

Date: 23 June 2010
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To: Members of the Audit and Corporate Governance Committee
(Councillors: David Atkins, Peter Bowden, Derek Button, Bob Buxton,
Chris Gibbings, Stephanie Jones, Ken Potter, Tim Wood)

East Devon District Council
Knowle
Sidmouth
Devon
EX10 8HL

For information:

Portfolio Holder, Resources – Councillor Andrew Moulding
Member Champion for Data Quality – Councillor Graham Troman

DX 48705 Sidmouth

Chief Executive
Corporate Directors
Internal Audit & Risk Manager
Head of Finance

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Dear Sir/Madam,

**Audit and Corporate Governance Committee
Monday 5 July 2010
Committee Room at 2.30pm**

The above meeting will be held in the Committee Room at East Devon District Council Offices, Knowle, Sidmouth, to consider the matters detailed on the agenda below.

Yours faithfully,

MARK WILLIAMS

Chief Executive

Members of the public are welcome to attend this meeting.

- A period of 15 minutes has been provided to allow members of the public to raise questions.
- In addition, after a report has been introduced by the relevant Portfolio Holder and/or officer, the Chairman of the Committee will ask if any member of the public would like to speak in respect of the matter and/or ask questions.
- All individual contributions will be limited to a period of 3 minutes – where there is an interested group of objectors or supporters, a spokesperson should be appointed to speak on behalf of the group.
- The public is advised that the Chairman has the right and discretion to control questions to avoid disruption, repetition and to make best use of the meeting time.

AGENDA

Page/s

PART A

1 Public question time – standard agenda item (15 minutes)

Members of the public are invited to put questions to the Committee through the Chairman.

- Each individual questioner exercising the right to speak during this public question time is restricted to speaking for a total of 3 minutes.
- Councillors also have the opportunity to ask questions of the Leader and/or Portfolio Holders during this time slot whilst giving priority at this part of the agenda to members of the public.

The Chairman has the right and discretion to control question time to avoid disruption, repetition, and to make best use of the meeting time

2 To confirm the minutes of the meeting of the Audit & Governance Committee held on 24 June 2010.

To follow

3 To receive any apologies for absence.

4 To receive any declarations of interests relating to items on the agenda.

5 To consider any items which in the opinion of the Chairman, should be dealt with as matters of urgency because of special circumstances.

(Note: Such circumstances need to be specified in the minutes; any Member wishing to raise a matter under this item is requested to notify the Chief Executive in advance of the meeting).

6 To agree any items to be dealt with after the public (including the press) have been excluded. There is one item which Officers recommend should be dealt with in this way.

7 Draft Letter from Chairman of Corporate Risk Management Group Councillor Peter Bowden 4 – 5

8 Internal Audit Annual Report for 2009/10 Internal Audit and Governance Manager 6 – 30

9 The Vice Chairman to move the following:-

"that under Section 100(A) (4) of the Local Government Act 1972 the public (including the press) be excluded from the meeting as exempt information, of the description set out on the agenda, is likely to be disclosed and on balance the public interest is in discussing this item in private session (Part B)."

PART B

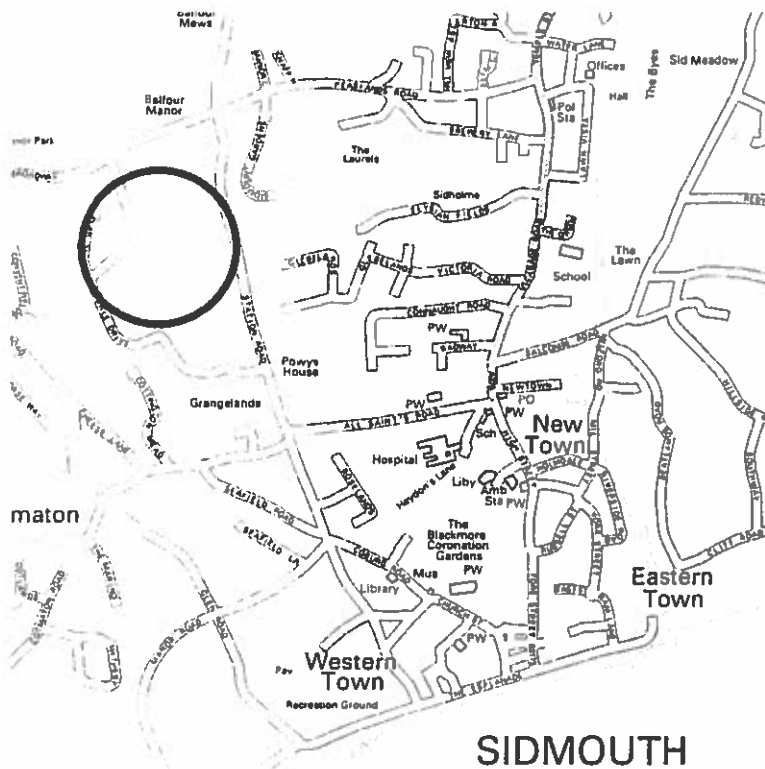
10 Internal Audit Service Para 3 Schedule 12A Information relating to the financial or business affairs of any particular person (including the authority holding that information). Diccon Pearse, Corporate Director 31 - 41

Members please note:

You must declare any personal or prejudicial interests in an item whenever it becomes apparent that you have an interest in the business being considered.

- Make sure you say the reason for your interest as this has to be included in the minutes.
- If your interest is prejudicial you must leave the room unless you have obtained a dispensation from the Council's Standards Committee or where Para 12(2) of the Code can be applied. Para 12(2) allows a Member with a prejudicial interest to stay for the purpose of making representations, answering questions or giving evidence relating to the business but only at meetings where the public are also allowed to make representations. If you do remain, you must not exercise decision-making functions or seek to improperly influence the decision; you must leave the meeting room once you have made your representation.
- You also need to declare when you are subject to the party whip before the matter is discussed.

Getting to the Meeting – for the benefit of visitors



The entrance to the Council Offices is located on Station Road, Sidmouth. **Parking** is limited during normal working hours but normally easily available for evening meetings.

The following bus service stops outside the Council Offices on Station Road:
From Exmouth, Budleigh, Otterton and Newton Poppleford – 157

The following buses all terminate at the Triangle in Sidmouth. From the Triangle, walk up Station Road until you reach the Council Offices (approximately ½ mile).
From Exeter – 52A, 52B
From Honiton – 52B
From Seaton – 52A
From Ottery St Mary – 379, 387

Please check your local timetable for times.

The Committee Suite has a separate entrance to the main building, located at the end of the visitor and Councillor car park. The rooms are at ground level and easily accessible; there is also a toilet for disabled users. The doors to the civic suite (meeting rooms) will be opened ¼ hour before the start time of the meeting. Councillors are reminded to bring their key fobs if they wish to access the area prior to that time. A hearing loop system will be in operation in the Council Chamber.

For a copy of this agenda in large print, please contact the Democratic Services Team on 01395 517546

Draft Letter from Chairman of Corporate Risk Management Group

To: Directors and Heads of Service
June 2010.

The Corporate Risk Management Group (CRMG) was established to:

- Promote a culture of Corporate Risk management and to embed that culture within the organisation;
- Maintain an up to date, user friendly and relevant risk register available to all using the risk management toolkit;
- Receive reports from Heads of Service on corporate risk management within their service area to include progress made, successes achieved and difficulties encountered;
- Cascade information relating to trends and impending events that may have an impact on the corporate objectives of the Council; and
- Issue guidance and develop policy.

The Group recognised that the creation and population of a completely new risk register would raise a number of issues, not least with regard to familiarisation with and how to use the new software. The Group has now spent some time sampling the risk register entries and has noted a few practical issues that need to be addressed. The purpose of this note is to provide a measure of general guidance aimed at supplementing the risk management guide.

The "Responsible Officer" is the officer with the overall responsibility for a particular risk. Only one officer should be identified and named in this part of the register. Currently there are a number of risks where a number of officers are shown as the "responsible Officer". Similarly where a control or mitigating factor is noted in the register it is preferable to identify one officer as responsible for ensuring that this is in place. If additional officers have a role in carrying out the actions, this additional information could be provided by the author in the "notes" facility.

The risk register should be in constant use as an operational tool. What it should not be is the completion of a one-off process to tick a box required by the external auditors. The CRMG is clearly aware that officers know and have in mind those risks that may affect the delivery of their objectives. The CRMG is also aware that officers respond when risks change or new risks emerge. What the CRMG seeks is a process where that day to day activity is reflected in the risk register. So it is necessary for managers to have a process where they relate their day to day role to the content of the risk register and update it as and when required. A process of regular reviews should be in place but a more practical approach linking the register to the "day job" is preferable.

Who will look at the risk register? Clearly both internal and external auditors will have regard to the risk register when carrying out their audit functions. Already the external auditors have made it very clear that they are pleased with the progress that has been made in creating the new risk register and

this is reflected in an increased score from 1 to 2 in vfm. We hope to make that a 3 soon. Members will have regard to the register for a range of reasons. Portfolio holders will need to ensure that it reflects an up to date analysis of risk and those involved in the scrutiny process will be able to use the register to support that function. Equally member champions will be able to find useful information in the register to support their respective roles.

Therefore to enable the risk register to do its job, it needs to be clear, succinct and understandable. Currently some entries contain technical language or jargon which does not provide a clear picture to the reader. The CRMG accepts that it can be quite difficult to populate the register, particularly to state a risk and its mitigating factors or controls succinctly. However, if you can imagine that a member sits down with you and asks you to briefly describe your risks, or mitigating factors and controls in plain English in a couple of minutes. It is essentially that answer which needs to be recorded in the risk register.

Over the succeeding months the CRMG will look at the register in more detail and will work with internal audit to help managers feel more comfortable with the risk management process. Internal Audit is always available to offer advice on the process and recording of risk management and the CRMG (which includes the chairmen of both Audit & Governance and Scrutiny and the Member Champion for Risk Management) is equally available to offer support and assistance.

Cllr Peter N Bowden
Chairman CRMG and Member Champion Risk Management.

Agenda Item 8

Audit and Governance Committee

5 July 2010

TC



Internal Audit Annual Report for 2009/10

Summary

This Annual Report brings together, corporately and service by service, the main issues we have raised in the course of our audit work during 2009/10.

Our programme of work was as set out in the Internal Audit and Corporate Governance Work Plans that were endorsed by the Audit & Governance Committee on 26th March 2009, these were supplemented by a number of unplanned investigations, consultancy projects and other ad-hoc audit work.

This Internal Audit **Annual Report** provides an independent opinion on the adequacy and effectiveness of the Council's **System of Internal Control** including:

- The key controls operating within core financial systems
- Financial management both corporately and within each Service area
- Arrangements for the tendering of contracts
- The controls within the Council's ICT service and infrastructure

In the Internal Audit & Governance Manager's opinion, the above arrangements were adequate and effective during 2009/10 subject to some areas for improvement which are being actioned – the Governance Assurance Statement - Action Plan provides an insight into some of the areas for improvement found during 2009/10.

This opinion however, can only be based on the programme of work that was delivered, therefore the assurance given must be considered in this respect.

During 2009 the Council tendered part of its Internal Audit plan and two external providers were engaged to help deliver the audit plan. Exeter City Council delivered various core audits (Housing Benefits, Payroll, Treasury Management and Main Accountancy), and Lakespan Ltd delivered the computer audit plan. Both Exeter City Council's audit staff and the computer audit specialist from Lakespan Ltd were very well received by all levels of management.

The extra help provided by the outsourced arrangements meant that the revised plan was delivered successfully. Unfortunately, during the first half of 2010 the trainee auditor resigned, which has again left the Service short of resources.

All the audits summarised in this report have been formally reported to the relevant senior managers, and I would like to thank them for being receptive to our comments and recommendations. We conduct follow up audits where resourcing allows to check on the progress of implementation.

More information on quality assurance and performance management arrangements for Internal Audit is provided in the main body of the report.

This report is intended particularly for senior management and the Audit Committee, and to provide the External Auditors with summaries of the work on which they may wish to place reliance. It will be available on the Council's website in due course.

Recommendation

Members are asked to consider and note the Internal Audit Annual Report for 2009/10

a) Reasons for Recommendation

The report outlines the work undertaken to ensure the Council's corporate governance arrangements were effective in 2009/10 and gives assurance that the Council is complying with its local Code of Corporate Governance.

b) Alternative Options

None.

c) Risk Considerations

Local authorities are required to "make arrangements for the proper administration of their financial affairs" and/or "maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices".

