

Report to the Audit and Governance Committee



Report reference: *AGC-016-2012/13*
Date of meeting: *7 February 2013*

**Epping Forest
District Council**

Portfolio: Finance and Technology
Subject: Internal Audit Monitoring Report - October to December 2012
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 third quarter monitoring report for 2012/13:
- (a) The reports issued between October and December 2012 and significant findings (Appendix 1);
 - (b) The Outstanding Priority 1 Actions Status Report (Appendix 2);
 - (c) The Limited Assurance Audits follow up status report (Appendix 3); and
 - (d) The 2012/13 Audit Plan status report (Appendix 4).

Executive Summary:

This report provides a summary of the work undertaken by the Internal Audit Unit between October and December 2012, and details the overall performance to date against the Audit Plan for 2012/13. The report also contains a status report on previous priority 1 audit recommendations which has been monitored by the Corporate Governance Group.

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:

Work Carried Out in the Period

1. The audit reports issued in the third quarter are listed in paragraph 4 below.
2. Audits completed in the third quarter have covered staff and Member related systems and processes, the detailed findings of which are in appendix 1. At the end of the quarter a further seven audits were substantially complete and at the draft report stage.
3. Advice and guidance continues to be provided on a range of subjects, with particular

emphasis on the financial appraisal of company accounts relating to suppliers of goods and services to the Council.

Reports Issued

4. The following audit reports were issued in the third quarter:

- (a) Full Assurance:
 - Bank Reconciliations;
- (b) Substantial Assurance:
 - Car Mileage Claims;
 - Recruitment and Selection;
 - Gifts and Hospitality (Members and Officers);
 - Members Services; and
 - Key Performance Indicators 2012/13;
- (c) Limited Assurance:
 - None;
- (d) No Assurance:
 - None; and
- (e) At Draft Report Stage:
 - Corporate Procurement;
 - Commercial Property Management;
 - Housing Tenancy and Allocations;
 - Building Control;
 - Procurement Fraud Prevention and Detection;
 - National Non Domestic Rates; and
 - Treasury Management.

Limited Assurance

5. During the quarter no reports were issued with a Limited assurance rating.

Follow Up of Previous Priority 1 Recommendations

6. Attached at Appendix 2 is a schedule of outstanding priority 1 recommendations to ensure follow up both by Internal Audit and Service Management.

Follow Up of Previous Limited Assurance Audits

7. Attached at Appendix 3 is a schedule of previous limited assurance audits to ensure follow up both by Internal Audit and Service Management.

Audit Plan 2012/13 (Appendix 4)

8. The status of the 2012/13 Audit Plan is set out at Appendix 4.

Performance Management

9. The Internal Audit Team has local performance indicator targets to meet in 2012/13, as set out below:

	Actual 2009/10 For year	Actual 2010/11 For year	Actual 2011/12 For year	Target 2012/13 For year	Actual 2011/12 Quarter 3	Actual 2012/13 Quarter 3
% Planned audits completed	87%	82%	82%	90%	53%	63%
% chargeable "fee" staff time	69%	66%	71%	72%	71%	69%
Average cost per audit day	£300	£307	£213	£245	£237	£229
% User satisfaction	94%	86%	89%	85%	87%	See note below

10. The indicators are calculated as follows:

- (a) % Planned audits completed - a cumulative calculation is made each quarter based on the approved plan;
- (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 – this has been based on a customer survey form. Recently it has been increasingly difficult to encourage clients to return the form with any meaningful comments. A replacement electronic form is being developed for use from April with the new audit plan.

11. From the end of November a member of staff has had a spell in hospital and is now recovering at home. Hopefully they should return to work during late January / early February. This has resulted in a reallocation of the outstanding work to ensure that the fundamental financial systems are reviewed by the end of the financial year as required by the external auditors.

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.

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.

