



Annual Report 2022-23

Internal Audit Service

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1. Introduction

Purpose of this report

- 1.1 The Director Finance, as the S151 is responsible for maintaining an adequate and effective system of internal audit.
- 1.2 It is the responsibility of senior management to establish an appropriate and sound system of internal control that supports the achievement of the Council's objectives and for putting in place arrangements for gaining assurance about the effectiveness of that overall system. A key element of assurance is the overall assurance opinion from the Audit Manager.
- 1.3 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, recognized standards and best practice.
- 1.4 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.
- 1.5 The Public Sector Internal Audit Standards (PSAIS), which came into effect in April 2013, require that:
 - the Audit Manager must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement
 - the annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control
 - the annual report must incorporate:
 - the opinion;
 - a summary of the work that supports the opinion; and
 - a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme

The role of Internal Audit

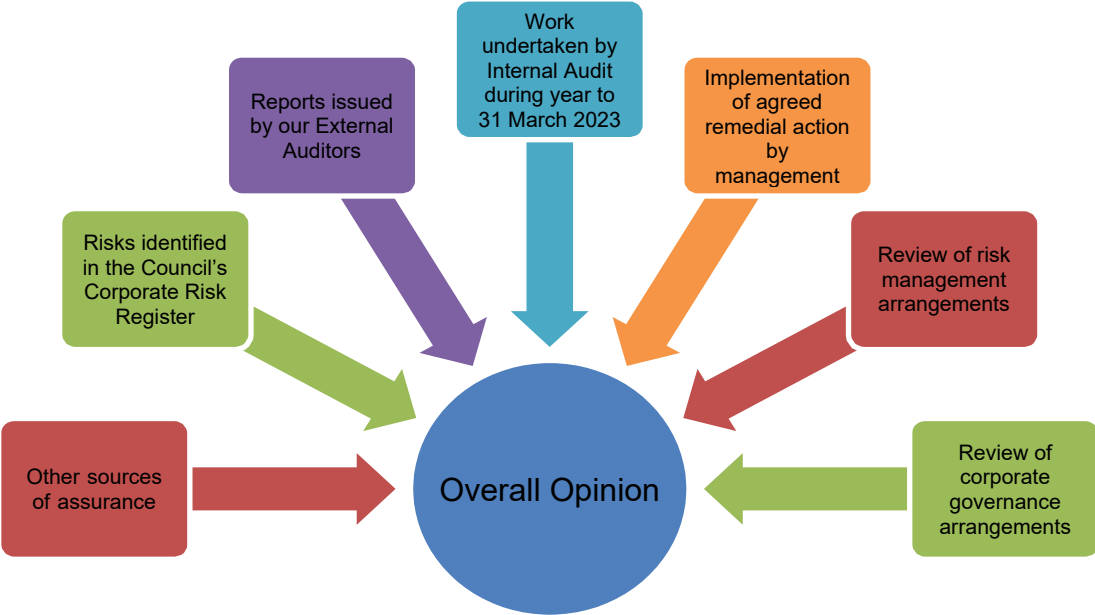
1.6 The Public Sector Internal Audit Standards 2017 (PSIAS) defines Internal Audit as “... an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”

1.7 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. 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 was approved by the Audit and Governance Committee in March 2022.

