

Report to the Audit and Governance Committee



**Epping Forest
District Council**

Report reference: AGC-004-2009/10

Date of meeting: 21 June 2010

Portfolio: Finance and Economic Development

Subject: Internal Audit Annual Report 2009/10

Responsible Officer: Brian Bassington (01992 564446).

Democratic Services Officer: Gary Woodhall (01992 564470).

Recommendations/Decisions Required:

- 1. The Committee is requested to note the 2009/10 Audit Plan Status Report as at 31 March 2010 (Appendix 2) and the assurance level given; and**
- 2. The Committee is also requested to confirm that it is satisfied with the effectiveness of the work of Internal Audit during the year 2009/10.**

Executive Summary:

This report is presented in support of the Internal Audit opinion on the adequacy of EFDC's internal control environment, provides a summary of the work undertaken by the Internal Audit Unit between April 2009 and March 2010, and details the overall performance against the Audit Plan for 2009/10.

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:

Introduction

- 1. This Internal Audit Annual Report for 2009/10 is based on the "Code of Practice for Internal Audit in Local Government" produced by CIPFA. The work referred to in this report was carried out as part of the agreed Audit Plan for the period from 1 April 2009 to 31 March 2010.**
- 2. The purpose of this report is to support the Internal Audit opinion on the adequacy of EFDC's internal control environment as a contribution to the proper, economic, efficient, and effective use of resources. This report provides part of the evidence that underpins the Corporate Governance Statement published in the Council's Statutory Statement of Accounts, in line with the requirements of the Accounts and Audit Regulations 2006.**

External Audit

3. The Authority's External Auditor has a statutory responsibility to express an independent opinion on EFDC's accounts, performance management and the financial aspects of corporate governance. The Audit Commission, who moved all principal audited bodies on to a "fee for audit" basis several years ago, appoints the External Auditor. The Audit Commission has to be confident in the processes and procedures at EFDC to produce the accounts by the statutory deadline each year, as well as being able to place reliance on the work of Internal Audit.

4. Internal and External Audit work closely together, following the principles of the previous "managed audit" approach, to avoid duplication of audit effort and to ensure that the Council receives comprehensive audit coverage.

The Role of Internal Audit

5. Internal Audit is provided in the context of the Council's statutory responsibility to make arrangements for the proper administration of its financial affairs. It is an assurance function that primarily provides an independent and objective opinion to the Council on the adequacy of the control environment, as a contribution to the proper, economic, efficient and effective use of resources.

6. The main elements of the work are to:

- audit and report on the core financial controls throughout the authority;
- provide advice during the development of new systems;
- provide advice on financial, contractual and IT controls, including financial regulations and standing orders;
- review computer security;
- investigate suspected fraud, corruption and other irregularities;
- monitor the Anti-fraud strategy and participate in the National Fraud Initiative;
- keep Corporate Executive Forum and Management Board informed of key issues;
- liaise with the Audit Commission and their appointed External Auditors; and
- report to the Audit and Governance Committee on key issues arising from audits and on the performance of the Audit team.

Performance against the Audit Plan

7. Whilst the majority of planned audits, including all of the key audits of financial systems, were completed by 31 March 2010 a small number have been rolled forward into the 2010/11 plan due primarily due to a vacancy factor within the Team. The prioritisation of Audits was based on a risk evaluation and the audits that were rolled forward were considered to be of a lower priority.

8. During the year, 49 reports were issued to Management with the following assurance levels:

Assurance Level	2009/10	2008/09
Substantial Assurance	11	4
Satisfactory Assurance	27	25
Limited Assurance	9	20
No Assurance	0	0
Awaiting Deloitte report	5	N/A

9. Due to the externalisation of a proportion of the audit plan to Deloitte and Touche Public Sector Internal Audit Limited during December, a number of financial and ICT audits were scheduled for completion during March. While the work had been carried out by 31 March not all of the reports had been received as they were within the contractor's quality

control process. It is intended that the contracted out work will be spread throughout 2010/11 to ensure completion before the 31 March 2011.

10. It should be noted that the assurance classifications used by Deloitte differ from those of the Council. These classifications are detailed at Appendix 1 and it is proposed to align the Council's classification with those of Deloitte as from 1 April 2010.