The Operational (Service) Risks are:

AUD-RK-0027 – The provision of an efficient and effective audit and governance service

AUD-RK-0081 – Fraud, Theft and/or irregularity of financial resources

AUD-RK-0082 – Fraud, Theft and/or irregularity of physical assets

d) Policy and Budgetary Considerations

The recommendation conforms with existing Council Policy and current budget.

e) Date for Review of Decision

N/a

Main Body of the Report

The Requirement for Internal Audit

The need for an internal audit function is either explicit or implied in relevant legislation; Section 151 of Local Government Act 1972 and the Accounts and Audit Regulations 2003 incorporating Accounts and Audit (Amendment) (England) Regulations 2006. Both legislative Acts require local authorities to "make arrangements for the proper administration of their financial affairs" and/or "maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices".

Internal auditing at East Devon District Council is performed in accordance with the Code of Practice produced by CIPFA, (Chartered Institute of Public Finance and Accountancy), and the Professional Standards and Code of Ethics of the IIA (Institute of

Internal Auditors). In addition, the CIPFA Standards on Computer Auditing and Contract Auditing are also adhered to.

Internal audit work is completed by suitably qualified and professional staff and has been subject to external review by the External Auditors.

Internal Audit Quality Assurance

This consists of an assessment by External Audit of the internal audit work delivered where they give their opinion. Similarly we examined feedback from audit clients (details on page 3).

External Audit Opinion – External Audit have indicated that they are able to place reliance on the work of internal audit. They did however, make some minor recommendations for improvement which have been accepted and will be implemented in the 2010/11 year. I am also pleased to report that the Council has received a final score at Level 2 for its KLoE 2.4 – “Management of risks and a sound system of internal control”, which was set at Level 1 during 2008/09.

Feedback from audit clients - on the completion of every audit, managers are sent a 'Feedback Report'. These Feedback Reports require the client to rate the audit product and the audit experience – and asks for an overall assessment of 'Satisfactory' or 'Not Satisfactory'

Of the 29 audits completed (some Feedback Reports for audits completed in the 2009/10 year have not yet been returned), however, 17 (59%) Feedback Reports were returned with a 'Satisfactory' rating. None were received with a 'Not Satisfactory' rating.

Internal Audit 'Overall Opinion'

In the Internal Audit & Governance Manager's opinion, the arrangements for ensuring the Council's overall system of internal control were **adequate and effective** during 2009/10 subject to some areas for improvement which are being actioned.

This opinion however, can only be based on the programme of work that was delivered, therefore the assurance given must be considered in this respect.

This year the Council successfully tendered part of its internal audit plan and the entire computer audit plan. The work completed by these external providers has greatly improved our governance arrangements for the 2009/10 year. The audit work completed was to a high standard and the auditors were well received by all staff and managers at the Council.

Key Messages

Corporate Governance

The Council is required to produce an Annual Governance Statement and has used the CIPFA/SOLACE¹ Guidance Note for English Authorities “Delivering Good Governance in Local Government” as its framework for compliance.

This review of governance arrangements has been comprehensive and has taken into account the aspirations highlighted within the Audit Commission's Corporate Governance Key Lines of Enquiry and measures the Council's compliance with the KLoEs, it provides

¹ Society of Local Authority Chief Executives

a thorough and detailed representation of the Council's arrangements.

The Corporate Governance Statement(s) are prepared annually by the Audit & Governance Manager.

Partnerships

The Service reviewed the "Anti Social Behaviour & Community Safety Partnership" to ensure that all monies due were received and that expenses were in line with the Partnership protocol. The review gave assurance that adequate internal controls exist to regulate the Partnership and the audit certification / grant claim was signed off accordingly.

Internal Audit have also compiled an up-to-date Partnership Register which lists the Council's significant partnerships, including their level of resources and the corporate priorities and LAA targets being served by each partnership.

Corporate Risk Management (CRM)

During 2009/10 the Corporate Risk Manager established a systematic strategy, framework and process for managing risk. The Corporate Risk Manager worked with the CRMG to review the CRM process and a new computer system was implemented to capture the Council's risks and mitigating control actions. During the year this system was populated and is being monitored by the Corporate Risk Manager.

The new CRR (Corporate Risk Register) is subject to review by the Council's Corporate Risk Manager both during routine audits and on an-hoc basis when requested by managers. The CRR is also critically reviewed by the CRMG (Corporate Risk Management Group), who carry out a top-down appraisal of each risk, including the mitigating control actions and the review date.

The CRMG meets frequently (at least monthly), there is a Member Champion for corporate risk management who has worked with the Corporate Risk Manager to deliver an effective corporate risk management service to the Council

Probity Work

As in previous years, we undertook work designed to detect or minimise the risk of fraud, corruption, or other irregularity. Our general anti-fraud and corruption work was also integrated into our systems audits, and we follow the Audit Commission's Anti-Fraud Checklists.

A major piece of work during 2009/10 was the assessment of the Council's Counter Fraud Arrangements, this work reflected the requirements of the Audit Commission's publication "Protecting the Public Purse" and concentrated on several key areas of potential fraud; focussing on housing benefits, recruitment fraud and housing tenancy fraud. A detailed report on our current arrangements and the improvements necessary to adequately combat this threat was presented to the Audit & Governance Committee in March 2010.

National Fraud Initiative – The Internal Audit service co-ordinate and administer the processes required for the Council to successfully participate in the NFI. This work culminated in an NFI Summary Report to the Audit & Governance Committee in March 2010. The Summary Report highlighted potential fraud areas and gave an overview of the total matches investigated. The report also indicated the amount of fraud found and successfully reclaimed.

Core Financial Systems

The work of internal audit is relied upon by the external auditor, and our assurances on the adequacy of controls and analytical review of the core financial systems contribute towards the assessment of the Council's Use of Resources.

Overall controls continue to be generally satisfactory in each of the core systems, the budget monitoring process is sound with monitoring of spend against budgets.

This year, part of the Internal Audit plan was undertaken by Exeter City Council who completed four of the core financial audits for the Council. The Council also contracted with "Lakespan" to undertake the Council's computer audit, and the results of this work are detailed below.

Exeter City undertook audit reviews on Housing Benefits, Main Accountancy, Payroll and Treasury Management. The audits highlighted areas of weakness that will need to be addressed during 2010/11.

Executive Summaries relating to this outsourced work are attached to this Annual Report as Appendices 2 – 6.

We have completed audit work on the Council's remaining core financial systems and found some areas of weakness. Where significant, these weaknesses will have featured in the Council's Corporate Governance Assurance Statement – Action Plan.

Other key areas for improvement in the core systems included:

NNDR - we had concerns around the proposal to discontinue the three year checks/confirmation on rural and charitable rate relief granted to ratepayers.

Council Tax – we highlighted a variance between the number of properties required to pay council tax and the number of bills sent out. We also raised an issue with regard the use of 'bailiff services', in that several different firms of bailiff are used by the Council. We recommended that a single bailiff be appointed thus reducing the time staff spend on appointing and administration duties.

Housing Rents – we had concerns around the proposal to introduce 'patch working' which would impact adversely on the Rental Team's segregation of duties.

Debtors – we had concerns around the write off procedures and the population of the corporate risk register.

Creditors – we had concerns around the use and administration of corporate purchase cards and the population of the corporate risk register.

Income and Cashiers – we found a cash surplus of £101 during a random spot check of the front desk till. We also concluded that the Council is not monitoring the LloydsTSB banking contract and also had issues around the population of the corporate risk register.

Other 'High Risk' Audit Areas

Procurement – our work around procurement during 2009/10 concentrated on the print, post and stationery function (now brought back in-house and managed by ICT), we also looked at various stationery contracts existing at the time. Various weaknesses were

found during our review, most notably relating to the tendering process associated with the decision to bring the print and post room service back in-house.

Building Control and Planning Administration – we found that no checks are made by building control or planning administration to ensure that an invoice (raised for the work) has been paid before the work is carried out. Therefore the Council could be issuing Completion Certificates to individuals or developers who have not paid their fee. There is the added risk that additional services may be provided to bad debtors.

We also found that fee payments were unable to be reconciled to the main accountancy system (CEDAR); the audit trail has been compromised and various risks are inherent within the system as it currently stands.

Internal Audit have given assurances to the Head of Service (KL) that they will look into this and determine the full extent of the weaknesses in both the planning/building control system and its interfaces (this work will involve a review of CAPS/Uniform/ CEDAR/AIMS)

Housing Services – Our review of corporate counter fraud arrangements highlighted some improvements in this area. Most significantly was the tightening of counter fraud arrangements surrounding tenancy fraud. All our recommendations were accepted and agreed.

Our review of housing repairs highlighted a lack of procedure with regard the use of Constructionline and anomalies surrounding the quotation process – both weaknesses involved a contravention of the Council's Contract Standing Orders.

Street Scene – we highlighted some areas of improvement around contract administration, recording of stores in the Manstone Depot and recording of Street Scene Assets. All recommendations were accepted and agreed.

Car Parks – our report drew attention to the consistent loss of income due to counterfeit coins. This area of concern was debated at length by the Audit & Governance Committee culminating in a variety of different recommendations which have all been implemented.

ICT Services – our review has highlighted several areas of weakness mainly surrounding the management of ICT projects during 2009/10 and concerns around network access security and disaster recovery arrangements. Some of these weaknesses appear in the Council's Annual Governance Statement – Action Plan.

Medium and Lower Risk Audits completed during the year

Other audits concluded in 2009/10 were:

- Disposal and Purchase of Assets
- Home Safeguard
- Housing Needs
- Housing Business Unit
- Housing Repairs
- Customer Service Centre
- Refuse and Recycling
- Economic Development
- Section 106 monies

No serious issues were identified.

Other Work completed during 2009-10

In addition to the mainstream audits detailed in the internal audit plan, the Internal Audit & Governance Manager completed the following :

- July/August 2009 - **Council's Policies relating to Officer and Member Expenses** and a **review of Member Expenses**. (commissioned by the Audit & Governance Committee)

This review was conducted in two parts; firstly relating to the Council's Policies relating to officers expenses and secondly; to the Policies surrounding Members' expenses, in this second area of work a sample of Members' expense claims were also reviewed.

The final report was presented to Audit & Governance Members on 29th September 2009.

- October 2009 - **Safeguarding Children** (commissioned by the Corporate Director (PJ))

This review culminated in five actions for the Corporate Director. A 'positive opinion' was given together with 'adequate assurance'.

- December 2009/January 2010 – **Counterfeit Coins** (commissioned by the Audit & Governance Committee).

This review provided details on the responses received from the Royal Mint and Contract Security Ltd. It also outlined various procedures and detailed the cumulative total to date of refunded monies (from Contract Security and the Royal Mint) and our net losses at that date of £6,064 (December 2009/January 2010).

The report was presented to Audit & Governance Members on 21st January 2010.

- January to March 2010 – **Counter Fraud Arrangements at East Devon District Council** (commissioned by the Chief Executive and SMT).

This review provided a snap-shot of the Council's arrangements for combatting fraud and irregularity. The report provided a wide variety of case studies, and focussed on high risk areas such as housing benefit fraud, housing tenancy fraud and single person discounts. It provided the Chief Executive and SMT with Best Practice Guides from the Audit Commission, Fraud Advisory Panel and the "Better Governance Forum" Red Book 2 – Managing the risk of fraud. The report contained over 20 recommendations for improvement, most of which were accepted and agreed by the Chief Executive. Part of this review involved revitalising our counter fraud Policies and Procedures, including our arrangements for reporting fraud.

The report was presented to Audit & Governance Members on 18th March 2010.

Monitoring of 2009/10 Internal Audit Plan

The Audit Monitoring document is attached at Appendix 1 and provided detailed analysis of the audits performed during the year, together with the assurance levels and numbers of recommendations made.

Audit Performance Indicators

- Percentage of planned audits commenced (four quarters) – 100%
- Percentage of planned audits completed (four quarters) – 100%
- Feedback responses at least 'satisfactory' see table below:

Audits completed and Feedback requested	Feedback Reports Returned	Feedback Reports Marked 'Satisfactory'	Feedback Reports Marked 'Unsatisfactory'
First Quarter			
6	5	5	0
Second Quarter			
8	6	6	0
Third Quarter			
7	3	3	0
Fourth Quarter			
9	3	3	0

- Recommendations 'accepted' versus 'recommendations made'

Total Recommendations made in 1 st Quarter	55	Total Recommendations accepted in 1 st Quarter	55
Total Recommendations made in 2 nd Quarter	40	Total Recommendations accepted in 2 nd Quarter	40
Total Recommendations made in 3 rd Quarter	25	Total Recommendations accepted in 3 rd Quarter	25
Total Recommendations made in 4 th Quarter	196	Total Recommendations accepted in 4 th Quarter	161*
Total made in year	316	Total accepted in year	281

*Non-agreed actions refer to the recommendations made after reviewing the Corporate Risk Register

- Percentage of audits completed within the planned time
29 audits completed – 3 over-ran (90%)

Internal Audit Report Executive Summaries – Completed by External Providers
Shown as appendices to this Annual Report.

