EXETER CITY COUNCIL

SCRUTINY COMMITTEE - RESOURCES
23 NOVEMBER 2011

INTERNAL AUDIT WORK – 1st HALF-YEAR 2011/12

1. **PURPOSE OF THE REPORT**

1.1   To advise the Committee of the work undertaken by the Internal Audit Unit.

2. **BACKGROUND**

2.1   This Committee is responsible for considering the work undertaken by Internal Audit as part of the overall probity checking and systems testing of the Council. The 2011/12 Audit Plan was approved at this Committee's 23 March 2011 meeting.

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. A summary of the fundamental systems audits completed to date is provided below.

Findings

3.2   **Housing** - this audit is broken down into sub-systems, the areas audited were:

1) repairs and maintenance – four High and 12 Medium risks were reported, all but four of the recommendations were accepted. Based upon the testing and the response of management in accepting the recommendations, once the agreed controls have been introduced the system's internal controls will be satisfactory.

2) Business Plan Statistical Appendix (BPSA) and Housing Strategy Statistical Appendix (HSSA) 2011 Government returns – prior to submission, the returns were audited. Seven and 14 Medium risks respectively were reported, and all of the recommendations were accepted.

3) temporary accommodation rent write-offs – one High and two Medium risks were reported, all of the recommendations were accepted. Based upon the testing and the response of management in accepting the recommendations, once the agreed controls have been introduced this sub-system's internal controls will be good.

3.3   **Housing benefits** – this audit is broken down into sub-systems, the areas audited were:

1) overpayments of claims – two High and two Medium risks were reported, one High and one Medium recommendations were accepted. Based upon the testing and the response of management in accepting the recommendations, once the agreed controls have been introduced this sub-system's internal controls will remain good.

2) subsidy claim – the housing benefits subsidy claim for 2010/11 is over £43 million, therefore, even a 1% reduction (£430,000) in the payment due to erroneous data would have a significant financial affect on the Council. Accordingly, in addition to the checks undertaken by Benefits staff, quarterly audits are undertaken on samples of data input to check their accuracy and identify any ongoing problems so that they can be immediately addressed.

3.4   **Computers** – this audit is broken down into sub-systems. The area audited was systems security – 18 Medium and one High risks were reported, all but three of the recommendations were accepted. Based upon the testing and the response of management in accepting the recommendations, once the agreed controls have been introduced this sub-system's internal controls will be good.

3.5   **Main accounting** – 2010/11 (part 2) – three Medium risks were identified, and all the recommendations were accepted. Based upon the testing and the response of management in accepting the recommendations, once the agreed controls have been introduced this system's internal controls will remain good.

3.6   **Treasury management** – two Medium risks were identified, and both recommendations were accepted. Based upon the testing and the response of management in accepting the recommendations, once the agreed controls have been introduced this system's internal controls will remain good.

3.7   **Information security** – there are various Government and legal requirements governing the use and holding of information, a prime example is the Data Protection Act. To address the potential risks, auditors are working with ICT staff and others to ensure that there are appropriate controls and processes in place to protect the Council against non-compliance.

3.8   **Annual Head of Audit Opinion** - The CIPFA *Code of Practice for Internal Audit in Local Government in the United Kingdom* (2006) requires that this annual report should be produced to assist the Council meet its obligations under regulation 4 of the *Accounts & Audit Regulations* and in producing the *Statement on Internal Control.* The annual report for the year ended 31 March 2011 is at Appendix 1

3.9   **Visit by the Shanghai Municipal Audit Bureau** – a delegation of six, lead by the Deputy Director General, visited the Civic Centre on 21 October to learn about auditing in the UK and Exeter's auditing techniques. Shanghai is the finance centre and largest city of China. The Municipal area has a population of over 23 million, and the audit bureau 370 staff.