11. The recommendations made within the audit reports are given a priority rating of 1 to 3, with priority 1 being the highest. These priority 1 recommendations are monitored throughout the year to ensure that action is taken and these actions are reported quarterly to the Audit and Governance Committee. The recommendations are included in detail as appendices to the four quarterly reports to the Audit and Governance Committee.

Priority Level	Number Issued 2009/10	Number Issued 2008/09
Priority 1 - High	39	74
Priority 2 - Medium	86	146
Priority 3 - Low	14	19

Opinion

12. Even though measures have been taken in 2009/10 and previous years, to improve awareness of governance requirements and to promote improvement in systems, full assurance cannot be given and risks cannot be totally addressed. Therefore, the opinion given in this report provides a reasonable level of assurance that there are no significant weaknesses in the Council's control environment as the audits carried out during 2009/10 concluded that systems were generally operating satisfactorily, and appropriate follow up action had been taken where required from previous audits.

13. There were no material errors arising from Internal Audit work on the Council's major financial systems during 2009/10. Reviews of the Council's overall systems of internal control across the Authority identified some weaknesses in the application of some of the Council's systems during 2009/10, and occasional lapses in the application of Financial Regulations and Contract Standing Orders. These have been referred to in reports to the Audit and Governance Committee, and in the Council's Governance Statement.

14. To assist non-financially trained managers' understanding of finance and governance issues, a user-friendly summary of Financial Regulations is available on the Council's intranet, which will soon be supplemented by a similar summary of Contract Standing Orders, for reference by staff involved in financial matters. This is supported through regular training for managers and supervisors in all services.

15. The level of assurance on the Council's systems of internal control that can be given by the Chief Internal Auditor takes into account:

- all audit work completed during 2009/10;
- follow up actions from previous years audits;
- Management's response to findings and recommendations;
- the resources available to deliver the audit plan;
- the certification of Service Directors in their assurance statements;
- Internal Audit performance in 2009/10;
- the reliance placed on the work of Internal Audit by the External Auditor; and
- relevant information in Audit Commission reports, including the annual Use of Resources assessment.

16. Taking all of the available information into account, in particular the audit work completed, it is considered by the Chief Internal Auditor that the Council has in place a

satisfactory framework of internal control, which provides reasonable assurance regarding the efficient and effective achievement of its objectives in 2009/10.

Review of Effectiveness of Internal Audit

17. Changes to the Accounts and Audit Regulations from April 2006 include a requirement for the Authority to carry out an annual review of the effectiveness of Internal Audit. To assist the Audit and Governance Committee in discharging this requirement on behalf of the Authority, a separate report will be issued in the near future.

Performance Management

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

	Actual 2006/07	Actual 2007/08	Actual 2008/09	Target 2009/10	Actual 2009/10
% Planned audits completed	82%	89%	95%	90%	87%
% chargeable "fee" staff time	67%	68%	71%	72%	69%
Average cost per audit day	£314	£307	£309	£320	£300
% User satisfaction	83%	81%	85%	85%	94%

19. The indicators are calculated as follows:

- (a) % Planned audits completed - a 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 - a 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.

20. The figure for planned audits completed of 87% falls short of the target of 90% due to the vacancy within the unit throughout the year. The addition of the contracted out work and the temporary employment of staff in the last quarter has enabled improvements during the last quarter.

The Audit Team

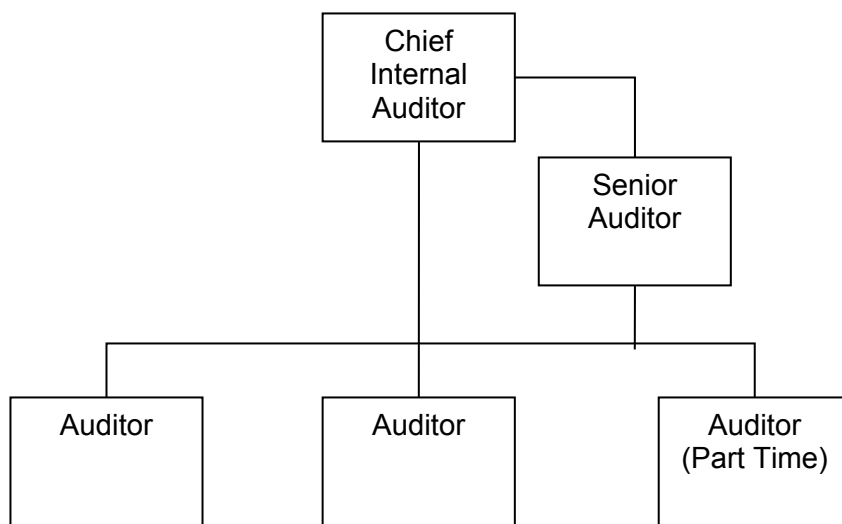
21. Various changes to staffing within the Team took effect from April 2009 with the transfer of an experienced auditor to the Accountancy Section and the resignation of the Chief Internal Auditor. The Senior Auditor was successful in gaining the post of Chief Internal Auditor, followed by one of the Auditors being successful in gaining the post of Senior Auditor both as a result of an open recruitment process.

