

**Report to the Audit and Governance
Committee**



Report reference: C-022-2013/14
Date of meeting: 27 November 2013

**Epping Forest
District Council**

Portfolio: Finance and Technology
Subject: Internal Audit Monitoring Report - July to September 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 second quarter monitoring report for 2013/14:
- (a) The reports issued between July and September 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 July and September 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 second quarter are listed in paragraph 3 below.
2. Audits completed in the second quarter have included ICT specific subjects and the prevention and detection of fraud, the detailed findings of which are in appendix 1.

Reports Issued

3. The following audit reports were issued in the quarter:
- (a) Full Assurance:
 - Bank Reconciliation; and
 - Council Tax Discounts – Fraud Prevention and Detection;
 - (b) Substantial Assurance:
 - ICT Access Controls;
 - Business Continuity;
 - Key Performance Indicators;
 - Gifts and Hospitality (Members and Officers);
 - Corporate Asset Register; and
 - Private Housing Assistance;
 - (c) Limited Assurance:
 - ICT Procurement; and
 - (d) No Assurance:
 - None.

Limited Assurance

4. During the quarter, one report, ICT Procurement was issued with a Limited assurance rating. This rating was based on departures from Contract Standing Orders regarding monitoring expenditure with individual suppliers and Financial Regulations, which included inventory control and the incorrect authorisation of an invoice.

5. The Assistant Director (ICT) has agreed that the value of orders with each supplier over a period of four years should be monitored to ensure the thresholds within Contract Standing Orders are not exceeded and that a greater level of control will be applied to the future purchases of tablets. This will be monitored by the Corporate Governance Group through the regular review of priority 1 recommendations.

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. These recommendations are monitored on a monthly basis by the Corporate Governance Group.

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 2013/14 (Appendix 4)

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

Performance Management

9. 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 2	Actual 2013/14 Quarter 2
% Planned audits completed	82%	82%	85%	90%	37%	36%
% chargeable "fee" staff time	66%	71%	69%	72%	76%	77%
Average cost per audit day	£307	£213	£243	£245	£223	£217
% User satisfaction	86%	89%	N/A	90%	85%	93%

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 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 2
July - September 2013

Appendix 1

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Bank Reconciliation	Finance and ICT	<p>Full Assurance The systems and controls surrounding the reconciliation of the Council's bank accounts are operating effectively. No recommendations have been raised.</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>There is adequate separation of duties between raising, processing and authorising cheques, performing bank reconciliations and dealing with returned cheques and un-presented items.</p>
Council Tax Discounts	Finance and ICT	<p>Full Assurance Datatank provide a data matching service on single person discounts (SPD), matching council tax data with credit bureau data.</p> <p>Datatank has proved to be a valuable resource in reducing claims for single person discount for individuals who were not entitled. This arrangement is at minimal cost to the authority as the majority of costs are paid for by Essex County Council. There are no audit recommendations.</p>	<p>There were over 17,000 SPD cases of which 3606 were contacted which resulted in 813 cases of removing discount awards.</p> <p>The Datatank exercise is performed on a regular basis and therefore there is no need to issue SPD Certificates.</p> <p>Essex County Council has recently agreed to a further data mining exercise with Datatank for 2013/14. This is currently being progressed. This exercise may be extended to other areas in 2014/15.</p>
ICT Access Controls	Finance and ICT	<p>Substantial Assurance The system in place for controlling access to the Council's data network is operating effectively.</p>	<p>Access is authorised and modifications to user accounts are documented to provide a sufficient audit trail. Information from Human Resources to ensure accounts are cancelled where Officers have left the Authority should be provided to</p>

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
			systems administrators to ensure access controls are effective.
Business Continuity	Finance & ICT / Corporate	<p>Substantial Assurance Business Continuity Planning is visibly evident, well monitored and embedded within the authority.</p>	<p>With business continuity in a state of development both on a corporate and ICT level, it is an area that will need further review of the progress made, to ensure that it continues to evolve to focus on new risks and retain focus on the provision of key services.</p> <p>Audit has no specific recommendations in regards changing of the current process. Business Continuity is, as stated, well managed and integrated into the authority.</p>
Key Performance Indicators	Office of the Deputy Chief Executive	<p>Substantial Assurance There are satisfactory arrangements in place for the collection of performance management data.</p>	<p>Three indicators were not reported to Performance Improvement in a timely manner. Officers should be advised that in future, outstanding Performance Indicators data will be reported to the Corporate Governance Group.</p>
Officers and Members Gifts and Hospitality	Corporate	<p>Substantial Assurance Officers and Members demonstrate a compliance and understanding of the Gifts and Hospitality process and abide to the relevant policy and Codes of Conduct.</p>	<p>Guidelines are clear and concise and offers as a result are recorded timely and accurately and approved appropriately. Audit has identified the Gifts and Hospitality Registers as an area that could be electronically developed.</p>
Asset Register	Finance & ICT	<p>Substantial Assurance The systems and controls in relation to the asset register are operating effectively.</p>	<p>A review by the external auditors highlighted that some pieces of land are not included in the register and this is already being addressed by accountancy. Additions and disposals are correctly recorded on</p>

