

EXETER CITY COUNCIL
SCRUTINY COMMITTEE - RESOURCES
24 NOVEMBER 2010

INTERNAL AUDIT WORK – 1st HALF-YEAR 2010/11

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 2010/11 Audit plan was approved at this Committee's 24 March 2010 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 audits completed to date on the fundamental systems is provided below.

Findings

3.2 **Housing benefits** – This audit is broken down into sections due to the number of transactions and complexity of the system, with audit work undertaken throughout the year. The areas examined during this period were:

a) assessment of benefit claims – eight Medium risks were reported:

- five of the recommendations were agreed and have been actioned
- one was not agreed due to cost (leaflets to remind that change of circumstances need to be reported)
- one was met by other compensating controls
- one was a software problem that has been reported to the system provider, Capita

b) HB subsidy – quarterly testing is undertaken to check that cases are being correctly classified as any errors may adversely affect the amount payable from the Government. Where errors were identified these were immediately corrected. The claim is worth over £30 million, so a 1% error would result in the loss of £300,000 in subsidy payment.

Based upon the audit testing undertaken and the manager's continuing positive attitude in agreeing the audit recommendations made, the system is considered to be operated at a consistently good standard.

3.3 **Main accounting (re: 2009/10)** – There were no matters arising from our testing of the operation of the system other than in respect of records management, which included the security, maintenance, retention and disposal of data. I am pleased to report that all of the recommendations made were agreed, and therefore the system is considered to be operating at a consistently good standard.

3.4 **Payroll** – the audit was completed and the draft report issued in October, therefore, the results of this audit will be reported at this Committee's March 2011 meeting.

- 3.5 **Computers** – a) in order to meet the GovConnect security standards for using the Government's secure computer network, an on-line training package was written by an Internal Auditor, that was used for roll-out to Corporate Services' staff. Once an assessment has been made of the package, the intention is to roll-out the training to all Council staff who use computers, thereby complying fully with the standards.
- b) the Systems Based Auditing Control Matrices Series 8 have now been completed, these cover the topical Information Technology (IT) Governance. IT Governance is a part of Corporate Governance that is concerned with IT performance and how the associated risks are managed. The control matrices take into account the IT industry's best practice and standards such as COBIT, ITIL and International Standards. The intention is that the tests will enable assessment to be made of the Council's IT service and be the basis of a gap analysis to identify areas for improvement. The control matrices have been sent to CIPFA for publication in December 2010, the Council will receive 15% royalties on gross sales.
- 3.6 **Housing** – the Housing Strategy Statistical Appendix (HSSA) and the Business Plan Statistical Appendix (BPSA) Housing returns were checked. Errors were found in data entries, and in some cases there was no supporting documentation. All of the audit recommendations were agreed
- 3.7 **Council tax** – two audit areas have been completed and both draft reports were issued in October, therefore, the results of these audits will be reported at this Committee's March 2011 meeting.
- 3.8 **Health & safety** – audits have been undertaken on the high risk areas of car parks, parks and the livestock centre to check that there are adequate procedures in place. Whilst there were controls in operation, cases were found where staff were unaware of H&S procedures; safe working practices had been issued to, but not signed by, staff; risk assessments needed to be reviewed; and Personal Protective Equipment (PPE) had been issued to, but the instruction were not signed by, staff. All of the recommendations were agreed.
- 3.9 **Investigations** – a) there has been regular use made of the Council's on-line 'Report It' fraud hotline by the public, reports have included housing benefits and housing. Other non-Exeter City Council reports have been forwarded to either the Police or Devon Trading Standards
- b) a case was reported to this Committee on 24 March 2010 concerning three Civil Enforcement Officers who resigned, one after and two prior to their investigatory hearings. The three, however, claimed constructive dismissal at an Employment Tribunal (ET) in September. The ET decided in the Council's favour
- c) a cashiering irregularity resulted in a member of staff resigning prior to the investigatory interview
- d) the misuse of the Council's IT facilities resulted in the termination of a contract worker's engagement at the Council
- 3.10 **Annual Head of Audit Opinion** - The CIPFA *Code of Practice for Internal Audit in Local Government in the United Kingdom (2006)* requires that this annual report should be produced to assist the Council meet its obligations under regulation 4 of the *Accounts & Audit Regulations* and in producing the *Statement on Internal Control*. The annual report for the year ended 31 March 2010 is at Appendix 1

