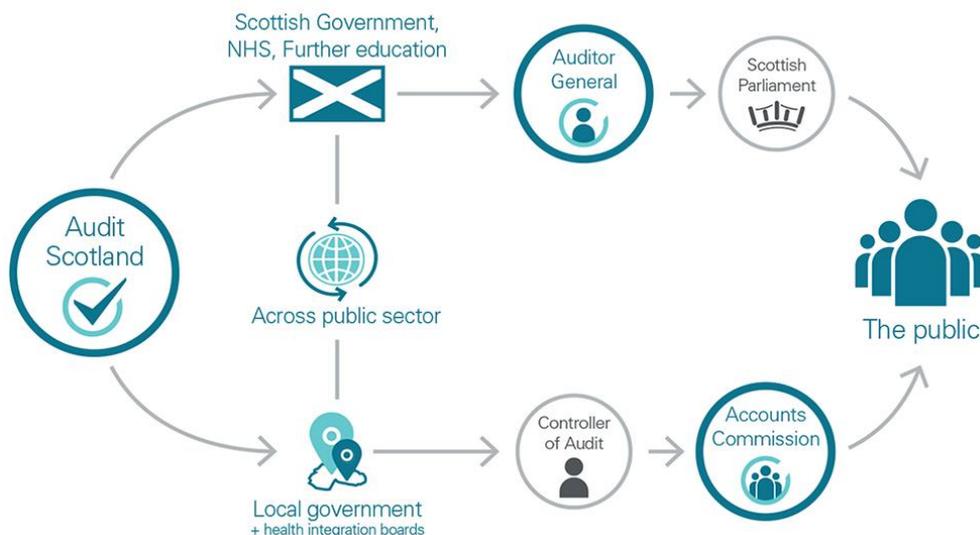
 AUDIT SCOTLAND

Prepared for Dundee City Council
August 2018

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non – executive board chair, and two non – executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world – class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

Contents

Audit findings	4
Introduction	4
Conclusion	4
Work summary	4
Risks identified	5
Other audit work and discussions	8
Publications	9

Audit findings

Introduction

1. This report contains a summary of the key issues identified during the interim audit work carried out at Dundee City Council. This work included testing of key controls within financial systems to gain assurance over the processes and systems used in preparing the annual accounts. We consider the results of this testing when determining our approach to the audit of the 2017/18 annual accounts.

2. Our responsibilities under the [Code of Audit Practice](#) require us to assess the system of internal control put in place by management. We seek to gain assurance that the audited body:

- has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements
- has systems of internal control which provide an adequate means of preventing and detecting error, fraud or corruption
- complies with established policies, procedures, laws and regulations.

3. We also carry out work on the audit dimensions as required by the [Code of Audit Practice](#). This focusses on financial management, financial sustainability, governance and transparency and value for money. Findings from this work will be reported separately in our Annual Audit Report in September 2018.

Conclusion

4. No significant key control weaknesses were identified from our interim audit work, although we are awaiting completion of internal audit's review of BACS to inform our opinion. This will enable us to take planned assurance for our audit of the 2017/18 annual accounts. In general, appropriate and effective arrangements were in place for general ledger, budgetary control, purchase ledger, sales ledger, payroll, non-domestic rates, council tax, housing rents, housing benefits and banking. We did identify some areas where there is scope for improvement as set out in [Exhibit 1](#).

Work summary

5. Our 2017/18 testing covered key controls in a number of areas including bank reconciliations, payroll validation and exception reporting, authorisation of journals, change of supplier bank details and IT access controls. Additionally, we tested controls in the following areas: budget monitoring and control; feeder system reconciliations and controls for preventing and detecting fraud in areas such as taxation receipts, welfare benefits, grants and other claims.



Bank reconciliations



Payroll controls



IT access



Budgets

6. In accordance with *ISA 330: the auditor's response to assessed risk*, our audit judgements are based on current year testing of controls and where appropriate prior year results. Our risk based audit approach allows us to take a three-year cyclical approach to controls testing. This approach enables us to place reliance on previous years' audit work where controls remain unchanged and no significant weaknesses had been identified.

7. Also, where possible we place reliance on the work of internal audit to avoid duplication of effort. In our 2017/18 Annual Audit Plan we reported that we planned to place reliance on the work of internal audit in their review of user access levels and BACS. Internal audit's report on user access levels was considered by the Scrutiny Committee on 27 June 2018. The review of BACS is scheduled to be completed shortly.

8. The contents of this report have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during the course of our audit is gratefully acknowledged.

Risks identified

9. The key control and wider dimension risks identified during the interim audit are detailed in [Exhibit 1](#). These findings will inform our approach to the financial statements audit where relevant.