2. Overall Opinion and Assurance Statement

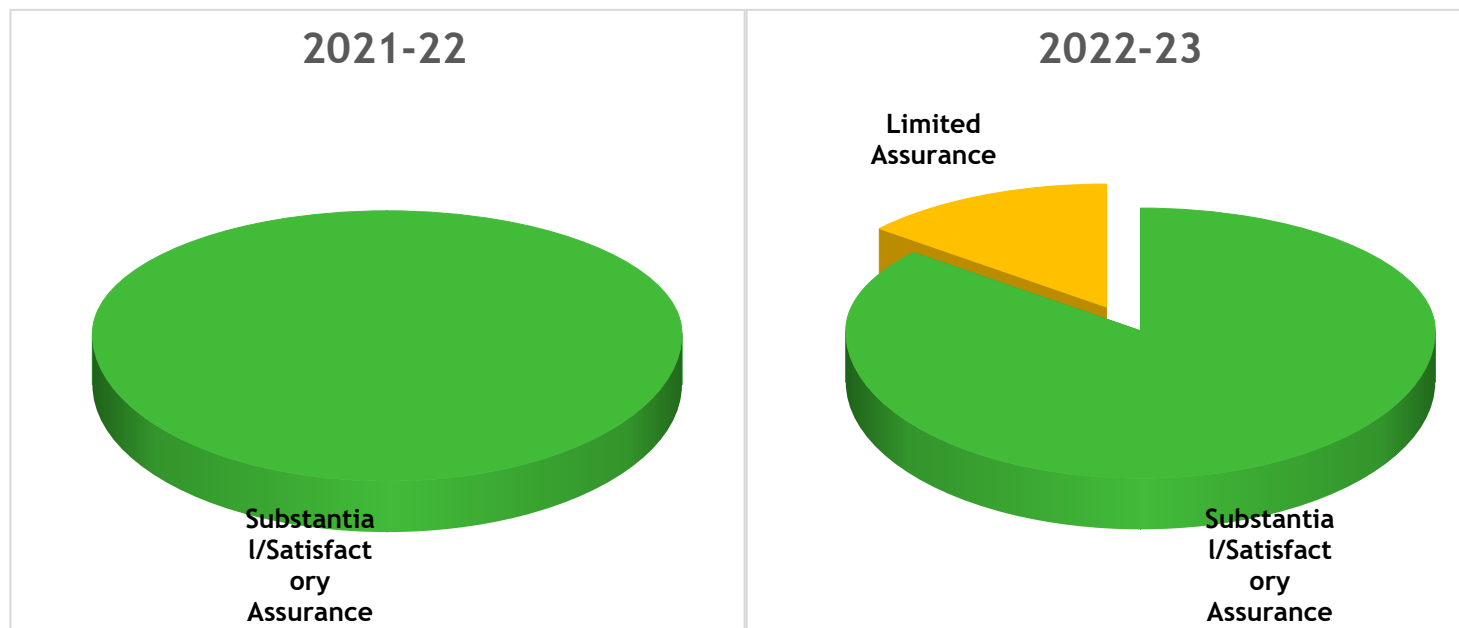
Basis of Opinion

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



Summary of assurance provided by the Internal Audit Service

2.2 A summary of all the assurance we have provided during the year is shown below. This includes each audit review directed to provided controls assurance but it excludes any fraud investigation work.



Management’s response to our findings

2.3 Management’s response to Internal Audit findings throughout the year was positive. Action plans were agreed and actions are already being implemented by nominated officers. There were no instances where remedial action was not agreed with management. We will follow-up all ‘medium’ and ‘high’ risk findings during the course of 2023-24 and continue to provide support to management to develop and implement solutions to the controls issues identified.

Follow-up of our previous work

2.4 We have undertaken work to ascertain progress in implementing previously agreed remedial action from all work completed in previous year’s reviews. Good progress has been made to implement the action plans as agreed, however, in some instances management have not been able to implement the remedial action within the timescales originally agreed. However, most agreed remedial action has been or is being implemented and revised action plans have been agreed where necessary.

Overall Opinion

- 2.5 From the audit work undertaken during the year and taking into account the other sources of assurance identified above, we consider that the key systems are operating satisfactorily and that there are no fundamental breakdowns of control resulting in material discrepancy. As mentioned above, 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 2023.

