

**Report to the Audit and Governance
Committee**



**Epping Forest
District Council**

Report Reference: AGC-017-2011/12

Date of meeting: 10 November 2011

Portfolio: Finance and Economic Development

Subject: Internal Audit Monitoring Report - July to September 2011

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 2011/12:

(a) The reports issued between July and September 2011 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 2011/12 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 2011, and details the overall performance to date against the Audit Plan for 2011/12. The report also contains a status report on previous priority 1 audit recommendations.

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 5 below.
2. Audits completed in the second quarter have included work on contract management and verification of claims. At the end of the quarter a further five audits were substantially complete and at the draft report stage, including a review of the systems in the Housing Maintenance depot, which will be reported in the next quarterly report.

3. Advice and guidance continues to be provided on a range of subjects which has included the application of Contract Standing Orders and Financial Regulations and reviews of documentation where savings and efficiencies may be identified.

4. Attendance at Corporate officer groups including Corporate Governance, Risk Management, External Funding and the Green Working Party has continued and supervision and management time has included quality assurance of audit reports, working files and liaison with External Audit.

Reports Issued

5. The following audit reports were issued in the second quarter:

(a) Full Assurance:

- None;

(b) Substantial Assurance:

- Housing Benefits;
- Waste Management and Recycling;
- Bed and Breakfast Contract;
- Leisure Contract;
- Car Mileage Claims; and
- Gifts and Hospitality (Officers);

(c) Limited Assurance:

- None;

(d) No Assurance:

- None; and

(e) At Draft Report Stage:

- Key and Local Performance Indicators;
- Norway House;
- Housing Maintenance Depot;
- Management of Sickness Absence; and
- Licensing.

Follow Up of Previous Limited Assurance Audits (Appendix 3)

6. Attached at Appendix 3 is a summary schedule of previous limited assurance audits to ensure follow up both by Internal Audit and Service Management. The table shows the situation as at 30 September 2011.

Audit Plan 2011/12 (Appendix 4)

7. The status of the 2011/12 Audit Plan is set out at Appendix 4.

Performance Management

8. The Internal Audit Team has local performance indicator targets to meet in 2011/12, as set out below:

	Actual 2008/09 For year	Actual 2009/10 For year	Actual 2010/11 For year	Target 2011/12 For year	Actual 2010/11 Quarter 2	Actual 2011/12 Quarter 2
% Planned audits completed	95%	87%	82%	90%	39%	38%
% chargeable "fee" staff time	71%	69%	66%	72%	67%	71%
Average cost per audit day	£309	£300	£307	£300	£302	£226
% User satisfaction	85%	94%	86%	85%	97%	80%

9. 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. A reassessment of what constitutes productive time, based upon information from the CIPFA benchmarking club and comparator information currently being shared between Uttlesford, Harlow, Broxbourne and EFDC has resulted in a new baseline for this indicator.

(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.

10. The figure for planned audits completed of 38% falls short of the quarter 2 target of 45% which has been affected by the long term sickness of a member of staff who is being monitored through the Council's Managing Absence procedures.

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 2
July - September 2011**

Appendix 1

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Housing and Council Tax Benefits	Finance and ICT	<p>Substantial Assurance The systems and controls surrounding the assessment and payment of benefit are deemed satisfactory. Accuracy checks should be performed, as agreed during the 2009/10 audit, to give greater confidence in the work of the department .</p>	<p>Audit review of Housing and Council tax Benefit showed the systems and controls currently in place are adequate in ensuring the process runs well and are generally compliant with Council Policy. A couple of areas of concern have been identified and highlighted which need to be corrected to ensure improvement within the area and to allow audit to gain a higher level of assurance in the process.</p>
Waste Management	Environment and Street Scene	<p>Substantial Assurance The Waste Management Section has made a number of improvements since the last audit. The controls surrounding the monitoring of the waste management contract payments and recycling credit income are operating effectively, and there is a good separation of duties between authorising orders and invoices. The wheeled bin stocks have been reorganised in order to make the stock more secure and counting easier, and both mid-year and year-end stock counts were carried out.</p>	<p>The waste management contract payments are properly monitored and authorised. Recycling credit income due to the Authority has been correctly calculated and billed to Essex County Council.</p> <p>It is recommended that the Waste and Recycling Manager seeks advice from the Senior Procurement Officer with regards to procuring the printing contract in order to ensure that Contract Standing Orders are complied with.</p> <p>The office procedures are still in the process of being updated, although procedures for the disposal of damaged stock have been completed during the year.</p>
Bed & Breakfast Contracts	Housing	<p>Substantial Assurance The systems and controls surrounding the ordering and invoicing for bed and breakfast accommodation, and in respect of the bed and breakfast accommodation contract</p>	<p>All four of the agreed actions from the last audit have been implemented.</p> <p>Orders are raised for the correct amounts and include discounts where applicable. Written</p>

