

## EXETER CITY COUNCIL

### SCRUTINY COMMITTEE - RESOURCES 25 MARCH 2009

#### INTERNAL AUDIT WORK – 2nd HALF-YEAR 2008/09

#### 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 Audit programme for 2008/09 was approved at the Committee's 19 March 2008 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 details 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 of the fundamental systems will be audited in accordance with the 2007/08 audit plan, and it is expected that the majority of the non-fundamental systems audits will also be achieved.
- 3.2 The total audit time available was less than planned due to staff turnover (post vacant from May to mid-June 2008) and the need to train the new member of staff. Sickness per full-time equivalent employee (FTE) was 3.3 days. However, this was 1.94 days per FTE if leave relating specifically to maternity is excluded.
- 3.3 The Unit's performance measure was changed with effect from 2008/09 from the percentage of fundamental and non-fundamental systems audits achieved per the plan to compliance with the CIPFA Internal Code. To further compliance with the code, work is being progressed with other members of the 'Exeter Internal Audit Benchmarking Partnership' to enable peer reviews to be undertaken from 2009/10 onwards.

#### 4. WORK UNDERTAKEN

##### Findings

- 4.1 **Council tax - valuation, liability and billing** – this audit is broken down into sections and work is undertaken throughout the year. Please see Appendix 1, point 1.1.

Based upon the manager's positive attitude to action the recommendations made, the operation of this part of the system will be considered to be operating at a good standard when the agreed actions are implemented.

#### 4.2 **Housing Benefits –**

a) **fraud prevention and detection** – this audit is broken down into sections and work is undertaken throughout the year. Please see Appendix 1, point 1.2. Based upon the testing undertaken and the managers' positive attitude to action the recommendations made, the operation of this part of the system will be considered to be operating at a good standard when the agreed actions are implemented

b) **overpayments** – only two 'low' risk areas were identified, therefore, the operation of this part of the system is considered to be operated at a good standard

c) **payments and cheque control** – please see Appendix 1, point 1.3.

#### 4.3 **Computer audits -**

a) testing is undertaken throughout the year to check that systems' controls are robust, users' access rights are authorised and appropriate, and adequate controls are in place to prevent unauthorised access. Work has been undertaken in conjunction with IT and Policy staff to ensure that the Council meets the requirements of, and can connect to, 'Gov Connect' (a Government secure network) by 31 March 2009.

b) financial and management controls – no areas for improvement were identified, therefore, this part of the system is considered to be operated at a good standard

#### 4.4 **Housing –**

a) **tenancy allocations and lettings** - this audit is broken down into sections and work is undertaken throughout the year. Please see Appendix 1, point 1.4. Based upon the testing undertaken and the manager's positive attitude to action the recommendations made, the operation of this part of the system will be considered to be operating at a good standard when the agreed actions are implemented

b) **repairs and maintenance** – only two medium/high risks were identified in that:  
i) works undertaken - it was difficult to locate supporting paperwork  
ii) recharges – it was difficult to establish whether the debtor had been recharged the correct amount

Both recommendations were accepted with target dates of April and May 2009, therefore, this part of the system will be considered to be operating at a good standard when the agreed actions are implemented

4.5 **Planning** – no medium or high risks were found, therefore, based upon the testing undertaken, this system is considered to be operated at a good standard

4.6 **Creditors – ordering of goods and updating inventories** – from reviewing a sample of invoices paid across the Council examples were found:

- where official orders were not used for procuring goods, works or services
- of orders not containing sufficient detail of what was being ordered
- of insufficient separation of duties between ordering and receiving goods
- assets not being entered onto unit/section's inventories (e.g. cameras)

A general memorandum was sent to all heads of services asking them to remind their staff of the Financial Regulation requirements

4.7 **Treasury management** – please see Appendix 1, point 1.5. Based upon the testing undertaken and the manager's positive attitude to action the recommendations made, the operation of this part of the system will be considered to be operating at a good standard when the agreed actions are implemented

4.8 **Systems Based Auditing Series 7** – the matrices were published by CIPFA on 18 December 2008. As at mid-February, 203 copies have been sold, 197 of which were to local and police authorities. This series consists of five systems of: Sustainability, Procurement; Partnerships, Insurance and Value Added Tax.

5. **RECOMMENDATION**

5.1 That the Internal Audit Report for the 2<sup>nd</sup> half-year of 2008/09 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

