

Report to the Audit and Governance Committee

Report reference: AGC-006-2018/19

Date of meeting: 30 July 2018



**Epping Forest
District Council**

Portfolio: Technology and Support Services

Subject: Internal Audit Monitoring Report April to July 2018

Responsible Officer: Sarah Marsh (01992 564446).

Democratic Services: Rebecca Perrin (01992 564532).

Recommendations/Decisions Required:

The Committee notes the progress made against the 2018/19 Internal Audit plan.

Executive Summary:

This report updates members on the work completed by Internal Audit since the March 2018 Audit and Governance Committee, and also provides the current position in relation to overdue recommendations.

Reasons for Proposed Decision:

Monitoring report as required by the Audit and Governance Committee Terms of Reference.

Other Options for Action:

No other options.

Report:

2018/19 Internal Audit Plan

1. Work has commenced on the 2018/19 Audit Plan as detailed in Appendix 1. The timings of the audits have been agreed with management to ensure a timely flow of audit reports throughout the year.

Internal Audit Reports

2. The following ten reports have been issued since the Committee received its last update in March 2018:

- **Housing Planned Maintenance and Major Works Programme – Substantial assurance**

The Council's planned maintenance programme (PMP) is a 30-year rolling programme of works based on the average replacement times for building components. In March 2017 the Council reverted to the Decent Homes Standard and the PMP has been updated to reflect the longer life cycles

A continuous programme of inspections ensures that stock condition surveys are completed on the Council's housing stock every five years, and the PMP is updated quarterly with results of the surveys. There is an effective process in place to update the PMP when works are completed. A minor weakness relating to the information provided to Housing Assets on planned works completed at void properties has been addressed by management.

Robust contract management processes ensure that planned maintenance works are delivered to budget, time and specification. Prompt action is taken when planned works do not meet the required specification, and contracts are terminated when poor performance persists.

Progress on planned maintenance programme is monitored by management and reported through the quarterly capital programme update. Regular meetings with Accountancy ensure budgets are monitored and remedial action taken if necessary.

- **Card Income Payments – Substantial assurance**

There are robust controls surrounding the processing and security arrangements of debit and credit card payment income as required by the Payment Card Industry Data Security Standard (PCI DSS). A secure automated telephone system, 'Call Secure', has been introduced across the Council to process card payments for telephone customers, ensuring that no card data is accessed or recorded by Officers.

The Council's computer network is protected by a boundary of defences to ensure that card data is transmitted securely and card data is not stored on the Councils computer network. Card payments are independently reconciled and checked to bank statements by the Income Control team. Any differences are investigated and resolved promptly. The card payment reconciliation is also independently verified by Accountancy as part of the bank reconciliation.

Weaknesses around Business Continuity arrangements for the technical support of card payments software are being addressed through an increase in capacity and knowledge base of the system, and the documentation of procedures.

- **Payroll – Substantial assurance**

The audit found that access to the payroll system, iTrent, is restricted to authorised individuals and is password controlled to provide a good level of security over payroll data.

New starters and amendments to pay are appropriately authorised and there are adequate controls over inputting details to the system to ensure these are correct. Completeness and accuracy of the payroll data is ensured through a range of monthly checks by the Payroll Manager including a check of all leavers. BACS payments are reconciled to the payroll data and independently authorised prior to processing, and payroll costs are reconciled to the general ledger monthly by Accountancy.

The audit identified a lack of detailed guidance or procedures covering the payroll function which should be compiled for business continuity purposes.

- **HR Absence Management – Substantial assurance**

There are appropriate policies and procedures in place covering the main types of absence (sickness, parental leave, compassionate leave, and exam / study leave etc.) and these are available on the intranet. Some policies have not been reviewed for several years and Human Resources are in the process of completing these.

Training is provided to managers and employees on absence management procedures, and sickness and annual leave procedures are included as part of staff induction process. The

Human Resources Team helps to proactively manage sickness absence across the Council through the issue of timely management information and provision of support to managers during absence-related follow up meetings.

