

**Report to the Audit and Governance
Committee**



Report reference: AGC-014-2013/14
Date of meeting: 23 September 2013

**Epping Forest
District Council**

Portfolio: Finance and Technology
Subject: Internal Audit Monitoring Report - April to June 2013
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 2013/14:

- (a) The reports issued between April and June 2013 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 2013/14 Audit Plan status report (Appendix 4).

Executive Summary:

This report provides a summary of the work undertaken by the Internal Audit Unit between April and June 2013, and details the overall performance to date against the Audit Plan for 2013/14. The report also contains a status report on previous Priority 1 audit recommendations which continues to be 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 first quarter are listed in paragraph 3 below.
2. Audits completed in the first quarter have included audits in progress at the end of the last financial year, the detailed findings of which are in appendix 1. At the end of the quarter a further four audits were in progress or at the draft report stage.

Reports Issued

3. The following audit reports were issued in the quarter:

- (a) Full Assurance:
 - Business Plans;
- (b) Substantial Assurance:
 - Management of Sickness Absence;
 - Cash Receipting and Income Control;
 - Housing Lettings;
 - Key Performance Indicators;
 - Payroll;
 - Procurement Fraud; and
 - Housing Rents;
- (c) Limited Assurance:
 - None;
- (d) No Assurance:
 - None; and
- (e) At Draft Report Stage:
 - Housing Benefits.

Limited Assurance

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

Follow Up of Previous Priority 1 Recommendations

5. Attached at Appendix 2 is a schedule of outstanding priority 1 recommendations to ensure follow up both by Internal Audit and Service Management. These recommendations are monitored on a monthly basis by the Corporate Governance Group.

Follow Up of Previous Limited Assurance Audits

6. 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 2013/14 (Appendix 4)

7. The status of the 2013/14 Audit Plan is set out at Appendix 4.

Performance Management

8. The Internal Audit Team has local performance indicator targets to meet in 2013/14, as set out below:

	Actual 2010/11 For year	Actual 2011/12 For year	Actual 2012/13 For year	Target 2013/14 For year	Actual 2012/13 Quarter 1	Actual 2013/14 Quarter 1
% Planned audits completed	82%	82%	85%	90%	16%	11%
% chargeable "fee" staff time	66%	71%	69%	72%	70%	75%
Average cost per audit day	£307	£213	£243	£245	£239	£219
% User satisfaction	86%	89%	N/A	90%	95%	87%

9. The indicators are calculated as follows:

(a) % Planned audits completed - a cumulative calculation is made each quarter based on the approved plan. This indicator is reduced compared with the same quarter last year due to additional work being carried out on top up testing as requested by the external auditors and further work as part of the National Fraud Initiative. This indicator is expected to improve over the following quarters.

(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 taken from the budget monitoring reports, divided by the number of fee earning days extracted from the time recording system.

(d) User satisfaction has been based on a customer survey form. A replacement electronic form has been developed for use from April with the new audit plan from which data is currently compiled. The new form has been simplified to encourage completion which has resulted in a higher return rate and positive comments from managers.

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.

EFDC - Definition of Levels of Assurance

Assurance levels:

The level of assurance to be applied will be based on the auditor's assessment of the extent to which system objectives are met, with the agreement of the Chief Internal Auditor. As a guide, the following triggers will be used, taking into account the level of risk of error, loss, fraud or damage to reputation.

Level	Evaluation opinion	Priority Triggers
Full assurance	There is a sound system of control designed to achieve system objectives, and the controls are being consistently applied.	Priority 3s or no audit recommendations.
Substantial assurance	There is a sound system of control designed to achieve system objectives, and the controls are generally being consistently applied. However, there are some minor weaknesses in control, and/or evidence of non-compliance, which are placing some system objectives at risk.	Priority 2s and one Priority 1 (if assessed as a low risk).
Limited assurance	There is a system of control in place designed to achieve system objectives. However, there are significant weaknesses in the application of control in a number of areas, and / or evidence of significant non-compliance, which are placing some system objectives at risk.	Between 1 and four 1s and (usually) several Priority 2s.
No assurance	The system of control is weak, and / or there is evidence of significant non-compliance, which exposes the system to the risk of significant error or unauthorised activity.	Five or more Priority 1s.

Priority Ratings

Each audit finding will generate an audit recommendation. These recommendations will be prioritised in accordance with the following criteria:

Priority 1 – Observations refer to issues that are fundamental to the system of internal control. We believe that these issues have caused or will cause a system objective not to be met and therefore require management action as a matter of urgency to avoid risk of major error, loss, fraud or damage to reputation. Failure to apply a Financial Regulation or Contract standing Order will normally be in this category.