AuditReport2008-09SR250309  
March 2009

## Appendix 1

### 1.1 Council tax - valuation, liability and billing

#### Executive Summary

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

‘High’ and ‘Medium’ priority areas	Action agreed?	Date agreed
1. The on-line copy of the council tax legislation database not updated	Yes - updates of the on-line version will be obtained and loaded onto the computer Checks will be undertaken on an annual basis	Immediate  Annually
2. The Valuation Office had not action 25 notifications sent over two months ago	Yes – the outstanding notifications will be chased with the VO. (Note: as a result of this action, the VO issued an apology and prompt action resulted)	Immediate
3. Outstanding diary codes/ recovery suppressions found	Yes – the cases have been investigated and continue to be valid. Checking procedures will be put in place	Immediate  Immediate
4. Delay found in taking action on a deceased persons’ list	(Note: Investigations found that the problem was due to limitations of the workflow system that cannot be resolved. Therefore future lists will have to be manually allocated for action)	Immediate
5. Survey forms in respect of discount and disablement reductions had not been issued in the last 12 months	(Note: Investigations found that there was a problem with the software. This will be referred to the software’s IT consultants to correct)	Immediate
6. Visiting notifications not produced for some void and exempt cases	Yes – this problem will be reviewed to identify a practical solution to address it, in the meantime a manual list will be produced	Jan 2009
7. Users’ access rights were not revised following a change of duties or found to be inappropriate (in respect of separation of duties)	Yes – the users’ rights have been amended	Immediate

### 1.2 Housing Benefits - fraud prevention and detection

#### Executive Summary

From the testing undertaken, controls are in place and working in the following areas: policies and procedures; data matching  
However, the audit found the following areas for improvement:

‘High’ and ‘Medium’ priority areas	Action agreed?	Date agreed
1. The fraud investigators and visiting officers’ Code of Conduct had not been revised in accordance with the agreed Action Plan	Yes – the code will be reviewed and updated as necessary	Jan 2009

<b>'High' and 'Medium' priority areas</b>	<b>Action agreed?</b>	<b>Date agreed</b>
2. A formal risk assessment had not been undertaken for fraud investigators. The Safe Working Practice currently in use was out-of-date, for example, ensuring that visiting officers had returned by the times they had anticipated	Yes – the risk assessment will be discussed by the relevant managers and new procedures will be agreed and tested	Jan 2009

### 1.3 Housing Benefits - payments and cheque control

#### Executive Summary

From the testing undertaken, controls are in place and working in the following areas: policies and procedures; payments general; on-account and discretionary payments; payments to landlords

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 HB team cannot cancel returned cheques because the interface between the HB and the eFIMS systems was not working	Yes – Treasury Services will repair the interface between the Academy and the eFIMS systems	31 Mar 2009
2. Since the implementation of the new eFIMS system the report showing cheques more than 49 days old has not been available. Although the manual system introduced identifies these and other uncashed cheques, there is a chance that some cheques could be missed	Yes – Treasury Services will ensure that this report is made available from the eFIMS system	31 Mar 2009
3. Individual reconciliations of housing rent and council tax to the financial and banking systems have not taken place since the new eFIMS system was implemented	Yes – reconciliations have now been reinstated	Immediate

### 1.4 Housing - tenancy allocations and lettings

#### Executive Summary

From the testing undertaken, controls are in place and working in the following areas: processing housing register applications; allocating the correct preference band; processing change of circumstances; notification of void properties; appeals, reviews, complaints and checks; application for and allocation of properties, and performance standards

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. Service level agreements not regularly monitored	Yes - a new 'Devon Home Choice' scheme is due to be introduced during this year and new SLAs will be produced. Quarterly operational meetings which be introduced that will involve monitoring the SLAs	2009
2. In-house and external training courses attended are not recorded on staff's training manuals	Yes - details of all training courses will be recorded on the 'PRO 4' system. The records will be regularly reviewed by managers to identify any training needs.	01 Mar 2009
3. Lack of procedures to prevent staff being involved in cases in which they have declared an interest	Yes - procedures will be reviewed to decide how to restrict involvement	01 Apr 2009
4. Over 5,000 Housing e-mails are stored on the Outlook system	Yes – the Council's Information Manager will be contacted and asked to review how e-mails should be stored, classified and disposed of	01 Mar 2009
5. Insufficient checks if applicants owe previous rent arrears	Yes - new procedure now agreed that require staff, when processing an application and before making an offer, to confirm that they have checked the housing rents system for former and current arrears	Immediate
6. The allocation of properties is not reviewed by management	Yes – spot checks will be undertaken to check that: a) procedures have been correctly followed b) reasonable preference has been given to applicants in all reasonable preference categories	01 Mar 2009

### 1.5 Treasury management

#### Executive Summary

From the testing undertaken, controls are in place and working in the following areas: cash-flow; capital investment; payments; external service providers; 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 lending and borrowing procedures had not been updated to show the Investment Strategy amendments	Yes - the Treasury Management systems documents will be updated with the amendments	31 Jan 2009
2. The last three monthly reconciliations had not been signed as checked by a senior manager	Yes - all of the reconciliations have now been and signed. Checks will be undertaken monthly from now on	Immediate
3. The current procedures did not detail the type of institutions that the Council will deal with	Yes – this was reported to the Executive in December 2008. The Treasury Management system documents will be updated accordingly	31 Jan 2009
4. The staff covered by the Council's fidelity guarantee insurance cover needed updating	Yes – a meeting was held with the Council's insurers and they insurance policy has been amended to extend the cover to include all of the staff who may be involved in the process (including those providing absence cover)	Immediate