SUMMARY OF AUDITS COMPLETED DURING QUARTER 3
October - December 2012

Appendix 1

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Bank Reconciliations	Finance and ICT	<p>Full Assurance The systems and controls surrounding the reconciliation of the Council's bank accounts are operating effectively.</p>	<p>All bank accounts had been reconciled on at least a monthly basis.</p> <p>Reconciliations are independently reviewed and journals relating to bank transfers are processed promptly following the reconciliations.</p> <p>Unpresented and returned cheques are regularly reviewed and action taken as appropriate.</p> <p>There is adequate separation of duties between raising, processing and authorising cheques, performing bank reconciliations and dealing with returned cheques and unpresented items.</p>
Car Mileage Claims	Corporate Support Services	<p>Substantial Assurance The car mileage process overall is sound and well managed by the payroll team. The updating of the guidelines for car mileage allowance as part of the current process of updating the staff handbook will help in providing managers and officers with a clearer understanding of the rules to be applied.</p>	<p>Mileage claims are submitted in a timely manner, backed up by valid VAT fuel receipts and signed off by authorised signatories. All claims checked matched to the payroll and all payments were made at the correct rate. The authorised signatures are now easily verifiable due to the redesign and the updating of the Directorates signature lists.</p> <p>In several cases the car mileage claim forms were not fully completed by the claimant, leaving the payroll staff to complete the form. Audit have previously recommended that incomplete forms are returned to the claimants and also that signatories should be ensuring that forms are completed in full prior to being signed off. This has been re-raised as a recommendation.</p>

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Recruitment and Selection	Corporate Support Services	<p>Substantial Assurance Recruitment and selection procedures are operating satisfactorily and the previous audit recommendation has been implemented.</p>	<p>There are procedures which ensure that suitable candidates are selected for each post. Relevant documentation is retained on the employees file.</p> <p>Recruitment and selection is generally carried out in accordance with Council Policy, however two Officers carried out interviews without completing the recruitment and selection training. HR should check that Senior Officers responsible for recruitment and selection have attended the training course.</p> <p>Management will consider taking advantage of the free website for advertising vacancies.</p>
Gifts and Hospitality (Members and Officers)	Corporate	<p>Substantial Assurance There is a sound system in place for declaring gifts however discrepancies have occurred which indicates there is a requirement for Officers to be reminded of the correct procedures.</p>	<p>There is guidance in place for declaring Gifts and Hospitality. The Members code of conduct and Staff code of conduct both include clear guidance.</p> <p>Recommendations have been made to ensure Members record comprehensive information regarding acceptance of gifts and hospitality. Officers will be reminded of the correct procedures for gifts and hospitality to ensure consideration is given prior to accepting gifts and declarations are made in a timely manner.</p>
Members Services	Office of the Chief Executive	<p>Substantial Assurance The processes, systems and controls in regards to Members Services are generally sound. The Chairman's Charity account is managed effectively and income and expenditure is recorded accurately and timely..</p>	<p>Budgets in regards to Chairman's expenditure are well controlled and expenditure is reasonable and appropriate.</p> <p>Members allowances are published as required and records are maintained internally in regards to the full range of allowances including the members Connectivity Allowances.</p>

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
			<p>Audit identified a couple of areas where it recommended small changes to the current process, to ensure best practice. Overall the systems and processes were efficient and effective</p>
Key Performance Indicators	Deputy Chief Executives Office	<p>Substantial Assurance The system in place for reporting on the Council's performance is operating satisfactorily.</p>	<p>There is a system in place to ensure that KPIs are reported using quality data from relevant systems.</p> <p>The audit found:</p> <ul style="list-style-type: none"> ▪ The calculation of the KPI's was correct where supporting data was provided. ▪ The KPI's were calculated using the relevant information from the system concerned. ▪ The majority of KPI data was submitted in accordance with the target date. <p>Whilst evidence to support the calculation is retained for the majority of the KPIs reviewed, the calculation of one indicator was not verified as the supporting data was not provided. A recommendation has been made for supporting documentation to be attached to all summary control forms as part of the data submission process. This will ensure all calculations can be verified by audit in future.</p>