- Payroll - Appendix 2
- Treasury Management - Appendix 3
- Main Accountancy System - Appendix 4
- Housing Benefits - Appendix 5
- ICT Services - Appendix 6

The Broader 'Governance' Role

In addition to the work outlined above, we contributed to a range of corporate activities, including contributing to the Council's Use of Resources Assessment. An analysis of the corporate governance work undertaken throughout the 2009/10 year is detailed below:

March to June 2009

- Prepared and Published the Annual Governance Statement including the AGS Action Plan and presented the Annual Governance Statement and Action Plan to the Audit & Governance Committee on 25th June 2009.
- Assisted the CRMG (Corporate Risk Management Group) with reviving the Corporate Risk Management process, including assisting Heads of Service and Directors with their risk analysis and population of the CRR (Corporate Risk Register). Promoted the CRMG's achievements in the Corporate Governance Activity Report and presented to the Audit & Governance Committee in June 2009.
- Drafted and presented to the Audit & Governance Committee in June 2009, a report detailing the shortfall in audit resources to carry out the internal audit work plans for 2009/10, including an options appraisal for future delivery.
- Worked with the CRMG to update the Corporate Risk Management Policy and Strategy. Revised Policies were presented to the Audit & Governance Committee in September 2009.
- Helped provide training sessions to Members and officers on the newly implemented SPAR.net CRR. Provided help and advice when requested.

July to September 2009

- Worked with the Corporate Risk Member Champion to prepare his progress report, ensuring this was contained within the Governance Report to the Audit & Governance Committee in September 2009.
- Worked with the external contractor (DH) to review a basket of NIs and PIs for the Council, the objective being to ensure that the NIs and PIs were correct, and their supporting documentation was adequate to satisfy the requirements of our external review agencies. Prepared and published a report detailing Internal Audit's findings and presented to the Audit & Governance Committee in September 2009.
- Presented the Audit Plan Monitoring Document to the Audit & Governance Committee in September 2009. This monitoring document details the progress made during the preceding quarter on the 2009/10 audit plan.
- Provided help and assistance in using and populating the SPAR.net CRR. Facilitating risk awareness sessions when requested.

October to December 2009

- Worked with the Council's Health & Safety Officer on the preparation of his report to the Audit & Governance Committee in December 2009.

- Brought the responses from the Head of Service relating to the Audit of ICT Services conducted in the previous year. Presented a report on these responses to the Audit & Governance Committee in December 2009.
- Presented the Audit Plan Monitoring Document to the Audit & Governance Committee in December 2009. This monitoring document details the progress made during the preceding quarter on the 2009/10 audit plan.
- Worked with the Corporate Risk Member Champion to prepare his progress report, ensuring it was contained within the Governance Report to the Audit & Governance Committee in December 2009.
- Provided help and assistance in using and populating the SPAR.net CRR. Facilitating risk awareness sessions when requested.
- Conducted a tender exercise, including the preparation of specifications for core financial audits and a computer audit. Placed advertisement and received 'Expressions of Interest'. Conducted first sift of potential contractors and sent detailed tender documents to a range of providers. Analysed the results of the tender exercise, including facilitating a tender member/officer review panel in November 2009. A report detailing the process and the successful tenderers was presented to the Audit & Governance Committee in December 2009.
- Produced a follow up report (submitted as an Urgent Item by the A & G Chair), on the loss of income due to Counterfeit Coins. More detail on page 7.

January to March 2010

- Produced a follow up report on the loss of income due to Counterfeit Coins working with the Head of Finance.
- Presented the Audit Plan Monitoring Document to the Audit & Governance Committee in March 2010. This monitoring document details the progress made during the preceding quarter on the 2009/10 audit plan.
- Worked with external providers on their reports for core financial systems, including the drafting of Executive Summaries for the Audit & Governance Committee in March 2010.
- Worked with the Corporate Risk Member Champion to prepare his progress report, ensuring it was contained within the Governance Report to the Audit & Governance Committee in March 2010.
- Presented Counter Fraud Arrangements Report, including revised and renewed Fraud Reporting Form, and website changes to the Audit & Governance Committee in March 2010. (More details on page 7)
- Drafted and presented to the Audit & Governance Committee in March 2010, a report detailing the shortfall in audit resources to carry out the internal audit work plans for 2009/10, including a cut-down audit plan of 422 days comprising high, medium and low risk areas. The report included an Exemption to Contract Standing Orders to extend the existing contracts of Lakespan and Exeter City Council for a further year to assist in the

completion of the 2010/11 audit plan. The Exemption was approved by this Committee.

Quarterly work programme

- Facilitate the Audit & Governance Committee Meeting, providing advice and assistance to Members when requested.
- Facilitate the CRMG meetings, including writing the minutes and providing follow up and continuity for each scheduled meeting.
- Quarterly updates to the Annual Governance Statement Action Plan. Present updates to the Audit & Governance Committee to facilitate their monitoring role.
- Ongoing monitoring of the Council's progress on resolving the NFI data matches with updates to the Audit & Governance Committee on a regular basis, providing details of progress and frauds/errors found.

Conclusion

This Annual Report highlights the work completed by the Service and summarises the main areas of concern found during our reviews. The Council is now considering the future provision of the Internal Audit service and it is hoped that this will result in a stable, motivated workforce with the necessary skill and knowledge to complete the internal audit and governance plans.

Legal Implications

The Legal Section will detail any implications here. If there are none, this should also be stated by the Legal Section.

Financial Implications

The Accountancy Section will detail any financial implications here. If there are none, this should also be stated by the Accountancy Section.

Consultation on Reports to the Executive

None

Background Papers

- Appendix 1 – Internal Audit Monitoring Document
- Appendices 2 – 6 Executive Summaries

Tanith Cox 2687
Internal Audit & Governance Manager

Audit & Governance
24th June 2010

APPENDIX 1

**INTERNAL AUDIT PLAN MONITORING TO 31ST MARCH 2010
PROGRESS AND MONITORING OF 2009/10 INTERNAL AUDIT PLAN**

Detailed below is a summary of the work completed in 2009/10, showing the 'Areas for Improvement' found during the audit, the number of suggested Actions and the audit Assurance Level allocated by the auditor.

Name of Audit	Stage of Audit	Start Date	Date of Draft Report	Date of Final Report	Days - (Planned 'v' actual)	Report Reference	Areas for Improvement			Assurance Level	Actions		Client Rating	
							High	Medium	Low		Total	Total Agreed	Satisfied	Not Satisfied
Quarter 1 - April - June	Home Safeguard Home Safeguard Contract Audit Element	April 2009	Aug 2009	Aug 2009	13 /13	AUE 03	-	15	-	LA	15	15	✓	
	Housing Needs	July 2009	Sept 2009	Oct 2009	11 /11	AUE 05	-	4	-	AA	4	4	✓	
	BVPis and NIs	April 2009	Sept 2009	Sept 2009	40 /40		-	20	-	AA	20	20	✓	
	Street Scene - Contracts & Street Scene - Technical Services	June 2009	July 2009	Aug 2009	16 /15	AUC	-	14	-	LA	14	14	✓	
	Section 106 Monies	June 2009	July 2009	July 2009	5 / 5	AUE 18	-	2	-	AA	2	2	✓	
					85 /84									

PROGRESS AND MONITORING OF 2009/10 INTERNAL AUDIT PLAN

Detailed below is a summary of the work completed in 2009/10, showing the 'Areas for Improvement' found during the audit, the number of suggested Actions and the audit Assurance Level allocated by the auditor.

Name of Audit	Stage of Audit	Start Date	Date of Draft Report	Date of Final Report	Days - (Planned v actual)	Report Reference	Areas for Improvement			Assurance Level	Actions		Client Rating		
							High	Medium	Low		Total	Total Agreed	Sat'd	Not Satisfied	
Quarter 2 - July - September	Procurement (Printing Contract)	July 2009	Aug 2009	Aug 2009	15 / 16	AUA 10	-	5	1	LA	6	6	-		
	Disposal and Purchase of Assets	July 2009	Aug 2009	Aug 2009	3 / 3	AUA 08	-	3	-	AA	3	3	✓		
	Contract Audit - Housing Partnership	July 2009	Sept 2009	Oct 2009	15 / 15	AUD	-	5	-	LA	5	5	✓		
	Housing Client Services	July 2009	Aug 2009	Aug 2009	2 / 2	AUC	-	1	-	AA	1	1	✓		
	Officers' and Members' Expenses *	July 2009	Aug 2009	Aug 2009	10 / 10	AUE 13	-	10	-	AA	10	10	-		
	Car Parks	Sept 2009	Oct 2009	Nov 2009	12 / 12	SS	4	1	-	AA	5	5	✓		
	Street Scene - Refuse and Recycling	Sept 2009	Nov 2009	Nov 2009	8 / 8	SS	-	5	-	AA	5	5	✓		
	Safeguarding Children **	Aug 2009	Oct 2009	Oct 2009	6 / 15	PJ	-	5	5	AA	5	5	✓		
					71 / 81										

* At request of A & G Committeee 25th June 2009 / swapped with Property Services ** at request of Corporate Director

PROGRESS AND MONITORING OF 2009/10 INTERNAL AUDIT PLAN

Detailed below is a summary of the work completed in 2009/10, showing the 'Areas for Improvement' found during the audit, the number of suggested Actions and the audit Assurance Level allocated by the auditor.

Name of Audit	Stage of Audit	Start Date	Date of Draft Report	Date of Final Report	Days - (Planned v actual)	Report Reference	Areas for Improvement			Assurance Level	Actions		Client Rating	
							High	Medium	Low		Total	Total Agreed	Sat'd	Not Satisfied
Quarter 3 - October - December	Income and Cashiers (including cash floats)	Dec 2009	Jan 2010	Feb 2010	10 / 10	AUA 10	1	3	-	AA	4	4	✓	
	Council Tax (including any cash float)	Dec 2009	Jan 2010	Jan 2010	10 / 10 3 / 3	AUA 06	-	5	-	AA	5	5	-	
	Contract Audit Element: Debt recovery, Machine Maintenance, Revenue Collection													
	NNDR (including any cash float)	Dec 2009	Jan 2010	Jan 2010	10 / 10	AUA 07	-	2	-	AA	2	2	-	
	Building Control	Dec 2009	Jan 2010	Feb 2010	8 / 9	AUE 19	-	5	-	AA	7	7	✓	
	Planning Administration	Jan 2010	March 2010	March 2010	8 / 8 1 / 1	AUE 20	-	1	-	AA	1	1	✓	
	Contract Audit element													
	Development Management	Jan 2010	March 2010	March 2010	8 / 8	AUE 18	-	3	-	AA	5	5	-	
Economic Development - Contract Audit Element	Jan 2010	Jan 2010	Jan 2010	2 / 2	AUC	-	1	-	AA	1	1	-		
					60 / 61									

PROGRESS AND MONITORING OF 2009/10 INTERNAL AUDIT PLAN

Detailed below is a summary of the work completed in 2009/10, showing the 'Areas for Improvement' found during the audit, the number of suggested Actions and the audit Assurance Level allocated by the auditor.

