

AUDIT AND GOVERNANCE COMMITTEE

Date: Wednesday 12 March 2014
Time: 5.30 pm
Venue: Rennes Room, Civic Centre, Paris Street, Exeter

Members are invited to attend the above meeting to consider the items of business.

If you have an enquiry regarding any items on this agenda, please contact Sharon Sissons, Democratic Services Officer (Committees) on 01392 265115 or email sharon.sissons@exeter.gov.uk

Entry to the Civic Centre can be gained through the Customer Services Centre, Paris Street.

Membership -

Councillors Bowkett (Chair), Baldwin (Deputy Chair), Branston, Choules, D J Henson, Laws, Leadbetter, Morris, Payne, Ruffle and Spackman

Agenda

Part I: Items suggested for discussion with the press and public present

1 Apologies

To receive apologies for absence from Committee Members.

2 Minutes

To sign the minutes of the meeting held on 27 November 2013.

3 Declaration of Interest

Councillors are reminded of the need to declare any disclosable pecuniary interests that relate to business on the agenda and which have not already been included in the register of interests, before any discussion takes place on the item. Unless the interest is sensitive, you must also disclose the nature of the interest. In accordance with the Council's Code of Conduct, you must then leave the room and must not participate in any further discussion of the item.

Councillors requiring clarification should seek the advice of the Monitoring Officer prior to the day of the meeting.

4 Local Government (Access to Information) Act 1985 - Exclusion of Press and Public

RESOLVED that, under Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting for consideration of Appendix B of item 8 on the grounds that it involves the likely disclosure of exempt information as

defined in Paragraph 3 of Part I, Schedule 12A of the Act.

5 Annual Internal Audit Plan 2014/15

To consider the report of the Audit Managers.

(Pages 3 -
6)

6 Internal Audit Progress Report

To consider the report of the Audit Managers.

(Pages 7 -
16)

7 Corporate Governance Risk Register Annual Review

To consider the report of the Corporate Manager Policy, Communications and Community Engagement.

(Pages 17
- 20)

Part II: Item Suggested for Discussion with the Press and Public Excluded

8 Corporate Governance Risk Register Annual Review (Appendix B)

To consider the report of the Corporate Manager Policy, Communications and Community Engagement.

(Pages 21
- 28)

Date of Next Meeting

The next **Audit and Governance Committee** will be held on Wednesday 25 June 2014 at 5.30pm

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EXETER CITY COUNCIL

AUDIT AND GOVERNANCE COMMITTEE 12 MARCH 2014

INTERNAL AUDIT PLAN 2014/15

1. PURPOSE OF THE REPORT

- 1.1 To seek the Committee's approval of the 2013/14 Internal Audit Plan (Appendix A).

2. BACKGROUND

- 2.1 The Internal Audit Strategy including the audit rolling plan was established in line with internal control and risk management best practice, and is used to establish the Audit Plan.
- 2.2 The Council's Internal Auditors use the 'Enterprise Risk Management Approach' (ERMA) they devised to check that there are adequate internal controls and separation of duties and that risk is adequately considered throughout the Council. This approach ensures that non-financial systems (such as corporate governance, health & safety and risk management) are afforded the same 'fundamental systems' status as the traditionally important financial systems (such as creditors, housing benefits, payroll and council tax).
- 2.3 The fundamental systems are audited on an annual basis using the Council's 'Enhanced Systems Based Auditing control matrices' testing papers as required by our external auditors, whilst the remaining 'non-fundamental' systems will be audited either biennially for medium risk systems or once during the four-year rolling plan cycle for low risk systems.
- 2.4 The Audit Plan has also been linked to the Corporate Risk Register and the appropriate risk reference is shown against the relevant audit in Appendix A.
- 2.5 The three areas with the highest audit coverage are Creditors, Housing and Housing Benefits. Creditors is a high risk system as it has the potential for fraud and costly error to the Council. A significant amount of time is required to audit creditors due to the significant number of transactions processed. During 2014/15 Internal Audit conducted a review of the Housing Voids process and identified a significant number of weaknesses (as the report has not yet been finalised, details will be reported in the next quarterly report). Housing benefits is considered high risk because of the national problem of external claimant fraud and the serious financial affect that would be caused should the Council's benefits subsidy claim be reduced due to significant input or classification errors. The plan also maintains good coverage for Council Tax to allow for the new legislation relating to Council Tax support and sundry debtors as this was identified to have a fundamental weakness in the last audit report.
- 2.6 In addition to the risk analysis, the Audit Managers have also met with Assistant Directors and Corporate Managers to discuss their strategic priorities, their responsibilities under the corporate risk register, to identify any specific concerns they may have. The outcomes of these meetings have also fed into the formation of the 2014/15 Internal Audit plan