22. The Team which currently has an establishment of 4.3 full time equivalent (fte) Internal Auditors, had a vacancy element throughout the year which resulted in one full time equivalent post being vacant at the end of 2009/10. Recruitment was in progress at the end of the year which resulted in an appointment being made. The establishment was reduced from 4.8 fte during 2009/10 as part of the externalisation of part of the audit plan approved by Cabinet on 7 September 2009.

23. Following the tendering process through the Essex Procurement Hub, the contract was awarded to Deloitte and Touche Public Sector Internal Audit Limited for the completion of nine audits per year for a period of two years.

24. The in-house resource was supplemented by the employment of agency staff to ensure that specific audits were completed. This resource was utilised in the fourth quarter.

25. The establishment as at 31 March 2009 is set out below:



Resource Implications:

Within the report.

Legal and Governance Implications:

Within the report.

Safer, Cleaner and Greener Implications:

No specific implications.

Consultation Undertaken:

Corporate Governance Group.

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.

Equality and Diversity:

Did the initial assessment of the proposals contained in this report for relevance to the Council's general equality duties, reveal any potentially adverse equality implications? No

Where equality implications were identified through the initial assessment process, has a formal Equality Impact Assessment been undertaken? No

What equality implications were identified through the Equality Impact Assessment process?
There are no specific equalities impacts.

How have the equality implications identified through the Equality Impact Assessment been addressed in this report in order to avoid discrimination against any particular group?
There are no specific equalities impacts.

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.

Deloitte – Definition of Levels of Assurance

Level	Evaluation opinion	Testing opinion
Full assurance	There is a sound system of control designed to achieve the system objective.	The controls are being consistently applied.
Substantial assurance	While there is a basically sound system, there are weaknesses that put some of the system's objectives at risk.	There is evidence that the level of non-compliance with some of the controls may put some of the system's objectives at risk.
Limited assurance	Weaknesses in the system of controls are such as to put the system's objectives at risk.	The level of non-compliance puts the system's objectives at risk.
No assurance	Control is generally weak leaving the system open to significant error or abuse.	Significant non-compliance with basic controls leaves the system open to error or abuse.

