

EXETER CITY COUNCIL

SCRUTINY COMMITTEE - RESOURCES 25 NOVEMBER 2009

INTERNAL AUDIT WORK – 1st HALF-YEAR 2009/10

1. PURPOSE OF THE REPORT

- 1.1 To advise Members 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 2009/10 Audit programme was approved at this Committee's 25 March 2009 meeting.
- 2.2 A summary for each main audit completed is provided and examples given of the areas for improvement found.

3. WORK UNDERTAKEN

Objectives

- 3.1 Internal Audit's objective is to examine the Council's financial and non-financial systems to check that adequate internal controls are in place to prevent loss due to frauds, errors and inefficiency, and that due attention is paid to Corporate Governance and risk management. A summary of the main audits completed is provided below and details are given at Appendix 1 of areas identified for improvement identified that are assessed as either 'High' or 'Medium' risk.

Findings

- 3.2 **Housing benefits** – due to the number of transactions and complexity of the system, this audit is broken down into sections and work is undertaken throughout the year. The areas examined during this period were:
- assessment of benefit claims – please see Appendix 1, point 1.1
 - performance indicators (carried out at the request of the HB manager) – some errors were found, for example, in the classification of the claim. The findings of the audit were the subject of a staff meeting at which time they were reminded of the importance of entering correct PI data. Regular meetings about performance indicators are now held and if a member of staff is found to make consistent errors they will receive individual refresher training

Based upon the audit undertaken and the manager's positive attitude to action the audit recommendations made, the operation of the system is considered to be at a good standard.

- 3.3 **Main accounting (re: 2008/09)** – The audit checked that:

- information was being accurately transferred from the feeder systems (e.g. payroll, creditors, income, etc.) into the main accounting system
- bank reconciliations were up-to-date and signed as checked by a senior manager
- capital assets had been accounted for and depreciated correctly
- the final accounts were prepared and presented in a format consistent with relevant accounting recommendations and requirements, and complied with relevant financial reporting standards and accounting codes of practice

I am pleased to report that there were no matters arising and that the system is therefore considered to be operated at a good standard.

- 3.4 **Creditors** – a) in addition to the Audit Commission's National Fraud Initiative (NFI) data matching exercise, half-yearly checks are undertaken to identify any duplicate payments using twelve months worth of creditors' invoices. In addition to the four cases identified by the NFIs, which Internal Audit has been allocated responsibility for investigating, another case was found:
- in three of the above five cases, the staff involved had already identified and recovered the overpayments
 - in one case the staff had identified the overpayment and had off-set the amount against a current invoice
 - in the case identified by Internal Audit, this overpayment had not been identified when reported, but action was taken to recover such

The number of overpayments identified by the NFI was particularly low, aided by the controls that exist in the Creditors computer system. All of the occurrences were down to human error in that:

- the 'their reference' had been keyed in differently, or
- the 'their reference' had been keyed in the same, but an extra space and/or a dot had been input

b) purchases using the corporate credit cards were reviewed for compliance and examples were found where the transactions:

- did not had adequate supporting documentation
- did not have valid VAT receipts resulting in the Council being unable to reclaim VAT in those cases
- were not properly authorised

Action taken: Internal Audit reported to each relevant Head of Service and the respective credit cardholder the findings of the audit and reminded that purchases must be authorised by an independent person prior to the transaction taking place, and that proper receipts must be obtained and provided to support the transactions.

- 3.5 **Performance indicators** – the Council's 2008/09 PI results were audited prior to being published. It was found that in a few cases that the PI data requirements had not been correctly interpreted, and in one case the 4th quarter's result had been entered instead of the full year's result. Overall the standard of data quality has improved year-on-year.

- 3.6 **Computers** – a) all Councils were required to meet the GovConnect security standards in order to use the Government's secure computer network to communicate with Government departments and other bodies such as the police. A prime example is Housing Benefits which receives and sends data to the Department of Work & Pensions in order to process benefits claims. One of these requirements was that all the Council's information had to be protectively marked in accordance with its sensitivity, and appropriate security measures put in place for that classified as RESTRICTED or PROTECTED. Users of GovConnect were also required to be trained before they could access the systems. Internal Audit worked with IT and others to ensure that the Council met the requirement successfully, and an on-line training package was written by an Internal Auditor that provides proof that users have sat and passed the knowledge tests

b) work has started in conjunction with Treasury Services and IT on ensuring that the Council meets the Payment Card Industry (PCI) requirements. PCI controls are designed to ensure that on-line electronic payments are made securely and that payment card data is not held or accessible by unauthorised persons.