3. Key Issues and themes

Internal Control Framework

- 3.1 Debt Collection – The Council has actively been seeking to identify new income streams as part of the 'One Exeter' project. Whilst this is good news, our work has identified that there are significant weaknesses within service areas around raising invoices and the subsequent collection of debt for all income streams. For example, services are being provided but invoices are not always raised, or not raised promptly, to collect fees for services provided. It should be noted that this weakness relates only to service areas and does not apply to the Council's Income Collection Team.
- 3.2 Financial position – Significant inflation fueled by high energy prices, a higher than anticipated national pay settlement and income streams still struggling to reach the budget meant that the Council had to take action to address significant issues during 2022/23. The unprecedented cost pressures also meant that significant reductions and additional income were required to deliver a balanced budget for 2023/24.

The Council's medium term financial plan anticipates reserves being reduced to the minimum required by 2024/25 and further budget reductions of £5.1m are required by 2028. It is imperative that Members maintain a strong financial discipline to ensure that the reductions are delivered. It should also be noted that areas of concern around income targets; business rates, parking, trade waste, Civic Centre rental will require close monitoring during the year.

- 3.3 Change Management – the current scale and pace of change due to a number of factors presents a risk to achieving objectives and may impact the extent to which the organisation is capable of maintaining acceptable levels of compliance amid the shake-up of operations and control systems. These factors include the following:
- external factors e.g. regulatory change and compliance, climate change
 - internal factors e.g. The One Exeter project to deliver the digitalisation/transformation of service delivery
- 3.4 These key issues are reported within the Annual Governance Statement, along with a summary of action to be taken. Progress will be subject to regular monitoring by this Committee.

Risk management

- 3.5 During the year, we completed an audit review of Risk Management and, as reported, the system was assessed as Satisfactory Assurance. During the Audit we have worked with Service Leads to review and update operational risk registers. Work has also been undertaken by Directors, with the

assistance of the Council's insurers, Zurich and facilitated by Internal Audit, to review the Council's Corporate Risk Register and a revised format is being developed. The administration of the Corporate Risk Register (CRR) sits with Internal Audit and one of the Audit Managers meets with Directors and the Chief Executive on a regular basis to review the CRR prior to review by SMB.

Counter Fraud

3.6 At the end of 2021/22 we conducted self-assessment of Counter Fraud using the Government's Fighting Fraud Locally checklist. Matters arising from this were followed up during 2022/23. A further self-assessment is due to be undertaken during 2023. The Council's Counter Fraud Strategy was reviewed and presented for approval by this committee on 30th November 2022.

Regulation of Investigatory Powers (RIPA)

3.7 As co-ordinators of RIPA for Exeter City Council we are required to report to this committee on the use of RIPA by the Council. During 2022-23 RIPA powers were not used by this Council.

4. Delivery of 2022-23 Audit Plan

4.1 The Internal Audit plan for 2022-23 was approved by the Audit and Governance Committee in March 2022 and the committee received quarterly updates on progress against the plan. The table below shows the completion of the approved audit plan together with outcomes of all audits undertaken within the year, (including those completed in Quarter 4 - 1st January 2023 to 31st March 2023). Updates and changes to the plan have been reported quarterly and been approved by this committee.

PROGRESS OF 2022/23 AUDIT PLAN AND SUMMARY OF OUTCOMES

Audit Area	Budget Days	Actual Days	Report Status	Audit opinion	Summary of Audit Outcome
IT/STRATA – Asset Management	10	10.6	Final	Limited Assurance	<p>The scope of the audit included:</p> <ul style="list-style-type: none"> Contractual arrangements & responsibilities Records of hardware assets (including configuration management database) Procuring new ICT equipment Recharge of costs Leavers process and return of equipment Accounting for ICT hardware assets – including asset registers Insurance cover
Main Accounting – Accounting for Leisure Services Income	16	22.2	Final	Limited Assurance	<p>The overall objective of this audit was to review the adequacy and effectiveness of the system of internal controls designed to manage and mitigate financial and non-financial risks relating to Leisure Services income.</p> <p>The scope of the audit included a review of the following areas:</p> <ul style="list-style-type: none"> Membership income – ensuring that income received reconciles to membership database