Name of Audit	Stage of Audit	Start Date	Date of Draft Report	Date of Final Report	Days - (Planned v actual)	Report Reference	Areas for Improvement			Assurance Level		Actions		Client Rating	
							High	Medium	Low	Total	Agreed	Total	Sat'd	Not Satisfied	
Housing Rents (including any cash floats)	Complete	Feb 2010	March 2010	May 2010	10 / 10	AJA 05	-	7	-	AA	13	13	✓		
Customer Service Centre	Complete	March 2010	April 2010	April 2010	10 / 10	AUB 01	-	7	-	AA	7	7	✓		
Creditors (Corporate Purchase Cards and Cash Floats)	Complete	March 2010	April 2010	April 2010	10 / 10	AJA 02	-	6	-	AA	24	12*	-		
Debtors	Complete	March 2010	April 2010	April 2010	10 / 10	AJA 09	-	2	1	AA	9	1*	-		
					40 / 40										
*Non-agreed actions refer to the recommendations made after reviewing the Corporate Risk Register															

Legend

- Completed task
- Mild concerns or minor set backs
- Serious problems or significant delays
- Work in progress or task not yet due

PROGRESS AND MONITORING OF 2009/10 INTERNAL AUDIT PLAN (AUDITS COMPLETED BY EXTERNAL PROVIDER)

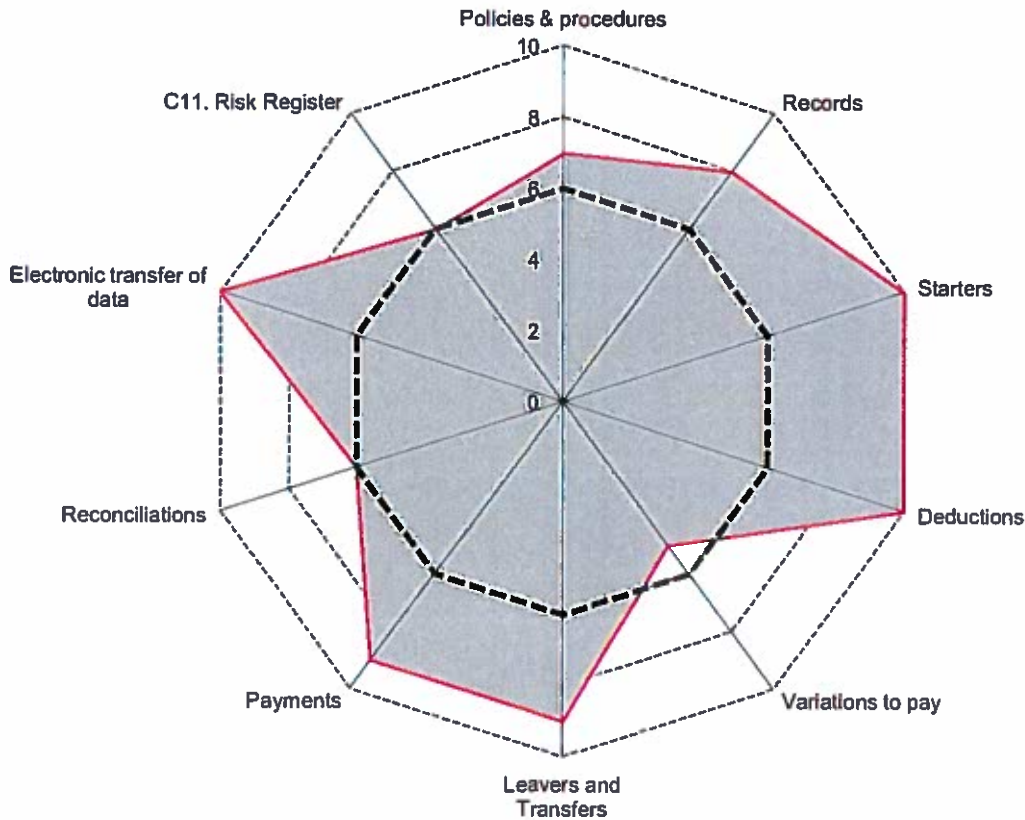
Name of Audit	Stage of Audit	Start Date	Date of Draft Report	Date of Final Report	Days - (Planned v/ actual)	Report Reference	Areas for Improvement			Assurance Level	Actions		Client Rating	
							High	Medium	Low		Total	Total Agreed	Sat'd	Not Satisfied
Main Accountancy	Complete	Jan 2010	Feb 2010	March 2010	10 / 10	AUA 01	-	10	3	AA	18	17	-	-
Treasury Management	Complete	Jan 2010	Feb 2010	March 2010	10 / 10	AUA 08	6	9	7	AA	14	9	-	-
Payroll	Complete	Jan 2010	Feb 2010	March 2010	10 / 10	AUA 03	2	3	4	AA	19	17	✓	-
Housing Benefits	Complete	Jan 2010	Feb 2010	May 2010	10 / 10	AUA 04	5	10	2	AA	49	42	-	-
Housing Benefit Grant Claim	Complete				5 / 5									
Housing Benefit Fraud Section	Complete				5 / 5									
Computer Audit Plan	Complete	March 2010	May 2010	June 2010	40 / 40	AUD	10	8	-	LA	43	43	-	-
					90 / 90									

PAYROLL – EXECUTIVE SUMMARY

Introduction

An audit of the Council’s Payroll Service was undertaken in January 2010 by Exeter City Council’s audit team. This audit was part of the contracted-out work recently subjected to competitive tendering. This review was undertaken as part of the Internal Audit planned work for the year 2009/10.

Immediately below is a Controls Appraisal Spider graph that shows an assessment of the effectiveness of the system’s internal controls



Key:
10 = Very good
8 = Good
6 = Satisfactory
4 = Poor
2 = Very poor
-- = Satisfactory guide

From the testing undertaken, controls appear to be in place and working in the following areas:

- Starters
- Deductions
- Electronic transfer of data

However, the audit found weaknesses in the following areas:

- High and medium risk ratings:
 - Policies & procedures
 - Records
 - Variations to pay
 - Payments

This is a final report of the audit findings, that have been scored using a risk assessment methodology and are shown as either high, medium or low risk, and incorporates the responses of the Head of Organisational Development and the Payroll Services & Employee Benefits Manager

I am pleased to report that the majority of the recommendations have been agreed, however, the following recommendations were not agreed:

- 3.6 - Consider introducing an agreed financial limit for accommodation costs
- 3.9 - Consider using asterisks for the NI number on e-mailed payslips

Conclusion

Internal Audit is required to give an audit assurance when completing an audit of a council service, this can be translated into an 'audit opinion', and reference is made to appendix 2 accompanying the report which sets out the various 'definitions'

We are able to provide a 'positive opinion' on the System Adequacy the Control Application and Previous Recommendations, which can be translated as adequate assurance. The Corporate Risk Register has been updated and apart from the areas identified, we can provide adequate assurance on this area.

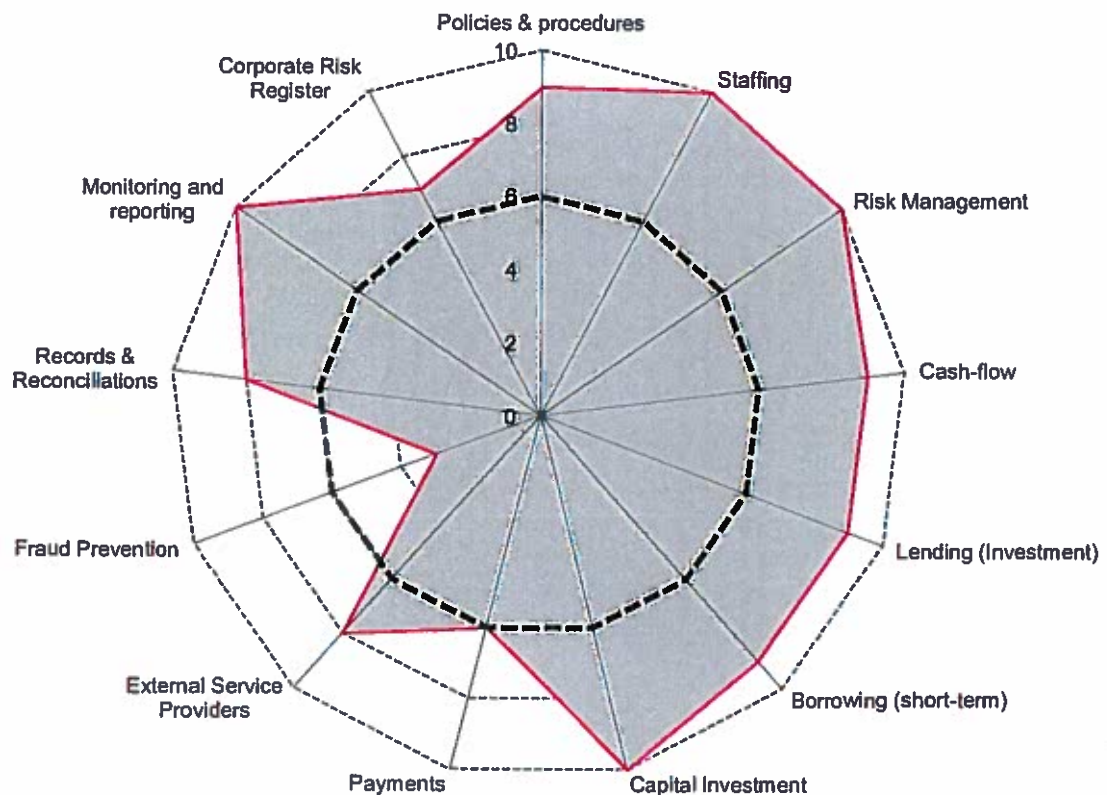
Sandra Please
Exeter Audit Services

TREASURY MANAGEMENT – EXECUTIVE SUMMARY

Introduction

An audit of the Council's Treasury Management was undertaken in January 2010 by Exeter City Council's audit team. This audit was part of the contracted-out work recently subjected to competitive tendering. This review was undertaken as part of the Internal Audit planned work for the year 2009/10.

Immediately below is a Controls Appraisal Spider graph that shows an assessment of the effectiveness of the system's internal controls



Key:

- 10 = Very good
- 8 = Good
- 6 = Satisfactory
- 4 = Poor
- 2 = Very poor
- = Satisfactory guide

From the testing undertaken, controls appear to be in place and working in the following areas:

- Staffing
- Risk Management
- Capital Investment
- Monitoring and Reporting

However, the audit found weaknesses in the following areas:

- High and medium risk ratings:
 - Policies & procedures
 - Lending (Investment)
 - Borrowing (Short-Term)
 - Payments
 - External Service Providers
 - Records and Reconciliations

This is a final report of the audit findings, that have been scored using a risk assessment methodology and are shown as high, medium or low risk, and incorporates the responses of the Head of Finance and the other finance staff where appropriate.

I am pleased to report that the majority of the recommendations have been agreed; however, the following recommendations were not agreed:

3.6 - Produce a Treasury Management Strategy for 2009/10

3.9 - Issue Lloyds TSB with an EDDC 'approved' list of recipients of high CHAPS payments

Conclusion

Internal Audit is required to give an audit assurance when completing an audit of a council service, this can be translated into an 'audit opinion', and reference is made to appendix 2 accompanying the report which sets out the various 'definitions'

We are able to provide a 'positive opinion' on the System Adequacy the Control Application and Previous Recommendations, which can be translated as adequate assurance. The Corporate Risk Register has been updated and apart from the areas identified, we can provide adequate assurance on this area.

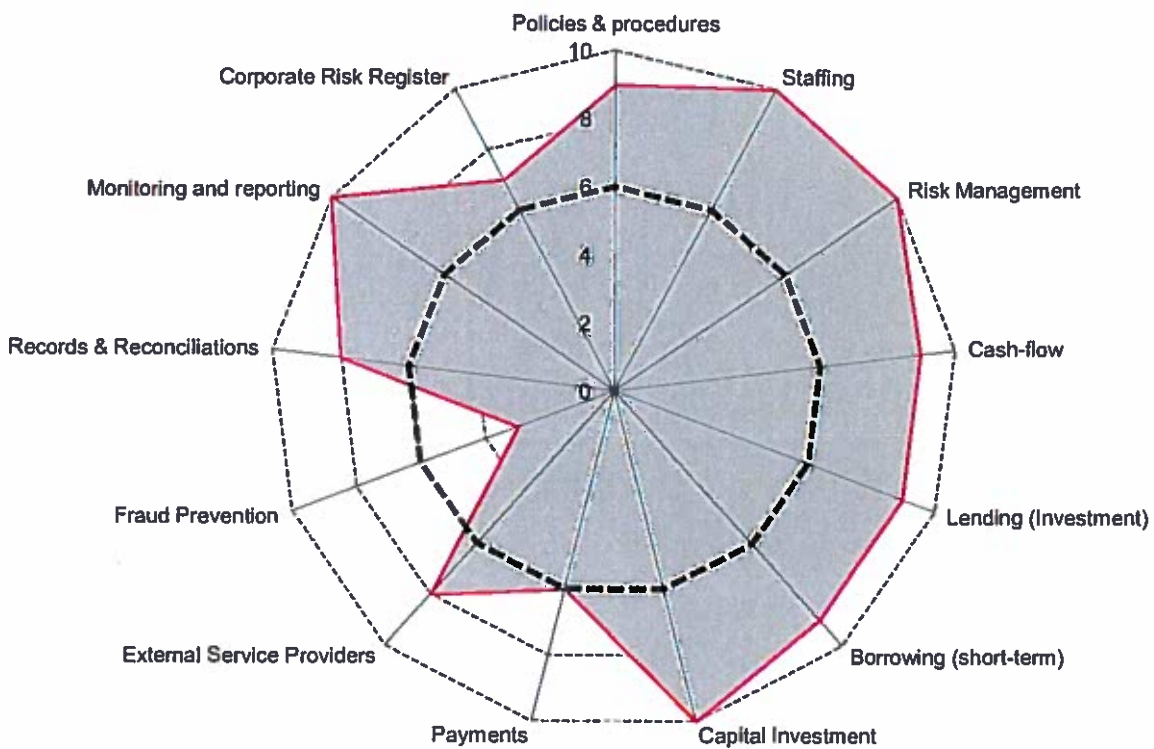
Sandra Please
Exeter Audit Services

MAIN ACCOUNTANCY – EXECUTIVE SUMMARY

Introduction

An audit of the Council's Main Accountancy System was undertaken in January 2010 by Exeter City Council's audit team. This audit was part of the contracted-out work recently subjected to competitive tendering. This review was undertaken as part of the Internal Audit planned work for the year 2009/10.