10. Any weaknesses identified represent those that have come to our attention during the course of normal audit work and therefore are not necessarily all the weaknesses that may exist. It is the responsibility of management to decide on the extent of the internal control system appropriate to the council.

Exhibit 1

Key findings and action plan 2017/18

Issue identified	Management response	Responsible officer and target date
<p>Audit findings</p> <p>IT user access - leavers</p> <p>There is no formal communication process to ensure access from IT systems is removed timeously where an employee has left the organisation. The lack of formal process means some leavers may be missed. For example, our review of access to the housing rent system highlighted that access for one individual (out of a sample of 20) had not been appropriately removed. We have since confirmed that this individual has not inappropriately accessed the system.</p> <p>There is a risk of fraud or manipulation of systems where individuals are retaining inappropriate access to council systems.</p>	<p>Scripting is now in place which automatically removes access rights to the Council IT network at midnight on the day an individual leaves the Council. This is linked to leaving dates held within the Council HR and Payroll system. The same script automatically removes access to third parties who have been granted temporary access to the Council network. Additionally inactive Active Directory Accounts are automatically disabled after 30 days.</p>	<p>Service Manager (IT)</p> <p>Already actioned.</p>

Issue identified	Management response	Responsible officer and target date
<p>IT user access – Mosaic system (Social Work)</p> <p>Our review of access to the Mosaic system identified 4 users who had both purchasing and authorisation access:</p> <ul style="list-style-type: none"> • 2 had access for job functionality • 1 had access in error (but has since been corrected) • 1 was no longer employed by the service. <p>As above, there is a risk of fraud or manipulation of systems where individuals have inappropriate access to council systems.</p>	<p>Job roles will be reviewed to ensure that no individual can have both purchasing and authorisation access.</p>	<p>Section Leader (IT)</p> <p>30 September 2018.</p>
<p>Financial ledger - journals</p> <p>Only "jtran" journals i.e. those making inter-departmental postings, require to be independently authorised by a second staff member. For all other journal types, accountants are able to create, input and authorise their own journals.</p> <p>There is a risk that invalid, erroneous or fraudulent journals could be posted to the financial ledger.</p>	<p>This will be fully reviewed as part of the transition to Civica Web.</p>	<p>Accounting Manager (Systems)</p> <p>30 September 2018.</p>
<p>Financial ledger – feeder reconciliations</p> <p>We tested a sample of 10 purchase ledger and 10 sales ledger reconciliations to the financial ledger. All were found to be satisfactory with the exception of the 3 November 2017 purchase ledger reconciliation which contained a reconciling item of £2,153 for which we have been unable to obtain supporting documentation.</p> <p>There is a risk that invalid, erroneous or fraudulent journals could be posted to the financial ledger.</p>	<p>The bulk of the reconciling item relates to system issues which the suppliers have been unable to identify. Action will be taken to write off these balances, totalling £847 as at 20 July 2018.</p> <p>Where the reconciling figure differs from the known system difference this is always investigated and corrected. This is also now noted on the daily reconciliation.</p>	<p>Executive Director of Corporate Services</p> <p>Already actioned.</p>
<p>Trade payables – change of suppliers' bank details</p> <p>Where a supplier notifies the council of a change in bank details, a member of the Corporate Procurement Team should confirm the details by</p>	<p>Process will be amended to include a checklist for all bank account detail changes to ensure all steps are taken and recorded.</p>	<p>Corporate Procurement Manager</p> <p>31 August 2018.</p>

Issue identified	Management response	Responsible officer and target date
<p>contacting the supplier using the contact details held.</p> <p>From a sample of 30 bank details changes during 2017/18, there was 1 case where there was no evidence of a review on the notification by the supplier.</p> <p>There is a risk of fraud where bank details are changed without the details being confirmed.</p>		
<p>Trade receivables – management reports</p> <p>A monthly boxi report is produced which analyses sales ledger information including outstanding debt by service, debt recovery, aged debt summaries and outstanding debtors over £50,000. High level information from the boxi report is further summarised on a Sales Ledger Management Report. We noted that the boxi reports for the months of December to February were not sent to management until prompted by the Executive Director of Corporate Services in March and could find no evidence of the summarised Sales Ledger Management Report being sent to management.</p> <p>There is no formal evidencing to demonstrate that these reports are reviewed by management although the prompting by the Executive Director of Corporate Services gives some assurance over this.</p> <p>There is a risk that debt may not be recovered and is not subject to effective oversight.</p>	<p>A formal management reporting framework has been introduced which will provide monthly updates to the Executive Director of Corporate Services.</p>	<p>Service Manager – Customer Services & Benefit Delivery</p> <p>Already actioned.</p>
<p>Non-domestic rates – reliefs</p> <p>We tested a sample of 10 reliefs to ensure they were valid, accurate and approved. 5 of the sample had initially been applied for between 2010 and 2016 but entitlement had not been reviewed since the application date.</p> <p>There is a risk of fraud or error if reliefs are not reviewed for continued entitlement.</p>	<p>A review of charitable reliefs, both mandatory and discretionary, is timetabled for August 2018.</p>	<p>NDR & Sales Ledger Manager</p> <p>31 August 2018.</p>

Issue identified	Management response	Responsible officer and target date
Audit dimensions - issues and risks		
<p>Data centres</p> <p>The council maintains two data centres storing backups of council systems and data. The two data centres are located less than one mile apart (with no back up generator in one area).</p> <p>There is a risk that the council could not continue providing services/continue business as normal in the event of a disaster.</p>	<p>The Council is evaluating a number of options to mitigate this risk. These include co-locating one or both of the Councils data centres with a hosting provider and increased use of cloud services for core functions.</p>	<p>Service Manager (IT)</p> <p>30 June 2020.</p>
Source: Audit Scotland		

Other audit work and discussions

Substantive verification testing

11. To obtain sufficient assurance for the 2017/18 financial statements audit over the occurrence, completeness, accuracy, recognition and classification of income and expenditure, we supplement our testing of controls with substantive verification of a sample of income and expenditure transactions.

12. To enable us to focus this testing on higher risk items, we are being provided with a download of all income and expenditure transactions posted to the ledger. We are currently working with our in-house data analytics team to further analyse this data and select a sample for testing. This will be completed as part of the financial statements audit.

13. In addition, we identified some specific control weaknesses as set out in Exhibit 1, which means that additional audit work is required to allow us to obtain the necessary assurances for the audit of the 2017/18 financial statements. Specifically, this will focus on substantively testing changes in suppliers' bank details, journal entries and non-domestic rates reliefs.

Housing benefit subsidy claim testing

14. As part of our work in support of our certification of the 2017/18 housing benefit subsidy claim, we undertake detailed testing on a sample of cases to confirm that benefit has been awarded in accordance with regulations, and that the correct level of subsidy has been claimed.

15. We have met with the Benefits and Revenues Adviser to select our sample of cases and testing is now underway. The results of this testing will help inform our opinion on whether the subsidy claim is fairly stated and in accordance with specified terms and conditions which we are required to provide by the certification deadline of 30 November 2018.

Internal audit

16. Internal audit have undertaken a self assessment against the Public Sector Internal Audit Standards (PSIAS). An external assessment of this self evaluation confirmed the few areas identified for improvement. This included more specific reporting on quality assurance and progress against the internal audit plans during the year to members. The outcome of the external assessment was reported to the Scrutiny Committee in June 2018.

17. There has been some delays in progressing several of Internal audit's reviews in 2017/18 mainly as a result of staff shortages and a delay in the appointment of an external co-source partner (KPMG were appointed in October 2017). The Senior Manager - Internal Audit has assured us that the internal audit programme will be sufficiently progressed to provide management with the assurances they require to enable them to certify the financial statements in September 2018.

Frauds

18. In our 2016/17 Annual Audit Report we reported on a fraud resulting from the embezzlement of £1.065 million by a former employee from 2009 to 2016. This fraud has since been the subject of a separate report considered by the Council in April 2018.

19. Councils are required to report instances of fraud to Audit Scotland where the value of the fraud is in excess of £5,000. During the year two further frauds were reported to us regarding housing tenancy fraud where housing benefit was being claimed but the tenant was not in residence. The properties have now been reclaimed (1 case in relation to 2016/17).

National Fraud Initiative (NFI)

20. In our 2016/17 Annual Audit Report we concluded that the council is pro-active in investigating matches and reporting the outcomes of NFI activity. An update on the council's progress was provided to officers earlier this year documenting the pro-active approach with the only area highlighted being that the council do not record/calculate the cost of carrying out the NFI exercise.

Best value

21. The work planned in the council this year focusses on the arrangements for demonstrating best value in delivering performance, outcomes and continuous improvement. The work in this area has commenced and initial findings will be incorporated into the Annual Audit Report.

Audit queries

22. We continue to respond to client queries on an ongoing basis including giving an early opinion on the council's proposed treatment of transactions within the financial statements. Discussions ongoing this year have included:

- the proposed accounting treatment for the sale of a subsidiary - Dundee Energy Recycling Limited (DERL)
- the proposed treatment of Dundee Design Limited as an associate within the financial statements
- a proposed new note on reserve transfers to be incorporated in the financial statements
- the requirement for a separate audit for the new Dundee Trust established during 2017/18
- the proposed accounting models used to calculate accounting transactions for the service concession assets (Baldragon Academy and Baldovie waste recycling centre).

Publications

23. All our outputs and any matters of public interest will be published on our website: www.audit-scotland.gov.uk.

Dundee City Council

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