3.7 **Housing** – a) the Business Plan Statistical Analysis (BPSA) return was checked by Internal Audit and a number of minor errors were found. These were reported to the person who completed the return and amended before it was submitted to the Government

b) the Housing Strategy Statistical Appendix (HSSA) return was checked. Due to the number of errors found the following recommendations were made and agreed:

- managers should be reminded that all HSSA data should be promptly submitted to the person responsible for completing the return
- all figures should be accompanied by adequate supporting documentation (preferably in electronic format) that clearly show how the results were calculated or where the data was obtained from
- all documentation should be cross-referenced to the appropriate HSSA reference.

3.8 **Payroll** – please see Appendix 1, point 1.2.

3.9 **Investigations** – a) there has been an increase in the use of the Council's on-line 'Report It' fraud hotline, with the majority of reports being made in respect of housing benefits, and some suspicions of sub-letting of council housing

b) in one internal case two employees were found to have falsified their timesheet records and their overtime claims, which resulted in dismissal

c) a current case involves the possible falsification of time recording

d) an anonymous internal whistleblowing case was investigated but it was found there was no proof of the allegations made. The Internal Audit findings are to be reported to Standards Committee.

4. **RECOMMENDATION**

4.1 That the Internal Audit Report for the 1st half-year of 2009/10 be received.

HEAD OF AUDIT

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

CORPORATE SERVICES DIRECTORATE

1.1 Housing Benefits – assessments

Executive Summary

From the testing undertaken, controls are in place and working in the following areas: Allocation and monitoring of workloads; Household and non-dependents; Extended payments; Disputes and appeals.

However, the audit found the following areas for improvement:

'High' and 'Medium' priority areas	Action agreed?	Date agreed
<p>1.a) The declaration of interest form that staff are required to sign uses the Benefit Regulations (2006) definition of 'close relatives'. This results in parents-in-law having to be declared, but not grandparents who are considered to be 'closer' relatives than parents-in-law</p> <p>b) Due to other work priorities, checks had not been made to ensure all staff had signed the declaration forms and their user access rights to computer systems appropriately restricted</p>	<p>Yes – the declaration of interest form will be amended to include the need to make a mandatory declaration of grandparents</p> <p>Yes - the checks will be completed</p>	<p>Oct 2009</p> <p>By end of Sept 2009</p>
<p>2. Lack of evidence that:</p> <p>a) new landlord signatures had been properly verified</p> <p>b) landlord signatures on rent proofs had been checked to the database</p>	<p>Yes – staff to be reminded of the verification checks they are required to undertake</p>	<p>Actioned</p>
<p>3.a) There was no evidence that the annual uprating of the income parameters had been independently checked.</p> <p>b) Amendments made to individual parameters during the year are not independently checked</p>	<p>Yes – an independent person will undertake these checks after each amendment</p>	<p>Oct 2009</p>
<p>4. The overall accuracy result for the first quarter 1st April to 1st July 2009 was 87.43%</p>	<p>Yes - capability investigations will be carried out on those staff who continually make errors</p> <p>Development plans to be drawn up for all staff that will include improving accuracy</p> <p>Two team managers to undertake 100% checks on individual members of staff on a twice yearly basis</p>	<p>Immediate</p> <p>Immediate</p> <p>Immediate</p>

1.2 Payroll

Executive Summary

From the testing undertaken, controls are in place and generally working for deductions, payments and transfer of electronic data.

However, the audit found the following areas for improvement:

'High' and 'Medium' priority areas	Action agreed?	Date agreed
1. Input is required to be checked for correctness, however, two errors were found that had not been identified by Payroll staff	Yes – although the check is in place, these two errors were overlooked. Payroll staff have been reminded to ensure they thoroughly check input	Actioned
2. a) Cases found where units had submitted incorrect data in that: <ul style="list-style-type: none"> • post grades differed to the employee grades • post hours differed to employee hours 	1. Yes – HR, will as part of administrators' training, give guidance on how secondments into different graded jobs should be dealt with 2. Independent periodic (half-yearly) establishment checks to be undertaken to identify such anomalies	Dec 09/ Jan 10 Actioned
3. a) The Council's pre-employment checks are not as stringent as agencies are required to undertake (e.g. to combat identity theft) b) No evidence that documentary evidence had been seen (e.g. educational qualifications, driving licences)	1. Yes - HR will remind administrators of the type of checks that must be undertaken HR will include this in the administrators' training	Immediate Dec 09/ Jan 10
4. a) Treasury staff had not undertaken reconciliations for the sample of deductions selected b) None of the previous reconciliations had been signed by the persons who undertook them nor those who had checked them	Yes – reconciliations have been brought up-to-date and previous reconciliations signed by those concerned	Actioned