**Audit Plan 2009/10
Status Report at 31 March 2010 Appendix 2**

Audit area (L denotes past limited assurance audit rating)	Audit type	Days allocated	Completed/ Provisional Timescale	Auditor
FINANCE AND ICT				
Finance				
Bank Reconciliation (L)	system/follow up	15	Completed	SL
Sundry Debtors	system/follow up	20	Completed	contractor
Creditors (L)	system/follow up	20	Completed	contractor
Treasury Management (L)	system/follow up	15	Completed	SL
Payroll	system/follow up	25	Completed	DD
Budgetary Control (capital and revenue)	system/follow up	10	Completed	contractor
Risk Management and Insurance	system/follow up	15	Completed	Agency
Main Accounting and Financial Ledger	system/follow up	15	Completed	contractor
Housing Benefits	system/follow up	25	Completed	SL
Council Tax	system/follow up	25	Completed	contractor
National Non Domestic Rates	system/follow up	15	Completed	SL
Cash receipting and Income control	system/follow up	15	Completed	NH
Cash receipting IT system	IT	5	2010/11	contractor
Provision for 'top up' testing	systems	15	Completed	All
Cash Office spot checks	verification	5	Completed	NH
ICT				
Data (L) and Network Security	system/follow up	20	Completed	contractor
IT Procurement	system	10	Completed	contractor
Revenues and Benefits IT system	follow up	5	Completed	SL
IT System Logs (L)	follow up	5	Completed	DD
TOTAL		280		
PLANNING AND ECONOMIC DEVELOPMENT				
Building Control (L)	system	20	Completed	NH
Countrycare	system	7	2010/11	SL
External Funding and Housing/Planning Delivery Grant (L)	follow up	6	In Progress	SL
Strategic Housing Assessment	system	3	Completed	BB
TOTAL		36		
ENVIRONMENT AND STREET SCENE				
Waste Management (L) and Recycling	system/follow up	25	In progress	NH
Public Health	system	15	2010/11	tba
Licensing Enforcement	system	12	Completed	temp
Pest Control	system	10	Completed	DD
Car Parking (L)	follow up	7	Completed	DD
Waltham Abbey Sports Centre (L)	follow up	5	Completed	NH
TOTAL		74		
HOUSING				
Housing Rent Collection and Arrears	system/follow up	25	In progress	DD
Private Renewal Grants/DFG/'CARE'	system	25	Completed	SL
House Sales and Leaseholder Services	system	20	2010/11	tba
Depot (L)	system/follow up	15	2010/11	tba
Housing maintenance contract	contract	10	Completed	BB
Stores - Depot stock take (L)	stocktake	4	Completed	BB
Stores - Parsonage Court stock take (L)	stocktake	2	Completed	DD
Housing Repairs Working Group	management review	5	Completed	BB
TOTAL		106		
PARTNERSHIPS AND VOLUNTARY SECTOR				
Local Area Agreements	system	15	2010/11	tba
Grants to Voluntary Organisations (L)	follow up	7	Completed	temp
TOTAL		22		

Audit area	Audit type	Days allocated	Completed/ Provisional Timescale	Auditor
COMMUNITY SERVICES AND CUSTOMER RELATIONS				
Arts and Sports Development	system	20	Completed	SL
Bookings and Cash collection (L)	system/follow up	7	Completed	SL
TOTAL		27		
CORPORATE SUPPORT SERVICES				
Human Resources				
Recruitment and Selection	system	15	Completed	SL
Management of Sickness absence	system	10	Completed	DD
Travel and Subsistence claims (L)	follow up	10	Completed	NH
HR/Payroll Integration (L)	follow up	6	Completed	DD
Health and Safety Policy	system	5	2010/11	tba
Estates/Facilities Management/Other				
Commercial Property portfolio (L)	system/follow up	20	Completed	SL
Licensing	system	15	Completed	temp
Asset Management system	system	8	Completed	SL
Facilities Management (Mech. And Elec.) (L)	follow up	5	In Progress	BB
Non-HRA Repairs (L)	follow up	5	Completed	NH
Fleet Operations (L)	follow up	5	Completed	BB
Reprographics (commenced 2008/09)	vfm/systems	10*	Completed	BB
Legal				
Land Charges	system/vfm	15	Completed	Agency
Land Charges Data Quality	verification	10	Completed	Agency
* 10 days from contingency to facilitate completion				
TOTAL		139		
MISCELLANEOUS				
CPA and BEST VALUE				
Key and Local Performance Indicators	verification	15	Completed	NH
Business Plans (L)	verification	7	Completed	DD
CONTRACTS				
Contract Compliance (L) - commenced 2008/09	system	7	Completed	SL
Contract Compliance 2009/10	system	13	Completed	NH
CORPORATE				
Corporate Procurement (L)	system/follow up	10	Completed	contractor
Use of Consultants (L)	follow up	8	Completed	contractor
Gifts and Hospitality (L)	system/follow up	6	Completed	temp
Governance Statement	management review	5	Completed	BB
Use of Resources	management review	5	Ongoing	BB
Review of financial regulations and internal controls	management review	3	Completed	BB
Inventory Control (L)	follow up	8	Completed	NH
Email, Internet and Telephone usage (L)	follow up	8	Completed	SL
Use of Regulation of Investigatory Powers Act	system	5	Completed	BB
Follow up of Priority 1 Audit recommendations	follow up	6	Completed	BB
FRAUD AND CORRUPTION				
National Fraud Initiative (NFI)	c/fwd	15	in progress	NH
TOTAL DAYS ALLOCATED		805		
Contingency/Spot checks/Minor investigations		30	Ongoing	All
Corporate/Service Advice		65	Ongoing	BB
TOTAL		900		