3. RECOMMENDATION

3.1 That the 2014/15 Internal Audit Plan be approved.

Audit Managers

Local Government (Access to Information) Act 1985 (as amended)

Background papers used in compiling this report: None

AUDIT PLAN - 2014/15		
Description	Days	CRR Risk Ref
FINANCE		
Main Accounting (inc VAT)	25	13/017
Income Management/Sundry Debt	35	
Procurement	30	13/026
Creditors (inc Corporate CC)	50	
Treasury management	5	
ENABLING SERVICES		
ICT (inc Shared Service)	30	13/022
Contracts	5	13/030
People management (inc Payroll)	35	
ENVIRONMENT		
Licensing	5	
Health & safety	10	13/028
PUBLIC REALM		
Car Parks	10	13/019
CCTV	5	
Homecall	5	
ECONOMY		
Culture/Events (Rugby World Cup)	2	
HOUSING		
Housing - Property	15	13/008
Private Sector Housing	10	
CITY DEVELOPMENT		
Planning	5	
New Homes Bonus	8	
CIL/Section 106	8	
CUSTOMER ACCESS		
Housing Benefits (inc HB Subsidy)	50	13/005
Council Tax	30	13/006
One View of Debt (OVD)	25	
NDR	12	
Housing - Tenants	25	
CORPORATE		
Corporate governance (AGS, etc)	15	
Equalities and Diversity	10	13/023
Risk Management	10	
Business Continuity Management	15	13/027
Information Governance	10	13/024
Counter Fraud/Anti-Fraud/NFI	15	13/025
External Audit	5	
Partnerships	5	
External Funding & Grants	5	
Safeguarding	15	13/029
Follow-up's	10	
PSIAS Peer Review	2	
Contingency (special/frauds, etc)	40	
TOTAL	597	

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EXETER CITY COUNCIL

AUDIT AND GOVERNANCE COMMITTEE 12 MARCH 2014

INTERNAL AUDIT PROGRESS REPORT

1. PURPOSE OF THE REPORT

- 1.1 To report on internal audit work carried out during the period 1st October to 31st December 2013, to advise on overall progress against the Audit Plan and to report any emerging issues requiring consideration.

2. BACKGROUND

- 2.1 This Committee is responsible for the implementation and active monitoring of audit processes and actions, which includes performance against the annual audit plan, reviewing quarterly internal audit progress reports and seeking responses and assurance from management regarding audit recommendations that have not been accepted or those not implemented within a reasonable timescale. The 2013/14 Audit Plan was approved at Scrutiny Resources Committee on 20th March 2013 and a revision to the plan was approved by this committee in November.

- 2.2 The purpose of Internal Audit is to provide an independent and objective review of the adequacy and effectiveness of the Council's arrangements for internal control, risk management and governance. The activities we audit are given an assurance rating as follows:

Excellent	★★★★★	The areas reviewed were found to be well controlled, internal controls are in place and operating effectively. Risks against achieving objectives are well managed.
Good	★★★★	Most of the areas reviewed were found to be adequately controlled. Generally risks are well managed but a few areas for improvement have been identified.
Some improvement required	★★★	There is a basic control framework in place, but not all risk are well managed and a number of controls are required to be strengthened.
Significant improvement required	★★	Most of the areas reviewed were not found to be adequately controlled. Risks are not well managed and require controls to be strengthened to ensure the achievement of system objectives
Fundamental weakness	★	Controls are seriously lacking or ineffective in their operation. No assurance can be given that the system's objectives will be achieved

3. WORK UNDERTAKEN

- 3.1 Internal Audit's objective is to examine the Council's financial and non-financial systems to check that there are adequate internal controls in place to prevent loss due to frauds, errors and inefficiency, and due attention is paid to corporate governance and risk management.

