

AUDIT AND GOVERNANCE COMMITTEE

Date: Wednesday 23 September 2015
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 Vizard (Chair), Laws (Deputy Chair), Baldwin, Buswell, Harvey, Henson, Lyons, Sheldon, Williams, Raybould and Thompson

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 24 June 2015.

3 Declaration of Interest

Councillors are reminded of the need to declare any discloseable 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 on 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 during consideration of item 10 on the grounds that it involved the likely disclosure of exempt information as defined in paragraph 3 of Part 1, Schedule 12A of the Act.

5 **Internal Audit Progress Report 1st Quarter 1st April to 30th June 2015**

To receive the report of the Audit Managers.

(Pages 5 -
18)

6 **Audit and Governance External Auditors Committee Update**

To consider the report of the Council's External Auditors Grant Thornton.
Please note this report is to follow as detail from the Final Statement of Accounts 2014/15 report is required.

7 **Report to those Charged with Governance 2014/15 (ISA 260)/Audit Findings for Exeter City Council**

To consider the report of the Council's External Auditors Grant Thornton.
Please note this report is to follow as detail from the Final Statement of Accounts 2014/15 report is required.

8 **Management Letter to the External Auditor in respect of the 2014/15 Statement of Accounts**

To consider the report of the Assistant Director Finance (Section 151 Officer)
Please note this report is to follow as detail from the Final Statement of Accounts 2014/15 report is required.

9 **Final Statement of Accounts 2014/15**

To consider the report of the Assistant Director Finance (Section 151 Officer).
Please note this report is to follow.

Part II: Item for consideration with the Press and Public Excluded

10 **Review of the Corporate Governance Risk Register**

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

(Pages 19
- 32)

Date of Next Meeting

The next **Audit and Governance Committee** will be held on Wednesday 2 December 2015 at 5.30 pm

Find out more about Exeter City Council by looking at our website <http://www.exeter.gov.uk> . This will give you the dates of all future Committee meetings and tell you how you can ask a question at a Scrutiny Committee meeting. Alternatively, contact the Democratic Services Officer (Committees) on 01392 265107 for further information.

Follow us:

www.twitter.com/ExeterCouncil

www.facebook.com/ExeterCityCouncil

Individual reports on this agenda can be produced in large print on request to Democratic Services (Committees) on 01392 265111

REPORT TO AUDIT & GOVERNANCE COMMITTEE

Date of Meeting: 23rd SEPTEMBER 2015

Report of: AUDIT MANAGERS

TITLE: INTERNAL AUDIT PROGRESS REPORT 1ST QUARTER 1ST APRIL TO 30TH JUNE 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?

To report on internal audit work carried out during the period 1st April to 30th June 2015, to advise on overall progress against the Audit Plan and to report any emerging issues requiring consideration.

2. Recommendations:

That the Internal Audit Progress Report for the first quarter of the year 2015/16 be noted.

3. Reasons for the recommendation:

One of the roles of this committee is to review quarterly internal audit reports and the main issues arising and seek assurance from management that action has been taken, where necessary.

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

None.

5. Section 151 Officer comments:

The significant issue to note is that there is significant work still to be done in respect of our key income streams and ensuring that the control environment is improved. It is important that the recommendations are implemented to time and that they are monitored to ensure that there is improvement in these areas.

6. What are the legal aspects?

There are no legal implications.

7. Monitoring Officer's comments:

The report raises no issues for the Monitoring Officer.

8. Report details:

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 2015/16 Audit Plan was approved at this Committee on 11th March 2015.

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 risks 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.

8.1 Work Undertaken

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 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.

The table is based on the audit plan and the systems grouped into the twelve strategic purposes as per the Corporate Plan.

A further summary of the outcomes of audits completed can be found at Appendix B.

Progress against the annual audit plan is on target.

8.2 Issues for consideration

There are no instances to report where recommendations were not accepted by management during this quarter.

There are no instances of management accepting a recommendation which was not subsequently implemented within a reasonable timescale.