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
		<p>renewal process, are operating effectively. One priority 1 recommendation, relating to the requirement for written quotes for family bookings not covered by the contracts, has been raised.</p>	<p>confirmation of the rates for family groups which are not covered by the contracts should be obtained and retained.</p> <p>The contract renewal process has been carried out in accordance with Contract Standing Orders.</p>
Leisure Contract	Environment & Street Scene	<p>Substantial Assurance The Audit of the management of the Leisure Contract showed a well documented and administered process in regards of the income and monitoring of the contract. Areas of improvement have been identified and recommendations made to enhance control.</p>	<p>Audit review of the Leisure Contract showed that systems and controls currently in place are generally adequate in ensuring that processes run well and are compliant with Council Policy.</p>
Car Mileage Claims	Corporate Support Services	<p>Substantial Assurance The systems and controls for car mileage are operating satisfactorily.</p> <p>Certifying Officers need to be reminded of their responsibility to check the claim is complete and correct prior to authorisation.</p>	<p>Claims are correctly completed with details of the mileage undertaken, although there were a small number of cases where the mileage rate claimed was either incorrect or omitted. All claims were made timely.</p> <p>VAT receipts are submitted with all claims, although on several occasions the VAT receipts did not predate the first journey being claimed for as insisted on by the guidelines. There were also individual instances of a receipt being invalid and one predating the first journey by 11 weeks which is unreasonable.</p> <p>Car mileage payments are correctly calculated and paid to staff. Payroll checks are substantial and all errors and omissions, on the part of the claimant are identified.</p> <p>The findings and required actions should allow for increasing assurance in the process to be attained. Any claims that do not meet the criteria</p>

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
			need to be returned to the officer. Making this clear to management and their responsibility to check criteria is met before signing would negate potential delay in processing of claims.
Gifts and Hospitality (Officers)	Corporate	<p>Substantial Assurance There is a sound system in place for monitoring offers of gifts and hospitality. Officers appear to be aware of their responsibility to declare all gifts and offers of hospitality.</p>	Audit review of Officer's Gifts and Hospitality highlighted the process is well administered and compliant with Council Policy and the Officers Code of Conduct.

INTERNAL AUDIT

OUTSTANDING PRIORITY 1 ACTIONS 2011/12 – STATUS AS AT September 2011

Appendix 2

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
<p>Building Maintenance Unit</p>	<p>Stock Check The stock take procedures could be relied upon. The store was closed for both the issue and delivery of stock for the two days taken to carry out the count.</p> <p>However, owing to the large number of discrepancies identified during the stocktake, the stock system cannot be relied upon to provide an accurate record of the physical stocks held by the Authority.</p> <p>The reasons for the differences identified between ledger stock and actual stock should be investigated and corrected.</p> <p>Delivery notes and stores requisitions should be marked to indicate that they have been entered on the system to prevent duplicate entries.</p>	<p>Assistant Director (Property)</p>	<p>Ongoing</p>	<p>Stock control has been included as a "Key Deliverable" as part of the Repairs Management Contractor tender.</p>	<p>In progress</p>	<p>As at the end of September a full audit of the Housing Repairs Service was substantially complete.</p>