- 3.2 A summary of progress against the annual audit plan to date is shown at Appendix A, together with the current status of each area for review and the outcomes of the review, where completed.
- 3.3 The table is based on the audit plan and the systems grouped into the twelve strategic purposes as per the Corporate Plan.
- 3.4 A further summary of the outcomes of audits completed can be found at Appendix B.
- 3.5 Progress against the annual audit plan is on target.

4. ISSUES FOR CONSIDERATION

Recommendations Not Accepted

4.1 ICT Operations Management - report issued 4th November 2013 - Medium Risk

ICT have recently purchased a new piece of software to allow audit logs to be monitored and better managed. In order to try and help reduce the storage capacity required for such logs a recommendation was made to conduct a risk assessment to determine:

- a) which audit logs need to be maintained
- b) what information the audit logs must contain
- c) how they should be monitored and by whom
- d) how long they should be retained for

And that written procedures on monitoring audit logs should be updated to incorporate the results of the risk assessment. All relevant staff should be made aware of them.

The ICT Customer Services Manager, did not agree with this recommendation and advised that:

"This would not be practical as audit logs for different applications may have different retention requirements. As the current backup process generally involves taking a copy of a whole server it would not be practical to scan the tapes to identify and delete individual audit logs"

4.2 ICT Operations Management - report issued 4th November 2013 - Medium Risk

The Council allows the use of its own authorised USB safesticks (memory sticks) or other removable devices provided there is genuine business need and the relevant manager has authorised the use of such. However, it was found that there does not appear to be any agreed process in place to ensure that safesticks are recovered and disabled when staff leave. There is also no process to recover/disable safesticks issued for temporary use at the end the period. The audit identified cases where staff had left and sticks had not been returned. Therefore, a recommendation was made that:

- a) written procedures should be produced for the return/disabling of safesticks from staff that are leaving or no longer have authorisation for a stick;
- b) that the procedures should include:
 - the immediate disabling of a safestick on the date an employee leaves (obtained from the leavers form);
 - the input of review/diary dates to disable safesticks at the end of the temporary issue period

The ICT Customer Services Manager, did not agree with this recommendation and advised that:

"It was not always easy to identify leavers and to retrieve their safesticks. He sometimes only receives notification of a leaver within a few days of them leaving or even after they have left, making it difficult to retrieve the safestick. Staff will ensure that safesticks are immediately disabled on the date an employee leaves, if notified. The calendar facility on the CMDB system will be used to input diary/review dates for safesticks on temporary issue."

4.4 During the second quarter of this year, there are no instances of management accepting a recommendation which was not subsequently implemented within a reasonable timescale.

5. **RECOMMENDATIONS**

5.1 That the Internal Audit Progress Report for the third quarter of the year 2013/14 be noted.

5.2 That the Committee decide whether the audit report recommendations not accepted by management, as detailed in section 4 above, are acceptable risks to the Council.

Audit Managers

Local Government (Access to Information) Act 1985 (as amended)
Background papers used in compiling this report: None

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**EXETER CITY COUNCIL
AUDIT AND GOVERNANCE COMMITTEE**

PROGRESS OF 2013/14 AUDIT PLAN AS AT 31/12/13

Audit Area	Budget Days	Actual Days	Report Status	Direction of travel since last audit	Assurance Rating	Number of findings		
						High	Med	Low

Leader

'A stronger city'

People Management	30	40.5	Completed	↑	Some Improvement required	1	4	15
External Funding & Grants	10	3.7	Completed	↔	Good	0	2	0

Enabling Services

'A well run Council'

'Maintain our property assets of the city'