4. RECOMMENDATION

4.1 That the Internal Audit Report for the 1st half-year of 2010/11 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

Annual report of the Head of Audit for the year ended 31 March 2010

1. Introduction

The CIPFA *Code of Practice for Internal Audit in Local Government in the United Kingdom* (2006) states that the Head of Audit should produce an annual report to assist the Council to meet its obligations under regulation 4 of the *Accounts and Audit Regulations* and in producing the *Statement on Internal Control*. The purpose of the annual report is to:

- give an opinion on the overall adequacy and effectiveness of the Council's control environment
- report any qualifications to the opinion together with details for any qualification
- present a summary of the audit work undertaken that supports the opinion including reliance placed on the work undertaken by other assurance bodies
- record any issues that are considered particularly relevant
- compare the audit work actually undertaken with that that was planned, and summarise performance against the Unit's performance measures and targets
- comment on compliance with the CIPFA standards and report the results of the Internal Audit quality assurance programme

2. Roles and Responsibilities

2.1 Councillors and managers

Councillors and managers are responsible for ensuring that there is an adequate and effective system of internal control in operation by establishing, for example, appropriate policies and procedures including Financial Regulations and for monitoring to ensure they are complied with. In accordance with the *Accounts and Audit Regulations 2006* the Council is responsible for maintaining an adequate and effective system of internal audit

2.2 Internal Audit

The role and responsibilities/objectives of Internal Audit are to:

- a) review and assess:
 - the soundness, adequacy and reliability of financial, management and performance systems and data
 - the effectiveness of internal controls, and make recommendations to improve these where appropriate
 - procedures to check that the Council's assets and interests are adequately protected and risks are identified and effectively managed
- b) check for compliance with legislation, Council policies and procedures
- c) promote and assist the Council in the effective use of resources
- d) undertake independent investigations regarding allegations of fraud and irregularity in accordance with Council policies and procedures and relevant legislation

3. Opinion on the Council's Control Environment

3.1 Internal Control Statement

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 the Head of 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. Internal Audit operates in accordance with the above CIPFA Code of Practice. 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 is referred to the Scrutiny Resources Committee in March each year for approval.

3.2 Basis of Opinion

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

- the work undertaken by Internal Audit during the year to 31 March 2010
- reports issued by the External Auditors
- 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

3.3 Areas of concern

As part of the audit process each area of concern was given a prioritisation classification of High, Medium or Low and reported to relevant managers as part of the final audit report. The main areas of concern that I wish to highlight are:

- a) the effects on the public sector of the recession and the expected cuts in Government funding have been well publicised, as is the expectation that there will be significant reductions in staff resources. There is therefore a danger, unless the process is effectively managed, that systems of internal control and separation of duties will be significantly weakened resulting in a possible increase in fraud, irregularities and errors
- b) Risk Management – there is an ongoing roll-out to the Council's services in order to embed risk management throughout the Council. The services identified in the initial roll-out programme are those considered high risk, particularly those that are public facing. To date, Cleansing Services and the Customer Services Centre have been reviewed and risk registers established. The devised approach has proved effective and therefore is to be used for other high risk frontline services during 2010/11
- c) Business Continuity Management – the Council has established a BCM policy and procedures which are both published on the Council's website. BCM is seen as a key system to enabling the Council and its services to recover should a major event occur and therefore it is included with the risk management roll-out

3.4 Opinion

From the audit work undertaken during the year, and despite the areas of concern that I have identified above, I 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 2010.

Edmund Heaton
Head of Audit
June 2010