8.3 Governance Issues

The Council's annual governance statement (AGS) included a number of significant issues identified in the Audit Manager's Annual report. The AGS states that the aim is to address these weaknesses during 2015/16 financial year, by way of an action plan for improving the governance framework and system of internal control and this will be monitored by the Audit and Governance Committee. An action plan of the issues identified has been included in Appendix C.

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

Helen Putt & Helen Kelvey
Audit Managers

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

Background papers used in compiling this report:-

None

Contact for enquires:
Democratic Services (Committees)
Room 2.3
01392 265275

This page is intentionally left blank

**EXETER CITY COUNCIL
AUDIT AND GOVERNANCE COMMITTEE**

PROGRESS OF 2015/16 AUDIT PLAN AS AT 30/06/15

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'

External Funding & Grants	5	0.2	To start Q3					
---------------------------	---	-----	-------------	--	--	--	--	--

Enabling Services

'A well run Council'

'Maintain our property assets of the city'

Main Accounting 2014-15	20	2	To start Q4					
Income Management/Sundry Debt	25	5.5	To start Q4					
Procurement	20	0.2	To start Q2					
Creditors	40	15.2						
First half year			In progress					
Second half year			To start Q3					
Insurance	5	0	To start Q3					
People Management	20	0.1	In progress					
ICT – Shared service	10	2	Ongoing					
Business Continuity	13	0	To start Q3					
Risk Management	10	1.3	Ongoing					
Contract management - Corporate Property Assets	10	0	To start Q2					
Contract Management – Other services	10	1.8	To start Q2					
Counter Fraud/Anti-Fraud	10	1.2	In progress					
Corporate governance	10	1.9	Ongoing					
Information Governance	10	3.2	In progress					
Equalities & Diversity	10	11.3	Draft					
Partnerships	5	0.5	To start Q2					
Hospitality & gift disclosures	1	0	To start Q4					
External Audit	2	0.2	No report due					

Customer Access

'Help me with my financial problem'

'Make it easy for me to pay you'

'Provide suitable housing'

Housing Benefit Subsidy	40	16.3	To start Q3					
Council Tax	25	0	To start Q3					
NDR	10	0	To start Q3					
One View of Debt (OVD)	25	2.7	To start Q3					
Housing - Tenants	10	0.4	To start Q2					

Housing Revenue Account

'Provide suitable housing'

'Be a good landlord'

Housing - Property	10	0	To start Q4					
--------------------	----	---	-------------	--	--	--	--	--

Health & Place

'Keep place looking good'

'Keep me/my environment safe and healthy'

Health & Safety	10	0.4	To start Q4					
Statutory returns - waste	2	2	In progress					
Trade recycling	5	3	In progress					
Trade waste	5	7.4	In progress					
Recyclate processing	5	5	In progress					

Economy and Culture

'Provide great things for me to see and do'

'Help me run a successful business'

None	-							
------	---	--	--	--	--	--	--	--

City Development

'Deliver good development'

None	-							
------	---	--	--	--	--	--	--	--

Public Realm

'Keep place looking good'

Car Parks	5	0.2	To start Q3					
-----------	---	-----	-------------	--	--	--	--	--

Other

RIPA Administration	2	0.5						
Contingency (special/frauds) including unplanned work	30	12.4						
Follow-ups	10	4.9						
Audit planning and control	40	11.3						
Total	470	113.1						

Results of reports finalised during 2015/16 relating to 2014/15 – see Appendix B for summary of reports

Audit Area	Report Status	Direction of travel since last audit	Assurance Rating	Number of findings		
				H	M	L
Housing Benefit Subsidy 14/15	Final	↓	Significant Improvement Required	8	2	2
Income Management & Sundry Debt	Final	↓	Significant Improvement Required	4	4	7
Planning and Community Infrastructure Levy (CIL)	Final	No Previous report	Good	0	2	2
Main Accounting 2014/15 Part 2	Final	↔	Good	1	3	3
One View of Debt (OVOD)	Final	No Previous	Significant Improvement	8	2	7

				report	Required			
--	--	--	--	--------	----------	--	--	--

This page is intentionally left blank

**EXETER CITY COUNCIL
AUDIT AND GOVERNANCE COMMITTEE**

Internal Audit Summary of Work Completed 01 April to 30 Jun 2015

Please note that this is a summary of recommendations only, as to include all recommendations made from each audit report in detail would result in a lengthy document. Members may request a full copy of any report once finalised or alternatively meet with the Audit Manager to discuss specific audits further.