Immediately below is a Controls Appraisal Spider graph that shows an assessment of the effectiveness of the system's internal controls



Key:

- 10 = Very good
- 8 = Good
- 6 = Satisfactory
- 4 = Poor
- 2 = Very poor
- = Satisfactory guide

From the testing undertaken, controls appear to be in place and working in the following areas:

- Financial Information System
- Coding Structure
- Suspense and holding accounts
- Bank Reconciliations
- Final Accounts

However, the audit found weaknesses in the following areas:

- High and medium risk ratings:
 - Policies & procedures
 - Budgetary Control
 - Journals and internal transactions
 - Feeder Systems

This is a final report of the audit findings, that have been scored using a risk assessment methodology and are shown as high, medium or low risk, and incorporates the responses of the Head of Finance and the other finance staff where appropriate.

I am pleased to report that all the recommendations have been agreed.

Conclusion

Internal Audit is required to give an audit assurance when completing an audit of a council service, this can be translated into an 'audit opinion', and reference is made to appendix 2 accompanying the report which sets out the various 'definitions'

We are able to provide a 'positive opinion' on the System Adequacy the Control Application and Previous Recommendations, which can be translated as adequate assurance. The Corporate Risk Register has been updated and apart from the areas identified, we can provide adequate assurance on this area.

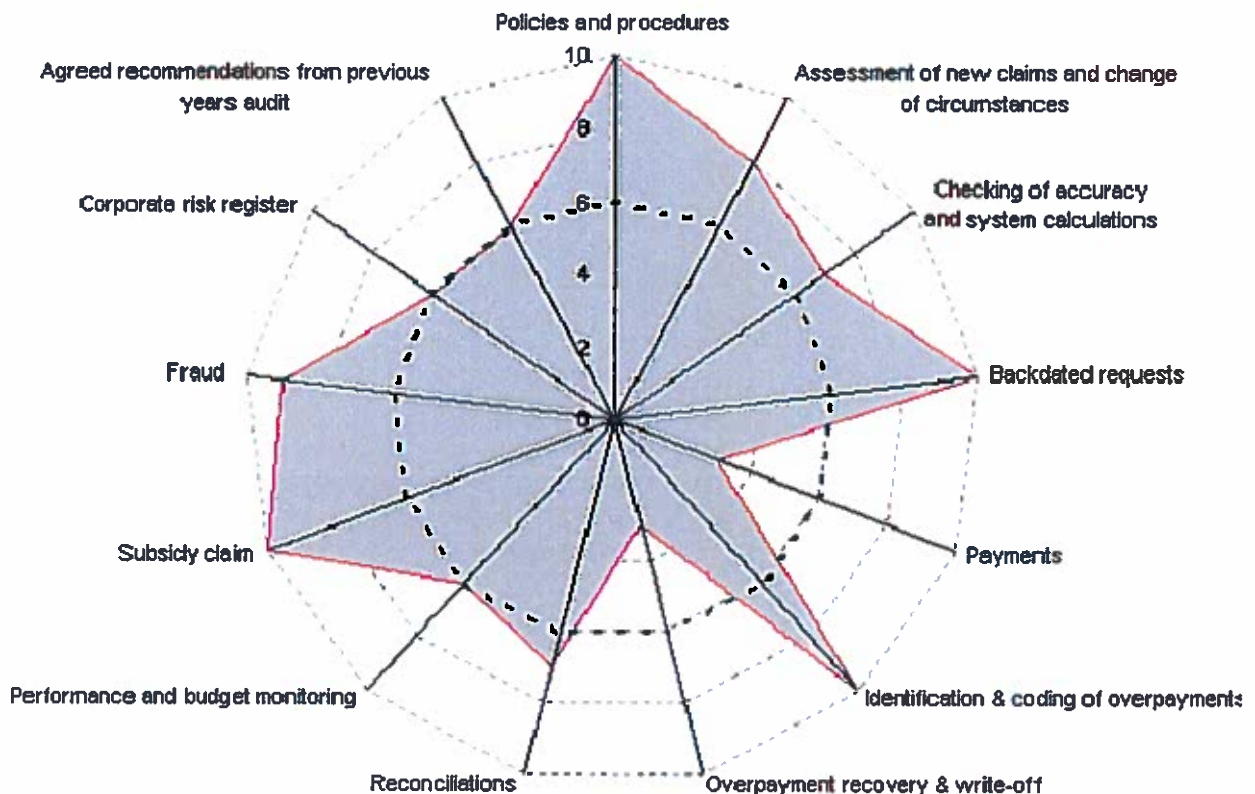
Sandra Please
Exeter Audit Services

HOUSING BENEFITS – EXECUTIVE SUMMARY

Introduction

An audit of the Council's Housing Benefits Service was undertaken during January - March 2010 by Exeter City Council's audit team. This audit was part of the contracted-out work recently subjected to competitive tendering. This review was undertaken as part of the Internal Audit planned work for the year 2009/10.

Immediately below is a Controls Appraisal Spider graph that shows an assessment of the effectiveness of the system's internal controls



Key:

- 10 = Very good
- 8 = Good
- 6 = Satisfactory
- 4 = Poor
- 2 = Very poor
- = Satisfactory guide

From the testing undertaken, controls appear to be in place and working in the following areas:

- Policies, procedures and training
- Identification and coding of overpayments
- Subsidy claim

However, the audit found weaknesses in the following areas:

- High and medium risk ratings:
 - Assessment of new claims and changes of circumstances
 - Checking of accuracy and system calculations
 - Backdated requests
 - Payments
 - Overpayment recovery and write-off
 - Reconciliations
 - Performance and budget monitoring

This is a final report of the audit findings, that have been scored using a risk assessment methodology and are shown as either high, medium or low risk, and incorporates the responses of the Head of Finance and the Interim Housing Benefits Manager

I am pleased to report that the majority of the recommendations have been agreed, however, the following recommendations were not agreed:

Report Ref:	Recommendation:	To mitigate the risk of:
3.3(1)	The file of landlords specimen signatures updated to include all relevant landlords.	Fictitious tenancies and forged landlord signatures.
3.3(2)	Procedures reviewed to ensure that staff are aware of the need for private landlord rent proofs signatures to be checked against specimen signatures to ensure claims are valid.	
3.9	Procedures reviewed to ensure that claims pending an accuracy check are placed on temporary hold until the accuracy checks have been completed.	Over- or under-payments of benefit occur
3.14(1)	Regular reports of housing benefit creditor payments matched by an independent employee against a list of current employees.	Unauthorised payments made
3.14 (2)	Where staff are in receipt of benefit payments they must be checked to verify they are valid.	

3.20	Regular independent reconciliations of the daily and accumulated totals on the housing benefit and council tax systems should be undertaken.	Imbalances, caused by amending transactions and manual postings for previous days, are not identified
3.1 (2 & 3) 3.14 (1 & 2) 6.4 (5) 7.1 (1) & (2)	Awaiting response from Head of Service to agree target dates.	
Corporate Risk Register	Concerns set out in the main body of this report. I can only provide a 'neutral opinion' on the Corporate Risk Register which can be translated as Limited Assurance	

Conclusion

Internal Audit is required to give an audit assurance when completing an audit of a council service, this can be translated into an 'audit opinion', and reference is made to appendix 2 accompanying the report which sets out the various 'definitions'

We are able to provide a 'positive opinion' on the System Adequacy the Control Application and Previous Recommendations, which can be translated as adequate assurance.

Davina Blanchard
Exeter Audit Services

ICT SERVICES – EXECUTIVE SUMMARY

Introduction

The ICT audit review was undertaken during the period April to May 2010 and was conducted by means of discussion with relevant staff, review of documentation and system interrogation. The audit focussed on management controls, access controls, operational controls and system development controls.

The ICT Budget for 2009/10 comprised:

	£
Capital salaries	160,000.
PC Support	1,044,430.
Business systems – Capital	155,000.
Infrastructure – Capital	195,000.

In terms of the overall budget for the Council this represents 8.2% of the Revenue Budget and 11.6% of the Capital Budget.

Audit Timeline

The audit was delayed at the outset by the availability of the specialist contractor to do the work, but also further delayed by the arrival of external reviewers to check the controls around the Code of Connection compliance. A draft report was issued to the Head of ICT on 18th May, 2010 and a meeting took place on the 26th May to discuss it. A revised draft report was issued on 1st June 2010 with a revised Action Plan submitted on 4th June. Further conversations and email dialogue took place over the next few days. The Head of ICT assured us that the Action Plan would be returned to us by 11th June, then 14th June, then 15th June. A finalised Action Plan containing the comments of the Head of ICT was finally received on 16th June 2010.

Project Management – Slippage and Costs

Our previous internal audit report published in 2008/09 brought to light serious failings to adequately manage (in terms of costs and delivery), ICT projects.

Following on from this previous audit, our work in 2009/10 included a follow-up review to establish whether the actions we recommended (and the lessons learned) had been implemented. Our review involved looking at the original Project Initiation Documents (PIDs) or Business Case documents and comparing them to the information submitted to the Programme Board in March 2010. All those we selected were considerably delayed. See main Internal Audit report.

We also analysed various Project's costs as set out in the Project Summary reported to the Programme Board in February 2010 (none of which contained an estimate of capitalised labour), and compared these to the actual figures derived from the Cedar Financial System. All those we selected were considerably in excess of their original budget. See main Internal Audit report.

It is acknowledged that some of the overspends highlighted in the main report are due to the internal labour costs not being included in the initial project budgets but they serve to illustrate the need for clarity in project reporting and monitoring. It is also noted that the above situation has no effect on the overall financial position of the Council nor do they affect the overall budget for ICT.

Resolution of Internal Audit & Governance Committee - March 2010

A resolution was passed at the Internal Audit & Governance Committee meeting in March 2010 which it is hoped will rectify many of the issues by ensuring that budget overspends and slippage are monitored and challenged as appropriate. In addition, it is hoped that the requirements to clearly state the anticipated full cost of a project (including labour) at the concept stage will avoid any unfortunate surprises in the future.

Project Management – Budget Variations and Approval

Our review found some instances of budgetary changes to projects, ie an increase in budget from one year to the next. There was no audit trail detailing why these budgetary changes had been made or who / which committee had approved them.

Network Security and User Access Controls

Our testing revealed several areas of vulnerability in network security which were reported to ICT who took appropriate action. However, there is no way of telling how long these weaknesses in network security had existed for nor whether they have been exploited.

The review highlighted that there is no definitive list of personnel who should have access to Council systems at any given time. Without a definitive list of bona-fide personnel it is impossible to verify whether the users on the network are genuine. This finding was raised last year and referred to the Chief Executive and Head of Organisational Development. For more information on both these points – see main Internal Audit report.

Operational Controls

Back Up

The current backup arrangements do not pay heed to the retention of documents policy and this should be addressed to avoid legislative problems such as failure to comply with FOI requests.

Disaster Recovery

The disaster recovery procedures have not been tested since 2008, given the major infrastructure changes as a result of the Novell to Microsoft migration it is important that a test is conducted as soon as possible. The Annual Governance Statement published by the Council indicates that this has been outstanding during 2007/08 and 2008/09 and that the Gov. Connect programme took precedence over the redesign of the Disaster Recovery plans in 2009.

Performance Indicators

The Local Performance indicators should be updated and changed as necessary to facilitate a more objective measure of ICT performance. For more information – see main Internal Audit report.

ICT Corporate Risk Register (CRR)

The Corporate Risk Register is open to inspection from our own Members and from external audit. It is imperative that its population is robust, clear and concise and available for inspection at any time.

It is important that the Council's significant ICT risks are sufficiently mitigated by working and reliable internal controls, which should be specified in the CRR.

The review highlighted that a considerable amount of work needs to be done on the Corporate Risk Register and our report provides information, advice and suggested remedial action.

Follow Up to 2008/09 Report

Benchmarking

In the 2008/09 report the need for a benchmarking exercise of ICT was recommended, this was rejected by the HOS who stated that the SOCITM method was not preferred but it was intended to share data through an organisation called CIT and present this to the Programme Board, based on our examination of the Programme Board minutes there is no evidence that this has taken place. Moreover this is a local PI in Spar.

Handling of Security Incidents

In the response to the 2008/09 report the Head of ICT stated significant security incidents would be reported to the Programme Board and Audit, there was an incident relating to a security breach on the members area of the website in July 2009. This incident was not reported to Internal Audit although it was deemed sufficiently serious to be reported to the Programme Board.

SLA and Impact Minutes

In the previous report it was agreed that the ICT SLA and the minutes of monthly internal ICT IMPACT meetings where operational issues are discussed would be put on the Intranet; this does not appear to have taken place.

