

Report to the Audit & Governance Committee



**Epping Forest
District Council**

Report reference: AGC-011-2009/10
Date of meeting: 24 September 2009

Portfolio: Finance & Economic Development.

Subject: Internal Audit Monitoring Report for April – June 2009.

Responsible Officer: Brian Bassington (01992 564446).

Democratic Services Officer: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

(1) The Committee is requested to note the following issues arising from the Internal Audit Team's first quarter monitoring report for 2009/10:

- (a) The reports issued between April and June 2009 and significant findings (Appendix 1);**
- (b) The Priority 1 Actions Status Report (Appendix 2)**
- (c) The Limited Assurance Audits follow up status report (Appendix 3);**
- (d) The Work Plan July - September 2009 (Appendix 4);**
- (e) The 2009/10 Audit Plan status report (Appendix 5); and**
- (f) The Governance Statement 2008/09 Action Plan (Appendix 6); and**

2. The Committee is also requested to confirm that it is satisfied with the effectiveness of the work of Internal Audit in the first quarter 2009/10.

Executive Summary:

This report provides a summary of the work undertaken by the Internal Audit Unit between April and June 2009, and details the overall performance to date against the Audit Plan for 2009/10. The report also contains the Internal Audit work plan for the second quarter 2009/10 and a status report on previous audit recommendations.

Reasons for Proposed Decision:

To comply with the Committee's Terms of Reference.

Other Options for Action:

None for consideration.

Report:

1. Resources available:

	Actual 3 months Apr-June 09	12 months Est Apr 09- Mar 10
Number of days required to meet the audit plan	<u>225</u>¹	<u>900</u>¹
Number of days available based on staff in post	253	1225
Less statutory and annual leave	(40)	(167)
Sick leave / hospital appointments	(20)	(30)
Training	(3)	(30)
Planning, supervision, management and non-chargeable	<u>(30)</u>	<u>(143)</u>
Available audit days	160	855
Add Bought in Days	-	45
Total Audit Days	<u>160</u>	<u>900</u>

Note¹ audit days available if full establishment achieved

Current Staffing Position

2. The Unit had an establishment of 4.8 full time equivalent (fte) posts in the first quarter of 2009/10, but only 3.8 posts were filled for most of the quarter as a result of a part time Auditor post becoming vacant on 31 March 2009, and the Chief Internal Auditor leaving his position in April and subsequently providing temporary part time assistance from May. Temporary (3 month) cover was in place for the Auditor post from the end of June through to the end of September. Interviews for the Chief Auditor post took place in mid-June and the former Senior Auditor was promoted to the role with effect from 3 August 2009. The position vacated as a result of the promotion has been advertised.

3. The table on the previous page indicates that over 60 productive days were lost in the first quarter, primarily as a result of vacancies, and to a lesser extent staff sickness. The effect on the work plan will be assessed at the half year stage in determining those relatively lower priority audits that will need to be deferred to 2010/11.

4. There is provision for an agency budget of £17,250, in 2009/10 to provide some flexibility to meet the cost of agency or consultant auditors for specific pieces of work. This resource has not been utilised to date.

5. Sickness during the first quarter 2009/10 amounted to 20 days, compared to 18, 6, and 5 days respectively in the preceding three quarters. The first quarter figure includes 4 days in total for hospital appointments. Excluding this factor, the average level of sickness per member of staff over the last 12 months has been approximately 11 days and is again a concern following the improvement in 2008/09, but is mainly attributable to the sickness of two members of the Team, one of whom is suffering a long term illness. Sickness continues to be monitored and managed in accordance with the Council's management of absence policy with ongoing advice and support from Human Resources.

Work carried out in the period

6. The audit reports issued in the first quarter are listed in paragraph 11 below. A summary of the key governance issues arising from the work of the Team in the quarter is

provided in paragraph 14.

7. A number of systems audits and follow up reviews were carried out across a range of Services in the first quarter, including the reviews in respect of Business Plans and the Building Maintenance Unit stock take.

8. The Audit Team has also provided support to management on a number of corporate issues and has performed a range of tasks including standing membership of project teams. Topic areas included the production of the Council's draft Governance Statement, and support to the Use of Resources process.