**INTERNAL AUDIT
OUTSTANDING PRIORITY 1 ACTIONS – STATUS AS AT DECEMBER 2012**

Appendix 2

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
Planning Fees	<p>Income reconciliation Reconciliations between the planning system (M3) and the financial ledger will be completed monthly from April 2011. Reconciliations should be printed and signed as evidence of completion. Details of variances investigated should be recorded. Advice will be required from Finance & ICT regarding the information required from M3 and the general ledger.</p>	Assistant Director (Development)	Sept 2012	Reconciliation between M3 and financial ledger reliant upon 3 different systems – finance, payments and income recording on M3 Northgate. Cheques are now individually itemized (previously batched) on the general financial ledger so progress and part reconciliation has been made. However, inadequate resources to carry out manual reconciliation and compatibility / merging of all 3 systems is reliant upon electronic ICT solution.	In Progress	Following a meeting of all relevant officers chaired by the Chief Executive, ICT staff produced a prototype report that is designed to work towards an electronic reconciliation of the DC account. Planning staff have analysed this first report and ICT further refined it to capture some information that was not originally included. The unmatched items are now being investigated and the process is being discussed with Internal Audit as to the level of testing required.
Licensing Administration	<p>Reconciliation Reconciliation between M3 and the cash receipting system not up to date. Reconciliation to be completed on a monthly basis by the end of the month following the month being reconciled.</p>	Assistant Director (Legal)	April 2012	Reconciliation is not being carried out due to insufficient resources	TBA	Audit to follow up in 4th quarter.

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
Housing and Council Tax Benefits	Accuracy checks 5% accuracy checks of all assessments should be completed monthly.	Benefits Manager	1st September 2012.	The Assistant Director (Benefits) gave assurance at 29 November 2012 Audit and Governance Committee that the audit recommendations had been implemented.	Actioned	This will be reviewed as part of the full audit in quarter 4.
Housing and Council Tax Benefits	Sample review: Accuracy checks Accuracy checks should cover all officers involved in processing claims.	Benefits Manager	1st September 2012.	As above.	Actioned	As above.

**INTERNAL AUDIT
FOLLOW UP OF LIMITED ASSURANCE AUDITS AS AT DECEMBER 2012**

Appendix 3

Report Title	Directorate	Date Issued	Agreed Actions by priority	Agreed Actions Outstanding	Time of Follow Up	Outstanding Issues / Comments
Planning Fees	Planning and Economic development	March 2012	P1. 2 P2. 1	P1. 1	Q4 2012/13	Following a meeting of all relevant officers chaired by the Chief Executive, ICT staff produced a prototype report that is designed to work towards an electronic reconciliation of the DC account. Planning staff have analysed this first report and ICT further refined it to capture some information that was not originally included. The unmatched items are now being investigated and the process is being discussed with Internal Audit as to the level of testing required.
Housing and Council Tax Benefits	Finance & ICT	June 2012	P1. 2 P3. 1	P1. 2 P3. 1	Q4 2012/13	The Assistant Director (Benefits) gave assurance at 29 November 2012 Audit and Governance Committee that the audit recommendations had been implemented. This will be reviewed as part of the full audit in quarter 4.
Legal Debt Recovery	Corporate Support Services	Sept2012	P1. 4 P2. 3 P3. 1	P1. 3 P2. 3 P3. 1	Q4 2012/13	This audit has identified improvement areas to enhance the system of control and to ensure the process for collecting unpaid debts is monitored and action is taken to maximise the prospects of debt recovery. Controls should be put in place to prompt Officers to check that court costs have been recovered and allocated to the correct account code. In accordance with Contract Standing Orders,

					<p>three quotes should be obtained annually for the use of the contractor for tracing debtors and serve court documents.</p> <p>Officers responsible for debt recovery should implement a system for recording debts collected after court proceedings are issued. This information will be used during the next Audit.</p> <p>The debt recovery process is not always cost effective as the resources are not available to ensure all debts referred to Legal are monitored regularly.</p> <p>Officers should be reminded of the importance of good quality data.</p> <p>The recommendations included in this report will address the weaknesses identified and improve the controls surrounding debt recovery.</p>
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Audit Plan 2012/13 as at 31st December 2012