Conclusion

The review has highlighted significant failings in several areas examined. In our opinion, after careful consideration we are able to provide a 'neutral opinion' which is translated into 'limited' assurance. The definitions explaining the levels of assurance given appear in the main report at Appendix 1D.

May 2010



Audit and Corporate Governance Committee

Monday 5 July 2010

Committee Room at 2:30pm



Tabled paper – Counterfeit Coins Update Note

In summary

Members will recall issues raised previously relating to counterfeit coins being deducted from the Councils car park pay and display machine income by its cash collection contractor, Contract Security Services.

The key concern was the lack of evidence to support the sums being deducted and Members were very strong that they were unhappy with the process as they understood it.

A visit was arranged to Contract Security Services counting house in Andover, with those attending from the Council being; Councillor Ken Potter (Chairman), Councillor Chris Gibbings, John Lacey (Assistance Parking Services Manager) and Simon Davey (Head of Finance). This visit proved very productive and well worth the time invested, through additional information obtained and seeing the procedures in place a satisfactory level of assurance was obtained.

For members information an order was placed on 14 April 2010 for 12 of our car park machines to be recalibrated to reject counterfeit coins at a higher level. These machines are to be updated this week and will be monitored; the car parks are Imperial Road and London Hotel in Exmouth, the Ham in Sidmouth and Lace Walk in Honiton.

Receipts no longer issued by Royal Mint for counterfeit coins deposited to them.

Members were previously informed by officers following a meeting they had had with James Horton from Contract Security Services (officers present Simon Davey, Tanith Cox and Len Wright) that he could not provide us with receipts from Royal Mint to verify the counterfeit coins they deposited on behalf of EDDC. This situation was correctly explained by Tanith in her report to A&G and confirmed by Len and myself at the meeting. This situation was also independently confirmed to the Council by Royal Mint.

It was this situation that members were not content with and with hind sight were right to push officers and the security company to reassure themselves that appropriate controls were in place.

The visit to the Counting House 13th May 2010.

A visit was therefore made to Contract Security Counting House in May by Members and officers to witness the procedures in place when dealing with counterfeit coins.

At our visit James Horton suddenly produced a form of receipt for consignments delivered to Royal Mint which included an EDDC element. My only reasoning for this suddenly being available is a misunderstanding between your 3 officers and James; he was right in that Royal Mint can not provide a receipt confirming EDDC amounts of counterfeit coins deposited with them, however he failed to tell us at the time that what he could give us was a sheet from Royal Mint stating a consignment had been received from Contract Security. The amounts are not checked by Royal Mint and the EDDC element within the total is not checked. However this sheet does give a level reassurance not previously obtained. It would have been useful if he had mentioned this at our meeting with him and not wait until we went to see him.

In combination of seeing the process; how coins are rejected and accounted for and the signed sheets from Royal Mint, and although not perfect, this should now give members the level reassurance they were looking for and were missing previously.

In an email exchange with Councillor Chris Gibbings he asked me to expand for members and give a bit of detail to the procedures in place, these were described by him which I copy below as I believe this contains the relevant elements;

"-You may wish to expand on the procedure we witnessed. The locked boxes being opened in front of a supervisor, machine counted and counterfeit coin being rejected. The counterfeit coins from our boxes were placed in "evidence sealed" numbered bags recorded in a ledger against our name and stored in a safe specifically kept for counterfeit coins. When coin to a face value of £500 from us, or any other client, was reached that was again placed in a numbered sealed bag and recorded in the ledger. We were permitted to examine that ledger. Sheets were then prepared to accompany the sealed and numbered bags to the Royal mint. Each line on a sheet referred to an individual bag and was initialled (signed for) at the Mint although some of these initials were missing so procedures had slipped a little. The bottom of each sheet was fully signed and stamped by the Royal Mint. Therefore there is an audit trail and receipt in respect of our specific money. That is of course if these sheets are genuine and I know a letter has now been sent to the Mint asking just that question -".

In comment to the last sentence independent confirmation is being sought from Royal Mint that these receipts are genuine in order to complete our reliance on the procedures. The receipts from Royal Mint have now been sent to us and reconciled back to the deductions made of counterfeit coins. James Horton at our visit stated that these returns were being emailed to us; checking after the event two returns had been received going back, to a different office each time with no relevance or acknowledgement as to their purpose from the security firm.

Simon Davey
Head of Finance
5 July 2010

ANNUAL GOVERNANCE STATEMENT

For the year 1st April 2009 to 31st March 2010

Significant Governance and Control Issues Identified

Council Members and Officers have been continually updated and advised on the implications of reviews of the effectiveness of the Council's systems of internal control. Plans have been devised and put in place to ensure continuous improvement. The Council's annual review of the governance framework, including the system of internal controls and associated reviews during the year, identified some areas where action is appropriate to enhance the governance and internal control environment and ensure continuous improvement. These are listed below, along with the proposed actions to remedy or improve the position.

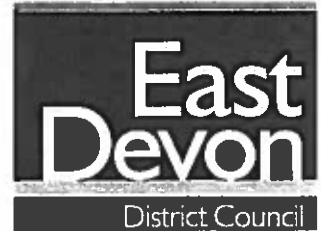
Area for Improvement	Suggested Action	Officer Resp.
ICT Services and Street Scene Services	Outstanding since 2007/08 and appeared on the 2007 Action Plan and the 2008/09 Action Plan.	
Disaster Recovery Plans and Business Continuity Planning is not adequate to protect the Council or its assets.	The Gov. Connect programme took precedence over the redesign of the Disaster Recovery plans in 2009.	CP
	The Council must decide whether to involve South Somerset in the choice of Disaster Recovery location or stick to the original choice of the Honiton Business Centre.	CP
ICT Services	Resolution of Internal Audit & Governance Committee (March 2010) should prevent many of these issues by ensuring that budget overspends and slippage are monitored and challenged.	CP
Controls over project management, including budgets, overspends, delivery and budget variations and approval.	Internal Audit have recommended that the full anticipated cost of a project, including labour is made clear at the outset.	
Financial Services - Housing Benefits.	Procedures for selecting claims for accuracy checking is reviewed and a full risk-based approach is used.	SD
Checking accuracy of system calculations	Team leaders to check a minimum of 5% of assessed claims each month.	SD
	Regular reports from team leaders on the number and results of the accuracy checks and where the number of checks or accuracy drops, appropriate action is promptly taken to address the situation.	SD

Area for Improvement	Suggested Action	Officer Resp.
<p>Financial Services - Housing Benefits.</p> <p>Overpayment Recovery and write off (outstanding invoices do not agree with the Housing Benefit debt management system), (Misinterpretation of guidance on calculating indicators and errors in the calculation process has resulted in incorrect figures being reported to Members)</p>	<p>The Housing Benefit System reports used to calculate the overpayment recovery figures are reviewed and the reasons for the discrepancies identified</p> <p>After review, if the Housing Benefit System reports are found to be inaccurate, alternative methods of calculating the figures should be found</p> <p>Members are advised of the errors in the reported figures.</p>	<p>SD</p> <p>SD</p> <p>SD</p>
<p>Street Scene Services Flood Alleviation and Coast Protection Strategy</p> <p>The Strategy links to both national and regional plans and would draw down funding for protection schemes. Due to lack of resources in Street Scene, (Engineering) the capacity of the staff to deal with these issues is limited.</p>	<p>Outstanding since 2008/09 and appeared on the 2009 Action Plan.</p> <p>This has serious work capacity issues in the delivery of Engineering services in particularly those associated with Land Drainage, Flood Alleviation and Coastal Defence works. Failure to fill this post will mean work will need to be prioritised with some work areas not being carried out.</p>	<p>PJ</p>
<p>Street Scene Services / Financial Services</p> <p>Counterfeit Coins</p>	<p>Audit & Governance Committee already aware, steps being taken to recalibrate our ticket machines to increase the number of coins rejected, and to reduce the number of coins lost due to counterfeit. Issue to be kept under review and an internal audit is scheduled for 1st/2nd quarter of 2010.</p>	<p>PJ/SD</p>

Area for Improvement	Suggested Action	Officer Resp.
<p>Organisational Development</p> <p>Corporate Anti-Fraud, Employment Screening</p>	<p>Address of prospective employees should be verified.</p> <p>“Character and Criminal Record Declaration Form” used by the DWP should be implemented.</p>	<p>KJ</p>
<p>Internal Audit & Governance</p> <p>The Council’s Internal Audit Service has suffered from a lack of resources and does not have adequate resources to monitor the governance arrangements of the Council</p>	<p>The Council did enter into an arrangement with Exeter City Council and a specialist computer audit provider to provide extra audit resources, however the Unitary status has affected this arrangement.</p> <p>The Council needs to re-consider their options for the delivery of this service.</p>	<p>TC/DP</p>
<p>Housing Services</p> <p>Housing Needs</p> <p>Corporate Anti-Fraud, Tenancy Fraud</p>	<p>Online tenant photograph gallery to be implemented (as soon as technology allows)</p> <p>Update evidence capturing procedures, including the quality of evidence (eg: original birth certificates photocopied and placed on file or scanned to disk)</p> <p>Use of Experian to check status of prospective tenants – including residency, financial and other background checks</p>	<p>JG</p> <p>JG</p> <p>JG</p>



Date: 25 June 2010
Contact Number: 01395 571544
Contact: Chris Lane
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To: Members of the Audit and Corporate Governance Committee
(Councillors: David Atkins, Peter Bowden, Derek Button, Bob Buxton,
Chris Gibbings, Stephanie Jones, Ken Potter, Tim Wood)

For information:

Portfolio Holder, Resources – Councillor Andrew Moulding
Member Champion for Data Quality – Councillor Graham Troman

Chief Executive
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Dear Sir/Madam,

**Audit and Corporate Governance Committee
Monday 5 July 2010
Committee Room at 2.30pm**

Please find attached, an additional item to be considered at the above meeting.

Yours faithfully,

A handwritten signature in black ink, appearing to read "C Holland", written over a horizontal line.

Christopher Holland
Democratic Services





Grant Thornton

East Devon District Council

Interim Audit Report 2009-10

June 2010

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1 Executive summary

Introduction

- 1.1 In carrying out our audit, we comply with statutory requirements governing our duties, in particular, the Audit Commission Act 1998 and the Code of Audit Practice (the Code).
- 1.2 The Code of Audit Practice emphasises the respective responsibilities between audited bodies and their auditors. The Council is responsible for putting in place proper arrangements for the governance of its affairs and the stewardship of its resources. We are required to form an opinion on the Council's annual financial statements and a conclusion on whether the Council has proper arrangements in place for securing economy, efficiency and effectiveness in the use of resources.

Scope

- 1.3 We have completed our interim audit at the Council in accordance with our agreed audit strategy as set out in the Financial Statements Audit Plan presented to Audit and Governance Committee on 21 January 2010. Our interim audit also covered value for money work to reach our draft conclusion.

Overall conclusions

Accounts

- 1.4 Our initial assessment of risks facing the Council which could impact our audit, as set out in our 2009-10 Financial Statements Plan, remains appropriate and provides a sound basis upon which to set our audit strategy. The exception to this is the removal of the risk in relation to Local Government Reorganisation in Devon, which no longer applies.
- 1.5 The internal audit service continues to provide an independent and satisfactory service to the Council, subject to the recommendations made in section 2, and we are able to take assurance from their work in contributing to an effective internal control environment.
- 1.6 Our information systems specialist performed a high level review of the general IT control environment, as part of the overall review of the internal controls system. We have concluded that, from the work undertaken to date, there are no material weaknesses which are likely to adversely impact on the Council's financial statements, although we have made recommendations to enhance the IT control environment.
- 1.7 The Council has an appropriate accounts closedown timetable in place to prepare and submit its accounts by the 30 June 2010 deadline.
- 1.8 Our follow up of the action taken by the Council to implement recommendations made in our 2008-09 interim report has identified good progress made in the majority of areas, but with a number of recommendations that the Council has yet to implement. These recommendations have been updated and are repeated in this report.

Value for Money

- 1.9 Following the change in government, our work under the Comprehensive Area Assessment has been withdrawn with immediate effect. We have included a brief summary of the work carried out so far to support our value for money conclusion and will consider more detailed reporting later in 2010, based on guidance issued by the Department for Communities and Local Government.

Use of this report

- 1.10 This report has been prepared to advise you of the matters arising from our interim audit and should not be used for any other purpose or be given to third parties without our prior written consent.
- 1.11 Our report is part of a continuing dialogue between the Council and ourselves and should not be relied upon to detect all errors, systems or control weaknesses or opportunities for improvements in management arrangements that might exist. The Council should assess the wider implications of our conclusions and recommendations before deciding whether to accept or implement them, seeking your own specialist advice as appropriate.
- 1.12 We accept no responsibility in the event that any third party incurs claims, or liabilities, or sustains loss, or damage, as a result of their having relied on anything contained within this report.