9. Supervision and management time has included the normal management and review functions undertaken by the Chief Internal Auditor, who has also been involved in the corporate activities referred to in the previous paragraphs. During the first quarter the Unit's Annual Report for 2008/09 was prepared, and a national benchmarking return was submitted to CIPFA to assist in the production of comparative data about Audit activity and performance across the country.

10. No investigation work was required in the quarter, although a further planned 13 days was allocated to complete the Council's participation in the 2008 National Fraud Initiative (NFI), which is the Audit Commission's biennial data matching exercise designed to identify potential fraudulent payments. A total of 1,366 potential matches were identified and subjected to a systematic filtering process. A total of 877 matches have been prioritised and will be examined in detail, including referrals to the DWP and Benefit Fraud Investigation Team. Several matches indicating possible fraud had been identified at the time of drafting this report, and investigations are continuing. It is also worth noting that several of the match categories are intended to identify potential cases of fraud involving staff (e.g. ineligible benefit claimants), and it is encouraging that no such cases were highlighted.

Reports Issued and Significant Observations

11. The following audit reports were issued in the first quarter:

Substantial Assurance

Business Plans 2009/10

Application of Regulation of Investigatory Powers Act

Satisfactory Assurance

Contract Compliance 2008/09

Reprographics (systems)*

Communications policies

Community and Culture Bookings and Cash Collection follow up

Parsonage Court (Housing) stores

Private Renewal Grants/DFG/'CARE'

Limited Assurance

Managing Absence (data quality)

Building Maintenance (Works Unit) Stocktake

Travel and Subsistence

Reprographics (value for money)*

No Assurance

None

* Combined in a single report

12. Audits of Building Control and Public Health were in progress at 30 June 2009, but had not reached draft report stage and are not included in the performance figures at paragraph 19

13. None of the 'limited assurance' audits in the first quarter related to fundamental finance systems, and the issues identified were therefore generally towards the lower end of the risk scale. That said, it is disappointing that some basic systems of control in areas such as stocktaking and the authorisation of travel and subsistence claims are still not being applied adequately. The reports submitted to Service Management identified a number of recommendations for improvement across Service areas, including a need to address the under-utilisation of the Reprographics Unit by examining ways of re-allocating resources when the variable work flow in this Team results in down time.

14. The key findings from the 'limited assurance' audits in quarter 1 are outlined below:

(a) Managing Absence

There continue to be examples of errors in the recording of data for the monitoring of sickness absences. Furthermore, the system for producing BVPI data is based on a flawed report and requires urgent improvement in order to produce accurate and timely data for the 2009/10 quarterly submissions.

Outcome

The settings on the relevant reports have been amended to eliminate the error in reporting.

(b) Building Maintenance Stocktake

The latest stocktake indicates that there has been no improvement in stock control and the error rate remains at an unacceptable level. While Management review has identified areas for improvement to stock and stores management, clearly further input is required by Management to improve the situation.

Outcome

Management are carrying out additional spot checks with the aim of driving improvement and reducing the error rate. A radical review of stores has begun and an options appraisal has been carried out with a local supplier.

(c) Travel and Subsistence Claims

There are generally satisfactory procedures in place to control travel and subsistence payments. However, from a relatively small sample an unacceptable number of errors were again identified in the application of the controls, in relation to coding, authorisations, budgetary control, and compliance with VAT Regulations.

Outcome

Directors have been reminded of certifying officers' responsibility to ensure that claims are completed correctly, and to check all claims thoroughly as part of the certification process.

(d) Reprographics Unit (Value for Money)

The audit found that adequate procedures are in place for the operation of the Reprographics Section.... while the workload varies and there are peak times,

generally the Section is under-utilised and management should seek to ensure that better value for money is achieved by reviewing the role of the Section and the functions of the staff.

Outcome

Work around this issue will include some links with the renewal of the central photocopying contract. The target date for completion of the staffing review is December 2009.

Systems and Accounts Action Plan status report

15. At the meeting in November 2008 the Committee considered the External Auditor's final report on the results of the systems reviews completed in respect of the 2007/08 financial year. The report included an action plan summarising those areas where a need for improvement had been identified in accounting and internal control systems. The officer Corporate Governance Group is monitoring the action plan and none of the agreed actions are currently behind schedule.