Main Accounting 2013-14 - Budget Setting & VAT - System Management - Year end processes	25	11.5	Completed Start Q4 Start Q1 14/15	↔	Good	0	1	2
Income Management	22	11.5	In progress					
Creditors Quarter 1	55	35.5	Completed	↑	Some Improvement required	0	5	7
Quarter 2			Completed	↑	Good	1	1	2
Debtors	12	14.5	Start Q4					
Insurance	5	1.5	Start Q4					
ICT - Operations Management - System Security	40	26.5	Completed Deferred due to changes in service provision	No previous report	Significant improvement required	1	12	3
Business Continuity	10	1.0	Start Q4					
Risk Management	10	4.1	Start Q4					
Contracts and Procurement	30	14.0	Ongoing					
Facilities Management (Guildhall Private Hire)	7	8.7	Completed	No previous report	Some improvement required	0	8	3
Counter Fraud/Anti-Fraud	20	10.1	In progress					

Corporate governance	15	7.8	In progress					
Information Governance	15	4.1	Ongoing					
External Audit & NFI	5	9.6	Completed	↔	Good	0	1	5

Housing and Customer Access

'Provide suitable housing'

'Be a good landlord'

'Help me with my financial problem'

'Make it easy for me to pay you'

Housing	68	62.2						
- Right to Buy			Completed	↓	Some Improvement required	1	6	7
- Home Contents Insurance			Completed	No previous report	Good	0	3	2
- Voids Process			In progress					
Housing Benefits	60	42.2						
- Welfare Support payments			Completed	No previous report	Some improvement required	0	8	2
- Housing Benefit Subsidy			Start Q4					
Council Tax	30	35.8	Draft Report Issued					
NDR	11	5.8	Draft Report Issued					

Environment, Health & Wellbeing

'Keep place looking good'

'Keep me/my environment safe'

Health & Safety	12	1.6	Withdrawn					
Allotments	7	10.3	Completed	No previous report	Some improvement required	0	8	5
Bereavement Services	8	9.4	Completed	↔	Good	0	3	4
Licensing	7	0.2	Deferred to 14/15					
Fleet Management	7	9.6	Completed	No previous report	Good	0	3	1
Sustainability	8	1.0	Deferred to 14/15					

Economy and Culture

'Provide great things for me to see and do'

'Help me run a successful business'

Museums Service	14	2.7	In progress					
Markets and Halls	7	6.5	Completed	No previous report	Good	0	2	4
Leisure Contract	7	11.2	Completed	No	Good	0	6	3

				previous report				
Car Parks	8	0.6	Start Q4					

City Development
'Deliver good development'

Planning/Building Control	18	5.2	Completed		System under review so no assurance rating given	0	2	1
Land Charges	6	5.5	Completed	↔	Good	0	1	2

Contingency (special/frauds)	50	31.4
Work undertaken no time in plan e.g. follow-ups	0	9.6
Total	639	455.4