Appendix 4

AUDIT PLAN 2012/13

Audit area	Audit type	Days allocated	Completed	Risk Identifier
FINANCE AND ICT				
Finance				
Bank Reconciliation	system/follow up	15	Completed	PKF
Sundry Debtors	system/follow up	20	In Progress	PKF
Creditors	system/follow up	20	In Progress	PKF
Treasury Management	system/follow up	15	In Progress	PKF/R26
Budgetary Control (capital and revenue)	system/follow up	10		PKF
Risk Management and Insurance	system/follow up	15		PKF
Main Accounting and Financial Ledger	system/follow up	15		PKF
Housing Benefits	system/follow up	25		PKF
Council Tax	system/follow up	25	In Progress	PKF/R27/AC
National Non Domestic Rates	system/follow up	15	In Progress	PKF/R27
Cash receipting and Income control	system/follow up	15		PKF
Provision for 'top up' testing	systems	25	Completed	PKF
Cash Office spot checks	verification	5		PKF
ICT				
Environmental controls/backup procedures	IT	10	Completed	PKF
Disaster recovery/business continuity	IT	10		PKF/R8
TOTAL		240		
PLANNING AND ECONOMIC DEVELOPMENT				
Planning Fees	System	20		R27
Building Control	follow up	5	In Progress	R27
TOTAL		25		
ENVIRONMENT AND STREET SCENE				
Waste Management and Recycling	follow up	20	Completed	R20
Car Parking	system	20	Completed	R27
North Weald airfield	establishment	15		R27
Leisure contract	contract	15		R20
TOTAL		70		
OFFICE OF THE CHIEF EXECUTIVE				
Members Services		10	Completed	R
TOTAL		10		
HOUSING				
Housing Rent Collection and Arrears	system/follow up	25		PKF/R27
Housing Lettings	follow up	5	In Progress	AC
Housing Repairs Service	system/follow up	15		
Housing Contracts	system	15		

Stores - Depot stock take	stocktake	5	Completed	R23
TOTAL		65		
CORPORATE SUPPORT SERVICES				
Human Resources				
Payroll	System/follow up	25	In Progress	PKF
Recruitment and Selection	Follow up	5	Completed	AC
Management of Sickness absence	Follow up	5	Completed	R15
Overtime and Committee Allowances	verification	10		R
Car Mileage claims	verification	10	Completed	R
Estates/Facilities Management/Other				
Commercial Property portfolio	system/follow up	20	Completed	R9
Property Management System - Asset Register	system	5		PKF
Fleet Operations income	system	5	Completed	R27
Legal				
Licensing	system	15		R27
Debt recovery	system	15	Completed	R27
TOTAL		115		
MISCELLANEOUS				
Key and Local Performance Indicators	verification	15	Completed	R
Business Plans	verification	10	Completed	R
FRAUD PREVENTION & DETECTION				
Contracts	fraud	15		AC/R20
Procurement	fraud	15	In Progress	AC/R2
Council Tax Discounts	fraud	15		AC/R23
National Fraud Initiative (NFI)	fraud	15	In Progress	R23
Data matching and analysis (IDEA software)	fraud	25		AC
CORPORATE				
Corporate Procurement	system/follow up	15	In Progress	AC/R2
Gifts and Hospitality (Members & Officers)	system/follow up	10	Completed	R
Data Protection Act	system	5		R18
Follow up of Priority 1 Audit recommendations	follow up	10	Completed	R23
Governance Statement	management review	5	Completed	AC/PKF
TOTAL		155		
TOTAL DAYS ALLOCATED				
Contingency/Spot checks/Minor investigations		40		R23
Corporate/Service Advice		55		
TOTAL		775		

Key	Risk Identifier
AC	Audit Commission
PKF	External Audit
R no.	Risk No. in Corporate Register
R	Reputation of Council