Audit Area	Summary
<p>Housing Benefit Subsidy 2014/15</p> <p>Assurance rating: Significant Improvement required ★ ★</p>	<p>The DWP pays authorities subsidy equal to their 'qualifying expenditure' on housing benefit (HB). Correctly paid HB qualifies for 100% subsidy, however, to encourage authorities to monitor and control costs, certain areas of benefit expenditure are penalised. These include certain overpayments and certain high eligible rents. Authorities can also fail to receive subsidy if they cannot provide the necessary information and evidence to support their claims.</p> <p>The objectives of the audit were to review a sample of cases assessed by Benefits to provide assurance that:</p> <ul style="list-style-type: none"> - housing benefit regulations are being complied with - DWP supporting evidence requirements are met - the amount of benefit paid was accurately calculated - the overpayment classifications were met <p>A total of 8 high risk, 2 medium risk and 2 low risk recommendations were made, all of which were agreed by management. This has resulted in a downward direction of travel from the last audit due mainly to the reduction in the quality assurance checks carried out which has seen an increase in the number of errors. Since the audit, staff have received additional training and the level of checks carried out has been increased.</p>
<p>Income Management & Sundry Debt</p> <p>Assurance rating: Significant Improvement required ★ ★</p>	<p>Exeter City Council collects income from Council Tax, National Domestic Rates, Car Parking and Housing and Commercial Rents. The Council also generates income through providing a wide range of services for example the bulky waste collection services, licensing and entertainment.</p> <p>The Council accepts payments by all methods, i.e. direct debit, automated payments such as BACS, credit/debit payments, internet transactions and cheques/cash. Payments are processed through the Payment and Revenue Information System ('PARIS'). This system 'receives', 'validates', 'processes' and then 'allocates' the payments to the respective debtor accounts.</p> <p>Should invoices remain outstanding, the debt recovery is either undertaken by Finance or by the respective Service Area, depending upon the agreement in place.</p> <p>The objectives of the audit were to ensure that:</p> <ul style="list-style-type: none"> • monies due to the council are requested promptly

	<ul style="list-style-type: none"> • where monies are received, that they are dealt with in a safe, secure and prompt manner • relevant records are up dated with the payments • all income due is collected in a timely manner • adequate recovery actions are taken • procedures are adhered to in accordance with council policies and procedures <p>A total of 4 high risk, 4 medium risk and 7 low risk recommendations were made, all of which were agreed by management. In previous years these areas were audited separately, but have now been combined to form one audit.</p> <p>The high risk recommendations relate to service areas not raising invoices promptly, housing debt (e.g. ground rent and service charges) not being collected and problems with the PARIS income collection system following the change to Council's bank service provider.</p>
<p>Planning & Community Infrastructure Levy (CIL)</p> <p>Assurance rating: Good ★★★★★</p>	<p>Exeter City Council planning applications are administered by an in-house Planning Service. In addition to administration of planning applications the service is also responsible for the administration of the Community Infrastructure Levy (CIL). This is a form of charge that allows local authorities to raise funds from developers undertaking new building projects in their area. The money collected is used to pay for transport facilities, flood defences, schools, sports facilities and open spaces within the City.</p> <p>The objective of the audit was to ensure that applications are processed within a reasonable time, fees due have been collected along with any other general observations for potential improvements to the service.</p> <p>A total of 2 medium risk and 2 low risk recommendations were made, all of which were agreed by management</p>
<p>Main Accounting Part two 2014/15</p> <p>Assurance rating: Good ★★★★★</p>	<p>The Main Accounting system is the collective name given to a number of processes such as budget setting and control, maintenance of financial records, reconciliations, VAT control, capital accounting and year end processes.</p> <p>The Main Accounting audit has in the past been completed in three sections. However, the test papers have been reviewed and testing will now take place in two parts:</p> <p>Part one covering budget setting and control, maintenance of financial records, reconciliations and VAT control and is undertaken each January. Part two covering capital accounting and year end processes and is undertaken each May</p> <p>The agreed scope of the audit included a review of the following areas:</p> <ul style="list-style-type: none"> Budget Setting Completeness and accuracy of financial records Budgetary Control Journals and internal transactions Bank reconciliations Suspense and Holding Accounts VAT