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**EXETER CITY COUNCIL
AUDIT AND GOVERNANCE COMMITTEE**

**Internal Audit Summary of Work Completed
September to December 2013**

Audit Area	Summary
ICT Operations Management Assurance rating: Significant improvement required ★★	<p>ICT Operations management is the effective management of data processing procedures and maintenance of hardware, effective operations management helps maintain data integrity and reduces business delays and IT operating costs.</p> <p>The scope of the audit included a review of operations procedures and instructions, job scheduling, monitoring of IT infrastructure, sensitive/controlled documents, hardware maintenance, back-ups, media handling</p> <p>A total of 1 high, 12 medium and 3 low recommendations were made. All but two of the medium risk recommendations were accepted by management. Details of the recommendations not accepted are contained within the main report. The high risk issue identified was that backup media is not regularly tested to ensure that it can be restored in the event of an emergency. As a result the following recommendations were made and accepted by management:</p> <ul style="list-style-type: none"> • as a minimum, a sample of backups should be checked to ensure that the data can still be restored in the event of an emergency. These checks should include making sure that the data can be read by more than one server. • the ability to restore from backups should be tested as soon as possible with the shared service provider.
Creditor Payments Quarter 1 Assurance rating: Some improvement required ★★★	<p>The testing of the creditors system is undertaken quarterly. The review undertaken in Q1 included a review of policies and procedures, system access, invoice checks and payments including a focus on payment within terms set by the supplier.</p> <p>A total of 5 medium and 7 low recommendations were made. All medium and 4 low recommendations were accepted by management. Three low recommendations were not accepted.</p>
Creditor Payments Quarter 2 Assurance rating: Good★★★★	<p>The testing of the creditors system is undertaken quarterly. The review undertaken in Q2 included a review of invoices, payments and supplier checks.</p> <p>A total of 1 high, 1 medium and 2 low recommendations were made and all the recommendations were accepted by management. The high risk issue identified was in respect of supplier address fields within the financial management system. It was found that 677 supplier records had blank address fields. These records pose a greater risk of being used to generate a fraudulent payment. Management agreed to investigate the possibility with the third party suppliers of the system of making the address field a mandatory field.</p>
Payroll (People Management) Including annual salary check Assurance rating:	<p>The objectives of this audit were to check that suitable controls remain in place for the processing of payroll data to ensure that employees are paid accurately and promptly and that all statutory deductions are collected and paid across to the relevant external agencies. The scope of the audit included a review of system controls, processing controls, regulatory requirements, starters, deductions, variations to pay, transfers and leavers, payments and financial management.</p>

<p>Some improvement required ★ ★</p>	<p>A total of 1 high, 4 medium and 15 low recommendations were made, all of which were agreed by management. The high risk issue identified was in respect of pre-employment checks. It was found that these checks were not carried out in all instances, especially in the case of casual workers.</p> <p>The resulting recommendations were:</p> <ul style="list-style-type: none"> • all documents as specified in the 'Offer of Employment' and 'Pre-employment checks' policy must be obtained prior to the employee commencing employment in all instances. • all casual employees should be required to provide the same evidence of identify and leave to work in this country as would be required of permanent and temporary employees
<p>Housing – Home Contents Insurance</p> <p>Assurance rating: Good ★★★★★</p>	<p>The council does not insure housing tenants' furniture, belongings, or decorations against theft, fire or vandalism, burst pipes and other household risks. However, the Council has arranged a home contents insurance policy that will cover all of the above for Council tenants. Allianz provide the insurance policy and the Council acts as an 'agent' collecting premiums on behalf of the insurer, for which the Council receives a commission. Approximately 5% of tenants belong to the scheme (as at 19 August 2013, of the 5,032 properties, 271 were on the scheme).</p> <p>The scope of the audit included a review of applications, calculations of premiums and cover, cancellations, reconciliations, payment of commission, procurement and value for money. A total of 3 medium and 2 low recommendations were made all of which were agreed by management.</p>
<p>Fleet Management</p> <p>Assurance rating: Good ★★★★★</p>	<p>The fleet management team is responsible for the purchase, maintenance and disposal of vehicles and plant for the council and other administrative tasks associated with fleet.</p> <p>The scope of the audit included a review of vehicle acquisitions, disposals, maintenance, maintenance contracts, driver licence checks and fuel cards. A total of 3 medium recommendations and 1 low recommendation were made all of which were agreed by management.</p>
<p>Planning and Building</p> <p>Assurance rating: No assurance rating was given as the system is currently being redeveloped as part of the redesign process.</p>	<p>The purpose of the Council's Planning and Building control teams is to provide good development for the City. As part of the Council wide business process review the Planning and Building Control systems are currently being redesigned with the anticipated completion date of the redesign work being 1 May 2014. The scope of the audit was to document the redesign process and check for any potential control weaknesses in the new system.</p> <p>A total of 2 medium and 1 low recommendation were made all of which were agreed by management. Once the new system is operational a full audit of the new system will take place and time to undertake this audit has been included in the 2014/15 Audit Plan.</p>

EXETER CITY COUNCIL

AUDIT AND GOVERNANCE COMMITTEE 12 MARCH 2014

CORPORATE RISK REGISTER

1. PURPOSE OF THE REPORT

- 1.1 To advise the Committee of the Council's risk management progress and present the updated Corporate Risk Register.

2. BACKGROUND

- 2.1 The Risk Management Policy makes this Committee responsible for:
- approving the Corporate Risk Register
 - monitoring the effectiveness of risk management throughout the Council
- 2.2 The Corporate Risk Register provides details of those risks which could have a major impact on the city or the Council and need to be monitored and managed at a senior management/political level. Risks which could have an impact on a service, but which would not necessarily impact on a council-wide or city basis, are contained in the operational risk register and managed by Assistant Directors and Managers.

3 DEVELOPMENT OF THE RISK REGISTER

- 3.1 Assistant Directors, Corporate Managers, the Deputy Chief Executive and the Chief Executive and Growth Director have reviewed the Council's risks.
- 3.2 The Corporate Risk Register has been updated to align risks with the delivery of the Council's purposes.
- 3.3 A notes column has been added to the register to enable Councillors to see how a risk has been managed since the last reporting period and identify any issues that need consideration.
- 3.4 Post mitigated scores have been included where appropriate. However, in a few cases it is not possible to include post mitigated scores because the actions/controls have not yet been completed.
- 3.5 Some risks have been mitigated to such a level that they are now considered to be low risks. These risks have been removed from the Corporate Risk Register and placed on the Operational Risk Register instead. These risks are detailed below:
- Low planning fee income and future obligation to return fees after 6 months.
 - Only two contractors remain on the kitchen and bathroom programme
- 3.6 The full Corporate Risk Register can be found at Appendix A.

4. NEW RISKS

3.1 A number of new risks to the Council have been identified and these are detailed below:

3.2 Culverted watercourses

South West Water are seeking to retrospectively change the status of some surface water sewers to culverted watercourse. As well as transferring the responsibility for their upkeep to the riparian owners when the property is sold, SWW are also seeking to argue that the Council acted illegally when it transferred the sewers in 1974. This could have legal and cost implications for the Council.

3.3 Overpayment of Housing Benefits

Overpaying housing benefit claims can present a serious financial risk to the Council because the subsidy paid by DWP is not paid to the Council.

3.4 Failure to deliver replacement pool

The delivery of a replacement pool is a priority for the Council and failure to deliver the project on time and within budget could have a damaging reputational impact on the Council as well as serious cost implications.

3.5 Safeguarding

Section 11 of the Children Act 2004 requires a range of organisations, including district councils, to make arrangements for ensuring that their functions, and services provided on their behalf, are discharged having regard to the need to safeguard and promote the welfare of children. Failure to have sufficient procedures in place could leave the Council at risk of legal action should a child or vulnerable adult be harmed or abused because the Council failed to take appropriate action.

3.6 Shared ICT service

Further work will be undertaken to define exactly how this risk could impact on the Council. An update will be provided at the next Audit and Governance Committee.

4. MITIGATION OF EXISTING RISKS

4.1 A full summary of the actions taken to mitigate all of the Council's risks can be found on the Corporate Risk Register. Some of the key actions are detailed below.

4.2 Flood Prevention Scheme

A collaboration agreement has been established which is explicit on there being no Council liability should an overspend occur.

4.3 Council unable to meet financial commitments

Work is currently underway to establish a model for predicting future business rates income to ensure that it is in line with the Medium Term Financial Plan expectations.

4.4 Ability to recover from ICT power outage

A back-up generator is planned for the ICT data centre as part of the shared service proposal.

4.5 The Council's information is not managed effectively

A Senior Information Risk Officer (SIRO) is now in place and is awaiting training. The Information Security Forum will review this risk and report back to the next Audit and Governance Committee.

5. RECOMMENDATIONS

- 5.1 That the Audit and Governance Committee reviews the updated Corporate Risk Register.

Corporate Manager Policy, Communications and Community Engagement.

Local Government (Access to Information) Act 1985 (as amended)
Background papers used in compiling this report: None

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

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