Priority 2 – Observations refer mainly to issues that have an important effect on the system of internal control but do not require immediate management action. System objectives are unlikely to be breached as a consequence of these issues, although Internal audit suggested improvement to system design and / or more effective operation of controls would minimise the risk of system failure in this area.

Priority 3 – Observations refer to issues that would if corrected, improve internal control in general and ensure good practice, but are not vital to the overall system of internal control.

SUMMARY OF AUDITS COMPLETED DURING QUARTER 1
April - June 2013

Appendix 1

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Business Plans	Office of the Deputy Chief Executive	<p>Full Assurance There are satisfactory arrangements to ensure corporate business plans are in place at the start of the financial year.</p>	<p>The audit identified:</p> <p>Each directorate produced a business plan prior to the 1st April 2013.</p> <p>All business plans were approved by the Portfolio Holders prior to 1st April 2013.</p> <p>All business plans were produced in accordance with the requirements of the corporate guidance.</p>
Management of Sickness Absence	Corporate Support Services	<p>Substantial Assurance The systems in place for managing sickness absence are operating effectively.</p>	<p>Managers need to ensure the Monthly Certificates of Service accurately record the dates of all sickness absence in the directorate. Directors should ensure that Informal Evaluation Meetings are carried out by the relevant Manager.</p>
Cash Receipting & Income Control	Finance and ICT	<p>Substantial Assurance The systems and controls surrounding cash receipting and income control are operating effectively.</p>	<p>Recommendations have been made regarding the reconciliation of community leisure income and the management trail of suspense items.</p>
Housing Lettings	Housing	<p>Substantial Assurance The housing lettings process is well managed and demonstrates excellent data quality, accuracy and a stringent process that is consistent and appropriate to ensure eligibility of tenants.</p>	<p>With the changes to the Housing Allocation Scheme projected to go live on 01/09/2013, Audit will conduct a full review of the process as part of the 2013/14 audit plan in agreement with Housing Management.</p>

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Key Performance Indicators	Office of the Deputy Chief Executive	<p>Substantial Assurance The system in place for reporting on the Council's performance is operating satisfactorily.</p>	Performance management will ensure supporting documentation is submitted with the summary control forms for all KPIs.
Payroll	Corporate Support Services	<p>Substantial Assurance The Payroll Process is a well administered function, data is accurate and controls currently in place ensure the process runs well.</p>	There are areas of improvement in regards control utilisation of the establishment lists, identified by the audit that would safeguard data quality and accuracy.
Procurement Fraud	Finance and ICT	<p>Substantial Assurance There was no evidence of fraudulent activity found. However there were issues identified which need to be addressed to reduce the risk to the Council: - there were instances of lack of compliance with Contract Standing Orders; and the Essex Procurement Hub was not always consulted when it should have been.</p>	The subject area is extensive and this report provides a snapshot of the further work that needs to be undertaken in Procurement; Contracts and Creditors Audit subject areas during 2013/14.
Housing Rents	Housing	<p>Substantial Assurance The controls surrounding rent invoicing and collection are operating effectively.</p>	OHMS is updated annually with the revised rent figures and a housing stock reconciliation completed annually. Reconciliations between OHMS and the general ledger, cash receipting system and benefits system are performed on a regular basis, although the reconciliations to the general ledger were not carried out between August 2012 and the year end. Former tenant arrears referred to legal services are monitored on a monthly basis but those not referred to legal are not regularly monitored. Recommendations have been raised in respect of these findings.

INTERNAL AUDIT OUTSTANDING PRIORITY 1 ACTIONS – STATUS AS AT August 2013

Appendix 2

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
Legal Debt Recovery	<p>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.</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>The recommendations included in this report will address the weaknesses identified and improve the controls surrounding debt recovery</p>	Assistant Director (Legal)	March 2013	<p>Management Board have agreed that a Working Party be convened to review corporate debt processing.</p> <p>This has been put on hold pending the outcome of the recent debt review undertaken by the National Audit Office, who will be reporting back to Management Board in October 2013 with their recommendations.</p> <p>Depending on the outcome we may still need to convene a Working Group, or just apply their recommendations.</p>	Q4 2012/13	<p>In reviewing the procedures currently in place and the finance systems available to comply with the Audit recommendations it has become apparent that the debt collection process across the Council needs to be reviewed. A detailed report was discussed at Management Board on 3 April 2013.</p> <p>Action. C O'Boyle/R Rose to draft Terms of Reference for the Working Party and suggested membership and chairmanship.</p>
Management of Sickness Absence	Managers should be reminded to ensure the information on the Monthly Certificate of Service is complete and accurate	Assistant Director (Human Resources)		Human Resources have reminded managers on many occasions to accurately complete the Monthly Certificate and to return them to Payroll on time. This audit has shown that in some instances this is still not being done, therefore the responsibility should now sit with Directors to		Directors and Assistant Directors have been reminded of the importance of completing and returning these certificates (29/08/13).