- **Housing Benefits – Substantial assurance**

The Council uses the Capita Academy IT system to process housing benefit payments. Benefit parameters, set by the Department for Work and Pensions, are input to Academy and independently checked prior to the start of the financial year. Benefit entitlement is automatically calculated by the system.

New claims and changes are assessed promptly with adequate documentary evidence to support the claim. Management undertake monthly sample checks of assessed claims to ensure policies and procedures are followed and claims are processed accurately. Housing Benefit is reconciled daily with the council tax and housing rents systems, and payments to private tenants reconciled on a weekly basis.

Systems access is properly controlled and set in line with job requirements and there is segregation of duties between the assessment and payment of benefits. A dedicated housing benefit Training Officer provides guidance on housing benefits processes and helps to ensure staff are kept fully updated on legislative changes.

Due to robust control and processes in place no recommendations were raised as a result of this audit.

- **Capital Projects (Non-Housing) - substantial assurance**

Overall, the Council manages capital projects well. All capital projects are supported by a business case and approved by Cabinet prior to inclusion in the capital programme.

New corporate project management processes, established in 2016, along with the implementation in June 2017 of the performance and project IT system, Pentana, has significantly improved project management practices across the Council. For projects recorded on Pentana, progress against timescales and budgets are regularly monitored and risk management and change control processes are in place. Projects are also evaluated on closure to review the benefits expected and to identify learning points to take forward to other projects. Additionally, there is regular highlight reporting on the progress of projects on Pentana to both senior management and Members. All capital projects should be recorded on Pentana to ensure these key elements of good project management are not missed.

- **Leisure Management Contract – Moderate assurance**

The Leisure Management contract commenced 1 April 2017 and transfers responsibility for the design and build of the new Waltham Abbey leisure centre, and the operation and maintenance of all four of the Council's leisure centres to an external contractor (Places for People Ltd) for 20 years.

The contract is operating well and building work is well underway for the construction and refurbishment of the leisure centres. Performance is monitored through monthly performance reports provided by the contractor. The contractor is developing performance management processes to better align these to the Council's reporting requirements.

There are good contract monitoring and oversight processes in place with regular communication between the Council's Leisure Contract Manager, the building contractors, the Employers Agent and Places for People Ltd. All meeting outcomes, however, should be documented to provide evidence of the decision making process, and the Council needs to

ensure contract progress reports, including expenditure information, are submitted to Members quarterly (instead of six monthly), as required by the Council's Procurement Rules.

Following the audit, contract risks have been documented by Places for People Ltd and by the Council and are being monitored at the contract management meetings. Formal contingency plans should be put in place for managing the contract in the absence of the Leisure Contract Manager as this represents a business continuity risk.

- **Asset Management Strategy – Moderate assurance**

The Council has detailed departmental strategies in place regarding its assets and these are reported to the relevant cabinet committees. There are links to the Corporate Plan and corporate priorities; however, there is no overarching strategy in respect of Asset Management resulting in a risk that individual asset management strategies may conflict with each other. The Council should consider one overarching Asset Management Strategy with individual strands for each department/relevant area (including policies on acquisitions and disposals) and report this to Cabinet to provide a coordinated approach.

The majority of commercial/investment properties are leased on full repair and insuring terms. It would assist with long term financial planning if the Council were to introduce a programme of fitness for purpose assessments at lease renewal stage to ensure assets continue to remain relevant and provide value for money. In addition, expectation of the life of all assets should be documented and built into maintenance schedules to assist with financial planning.

- **General Ledger – Moderate assurance**

There are good controls over the general ledger processes. A number of systems feed data into the general ledger and these are reconciled by Accountancy prior to uploading to the general ledger. Each department also conducts their own reconciliations to ensure data is accurate and consistent with their system. At the time of the audit the monthly income control and bank account reconciliations were not up to date and led to the Moderate assurance rating; but these have subsequently been carried out and kept up to date.