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
			the system. However, a formal system of notifying accountancy of disposals of assets should be implemented.
Private Housing Assistance	Housing	<p>Substantial Assurance The systems and controls in place with respect to the award, approval and payment of private housing assistance are operating effectively.</p>	The written procedures should be updated to ensure that officers are aware of the current processes to follow and that all applications are dealt with equitably. Checks must be carried out which ensure that private housing assistance files hold all supporting documentation.
ICT Procurement	Finance & ICT	<p>Limited Assurance Based on departures from Contract Standing Orders regarding monitoring expenditure with individual suppliers and Financial Regulations, which included inventory control and the incorrect authorisation of an invoice.</p> <p>The departure from Financial Regulations regarding authorisation has been identified as a one off occurrence and has been put down to human error.</p>	<p>Expenditure with suppliers should be monitored in accordance with contract standing orders.</p> <p>ICT will take control of purchasing tablets.</p> <p>The ICT guidelines should be updated to define the responsibilities of both management and employees for using smartphones, tablets and equipment owned by the Council.</p> <p>All ICT equipment should be recorded in the ICT inventory.</p> <p>The procurement process should be formalised from Officer requests for ICT equipment to delivering the equipment to the user.</p> <p>All quotes will be retained and alternative options are considered to demonstrate value for money. Management should ensure there is appropriate insurance cover in place for Council equipment used off site.</p>

**INTERNAL AUDIT
OUTSTANDING PRIORITY 1 ACTIONS – STATUS AS AT October 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 was put on hold pending the outcome of the recent debt review undertaken by the National Audit Office, who have now reported back to Management Board.</p> <p>A report is being presented to Management Board on 13th November on the terms of reference and membership of the working party.</p>	Awaiting outcome of NAO review.	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.
ICT Procurement	Expenditure with each supplier during any financial year should be monitored in accordance with the thresholds in contract standing orders. Expenditure in excess of £25,000 should be reported to the Director and/or Portfolio Holder seeking a waiver of the standing order.	Assistant Director (ICT)	31/12/13	The new monthly procurement report will help address this issue.		

**INTERNAL AUDIT
FOLLOW UP OF LIMITED ASSURANCE AUDITS AS AT October 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>
ICT Procurement	Finance & ICT	Sept 2013	P1. 4 P2. 4	P1. 3 P2. 4	Q4 2013/14	<p>The audit has reviewed the systems in place for the procurement of ICT goods and services, focusing on the purchase of mobile phones and tablets.</p> <p>There are satisfactory controls in place for the procurement of ICT equipment, however improvement areas were identified specifically relating to the purchase of tablets.</p> <p>The implementation of the recommendations from this audit will ensure there is sufficient control over Council owned equipment, equipment is used responsibly, value for money is demonstrated and ICT equipment is recorded.</p>

Internal Audit Plan as at October 2013

Appendix 4

Audit area	Audit type	Days allocated	Completed	Risk Identifier
FINANCE AND ICT				
Finance				
Bank Reconciliation	system/follow up	15	Completed	FFS
Sundry Debtors	system/follow up	15	In Progress	FFS
Creditors	system/follow up	15		FFS
Treasury Management	system/follow up	15	In Progress	FFS/R26
Budgetary Control (capital and revenue)	system/follow up	10		FFS
Risk Management and Insurance	system/follow up	15	In Progress	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	Completed	AC/R2
Access controls	ICT	10	Completed	FFS
Disaster recovery/business continuity	ICT	10	Completed	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	Completed	
Norway House	Establishment	10		
TOTAL		95		
CORPORATE SUPPORT SERVICES				

Human Resources				
Payroll	System/follow up	20		FFS
Recruitment and Selection	Follow up	5	In Progress	AC
Management of Sickness absence	Follow up	5	Completed	R15
Overtime and Committee Allowances	verification	10	Completed	R
Travelling & Subsistence Claims	verification	10		R
Car Mileage claims	verification	10		R
Estates/Facilities Management/Other				
Commercial Property portfolio	Follow up	5	In Progress	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		
PERFORMANCE IMPROVEMENT				
Key and Local Performance Indicators	verification	15	Completed	R
Business Plans	verification	10	Completed	R
Equality Analysis	verification	10		R
FRAUD PREVENTION & DETECTION				
Contracts	fraud	15	In Progress	AC/R20
Procurement	fraud	15		AC/R2
Council Tax Discounts	fraud	15	Completed	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	Completed	R
Corporate Asset Register	system	5	Completed	FFS
Priority 1 Audit recommendations	follow up	10	In Progress	R23
Governance Statement	management review	5	Completed	AC/R
TOTAL		170		
TOTAL DAYS ALLOCATED		670		
Contingency/Minor investigations		40		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