	<p>Capital Accounting</p> <p>A total of 1 high, 3 medium risk and 3 low risk recommendations were made, all of which were agreed by management. The high risk recommendation related to payments being made to suppliers inclusive of VAT but a VAT invoice had not been received. In these circumstances the Council is unable to reclaim the VAT element.</p>
<p>One View of Debt (OVOD)</p> <p>Assurance rating: Significant Improvement required ★★</p>	<p>A review of the three main individual debt areas, i.e. Council Tax, Housing Rent and Housing Benefit Overpayments resulted in the areas merging to form the One View of Debt (or OVOD) team, with their Mission Statement being “Maximum contact results in minimum debt” and their purpose defined as “To deal with a customer’s total debt as one, and to help customers get fixed and stay fixed”. The collection of recoverable repairs and Non-HRA debtors also transferred to OVOD.</p> <p>Prior to the formation of OVOD, each individual debt area was focused on debt recovery, however, in accordance with their Mission Statement and Purpose, the focus is now to provide a more individual service to customers.</p> <p>The scope of this audit was to review the combined debt recovery processes and produce a document detailing the processes. The objectives were then to check that the processes are working well.</p> <p>A total of 8 high, 2 medium risk and 7 low risk recommendations were made, all of which were agreed by management.</p> <p>The main areas of concern reported were:</p> <ul style="list-style-type: none"> • falling Council Tax collection rates as the focus had changed from debt recovery to dealing with customers on an individual basis meaning time taken to process individual cases had increased with a knock on effect of fewer Council Tax debts being pursued • Council Tax bill reminders directing customers to phone the OVOD team to make a payment by card. This meaning that highly trained debt collection staff were spending a lot of their time on the phone taking Council Tax payments when these payments could have been processed by automated means • a significant the back log of tasks, such as dealing with ‘gone aways’, ‘on hold’ recovery cases, former tenancy non-HRA debts and write-offs which appeared to be caused by a lack of staffing resource

This page is intentionally left blank

SIGNIFICANT GOVERNANCE ISSUES PROGRESS REPORT - ANNUAL GOVERNANCE STATEMENT 2014-15

Issue No.	Issue identified	Responsible Officer?	Summary of action proposed	Update Sept 2015	Update December 2015	Update March 2016	Notes
Page 15	1 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.	Audit Manager	Promote the Counter Fraud Strategy and Counter Fraud Leaflet via City News. Provide Fraud statistics to staff and follow up all allegations	Article in City News 2nd July 2015 provided information on action taken following allegations received. Audit Manager to look at possibility of holding Whistleblowing workshops/exchange briefing item.			
	2 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.	Service Improvement Lead (Benefits)	Increased checking resources have been re-introduced into the service.	Housing Benefit Subsidy audit will be undertaken earlier to ensure that checks are being carried out and to identify any potential areas of concern.			
	3 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.	Policy Officer	The Council, with support from Zurich Municipal is developing a detailed Business Continuity Plan. Work is continuing in 2015-16.	No change			
	4 Partnership Working Protocol - the Council currently does not have a protocol for partnership working, as reported in our annual report last year.	Policy Officer	It has been agreed that this will be a priority for the Policy Unit. However, the work is still continuing and not yet complete.	Draft protocol with Policy Unit for review before sending to Monitoring Officer and Section 151 Officer for comment.			
	5 Shared ICT Service - due to the lack of clarity regarding responsibility for providing assurance of internal controls for Strata, it is difficult to provide any form of opinion relating to the Council's ICT service.	AD Finance	Devon Audit Partnership will be providing an internal audit function to Strata, which is intended to provide the assurance required by our own internal audit function.	AD Finance to meet with Devon Audit Partnership 27th August to sign contract and to agree scope of work.			
	6 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.	Managers	Managers will continue to review the arrangements for separation of duties as a matter of course. No fundamental weaknesses have yet been identified.	No change			

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank