

## AUDIT AND GOVERNANCE COMMITTEE

27 NOVEMBER 2013

### INTERNAL AUDIT PROGRESS REPORT

#### 1. PURPOSE OF THE REPORT

- 1.1 To report on internal audit work carried out during the period 1<sup>st</sup> July to 30<sup>th</sup> Sept 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.

- 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 good, however, one member of the audit team is due to go on maternity leave in December 2013, which will result in a reduction of resources for the final quarter of 26 days. Details of the adjustments required to the Internal Audit Plan 2013/14 have been presented in a separate report.

#### 4. **ISSUES FOR CONSIDERATION**

##### **Fundamental Weakness**

- 4.1 **Debtors (2012/13)** – the Internal Audit report issued 12/07/2013 identified a number of weaknesses and using the audit assurance rating scheme the debtors system is rated as having a Fundamental weakness. The reasons for this are:

- Inconsistent debt recovery guidance and policies
- Old debtor bank account details not deleted
- Many instances of multiple debtor accounts for the same person or business
- Services continuing to be supplied to individuals/business despite outstanding debts
- Errors in VAT coding
- Fees being charged outside of the approved fees and charges
- Delayed or no reminders for outstanding debts
- Insufficient recovery action for outstanding debts
- Debt recovery suppressions not reviewed
- Debt write-offs not appropriately authorised

Since issuing this report the Council's debt recovery systems have been undergoing a systems review and we hope that the recommendations of our report will be taken into account in designing the new system.

##### **Recommendations Not Accepted**

- 4.2 **Housing Benefit Subsidy (2012/13) - report issued 11th July 2013 - Medium Risk**

The testing identified one case where a DWP notification received on 18/02/13 advising of a change of circumstances, affecting benefit entitlement, was not actioned until almost a month later (12/03/13). A benefits figures report was obtained and found that as at 17 May 2013 there were 4,262 items of post outstanding, including 3,465 items more than seven days old.

As a result the recommendation was that procedures should be reviewed and amended to prevent backlogs of post containing important change of circumstances information. Change of circumstances information needs to be promptly identified and actioned as overpayments of benefit caused by change of circumstances not actioned promptly by the Council can affect the HB subsidy received by the Council.

The Housing Benefit Manager, did not agree with this recommendation. She advised:

*We do not feel that there is issue with the procedures themselves. The section is going through a period of major change as part of our system review work as well as an increase in the number of customers being seen on the front line as a result of welfare reform changes. This has contributed to the backlog. We are mindful that the backlog does impact on customers and subsidy and it is being managed and reduced as quickly as resources allow.*

This issue has been reported to the Senior Management Team.

#### **4.3 Markets and Halls - report issued 4th July 2013 - Medium Risk**

The testing identified that, copies of public liability certificates were not always requested and checked by staff at the Corn Exchange when booking larger artists or events. As a result the recommendation was that Markets and Halls should request public liability certificates from hirers to ensure that the relevant public liability insurance cover is in place.

The Facilities and Markets Manager did not agree with this recommendation. He advised:

*Some elements of the larger self-promoted events for example the venue and ECC owned equipment are the responsibility of the Corn Exchange and so covered by ECC public liability insurance.*

*The artists require their own public liability insurance to cover incidents for which they are responsible for example incidents resulting from their own equipment or actions. However to request evidence of cover is not the industry norm and would add to the difficulties in confirming events which would make us less attractive to major promoters/artists (the easier the contractual/booking process the more likely that artists/promoters would want to work with the venue).*

*We do request PLI certificates from all regular hirers and those holding one-off events which are viewed as a risk*

This issue has been reported to the Senior Management Team.

#### **4.4 Facilities Management - report issued 29th September 2013 - Medium Risk**

The testing identified that the amount being charged for the hire of the Guildhall does not always agree to the published Rate of Charges. As a result it was recommended that hire fees should be in accordance with the Rate of Charges.

The Lord Mayor's Support Officer, in conjunction with Corporate Manager Democratic/Civic Support did not agree with this recommendation, they advised:

*'the booking fee for a hire request is decided upon on a case by case basis and will not necessarily be in accordance with the standard fees. Consideration is given as to the organisation wanting to hire the room and the reason for the hire, for example in order to forge greater links with local charities, faith groups and organisations, it may be appropriate to charge a lesser fee. Additionally, some organisations may have a limited budget but because of the potential for further bookings resulting from the original hire, a lesser fee is acceptable.'*

This issue has been reported to the Senior Management Team.

4.5 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 second 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 1972 (as amended) Background papers used in compiling this report:-**

None