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
Licensing	Licensing Administration Reconciliations should be carried out in a timely fashion by a Senior Independent Officer.	Assistant Director (Legal)	October 2009	Problems identified with resourcing adequately trained staff plus financial reports need amendment to assist reconciliation.	In progress	As at the end of September a full audit of the Licensing section was substantially complete.
Decorating Allowances	Storage of Cards A stocktake/reconciliation of cards should be undertaken on a quarterly basis whereby the cards spreadsheet should be reconciled to the number of cards issued, ensuring that the void property is valid and if not a void property that authorisation to issue a card has been received. A record should be maintained and monitored by management.	Assistant Housing Director (Property)	October 2010	Stock reconciliation taken place. New work instruction in draft form, which will include a separation of card stock from the repairs team who are the authorisers for crediting the cards.	In progress	Review currently in progress as part of the full audit of the Housing Repairs Service
Grounds Maintenance	Inventories The inventory for equipment, tools and machinery will be reviewed and signed as completed on an annual basis. The office inventory will be revised to include ICT equipment.	General Manager, Grounds Maintenance	March 2011	I can confirm that all Priority 1 recommendations as detailed in your e-mailed list were completed within the agreed time scales.	Actioned	To be reviewed.

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
Grounds Maintenance	Agency Staff Quotations will be recorded for the use of agency staff in accordance with the thresholds in Contract Standing Orders. The General Manager has agreed to ensure quotations are noted on the day they are obtained to evidence value for money.	General Manager, Grounds Maintenance	October 2010	As above.	Actioned	To be reviewed.
Licensing Enforcement	Taxi Licensing Higher prioritisation of enforcement, with responsibility given over Licensing enforcement. Minimum service levels to be identified and implemented within working procedures.	Environment & Neighbourhoods Manager	April 2011	Agreed – Identifying minimum service level will assist with confirming the priority for this aspect of enforcement work, provide measurable targets and impetus for pro-active enforcement operations.	Actioned	To be reviewed 2 nd quarter
Planning Fees	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.	Assistant Director (Development)	April 2011	Training took place in 2010. Director reported to Audit and Governance Committee 14th February 2011	In progress and hopefully target date will be achieved.	Review currently in progress

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
Corporate Procurement	<p>Contract Standing Orders Officers in the Council should be reminded of their responsibility to comply with the Council's CSOs, in particular, the publication of works and the subsequent receipt of sufficient quotations/tenders.</p> <p>Where officers are unsure of the Council's requirements, they should liaise with officers in Procurement and seek appropriate advice on the matter before raising an order with a supplier.</p>	Officer working group consisting of Assistant Director of Housing, Senior Finance Officer: Procurement & Administration and Chief Internal Auditor.			In Progress	The Procurement Guide which is currently being market tested will remind all staff involved in procurement of the requirements of CSO's and will guide staff through the stages they must follow based on the value of the expenditure. The guide reminds staff to liaise with the Senior Finance Officer: Procurement & Administration for appropriate advice at the beginning of the procurement process.
Housing and Council Tax Benefits	<p>Accuracy checks Ensure 5% checks completed timely and have these checks signed off, by a senior manager.</p>	Assistant Director (Benefits)	October 2011	Team Leaders have been told of the importance of regular accuracy checking and have been requested to complete the checking spreadsheet	Actioned	To be reviewed

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
Waste Management	<p>Stock Check The stock counted in the October 2011 stocktake should be reconciled to the March 2011 stocktake figures to ensure the stock movements recorded on MVM are recorded accurately. The historical differences between expected and actual stock should continue to be investigated.</p>	Waste & Recycling Manager	October 2011	Agreed	In Progress	To be reviewed
Waste Management	<p>Procurement The requirements for the printing contract should be discussed with the Senior Procurement Officer to ensure that the correct procedures are followed.</p>	Waste & Recycling Manager	Ongoing	Agreed	In Progress	To be reviewed
Bed & Breakfast Contracts	<p>Family Bookings Quotes for the nightly rates relating to family groups not covered by the contracts should be received in writing. Given the nature of the service, confirmation of telephone quotes could be confirmed by e-mail or fax, and should be retained.</p>	Housing Options Manager	Agreed	From 1 st September 2011	In Progress	To be reviewed