The way forward

- 1.13 We have set out our findings and recommendations in the appendices to this report. We have agreed action to implement the recommendations made with the Corporate Director - Economy.

Acknowledgements

- 1.14 We would like to record our appreciation for the assistance and co-operation provided to us during our interim audit by the Council's staff.

Grant Thornton UK LLP

June 2010

2 Interim accounts audit

Introduction

2.1 As part of the interim audit, and in advance of our final accounts audit, we considered:

- the key risks facing the Council;
- the effectiveness of the internal audit service; and
- our review of financial reporting controls, including information technology controls, journal entry controls, financial accounting systems and closedown procedures.

Key audit risks

2.2 Our 2009-10 Financial Statements Plan was presented to the Audit and Governance Committee on 21 January 2010 and set out the key audit risks facing the Council which could impact on the 2009-10 financial statements audit. The risks consider both national accounting issues and the risks facing the Council specifically.

2.3 As part of our interim audit, we reviewed these audit risks and have set out, below, the outcome of work completed and any further work planned. We can confirm that our initial risk assessment remains appropriate and provides a sound basis upon which to set our audit strategy. The exception to this is the removal of the risk in relation to Local Government Reorganisation in Devon, which no longer applies.

2.4 We set out below an update on our risk assessment.

- **Accounting for National Non-Domestic Rates and Council Tax under the Statement of Recommended Practice (SORP) 2009** - We have discussed the changes to the SORP as part of our ongoing dialogue with officers of the Council and are satisfied that adequate arrangements are in place for the financial statements to be prepared in accordance with the SORP. We continue to provide feedback at the request of officers, as necessary, throughout the closedown process.
- **International Financial Reporting Standards (IFRS)** - The Council has formed a project team to oversee the transition to International Financial Reporting Standards, who have prepared a project plan. While work completed by the Council to date remains behind the timetable proposed by CIPFA in LAAP Bulletin 80, we are satisfied that adequate progress in being made to allow restated accounts to be prepared. We will continue to monitor progress against the Council's IFRS project plan and, if requested, provide an early review of its restated IFRS balance sheet to ensure that it has fulfilled the accounting requirements. The scope of this work would be agreed with officers of the Council.
- **Internal Audit service** - We have followed up the implementation of our recommendations from 2008-09 and reviewed two audit files prepared in 2009-10. The findings of this work are set out in paragraphs 2.10 to 2.16.

- **Amendments to the 2008-09 accounts** - We will review the progress made by the Council against the recommendations made in our 2008-09 ISA260 report and will report this to the Audit and Governance Committee in September 2010.
- **Local Government Reorganisation** - Plans for a unitary Exeter were announced on 10 February 2010, however the new government has committed to reverse this decision as part of its Local Government bill. The decision not to proceed with a unitary Devon brings to an end the period of uncertainty for the Council, however we will continue to monitor developments in this area and assess the Council's response to emerging issues.

The internal audit service

- 2.5 We review internal audit's overall arrangements against the CIPFA Standards for Internal Audit including its terms of reference, the independence of internal audit, relationships with management and the Audit and Governance Committee, staffing, training and development, management of audit assignments, and quality assurance, to ensure that these are adequate to provide robust and reliable work. Where the arrangements are deemed to be adequate, we can gain assurance from the overall work undertaken by internal audit and can conclude that the service itself is contributing positively to the internal control environment and overall governance arrangements within the Council.
- 2.6 We undertake a detailed review of the internal audit service every three years, with an interim review in intervening years. The last detailed review of the Council's internal audit service was completed in 2007-08 and this work has been reviewed in detail and updated as part of our planned programme of work for 2009-10.
- 2.7 Overall, we have concluded that the internal audit service provided an adequate service to the Council in 2009-10 and that we can take assurance from their work in contributing to an effective internal control environment at the Council. Our review has identified a number of areas for improvement, which are detailed in paragraphs 2.10 to 2.16 below.
- 2.8 In assessing the effectiveness of internal audit work, we performed a detailed review of two internal audit files. This review considered whether:
- systems were adequately documented;
 - key controls had been identified and evaluated;
 - key controls had been tested; and
 - weaknesses identified had been reported to management.
- 2.9 Our review of these files highlighted some areas where the existing arrangements could be strengthened further, which are detailed in paragraphs 2.13 to 2.16 below.

Strategy and service delivery

- 2.10 Our 2008-09 report recommended that the Internal Audit Strategy should be updated as although the majority of the requirements of the CIPFA standards were included, minor gaps were identified. This recommendation was agreed, however resource has not been available to complete this during 2009-10. This document should be updated in order for the service to demonstrate full compliance with CIPFA standards, including its role in investigation of fraud.

Recommendation 1

The Internal Audit Charter/Strategy should be updated to reflect all of the requirements of the CIPFA Standards for Internal Audit.

- 2.11 Internal Audit produced an annual report for 2008-09, following a previous recommendation. This report covered the key aspects required by the CIPFA Internal Audit standards, however some further areas for improvement have been identified. We understand the annual report for 2009-10 has been enhanced to more clearly summarise and conclude of the work performed in the year, and the quality of the service provided.
- 2.12 Following the work of a Task and Finish Forum in 2008-09, Internal Audit produced an action plan to implement improvements to the service. This was approved by the Audit and Governance Committee, however the action plan taken to the meeting in January 2010 did not include timescales for completion of agreed actions. Without including agreed timescales, it is not clear when the recommendations should be implemented.

Recommendation 2

The Audit and Governance Task and Finish Forum action plan should include timescales for implementation of recommendations.

Completion of audit files

- 2.13 Our review of two audit files found that Internal Audit appropriately use sampling testing to test controls and transactions. We considered the number of items tested to be appropriate and consistent with Internal Audit's audit manual, although identified that there was no justification on the file for the actual number of items tested. To further strengthen the audit documentation, each the sample size for each piece of testing should be clearly justified.

Recommendation 3

Sample sizes selected for Internal Audit testing of controls and transactions should be clearly documented on the audit file.

- 2.14 Our review of Internal Audit's files identified a small number of test summaries that had no evidence of review. To ensure that work is delivered to the required standard, all workpapers should be subject to review, which should be evidenced by the signature of the reviewer.

Recommendation 4

All test summaries and other key documents in the audit files completed by Internal Audit should be reviewed and signed to evidence the review.

Use of contractors

- 2.15 In order to deliver the 2009-10 internal audit plan, additional staff resource was purchased from Exeter City Council, following a competitive tender exercise. At the time of our work, the two staff from Exeter undertaking audit work had not completed a declaration of interest form or confirmed their independence. If these forms are not completed, there is a risk that threats to the objectivity of the auditor may not be identified.

Recommendation 5

Contractors working for Internal Audit should sign a declaration of interest form and confirm their independence, prior to the commencement of any audit work.

- 2.16 Our review of one of the audit files completed by a contractor highlighted that the follow-up of previous recommendations was not included on the file. This was subsequently produced to confirm that the work had been completed, however all evidence to support the results and conclusion of an audit should be retained on the audit file.

Recommendation 6

Audit files completed by contractors should document all audit work completed, including the follow-up of prior year recommendations.

Review of information technology controls

- 2.17 The Council makes use of Cedar Open Accounts (COA) eFinancials, a finance package purchased from a third party, to administer its accounts. COA eFinancials is administered by the Business Solutions team within the ICT department and sits within the Council's main IT network, which is managed by the ICT department.
- 2.18 Our information systems specialist performed a high level review of the general IT control environment, as part of the overall review of the internal controls system, and concluded that from the work undertaken to date, there are no material weaknesses which are likely to adversely impact on the Council's financial statements.
- 2.19 We have, however, identified a number of areas for improvement during the course of our work in this area. We do not consider these to pose a significant risk to the accounts, and have reported them to management through our interim audit feedback meeting. These include issues relating to:
- direct database access;
 - general ledger user administrative access;
 - user access reviews; and
 - network intrusion detection and prevention.

SQL and Oracle database access

- 2.20 Direct access to the SQL and Oracle databases underlying the financial applications, for example, Oracle for the Council's ledger software and SQL for Trent, is restricted to staff within the ICT department. While there are audit logs within the applications themselves,

there is no audit log maintained of changes made directly at the SQL and Oracle database level. Therefore, there is no mechanism in place to monitor this high level of access.

- 2.21 Without adequate monitoring of access directly to the database, unauthorised changes to the Council's critical data/data structures have the potential to go unnoticed.

Recommendation 7

Management should consider performing a review of the SQL and Oracle databases underlying the financial applications to determine the critical financial data tables that require audit logging. The review should be documented for future reference.

Management should then implement a process to monitor any changes made to the critical financial data tables identified to ensure the changes have been appropriately authorised. The monitoring should be done by an appropriate independent individual, i.e. the individual should not have access to the databases and should have adequate knowledge to perform an effective review.

General ledger - user administrative access

- 2.22 The Business Solutions team within the ICT department perform user administration for the general ledger. There were four Finance users with access to maintain user profiles and roles at the time of our review.
- 2.23 Administrative access should be restricted to those individuals who require the privileged access to perform their job. Without appropriate segregation of duties, there is an increased risk of erroneous or inappropriate actions when one or more individuals have incompatible duties.
- 2.24 We understand this access was removed during the last security review performed by the Business Solutions team in 2007 and it is unclear why the access was restored in the period since the last review. The Business Solutions team plan to perform another security review and implement a process to perform this review on a regular basis going forward.

Recommendation 8

Management should continue with plans to perform a security review of the general ledger to determine whether the user administration role can be removed from the four finance individuals. If it can not, clear audit trails of access need to be maintained and reviewed.

User access reviews

- 2.25 A review of the users with access to Council systems have not been performed by Council management in the last financial year. We understand the Business Solutions team plans to add user access as an agenda item for the Application Management Team (AMT) meeting held regularly for each application.
- 2.26 If user access is not reviewed by management on a regular basis, there is a risk access will become disproportionate over time with user job responsibilities. There is also a higher risk of segregation of duties issues as individuals transfer or move on to different positions within the Council.

Recommendation 9

Plans to review user access as part of the regular AMT meetings for each financial application should be implemented as soon as possible.

Network intrusion detection and prevention

- 2.27 The firewalls in place provide some limited protection against external intrusions to the Council's systems, but there is no separate and dedicated system for intrusion detection or prevention.
- 2.28 Numerous weaknesses are discovered in both hardware and software on a daily basis that may compromise the security of Council's information systems.

Recommendation 10

An intrusion detection or prevention system should be implemented.

Journal entry controls

- 2.29 Journals are used to process manual changes to data within the financial ledger. Our work has confirmed that journals processed by officers during the year are still not authorised. Without an authorisation process in place, there remains a risk to the Council that inappropriate or erroneous journals are processed that impact on the financial statements, although the extent of this risk is mitigated through the small number of people who have access to process journals on the financial system.

Recommendation 11

Journal authorisation procedures should be implemented for the review of journals created during the year.

Closedown procedures

- 2.30 Our review considered the Council's timetable for closing down the financial systems in order to prepare the draft accounts. We have also discussed our requirements for the content and quality of working papers to be made available at the start of our final accounts audit.
- 2.31 The Council has an overall timetable in place, which outlines the key dates and responsible officers for each task. This timetable shows that the Council expects to meet the statutory deadline of 30 June 2010 for the preparation and approval of draft accounts.

Progress in implementing prior year recommendations

- 2.32 As part of our planned programme of work, we followed up the recommendations made in our interim report issued last year. Our work shows that the Council has made progress in the implementation of these recommendation as detailed below.
- 2.33 Twelve recommendations were made relating to the Council's internal audit service, two of which have not been fully implemented. Progress against these recommendations has been reflected in paragraphs 2.10 to 2.16 above.
- 2.34 Two recommendations were made relating to the Council's IT arrangements. Only one of these remains outstanding, however the Council is continuing to investigate the implementation of an intrusion detections system to address this weakness.
- 2.35 Seven recommendations were made relating to the finance function of which four remain outstanding. These are also included in Appendix A as recommendations 12 - 15.

3 Value for Money conclusion

Introduction

- 3.1 Our VFM assessment considers how well the Council is managing and using its resources to delivery value for money. In order to conclude on the use of resources, we perform an assessment against a number of Key Lines of Enquiry (KLoE), undertake local project work and consider any other issues which may impact on the VFM conclusion.
- 3.2 In undertaking this assessment, we adopted a risk-based approach, building on the baseline established in 2008-09. The work to support our value for money conclusion involves us reviewing the Council's arrangements across a broad range of areas, as shown in exhibit one. The Council is responsible for reporting on these arrangements as part of its Annual Governance Statement (AGS).