					<ul style="list-style-type: none"> Analysing receipts coded to F058 91008 (miscellaneous income) and tracing the sources of income Reviewing income paid directly to ECC bank account – e.g. in respect of invoices raised directly through Legend <p>A number of issues were identified relating to all areas within scope. This was primarily due to the following factors:</p> <ul style="list-style-type: none"> A comprehensive review of the financial processes within the Leisure Centres was not undertaken as part of bringing the service back ‘in house’ due to the tight timescales of the project the processes inherited from Legacy Leisure did not align with those of the Council. <p>Remedial action has been agreed with management for all issues identified.</p>
Income Management					The time allocated for this area of work was combined with the Main accounting time in order to undertake the detailed work required to undertake the accounting for leisure income audit.
Procurement	10	14.5	Final	Satisfactory	<p>The agreed scope of the audit included a review of the following for each procurement project selected:</p> <ul style="list-style-type: none"> options appraisal exemptions authorisation of procurement production of tender pack evaluation of tenders evidence that best value has been obtained publication of details of contracts over £5k <p>A total of 3 medium risk issues were identified and remedial action was agreed with management for all issues identified.</p>
Creditors – Post Implementation Review of e-Procurement Module	10	22.2	Final	Limited Assurance	<p>In September 2022 a new e-Procurement module was implemented as part of the efinancials system. As part of this, the process moved from central order processing to orders being processed by the individual services. This audit was a post-implementation review, the scope of which was as follows:</p> <ul style="list-style-type: none"> gather feedback on the new system from a sample of officers identify the issues being encountered by staff following implementation <p>A total of 2 high risk and 11 medium risk issues were identified. The high risk issues related to:</p> <ul style="list-style-type: none"> service leads not fully considering/understanding the impact this change in the process would have on service resources delays in dealing with mis-matched orders <p>Remedial action has been agreed with management for all issues identified.</p>
People Management	17	14.4	Final	Payroll Substantial	Reported Q4

				Non-payroll Satisfactory Substantial	
Elections & Electoral Registration	10	10.6	Final	Substantial	Reported Q2
Private Sector Landlord Services	10	12.0	Final	Satisfactory	Reported Q2
Better Care Fund Grant (DFG & Warm Up Grants)	18	17.4	Final	Substantial	Reported Q1
Waste and Recycling	10	11.7	Final	Substantial	Reported Q3
Building Greater Exeter (BGE)	10	10.3	Final	Satisfactory	Reported Q1
Climate Change/Net Zero Exeter	15	6.3	In progress		The outcome of this report will be reported to the next meeting.
Commercialisation and Project Management	15	2.0	Deferred		Due to Business and Commercial Manager being off sick for some time it has not been possible to start this audit and there are now proposed changes in the service, therefore, this audit will not be completed in 22/23.
Sport England – Live and Move	15	4	No report due		<p>It was originally planned to undertake a governance review with the time included in the plan, however, as a full governance review was now to be taken by the responsible Director, the time was used as follows:</p> <ul style="list-style-type: none"> to assist in the investigation of a potential fraud related to a contracted training provider – The outcome of the investigation was that although the case was not proven, the investigation was not helped by the poor project management processes in place. In order to ensure that this situation did not arise again, a full review of the 'Live and Move' project management processes was undertaken (see below) to undertake a review of the revised 'Live and Move' project management process following the changes made after the investigation and to feedback any gaps. The only issue identified in the new process was that the process did not include the need to undertake an EQIA for all projects – no report due
Communications – Social Media	8	9.1	Final	Satisfactory	Reported Q2
Leisure Facilities – St Sidwell Point.	15	15	Final	Satisfactory	<p>The scope of the audit included a review of the following areas:</p> <ul style="list-style-type: none"> policies and procedures health and safety (risk assessments, water quality testing, other checks) general security (fire detection evacuation, emergency action plan) inventories staff recruitment, induction and training (including verification of qualifications, DBS checks) <p>The following was excluded from scope:</p>