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
				ensure the returns provided to Payroll are completed accurately and on time.		

FOLLOW UP OF LIMITED ASSURANCE AUDITS AS AT August 2013

Appendix 3

Report Title	Directorate	Date Issued	Agreed Actions by priority	Agreed Actions Outstanding	Time of Follow Up	Outstanding Issues / Comments
Legal Debt Recovery	Corporate Support Services	Sept2012	P1. 4 P2. 3 P3. 1	P1. 1 P2. 0 P3. 0	Q3 2013/14	<p>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.</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>The recommendations included in this report will address the weaknesses identified and improve the controls surrounding debt recovery. The recommendations have been, or are currently being implemented with the remaining priority one recommendation on hold (as reported in appendix 2).</p>

AUDIT PLAN 2013/14

Audit area	Audit type	Days allocated	Completed	Risk Identifier
FINANCE AND ICT				
Finance				
Bank Reconciliation	system/follow up	15		FFS
Sundry Debtors	system/follow up	15		FFS
Creditors	system/follow up	15		FFS
Treasury Management	system/follow up	15		FFS/R26
Budgetary Control (capital and revenue)	system/follow up	10		FFS
Risk Management and Insurance	system/follow up	15		FFS
Main Accounting and Financial Ledger	system/follow up	15		FFS
Housing Benefits	system/follow up	20		FFS
Council Tax	system/follow up	20		FFS/R27/AC
National Non Domestic Rates	system/follow up	15		FFS/R27
Cash receipting and Income control	system/follow up	15		FFS
Provision for 'top up' testing	systems	30	Completed	FFS
ICT				
ICT Procurement	ICT	10	In Progress	AC/R2
Access controls	ICT	10	In Progress	FFS
Disaster recovery/business continuity	ICT	10	In Progress	R8
TOTAL		230		
PLANNING AND ECONOMIC DEVELOPMENT				
Planning Fees	System	20		R27
Countrycare	System	10		R
TOTAL		30		
ENVIRONMENT AND STREET SCENE				
Waste Management and Recycling	system	20		R20
Car Parking Contract	system	10	In Progress	R27
North Weald airfield	establishment	15		R27
TOTAL		45		
HOUSING				
Housing Rent Collection and Arrears	system/follow up	20		FFS/R27
Right to Buy	system	10		AC
Housing Repairs Service	system	20		
Housing Contracts	system	20	In Progress	R2
Private Sector Housing - Grants	system	15		
Norway House	Establishment	10		
TOTAL		95		
CORPORATE SUPPORT SERVICES				

Human Resources				
Payroll	System/follow up	20		FFS
Recruitment and Selection	Follow up	5		AC
Management of Sickness absence	Follow up	5	Completed	R15
Overtime and Committee Allowances	verification	10		R
Travelling & Subsistence Claims	verification	10		R
Car Mileage claims	verification	10		R
Estates/Facilities Management/Other				
Commercial Property portfolio	Follow up	5		R9
Reprographics	System	10		
Fleet Operations income	system	5		R27
Facilities Management Contracts	system	10		R2
Legal				
Debt recovery	Follow up	10		R27
TOTAL		100		
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		AC/R2
Council Tax Discounts	fraud	15	In Progress	AC/R23
National Fraud Initiative (NFI)	fraud	20	In Progress	R23
Data matching and analysis (IDEA software)	fraud	25		AC
CORPORATE				
Corporate Procurement	system/follow up	15		AC/R2
Gifts and Hospitality (Members & Officers)	system/follow up	10		R
Corporate Asset Register	system	5		FFS
Follow up of Priority 1 Audit recommendations	follow up	10		R23
Governance Statement	management review	5	Completed	AC/R
TOTAL		160		
TOTAL DAYS ALLOCATED		660		
Contingency/Spot checks/Minor investigations		50		R23
Corporate/Service Advice		65		
TOTAL		775		

Key	Risk Identifier
AC	Audit Commission
FFS	Fundamental Finance System
R no.	Risk No. in Corporate Register
R	Reputation of Council