4.   **RECOMMENDATION**

4.1   That the Internal Audit Report for the 1st half-year of 2011/12 be received.

HEAD OF AUDIT

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CORPORATE SERVICES DIRECTORATE

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

Annual report of the Head of Audit for the year ended 31 March 2011

1. Introduction

The CIPFA *Code of Practice for Internal Audit in Local Government in the United Kingdom* (2006) states that the Head of Audit should produce an annual report to assist the Council to meet its obligations under regulation 4 of the *Accounts and Audit Regulations* and in producing the *Statement on Internal Control*. The purpose of the annual report is to:

* give an opinion on the overall adequacy and effectiveness of the Council's control environment
* report any qualifications to the opinion together with details for any qualification
* present a summary of the audit work undertaken that supports the opinion including reliance placed on the work undertaken by other assurance bodies
* record any issues that are considered particularly relevant
* compare the audit work actually undertaken with that that was planned, and summarise performance against the Unit's performance measures and targets
* comment on compliance with the CIPFA standards and report the results of the Internal Audit quality assurance programme

2. Roles and Responsibilities

2.1 Councillors and managers

Councillors and managers are responsible for ensuring that there is an adequate and effective system of internal control in operation by establishing, for example, appropriate policies and procedures including Financial Regulations and for monitoring to ensure they are complied with.

In accordance with the *Accounts and Audit Regulations 2006* the Council is responsible for maintaining an adequate and effective system of internal audit

2.2 Internal Audit

The role and responsibilities/objectives of Internal Audit are to:

a) review and assess:

* the soundness, adequacy and reliability of financial, management and performance systems and data
* the effectiveness of internal controls, and make recommendations to improve these where appropriate
* procedures to check that the Council's assets and interests are adequately protected and risks are identified and effectively managed

b) check for compliance with legislation, Council policies and procedures

c) promote and assist the Council in the effective use of resources

d) undertake independent investigations regarding allegations of fraud and irregularity in accordance with Council policies and procedures and relevant legislation

3. Opinion on the Council's Control Environment

3.1 Internal Control Statement

It is the responsibility of senior management to establish an appropriate and sound system of internal control, and to monitor the effectiveness of these systems. It is the responsibility of the Head of Audit to provide an annual overall assessment of the robustness of the internal control system.

The main objectives of the internal control systems are to ensure:

- compliance with the Council's policies, procedures and directives in order to achieve the Council's objectives
- high standards of Corporate Governance are achieved and maintained throughout the Council
- that assets are safeguarded
- the relevance, reliability and integrity of information, and the completeness and accuracy of records
- compliance with statutory requirements, recognised standards and best practice.

Systems of control can only ever provide reasonable, but not absolute, assurance that control weaknesses and irregularities do not exist, and that there are no risks of material errors, losses, fraud or breaches of laws or regulations. The Council is therefore continually seeking to improve the effectiveness of its systems of internal control.

Internal Audit is charged with continually reviewing the system of internal control system on behalf of the Council and its management. Internal Audit objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources. Internal Audit operates in accordance with the above CIPFA Code of Practice. The work of Internal Audit is based upon a risk assessment of the Council's financial and non-financial systems, from which an annual audit plan is established that is referred to the Scrutiny Resources Committee in March each year for approval.

3.2 Basis of opinion

My evaluation of the control environment is informed by a number of sources:

- the work undertaken by Internal Audit during the year to 31 March 2011
- reports issued by the External Auditors
- the review of the adequacy and effectiveness of the Council's system of internal control as it relates to corporate governance, risk management and quality of data arrangements

3.3 Areas of concern

As part of the audit process each area of concern was given a prioritisation classification of High, Medium or Low and reported to relevant managers as part of the final audit report. The main areas of concern that I wish to highlight are:

a) the effects on the public sector of the recession and cuts in Government funding have been well publicised, as have been the significant reductions in staff resources. The danger is therefore that unless these processes are effectively managed, then systems of internal control and separation of duties will be significantly weakened resulting in likely increase in fraud, irregularities and errors

b) Risk Management – there is an ongoing roll-out to the Council's services in order to embed risk management throughout the Council. The services identified in the initial roll-out programme are those considered high risk, particularly those that are public facing.

c) Business Continuity Management – the Council has established a BCM policy and procedures which are both published on the Council's website. BCM is seen as a key system to enabling the Council and its services to recover should a major event occur and therefore it is included with the risk management roll-out

d) After the 31 March 2011, a matter relating to an outstanding insurance claim was identified. This was reported by Grant Thornton, the Council's external auditors, to the Final Accounts Committee on 22 September 2011.

3.4 Opinion

From the audit work undertaken during the year, and despite the areas of concern that I have identified above, I consider that the key systems are operating soundly and that there are no fundamental breakdowns of controls resulting in material discrepancy.

However, as mentioned above, as no system of control can provide absolute assurance against material loss, nor can Internal Audit give that assurance, this statement is only intended to provide an opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control system in the year to 31 March 2011.

Edmund Heaton

Head of Audit