

REPORT TO AUDIT & GOVERNANCE COMMITTEE

Date of Meeting: 24TH JUNE 2015

Report of: AUDIT MANAGERS

Title: ANNUAL REPORT OF INTERNAL AUDIT FOR THE YEAR ENDED 31 MARCH 2015

Is this a Key Decision?

No

* One that affects finances over £1m or significantly affects two or more wards. If this is a key decision then the item must be on the appropriate forward plan of key decisions.

Is this an Executive or Council Function? COUNCIL

1. What is the report about?

The annual Internal Audit Report conforming to the Public Sector Internal Audit Standards and timed to inform the Council's Annual Governance Statement, including the quarterly update on the progress of Internal Audit work.

2. Recommendations:

Members are recommended to:

- 2.1 Note the contents of the Annual Internal Audit Report.
- 2.2 Advise whether the recommendations detailed in section 2 of Appendix B, which were not accepted by management, are acceptable risks to the Council.

3. Reasons for the recommendation:

To comply with the Public Sector Internal Audit Standards and Corporate Governance best practice.

4. What are the resource implications including non financial resources.

None.

5. Section 151 Officer comments:

The issues identified in the report have been included within the Council's Annual Governance Statement and will be monitored to ensure that they are addressed in the current financial year.

6. What are the legal aspects?

None.

7. Monitoring Officer's comments:

Clearly improving the Assurance ratings for key areas identified would be of benefit to the Council.

8. Report details:

8.1 The Public Sector Internal Audit Standards (PSAIS), which came into effect in April 2013, require that:

- The Audit Manager must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement
- The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control

- The annual report must incorporate:
 - the opinion;
 - a summary of the work that supports the opinion; and
 - a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme

8.2 OPINION ON THE COUNCIL'S CONTROL ENVIRONMENT

a) Internal Control Statement

In accordance with the Accounts and Audit Regulations 2011 the Council is responsible for maintaining an adequate and effective system of internal audit.

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 Internal 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. 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 was referred to the Audit and Governance Committee in March 2014 for approval.

b) Basis of Opinion

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

- the work undertaken by Internal Audit during the year to 31 March 2015
- the acceptance of significant recommendations by management
- reports issued by the External Auditors
- risks identified in the Council's Corporate risk register
- 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
- other sources of assurance and information

c) Work undertaken in the year

The Audit Progress Table shows the work completed during this year (see Appendix A).

A summary of the work undertaken by Internal Audit in the previous quarter is presented to this committee throughout the year, therefore only a summary of the work undertaken in the last quarter has been included to avoid duplication (see Appendix B). This also includes details of the recommendations not accepted by management during the last quarter and requires consideration by this committee.

In addition to the planned work, Internal Audit has also worked on a number of reported concerns and investigations. A summary of this work is included in Appendix C. Appendix C also shows all fraud that has been identified throughout the Council during the year(excluding housing benefits fraud).

Internal Audit is also required to maintain a Quality Assurance Improvement Program which includes details of conformance with the PSIAS. The results of this program are included in Appendix D.

Regulation of Investigatory Powers (RIPA)

As co-ordinators of RIPA for Exeter City Council we are required to report to this committee on the use of RIPA by the Council during the year. During 2014/15 RIPA was not used by Exeter City Council. However, during the year formal training has been provided to all appropriate employees to improve awareness and understanding of this legislation.

On 7th January 2015 the Office of Surveillance Commissioners undertook a routine inspection of the Council's RIPA procedures and records. I am pleased to report that the only matters arising related to improvements in the wording of our policy and procedures. The recommendations made by the inspector were accepted and our policy and procedures have been updated accordingly.

d) Areas of Concern

As a result of the audit work that has been undertaken throughout the year some issues, that have an impact on the organisation as a whole, have been identified. The main areas of concern that we wish to highlight are:

- i) Risk of Fraud – the risk of fraud is a continual threat to any organisation and all managers and employees need to be proactive in preventing fraud. Employees have received anti-fraud training via an e-learning module but it is important to continue to maintain awareness of fraud risks. A specific fraud threat that has been affecting the Council relates to external email spam. During the last twelve months the Council has been receiving an ever increasing number of spam emails, which can appear quite legitimate. Many attach fraudulent invoices requesting payment but some have requested us to change bank details of our existing suppliers. Some contain viruses that can affect the Council's ICT systems. So far the Council has successfully avoided falling foul of these emails and the Council has been working hard to block them. However, such threats are continually evolving and changing.
- ii) Housing Benefit Data Quality – due to the reduction in quality control checks on housing benefit assessments there has been an increase in the error rate and this has a potential significant impact on the Housing Benefit subsidy received from Government.
- iii) Business continuity – Although reported last year this area is still under review and the Council does not have an agreed Business Continuity process in place leaving the Council at risk of service delivery failure in the event of an incident.

Business Continuity (BC) is defined as the capability of the organization to continue delivery of products or services at acceptable predefined levels following a disruptive incident. (*Source: ISO 22301:2012*)

- iv) Partnership Working Protocol - the Council currently does not have a protocol for partnership working, as reported in our annual report last year.

Partnership working is playing an increasingly important role in the future of policy development and service delivery for the public sector. It is important to understand that partnership working at any level, however small or seemingly insignificant, may carry important legal and financial implications for the Council. Partnership working presents a number of challenges which need to be considered at the outset of any joint working venture.

A Partnership Working Protocol provides:

- clear guidance and allows a Council wide approach to developing partnership working initiatives
 - a framework within which partnership working across the Council can improve and develop practical advice and assists Council Officers, elected Members and external bodies who are actively involved in partnership working or who are considering entering into a partnership initiative
- v) Shared ICT Service – due to the lack of clarity regarding responsibility for providing assurance of internal controls for Strata it is difficult provide any form of opinion relating to the Council's ICT service.

- vi) Separation of Duties – with considerable changes to the structure of the Council as it transforms the way in which services are delivered; separation of duties continues to be an area of concern. There is a risk that inadequate separation of duties could weaken the system of internal control, resulting in an increased risk of irregularities, errors and fraud. Therefore, it is important that the introduction of new processes and changes to existing processes are effectively managed to ensure that essential internal controls are not compromised.

e) Opinion

From the audit work undertaken during the year, and despite the areas of concern that we have identified above, we 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 2015.

9. How does the decision contribute to the Council's Corporate Plan?

Good governance contributes to the Council's purpose of a "Well Run Council".

10. What risks are there and how can they be reduced?

N/A

11. What is the impact of the decision on equality and diversity; health and wellbeing; safeguarding children, young people and vulnerable adults, community safety and the environment?

N/A

12. Are there any other options?

N/A

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Audit Managers

Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:-

None

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