Journals contain narrative to support the reason for raising the journal and are independently authorised before processing and virements are properly approved.

Budgets are approved annually by Cabinet and uploaded to the general ledger with any adjustments processed during the revised budget process in September each year.

Access to the general ledger is administered by the Finance Team and is restricted to officers who need access to perform their roles.

- **Agency Workers – Moderate assurance**

At an operational level the use of agency workers is being well managed, however, there is a lack of corporate approach to ensure value for money is being achieved. The current process is for Managers to negotiate fees directly with the Agencies. Value for money could be better demonstrated and achieved if the Council had a Preferred Agency List, but recognising that this may not be appropriate for more specialist posts.

The exact number of agency workers being utilised at any particular point in time is difficult to quantify as there is no central monitoring, nor has there been central monitoring of costs. These weaknesses have already been identified by HR who will address these concerns as part of their Recruitment Strategy project.

Recommendation Tracker

3. The Audit and Governance Committee continues to receive details of all overdue recommendations, plus any high priority recommendations from final reports, regardless of whether they are overdue or not.

4. The current tracker is shown at Appendix 2 and the number of overdue recommendations remains low.

Table 1. Summary of tracker as at July 2018.

Recommendation type	Number (July 2018)	Number (March 2018)	Number (January 2018)	Number (November 2017)
High Priority not passed its due date	0	0	0	1
High Priority passed its due date	0	1	1	0
Medium Priority passed its due date	2	1	1	1
Low Priority passed its due date	0	2	2	2
Total	2	4	4	4

Other Internal Audit Activities

5. A number of assignments in the Audit Plan are included to provide advice and guidance throughout the year on current and future issues relevant to the Council, and ultimately help to inform the Chief Internal Auditor's annual opinion; but these do not result in an audit report. This includes Internal Audit representation on business groups and project teams in addition to less formal meetings. The main focus of Internal Audit's non-audit work has been GDPR.

- **General Data Protection Regulation (GDPR) Working Party** – This project is now complete and the Working Group very recently been disbanded, as data protection processes move into Business as Usual activities, supported with a workplan to ensure on-going compliance. Mandatory staff e-learning is currently taking place as well as training sessions for Councillors, and half a day's face-to-face training for key staff. Posters have been placed across council buildings regarding GDPR, regular articles continue to be placed in the staff newsletter (District Lines) and a data declutter day planned for 09 August 2018.

All key policies and procedures have been updated and available on the Intranet. Registers of Processing Activities (RoPA) have been created which log all datasets which contain personal information that the Council collects or processes. The RoPA also contains details of the 'legal basis' for holding the data, how it is processed, with whom it is shared and other details specified by the Information Commissioner's Office. Internal Audit has developed internal audit programmes, in conjunction with the Council's Data Protection Officer, to assess the Council's compliance with GDPR.

Pan Essex Data Matching

6. As well as participating in the National Fraud Initiative (NFI) Epping Forest is data

matching with other Essex councils as part of a pan-Essex commitment to identify fraud and error in its Council Tax base. Nearly £400K of savings has been made across Essex since November 2017, with Epping Forest achieving savings of over £55K from the matches.

Resource Implications:

Within the report

Legal and Governance Implications:

None

Safer, Cleaner and Greener Implications:

None

Consultation Undertaken:

Corporate Governance Group

Background Papers:

2018/19 Audit and Resource Plan

Risk Management:

Failure to achieve the audit plan and poor follow up of audit recommendations may lead to a lack of assurance that internal controls are effective and risks properly managed, which ultimately feeds into the Annual Governance Statement.

Equality Analysis:

The Equality Act 2010 requires that the Public Sector Equality Duty is actively applied in decision-making. This means that the equality information provided to accompany this report is essential reading for all members involved in the consideration of this report. The equality information is provided at Appendix 3 to the report.