Exhibit One: Value for Money - areas of work

Key areas set out in the code of audit practice

Establishing strategic and operational objectives

Determining policy and making decisions

Ensuring that services meet the needs of residents and taxpayers and arrangements for engaging with the wider community

Ensuring compliance with established policies, procedures, laws and regulations

Identifying, evaluating and managing operational and financial risks and opportunities, including those arising from involvement in partnerships and joint working

Managing financial and other resources, including arrangements to safeguard the financial standing of the audited body

Monitoring and reviewing performance, including arrangements to ensure data quality

Ensuring that the audited body's affairs are managed in accordance with proper standards of conduct, and to prevent and detect fraud and corruption

- 3.3 Our findings from the use of resources assessment are summarised below under three themes:
- sound and strategic financial management - Managing Finances;
 - strategic commissioning and good governance - Governing the Business; and

- the management of natural resources, assets and people - Managing Resources.

3.4 It should be noted that in May 2010 the Government announced its intention to abolish the Comprehensive Area Assessment (CAA) regime and, at the end of May 2010, the Audit Commission required all auditors to stop their work on the use of resources assessment beyond that required to form their value for money conclusion. As we have substantially completed all of our use of resources work, we are reporting key findings and conclusion to the Council, but these are not being formally assessed or scored.

Sound and strategic financial management

- 3.5 The Council has involved members and senior officers in a Task and Finish Forum to reassign resources to meet its priorities. Areas recognised as important to members of the public, such as street cleaning and public conveniences have been protected and additional funds allocated to speed up the roll-out of the new recycling service in line with the Council's priority to reduce waste. Local citizens were involved in the budget-setting process for 2010-11 through the 'Budget 2010' online consultation, however the Council should consider using other methods of consultation to ensure views are sought from a wider audience.
- 3.6 The Council is focussing on delivering effective services in the medium to long term through a shared services arrangement with South Somerset District Council. We recognise this as an important initiative of the Council to secure future savings and potential service improvements. These need to be carefully planned and their delivery effectively managed and maintained to ensure they produce the required outcomes. The impact of other changes to budgets and in the provision of services are monitored through regular reporting of customer satisfaction to the Service Delivery and Performance Overview and Scrutiny Committee.
- 3.7 Whilst the systems review carried out in the planning and housing departments has resulted in a good understanding of the costs incurred, the baseline position was only produced late in 2009-10. As a result, the Council has not been able, at this stage, to demonstrate the positive outcomes arising from this review and the impact it has had on reducing costs and improving service standards. Benchmarked cost and performance data is used from SPARSE to identify where the Council needs to improve.
- 3.8 Budgets are monitored on a monthly basis, with variances followed up with budget holders. The Council's understanding of the reason for these variances is strong, as evidenced by the year-end out-turn report. The Council continues to make progress with financial reporting showing improved commitment to the process and the implementation of IFRS, but this remains behind the timetable proposed by CIPFA in LAAP Bulletin 80.

Strategic commissioning and good governance

- 3.9 To further strengthen the Council's purchasing arrangements, it appointed a dedicated procurement specialist in August 2009 and is planning to update its procurement strategy and action plan over the next year, which is not currently linked to the objectives set out in other corporate strategies. The Council's 'Neighbourhood Assessments' programme has enabled it to gain a better understanding of the needs of local residents. The Council is in the process of implementing the 'ProContract' system to help local suppliers tender for contracts across the South-West.
- 3.10 Performance reports are produced directly from the Council's SPAR.net system and are presented to officers and members. Internal Audit have carried out a risk-based review to

identify areas where data quality could be further improved, however this review has not been repeated on the 2009-10 out-turn data and data sharing protocols are not in place to cover all partnerships. Data quality is reported to, and challenged by, forums including the Overview and Scrutiny Committee, Audit and Governance Committee and Senior Management Team. Action has been taken in response to external reviews, such as the Audit Commission's review of housing benefits, which has resulted in improved service performance.

- 3.11 The portfolios of corporate directors have been realigned to reflect the Council's current priorities. All elected members have personal development plans to identify their individual training needs and this has been recognised by the award of the IDeA's 'Member Development Charter'. The Council has a strong track record of the Monitoring Officer and Standards Committee dealing effectively with complaints.
- 3.12 The Council has completely updated its risk management approach, and has introduced a new risk register framework and software. Whilst an officer and member champion for risk management have been appointed and there is evidence that their proactive approach is producing improvement, there remain areas for improvement, such as ensuring mitigating controls are clearly defined and responsibility for the risk is assigned to an individual officer. A detailed review of counter-fraud arrangements has been carried out, based on the Audit Commission's 'Protecting the Public Purse' report, which has identified a number of further opportunities for improvement at the Council.
- 3.13 The Audit and Governance Committee provides effective challenge to officers as well as internal and external audit. A corporate governance activity report, which identifies the progress made against the annual governance statement action plan and risk management and counter-fraud work carried out, is taken to each meeting detailing the governance work carried out in the previous three months.

The management of natural resources, assets and people

- 3.14 The Council has made strong progress in the management of the natural resources that it consumes. It has prepared a assessment of its consumption of gas, electricity, fuel and water, including the consumption of fuel by partners such as SITA, who collect waste and recycling on the Council's behalf, however the assessment does not include the energy consumption from communal areas of the Council's housing stock.
- 3.15 The actions specified in the Council's Climate Change Strategy and Carbon Management Plan have resulted in significant reductions in gas and electricity consumption in some areas, for example a reduction in gas consumed at the Council's main offices and reductions in electricity demand at leisure centres. These action plans are not regularly updated to reflect progress made however and do not include specific targets for the reduction in the consumption of natural resources.
- 3.16 The Council's consideration of methods to minimise or prevent the use of natural resource is integral to new developments. The Council's current development of 2,900 homes at Cranbrook has won support from the South West's renewable energy agency, who have selected the development as one of only five across the region to receive support, demonstrating that the Council is a leader in green issues. This development has also been added to phase two of the Government's eco-town programme. Funding has also been received for a large scale 'Combined Heat and Power' plant to heat the development, which will be one of the first in the country, emphasising the Council's commitment to sustainability and the natural environment.

Reporting

- 3.17 We will provide a more detailed report, setting out the findings and recommendations arising from our review, in late summer 2010. The timing and format of this report will reflect any further guidance issued by the Department for Communities and Local Government or the Audit Commission.

A Action plan - interim accounts audit

Rec. No.	Para. Ref.	Recommendation	Priority	Management response	Implementation date & responsibility
1	2.10	<p>Internal Audit - strategy</p> <p>The Internal Audit Charter/Strategy should be updated to reflect all of the requirements of the CIPFA Standards for Internal Audit.</p>	Medium	Agreed.	Internal Audit & Governance Manager March 2011
2	2.12	<p>Internal Audit - service action plan</p> <p>The Audit and Governance Task and Finish Forum action plan should include timescales for implementation of recommendations.</p>	Low	Agreed.	Corporate Director July 2010
3	2.13	<p>Internal Audit - sample sizes</p> <p>Sample sizes selected for Internal Audit testing or controls and transactions should be clearly documented on the audit file.</p>	Medium	Agreed.	Internal Audit & Governance Manager Immediate

Rec. No.	Para. Ref.	Recommendation	Priority	Management response	Implementation date & responsibility
4	2.14	<p>Internal Audit - evidence of review</p> <p>All test summaries and other key documents in the audit files completed by Internal Audit should be reviewed and signed to evidence the review.</p>	Medium	Agreed.	<p>Internal Audit & Governance Manager</p> <p>Immediate</p>
5	2.15	<p>Internal Audit - independence</p> <p>Contractors working for Internal Audit should sign a declaration of interest form and confirm their independence, prior to the commencement of any audit work.</p>	Medium	Already implemented.	<p>Internal Audit & Governance Manager</p> <p>Immediate</p>
6	2.16	<p>Internal Audit - audit files</p> <p>Audit files completed by contractors should document all audit work completed, including the follow-up of prior year recommendations.</p>	Medium	Agreed.	<p>Internal Audit & Governance Manager</p> <p>Immediate</p>

Rec. No.	Para. Ref.	Recommendation	Priority	Management response	Implementation date & responsibility
7	2.21	<p>Direct access database</p> <p>Management should consider performing a review of the SQL and Oracle databases underlying the financial applications to determine the critical financial data tables that require audit logging. The review should be documented for future reference.</p> <p>Management should then implement a process to monitor any changes made to the critical financial data tables identified to ensure the changes have been appropriately authorised. The monitoring should be done by an appropriate independent individual, i.e. the individual should not have access to the databases and should have adequate knowledge to perform an effective review.</p>	Medium	<p>Agreed.</p> <p>The Oracle and SQL databases are being investigated and relevant audit logs will be turned on. Reports will be generated to enable monitoring of the relevant tables to be carried out by the Design and Compliance Team.</p> <p>The management process for authorising manual data changes will be the existing CAB (change advisory board) process which is overseen by the design and Compliance team.</p>	<p>Business Solutions Manager</p> <p>By 30/7/10</p> <p>Design and Compliance Manager</p> <p>In place</p>
8	2.24	<p>User admin access</p> <p>Management should continue with plans to perform a security review of the general ledger to determine whether the user administration role can be removed from the four finance individuals. If it can not, clear audit trails of access need to be maintained and reviewed.</p>	Medium	<p>Agreed.</p> <p>The security review of Cedar has been carried out. The increased admin roles that were provided to the 4 finance staff on a temporary basis have been removed.</p> <p>Allocation of temporary access rights is also being recorded on the helpdesk system.</p>	<p>Business Solutions Manager</p> <p>Done</p>

Rec. No.	Para. Ref.	Recommendation	Priority	Management response	Implementation date & responsibility
9	2.26	<p>User access reviews</p> <p>Plans to review user access as part of the regular AMT meetings for each financial application should be implemented as soon as possible.</p>	Medium	<p>Agreed</p> <p>The AMT agendas have been changed to ensure that user access reviews are managed as part of normal AMT business. Reviews will occur within the next 12 months.</p>	<p>Business Solutions Manager</p> <p>Done</p>
10	2.28	<p>Network intrusion detection and prevention</p> <p>An intrusion detection or prevention system should be implemented.</p>	Low	<p>Will continue to monitor risk level</p> <p>Hardware and software vulnerabilities are mitigated for by ensuring strong patch management processes and by running an internal vulnerability scanner, by Nessus.</p> <p>Experience of Intrusion Detection systems suggests that they require significant time and expertise to set up and maintain to guarantee their outputs are not merely "false positives".</p> <p>The system will also add additional costs and complexity to the infrastructure and so, at this point, we will continue to monitor the risk level and consider implementation if risks increase.</p>	<p>Head of ICT</p> <p>Will review 6 monthly</p>

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11	2.29	<p>Journal authorisation</p> <p>Journal authorisation procedures should be implemented for the review of journals created during the year.</p>	Medium	<p>We do not agree that each journal should be authorised; journals are restricted to the Accountancy team (6 individuals) and to authorise entries made would not be practical and would involve double handling of work. We will implement a sample checking and authorisation process on a monthly basis.</p>	<p>Head of Finance August 2010</p>
12	2.35	<p>Suspense accounts</p> <p>The Council should ensure that all suspense accounts are cleared on a timely basis.</p>	Medium	<p>Agreed. Accounts are checked on a timely basis. This finding relates to a cash account where electronic reconciliation processes are being investigated in order to clear automatically rather than through a manual process.</p>	<p>Head of Finance Initial investigation to determine best course of action and costs implications. October 2010</p>
13	2.35	<p>Control and bank account reconciliations</p> <p>All control account and bank account reconciliations should be reviewed by an individual other than the preparer and, this review should be evidenced.</p>	Medium	<p>Agreed. This is the procedure but an individual officer did not sign off a couple of instances because of other work commitments, this was agreed but should not reoccur.</p>	<p>Head of Finance In place</p>

Rec. No.	Para. Ref.	Recommendation	Priority	Management response	Implementation date & responsibility
14	2.35	<p>Credit notes</p> <p>The Council's financial procedures should be updated to ensure staff are aware of the difference between issuing a credit note and writing off an amount so that they are used appropriately.</p>	Low	Agreed. Individuals have been reminded but financial operating procedures need to be updated.	<p>Head of Finance</p> <p>December 2010</p>
15	2.35	<p>Fixed asset register</p> <p>The fixed asset register should be updated at least quarterly to reflect transactions that have occurred, including additions, disposals and depreciation.</p>	Medium	<p>Agreed in part.</p> <p>Quarterly meetings are held between the Valuation Team and an Accountant to reconcile adjustments needed to the asset register; however a number of amendments it is considered cannot be processed until year end. However, as part of year end accounts closure review this will be considered along with best practice ideas from other authorities.</p>	<p>Head of Finance</p> <p>Review date: July 2010</p>



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