

**EXETER CITY COUNCIL**  
**SCRUTINY COMMITTEE - RESOURCES**  
**24 MARCH 2010**

**INTERNAL AUDIT WORK – 2nd HALF-YEAR 2009/10**

**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 2009/10 Audit programme was approved at this Committee's 25 March 2009 meeting.
- 2.2 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 that due attention is paid to Corporate Governance and risk management. A summary of the main audits completed is provided at 4. below and examples are given at Appendix 1 of areas identified for improvement that were assessed as either 'High' or 'Medium' risk.

**3. Overall performance**

- 3.1 All fundamental systems will be audited in accordance with the 2009/10 audit plan, and it is expected that the majority of the planned non-fundamental systems audits will also be achieved.
- 3.2 Sickness per full-time equivalent employee (FTE) is lower than last year, being 2.3 days compared with 3.3 days in the previous year.
- 3.3 The Unit's performance measure is to be compliant with the CIPFA *Code of Practice for Internal Audit in Local Government in the United Kingdom* (2006). To further compliance with the code, work is progressing with other members of the 'Internal Audit Benchmarking Partnership' to enable peer reviews to be undertaken during 2010/11.
- 3.4 During the year, the City Council submitted a successful tender to supply 50 audit days to East Devon District Council in competition against several private firms. These additional days were sourced by the part-time Auditors working the 50 additional days required to ensure that there would be no affect on the planned City Council audit testing

**4. WORK UNDERTAKEN**

**Findings**

- 4.1 **Treasury management** – please see Appendix 1, point 1.1
- 4.2 **Corporate credit cards** – the audit found:
- a) the authorising supporting documentation had not been retained for all transactions
  - b) cases where authorisations were obtained after the transactions were undertaken
  - d) a self-authorized transaction had been processed for payment
  - e) VAT being recorded incorrectly on the 'reconciliation' spreadsheets

Unless transactions are correctly recorded and supported, then the Council cannot reclaim VAT. The cases were reported to the relevant managers, and audit checks are ongoing

4.3 **Payroll** – please see Appendix 1, point 1.2

4.4 **Council tax** - please see Appendix 1, point 1.3

4.5 **Sustainability** - the audit found:

a) although a climate change risk register has been established, a sustainability risk register (to cover a wider area) had not. A September 2010 target date was agreed for establishing a sustainability risk register

b) not all Council properties are recorded on a central property database, therefore, water meter readings are not recorded centrally, making it impossible to monitor all water consumption. A December 2010 target date was agreed for establishing a central database

c) for a number of products identified in the procurement sample, it was difficult to decide whether the products complied with the Council's policy, the staff responsible were unsure. A December 2010 target date was agreed for issuing a team brief to all staff

4.6 **Housing benefits subsidy claim** – the 2009/10 subsidy claim is audited to check that cases have been correctly classified, for any material errors could result in a significant loss of income. The audit found some errors in respect of: rent rebate eligible overpayments; local housing allowance expenditure; and rent allowance, eligible overpayments. These were promptly reported so that the claim could be corrected and the staff responsible made aware of their errors, and provided with additional training where necessary

4.7 **Computers** – a) work has been undertaken with IT staff to meet the Government's GovConnect requirements. External assessors undertook an audit on behalf of GovConnect to assess the Council's compliance and ensure that data is being held and treated in strict accordance with its security classification

b) work has begun in rewriting the audit papers used to test the Council's computer systems and procedures to take account of the industry's best practice standards, such as COBIT, ITIL and GovConnect and meet IT Governance requirements. Once written, the testing papers are being sent to CIPFA so that they can be reviewed by a senior NHS computer auditor. The returned papers will then be used for testing the Council's systems, etc. and published by CIPFA later this year

4.8 **Investigations** –

a) there has been an increase in the public's use of the Council's on-line 'Report It' fraud hotline. The majority of the reports have been in respect of housing benefits, however, other allegations have included sub-letting of council housing and council taxpayers falsely claiming single occupancy discount

b) a manager asked for an investigation to be undertaken concerning suspicions that some employees were falsifying the entries they input into their hand-held time recording devices. The suspicions were subsequently proven for three employees who all resigned prior to their disciplinary hearings. On the positive side, however, the other employees observed during the investigation were found to be undertaking the visits required and recording their times and locations accurately

**5. RECOMMENDATION**

5.1 That the Internal Audit Report for the 2<sup>nd</sup> half-year of 2009/10 be received.

**HEAD OF AUDIT**

**CORPORATE SERVICES DIRECTORATE**

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

## 1.1 Treasury Management (TM)

### Executive Summary

From the testing undertaken, controls were in place and working in the following areas: risk management; cash-flow; capital Investments; records and reconciliations and monitoring and reporting. However, the audit found the following areas for improvement:

<b>'High' and 'Medium' priority areas</b>	<b>Action agreed?</b>	<b>Date agreed</b>
1. the TM document and schedules had not been updated to reflect changes in CIPFA's TM guidance	Yes – due to changes in the CIPFA guidance, the document and schedules need to be updated again and agreed by the respective Committee	31 Mar 10
2.a) the interest repayments are calculated using a spreadsheet, but the formulae is not protected  b) the calculations are not checked and signed by an independent employee to confirm they are correct  c) details provided to lenders is not checked for accuracy	Yes – a) the formulae will be protected  b) An independent person will undertake these checks  c) An independent person will undertake these checks	15 Jan 10  Immediate  Immediate
3. one authorised user uses another's login id and password to undertake this role, which contravenes the IT acceptable use policy	Yes – a) the user has been set-up with a separate id and password  b) all Treasury Services staff have been made aware of the IT Acceptable Use Policy	Immediate  Immediate
4. the systems administrator role is undertaken by an employee who also: - carries out the daily cash-flow procedure - inputs, amends and deletes CHAPS transactions in the TM system The person can therefore input and approve transactions	Yes – separation of duties will be established as part of the Treasury Services restructure	1 Feb 10

## 1.2 Payroll

### Executive Summary

From the testing undertaken, controls were in place and working in the following areas: deductions; payments; and electronic transfer of data. However, the audit found the following areas for improvement:

<b>'High' and 'Medium' priority areas</b>	<b>Action agreed?</b>	<b>Date agreed</b>
<p>1.a) the office manual is out-of-date as it does not show the upgrades made to the system</p> <p>b) changes to procedures (e.g. timesheet submitted electronically) do not appear in the office manual</p> <p>There is therefore no record to refer to in case of staff being unexpectedly absent</p>	<p>Yes – the office manual and Resource link systems manual will be updated</p>	<p>Feb 10</p>
<p>2. two errors were found that were 'missed' by payroll staff when manually checking batch inputs and downloads</p>	<p>Yes - although checks were undertaken, the two errors were overlooked. Payroll staff have been reminded to thoroughly check all transactions</p>	<p>Immediate</p>
<p>3.a) although staffing agencies are required to:</p> <ul style="list-style-type: none"> <li>- undertake verification of personal identification</li> <li>- check that persons are either British citizens or have valid work permits/visa identity cards, etc.</li> </ul> <p>Such stringent tests are not always undertaken for the Council's new employees</p> <p>b) cases were found where starters were required to:</p> <ul style="list-style-type: none"> <li>- provide their driving licence</li> <li>- provide evidence of their degree</li> </ul> <p>However there was no proof on file that these documents were checked</p>	<p>Yes – a) HR will introduce more stringent identify checks for starters and current staff in line with the Security Policy Framework (SPF) produced by the Home Office</p> <p>b) HR will ensure stringent qualification checks are carried out (e.g. universities will be contacted to check declared degrees are held)</p> <p>c) HR will ensure supporting evidence is scanned onto staff's individual personnel files</p>	<p>Jan 10</p>
<p>4. a) not all electronic starter forms were completed prior to the employment dates</p> <p>b) some casual staff started their employment before the pre-employment checks had been carried out</p>	<p>Yes – a)&amp;b) line managers and administrators will be reminded of the correct employment procedures</p>	<p>Jan 10</p>

### 1.3 Council Tax

#### Executive Summary

From the testing undertaken, controls were in place and working in the following areas: new and amended properties; Valuation Office listings; valuation, liability and billing reconciliations; setting of council tax; issuing of demands, calculations and payments. However, the audit found the following areas for improvement:

<b>'High' and 'Medium' priority areas</b>	<b>Action agreed?</b>	<b>Date agreed</b>
1. 18 cases found where three weeks or more had elapsed after the expiry of the diary date and no follow-up action had been taken	Yes – a) the 18 cases have been investigated and appropriate action taken  b) staff have been reminded that prompt follow-up action must be taken in all such cases	Immediate  Immediate
2. no discount & disablement reduction survey forms have been issued within the last two years due to a barcode problem on the forms	Yes – the IT software providers will liaise with IT with the intention of issuing surveys on a rolling plan basis	End Oct 09
3.a) a former temporary user had access to the system  b) a generic user id 'temp on Council Tax' was still active even though there were no current temps  c) the password enabling users to alter data on tables and delete history logs had not been recently changed  d) it was not possible to check which users had access to the password	Yes – a) procedures will ensure that when a user leaves their access is promptly removed  b) the access of the former employee will be revoked.  c) use of the 'temp' generic password will be closely monitored and password 'revoked' when temps leave  d) IT will be asked to report this weakness to the software supplier to enable a solution to be found	Immediate  Immediate  Immediate  Jan 10