					<ul style="list-style-type: none"> income collection and reconciliation (this was included as part of the Accounting for Leisure Income Report) <p>A total of 1 high risk and 1 medium risk issues were raised. The high risk issue related to a DBS check for a member of staff which has now been completed.</p>
Housing Benefit Subsidy-claims from state pension age claimants not in receipt of pension credit	12	14.2	Final	Satisfactory	Reported Q3
Council Tax – Energy Rebate Scheme	12	14.8	Final	Substantial	<p>On 3rd February 2022 the Secretary of State for Levelling Up, Housing and Communities announced a package of support for rising energy costs which would be administered through the billing authorities.</p> <p>The scope of the audit was to check that rebates were paid in accordance with the scheme conditions.</p> <p>A small number of issues were identified and remedial action was agreed with management.</p>
Sundry Debtors	12	22.9	Final	Income Collection Team Substantial	Reported Q3
				Service Areas Limited Assurance	
Health & Safety – Follow-up of outstanding reports	12	4.1	Final	Satisfactory	<p>The time allocated in the plan was used to follow-up two outstanding reports that had been referred to the Corporate Health and Safety Group for discussion. The reports were:</p> <ul style="list-style-type: none"> Lone Workers Hand Arm Vibration <p>Remedial action was agreed with the group for all issues raised and the agreed actions have been added to the corporate action plan.</p>
Equalities and Diversity	9	2.6	No report due		The time used was to undertake a follow-up and assess the progress against the Equalities Group action plan. Progress was found to be satisfactory.
Risk Management	10	16.9	Final	Satisfactory	<p>The scope of the audit included a review of:</p> <ul style="list-style-type: none"> Risk management policy and supporting documents Training provided to members and officers Service risk registers <p>A total of 4 medium risk issues were identified and remedial action was agreed with management.</p>
Business Continuity	10	7.4	Draft Report	Satisfactory	<p>The scope of the audit was to review the progress of the implementation of Business Continuity Management across the Council.</p> <p>This report is still in draft with a meeting date set to discuss with management.</p>

Contract Management	10	12.9	Final	Satisfactory	<p>Contract management is the process that enables both parties to meet their obligations in order to deliver the objectives required from the contract. A sample of contracts were selected for review across all service areas and examined in details to ensure they are managed appropriately and in accordance with best practice.</p> <p>A total of 3 medium risk issues were identified and remedial action was agreed with management</p>
External Grants/Funding received	9	12.1	Final	Substantial	Reported Q4
Safeguarding	9	5.2	Final	Satisfactory	<p>Safeguarding is the action taken to protect the health, well-being and human rights of individuals, which allow people, especially children, young people and vulnerable adults, to live free from abuse, harm and neglect. The scope of the audit included a review of the following:</p> <ul style="list-style-type: none"> • Policies and procedures • Governance • Vetting of employees • Training and development • Management information and reporting • Safeguarding at events on council land <p>A total of 4 medium issues were identified and remedial action was agreed with management.</p>
Performance Management	9	0.1	Deferred		The One Exeter Project has focused on service reviews and therefore the performance management process has not progressed. This will be included in the next stage of the One Exeter project and audit assurance work will be included in the plan once a process is in place.
Exeter City Living	14	2	Deferred		The deferring of this audit was reported to A & G December 2022.
Covid related work/Post assurance: Omicron Test & Trace Support	30	12.5	Final Final	Substantial Substantial	Reported Q2
Review of Hospitality/Disclosures	3	2.6	Final	Satisfactory	<p>The Council has both a Members Code of Conduct and an Officers' Code of Conduct within the constitution which requires that any gifts or hospitality received by Councillors and staff must be reported to the Monitoring Officer.</p> <p>The audit included a review of:</p> <ul style="list-style-type: none"> • Guidance to staff • The process for recording gifts and hospitality • A review of the register <p>A total of 2 medium risk issues were identified and remedial action agreed with management.</p>