Follow up of Limited Assurance Audits as at 30th September 2011

Appendix 3

Report Title	Directorate	Date Issued	Agreed Actions by priority	Agreed Actions Outstanding	Time of Follow Up	Outstanding Issues / Comments
Commercial Property	Corp. Support	Dec 2009	P1. 1 P2. 3	P2. 1	Q1 2011/12	One long term aim, acquisition of the property module – completion by March 2011
Building Maintenance Depot Stocktake	Housing	June 2011	P1. 1		Q3 2011/12	Subject to major review by Assistant Head of Housing and insourced management.
Grounds Maintenance	Environment/ Street Scene	Sept2010	P1. 3 P2. 2		Q4 2011/12	Retention of contract documentation, annual review of inventories and retention of quotations.
Norway House	Housing	Nov 2010	P1. 4		Q2 2011/12	Review currently in progress.
Planning Fees	Planning and Economic development	Dec 2010	P1. 2 P2. 2	P1. 1	Q2 2011/12	Review currently in progress.

AUDIT PLAN 2011/12

Audit area	Audit type	Days allocated	Completed	Risk Identifier
FINANCE AND ICT				
Finance				
Bank Reconciliation	system/follow up	15		PKF
Sundry Debtors	system/follow up	20		PKF
Creditors	system/follow up	20		PKF
Treasury Management	system/follow up	15		PKF/R26
Budgetary Control (capital and revenue)	system/follow up	10		PKF
Risk Management and Insurance	system/follow up	15	In Progress	PKF
Main Accounting and Financial Ledger	system/follow up	15		PKF
Housing Benefits	system/follow up	25		PKF
Council Tax	system/follow up	25		PKF/R27/AC
National Non Domestic Rates	system/follow up	15		PKF/R27
Cash receipting and Income control	system/follow up	15		PKF
Provision for 'top up' testing	systems	15		PKF
Cash Office spot checks	verification	5		PKF
ICT				
Environmental controls/backup procedures	IT	10		PKF
Data and Network Security	IT	20		PKF
Disaster recovery/business continuity	IT	10		PKF/R8
TOTAL		250		
PLANNING AND ECONOMIC DEVELOPMENT				
Planning Fees	follow up	5	In Progress	R27
Building Control	system	20		R27
TOTAL		25		
ENVIRONMENT AND STREET SCENE				
Waste Management and Recycling	follow up	20	Completed	R20
Public Health / Pest Control	system	15	Completed	R27
Car Parking	system	20		R27
North Weald airfield	establishment	15	Completed	R27
Leisure contract	contract	15	Completed	R20
TOTAL		85		
OFFICE OF THE CHIEF EXECUTIVE				
Members Services		10		R
Electoral services – data quality		15		R
TOTAL		25		

Audit area	Audit type	Days allocated	Completed	Risk Identifier
MISCELLANEOUS				
Key and Local Performance Indicators	verification	15	In Progress	R
Business Plans	verification	10	Completed	R
CONTRACTS				
Contract Compliance	System/follow up	15		R20
CORPORATE				
Corporate Procurement	system/follow up	15	Completed	AC/R2
Gifts and Hospitality (Officers)	system/follow up	10		R
Gifts and Hospitality (Members)	system/follow up	10	In Progress	R
Data Protection Act	system	5	In Progress	R18
Follow up of Priority 1 Audit recommendations	follow up	10		R23
CORPORATE MEETINGS				
Governance Statement	management review	5	Completed	AC/PKF
FRAUD AND CORRUPTION				
National Fraud Initiative (NFI)		15		R23
TOTAL		110		
TOTAL DAYS ALLOCATED		690		
Contingency/Spot checks/Minor investigations		40		R23
Corporate/Service Advice		45		
TOTAL		775		

Risk Identifier

Key

AC

PKF

R no.

R

Audit Commission

External Audit

Risk No. in Corporate Register

Reputation of

Council