Follow Up of Previous Limited Assurance Audits (Appendix 3)

16. Attached at Appendix 3 is a summary schedule designed to monitor the follow up of previous limited assurance audits as an aid to ensuring timely and adequate follow up both by Internal Audit and Service Management. The table will be populated during the year as follow up audits are completed, with specific reference to any failure to comply with priority one recommendations.

Three-month work plan (Appendix 4)

17. The work plan for the period July to September 2009 reflects the agreed Audit Plan for 2009/10 agreed at the March meeting. The work plan covers a broad range of Council services and also includes a number of finance systems, where some 'top up' testing will also be required later in the year to verify the existence of robust controls throughout the financial year.

Audit Plan 2009/10 (Appendix 5)

18. The current status of the planned audits in the 2009/10 Audit Plan is set out at Appendix 6. Reference was made in paragraph 4 to the need for a half year review to adjust the Plan to reflect the current Audit Team vacancies. The Council's main financial systems will all be audited during 2009/10, and the Council's External Auditors, PKF (UK) LLP will review the Internal Audit work and report in due course on the reliance that can be placed on it for the purposes of their audit of the Authority's accounts for 2009/10.

Issues arising from Governance Statement 2008/09 (Appendix 6)

19. The Committee noted the Council's Annual Governance Statement for 2008/09 at the meeting in June 2009. The action plan arising from the Statement is attached at Appendix 6 and progress against the targets will be monitored throughout the year.

Performance Management

19. The Internal Audit Team has local performance indicator targets to meet in 2009/10, as set out below:

	Actual 2006/07	Actual 2007/0 8	Actual 2008/09	Target 2009/10	Actual Apr-June 2008/09
% Planned audits completed	82%	89%	95%	90%	17%
% chargeable "fee" staff time	67%	68%	71%	72%	63%
Average cost per audit day	£314	£307	£309	£320	£326
% User satisfaction	83%	81%	85%	85%	96%

20. The indicators are calculated as follows:

(a) % Planned audits completed - cumulative calculation is made each quarter based on the approved plan as amended for additional work (e.g. investigations) during the year;

(b) % Chargeable fee time - calculation is made each quarter based on reports produced from Internal Audit's time recording system;

(c) Average cost per audit day - the calculation is based on the costs for each quarter divided by the number of fee earning days extracted from the time recording system; and

(d) % User satisfaction - a calculation is made each quarter based on returned client surveys for each audit giving a score on a five point scale 0 (poor) – 5 (excellent). The score is backed up by the client's comments on a range of issues related to the audit.

21. The percentage of planned audits completed is calculated on a cumulative basis so the target for the first quarter is around 22.5%. The actual figure of 17% therefore falls short of the target, due primarily to the part time Auditor vacancy during the first quarter and the work in progress not counted at the end of the period. Agency cover was in place during the second quarter and the position will be managed to ensure that all key finance systems are reviewed during the year in line with the Audit Plan.

22. The indicator for chargeable time also fell short of the target in the first quarter, due primarily to increased sickness levels. The cost per productive audit day for the first quarter was £326 and exceeded the target for the same reason.

Resource Implications:

Within the report.

Legal and Governance Implications:

Within the report.

Safer, Cleaner and Greener Implications:

No specific implications.

Consultation Undertaken:

No external consultation undertaken.

Background Papers:

Audit files and working papers.

Impact Assessments:Risk Management

Internal Audit has a primary objective to provide an independent and objective opinion on the adequacy of the Council's control environment, including its governance and risk management arrangements. The audit reports referred to in this monitoring report will assist managers to determine the adequacy and effectiveness of the arrangements in place in their services.

Equalities Assessment

There are no specific equalities impacts.

ASSURANCE CLASSIFICATIONS	
Substantial assurance	Substantial assurance that the system of internal control is designed to meet the organisation's objectives, and a robust framework of controls are consistently applied in all the areas reviewed with only minor lapses identified.
Satisfactory assurance	Satisfactory assurance that there is a generally sound system of control designed to meet the organisation's objectives. However, some weakness in the design or inconsistent application of controls put the achievement of particular objectives at risk;
Limited assurance	Limited assurance as weaknesses in the design of controls, absence of key controls, or the inconsistent application of controls put the achievement of the organisation's objectives at risk in the areas reviewed;
No assurance	No assurance as weaknesses in control, or consistent non-compliance with key controls, could result [or have resulted] in failure to achieve the organisation's objectives in the areas reviewed, including breakdown in the application of controls.