Other

RIPA Administration	2	2.9
Contingency (special/frauds)	30	28.9
Follow-ups	10	9.2
Audit Development – Data Analysis/CAAT development	5	5.3
Audit planning and control	60	51.5
NFI	15	12
External Audit	2	1.6
Work against areas with no allocated time in plan	0	40.8
Total	474	464.8

Notes

* overspend on non-productive days i.e. Admin & Meetings and CRR Admin support resulted in the decrease in productive days

5. Summary of investigations 2022/23

5.1 In addition to the planned work, we have also worked on a number of reported concerns and investigations. A summary of this work is shown below, which includes all fraud that has been identified during the year (excluding housing benefits fraud).

Internal Audit received 23 reports during 2022/23, (27 in 2021/22)

- 15 were received via the online “Report It” facility on the website (8 were reported anonymously)
- 3 were received via the telephone
- 5 were received via email

Of the 23 reports received:

- 15 were in relation to possible fraudulent claims of housing benefit and single occupier discount for council tax purposes. HB cases were referred on to the DWP for investigation, as with effect from 01 April 2015 all HB fraud investigation is now undertaken by them. All single occupier discount cases were referred to the Council Tax service for further investigation.
- 6 were allegations of housing tenancy issues
- 2 were issues not dealt with by the Council so were referred to the appropriate external agency

Fraud identified within other services 1 April 2022 to 31 March 2023

Date	Type of Fraud	No of cases	Total Value	How detected
08.11.22	Bank Mandate	1	£152.25	Bank Reconciliation undertaken by Council staff identified monthly direct debits taken from council bank accounts not having been set up by Council
27.03.23	Bank Mandate	1	£100.00	Bank Reconciliation undertaken by Council staff identified monthly direct debits taken from council bank accounts not having been set up by Council

Use of Whistleblowing policy

No concerns were raised under the Whistleblowing Policy.

6. Quality Assurance and Improvement Programme

6.1 The Public Sector Internal Audit Standards (PSIAS) state that the Audit Manager must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity and to demonstrate that the internal audit service is:

- (a) meeting its aims and objectives;
- (b) compliant with the PSIAS;
- (c) meeting internal quality standards;
- (d) effective, efficient, continuously improving; and
- (e) adding value and assisting the organisation in achieving its objectives

The results of the programme must be reported at least annually to the Audit and Governance Committee.

6.2 Performance, quality and effectiveness should be assessed at two levels:

- for each individual audit; and
- for the internal audit service as a whole.

This performance management and quality assurance framework must include, but is not limited to:

- A comprehensive set of targets to measure performance. The Audit Manager should measure, monitor and report appropriately on the progress against these targets;

- seeking user feedback periodically for the whole service;
- Periodic self-assessments to evaluate conformance with the Code of Ethics and the Standards
- An external assessment every 5 years with the scope agreed by an appropriate sponsor; and
- An action plan to implement improvements.

Performance Indicators

6.3 There are no national performance indicators in existence for Internal Audit, but we do monitor the following Local Performance Indicators (LPI's):

Local Performance Indicator	Target	Actual
Percentage of Audit plan completed	95%	98%
Draft reports produced within 10 days	90%	96%
Final reports produced within 10 days	90%	96%
Follow-up within 12 months	95%	100%
Number of process improvements		3

Public Sector Internal Audit Standards (PSIAS)

Independent Assessment

6.7 The PSIAS requires that an independent assessment of compliance with the standard is undertaken once every 5 years. This assessment was last undertaken in January 2020. The next review will need to be undertaken by the end of January 2025.

Self-Assessment

6.8 The standard also requires that the Audit Manager undertakes a periodic self-assessment of compliance. The last self-assessment was undertaken in March 2023, when it was found that the service was 97.9% compliant.