

**Report to the Audit and Governance
Committee**



Report reference: AGC-019-2011/12
Date of meeting: 9 February 2012

**Epping Forest
District Council**

Portfolio: Finance and Economic Development
Subject: Internal Audit Monitoring Report October - December 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 third quarter monitoring report for 2011/12:
 - (a) The reports issued between October and December 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);
 - (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 October and December 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 third quarter are listed in paragraph 5 below.
2. Audits completed in the third quarter have included a full review of the Housing Repairs Service which was verbally reported to the Committee at its last meeting, the detailed findings of which are in appendix 1. At the end of the quarter a further six audits were substantially complete and at the draft report stage, including the key financial systems, National Non Domestic Rates and Sundry Debtors. The remaining key financial systems will

form the core of the work planned for the fourth quarter.

3. Advice and guidance has been provided on a range of subjects which has included the application of Contract Standing Orders and Financial Regulations and the disposal of redundant stock and equipment.

4. There has been an increase in the financial appraisals carried out by the Chief Internal Auditor of the accounts of potential suppliers of goods and services to ensure their sound financial standing and reduce risks to the Council.

Reports Issued

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

(a) Full Assurance:

- None;

(b) Substantial Assurance:

- Key and Local Performance Indicators;
- Norway House;
- Housing Maintenance Depot;
- Management of Sickness Absence;
- Licensing (Administration);
- Gifts and Hospitality (Members); and
- Sundry Debtors;

(c) Limited Assurance:

- None;

(d) No Assurance:

- None; and

(e) At Draft Report Stage:

- Planning Fees;
- Risk Management and Insurance;
- Creditors;
- Commercial Property Management;
- National Non Domestic Rates; and
- Licensing Enforcement.

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 31 December 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 3	Actual 2011/12 Quarter 3
% Planned audits completed	95%	87%	82%	90%	69%	53%
% chargeable "fee" staff time	71%	69%	66%	72%	71%	71%
Average cost per audit day	£309	£300	£307	£300	£302	£237
% User satisfaction	85%	94%	86%	85%	80%	87%

9. The indicators are calculated as follows:

(a) % Planned audits completed - a cumulative calculation is made each quarter based on the approved plan; and

(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. As previously reported, 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; 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.

10. The figure for planned audits completed of 53% falls short of the quarter 3 target of 67.5% which has been affected by the long term sickness of a member of staff who has now resigned as of the beginning of January. The fourth quarter plan has been drawn up to ensure the key financial audits are covered which will leave some lower risk small audits to consider for inclusion in the 2012/13 audit plan.

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 2011**

Appendix 1

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Performance Indicators 2011/12	Corporate	<p>Substantial Assurance The majority of performance management data can be verified with background data which has been retained by Officers at the time of the calculation. However, testing found that data is not always retained and calculations are not always independently checked before submission to Performance Improvement Unit, which could result in poor data quality if errors are not identified.</p>	<p>There is not always compliance with the data quality strategy as evidence of the data used for the calculation is not always retained.</p> <p>Calculations were verified as correct with the exception of one PI which was corrected as a result of the audit.</p>
Norway House	Housing	<p>Substantial Assurance The controls in place for the management of Norway House have improved as a result of the implementation of the agreed actions from the previous audit.</p>	<p>There are sound controls in place to ensure the management of Norway House is effective. The agreed actions from the previous audit have been implemented.</p> <p>Management have agreed to use correct expenditure codes for petty cash purchases in future.</p>
Housing Repairs Service	Housing	<p>Substantial Assurance The systems and controls surrounding the management of the Housing Repairs Service are operating effectively within the constraints of the current IT system.</p> <p>Management have already introduced a number of changes to address weaknesses previously identified. In particular, the structure of the service has been changed to improve the supervision of staff, manual orders are no longer used (with the exception</p>	<p>Housing Repairs Works Instructions are properly logged on OHMS, although there is insufficient time to do this at the time the repair is reported due to the number of screens that need to be completed before a job can be raised. OHMS is updated with details of completed jobs by the customer services team. However, due to resource issues there is a considerable delay in processing completed jobs, which means that financial information on the general ledger is not current.</p>

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
		<p>of Local Purchase Orders), and improvements to the processes for managing void properties and post inspections of responsive repairs have been introduced.</p> <p>Implementation of the MCM system should significantly improve the management of responsive repairs as it incorporates real time processing of repairs, an appointment system and materials procurement system, thereby eliminating many of the manual processes currently employed. The enhanced management reporting facility will also improve the monitoring of budgets and staff performance.</p>	<p>Orders and invoices are correctly raised, recorded and authorised. With the exception of Local Purchase Orders, for which a manual order is taken directly to a local supplier, all orders are now raised on Marketplace. In the case of annual orders, (e.g. for fuel), new orders should be raised at the start of each financial year.</p> <p>Sample testing showed that stock items received are correctly entered onto the stock recording system from the delivery notes, although it was found that some delivery notes had not been marked to identify that the stock system had been updated. The stock system had also been correctly updated with the issues of stock from the stores using the 'stores requisitions'.</p> <p>The standard of work is monitored through job inspections carried out by the Assistant Area Repair Managers, and through tenant satisfaction surveys. The satisfaction surveys have only recently been sent out again following a period when they could not be printed from the system.</p> <p>The Service reports a number of performance measures. Efforts continue to be made to improve performance, and many of the changes being implemented should assist in the Service reaching, or exceeding, its targets.</p> <p>Budget monitoring is regularly carried out and any large variances investigated by management.</p> <p>Staff performance is appraised through performance & development reviews and sickness is closely monitored in accordance with the Council's managing sickness absence policy. There is a system in place to remind Managers to</p>

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
			hold evaluation meetings with officers as soon as they reach the Councils sickness absence trigger levels. The system also ensures that the meetings are actually held, and that there is a written record of the meeting.
Management of Sickness Absence	Corporate Support Services	<p>Substantial Assurance</p> <p>The systems and controls surrounding the management of sickness absence are operating effectively, thereby ensuring that sickness absence is accurately recorded and effectively managed. Recommendations have been raised relating to the need to remind Managers of the importance of holding evaluation meetings with staff once the trigger levels have been reached, and to ensuring that the KPI is correctly calculated.</p>	<p>Sickness absence is monitored in accordance with the Council's Managing Absence Policy, although not all Managers appear to be holding evaluation meetings once the trigger levels are reached.</p> <p>Monthly certificates are sent promptly to payroll. Consideration should be given to using word versions of the form rather than the printed version, which should make the form easier for Managers to complete.</p> <p>The sickness absence performance indicator, KPI 10, should be checked to ensure it has been correctly calculated.</p>
Licensing Administration	Corporate Support Services	<p>Substantial Assurance</p> <p>The section demonstrates excellent licensing knowledge and is aware of necessity to process licence applications accurately and to procedure.</p>	Regular and complete reconciliations should be performed. Also, the reporting function of M3 should be used to greater affect to control the processes in some key areas as discussed with management.
Gifts and Hospitality (Members)	Assistant to the Chief Executive	<p>Substantial Assurance</p> <p>The procedures in place regarding the recording of gifts and hospitality in the Register of Interest are satisfactory and are adhered to by Members. To ensure best practice, regular reminders should be issued, highlighting the importance that all gifts and</p>	Audit review shows Members to be complying with the Code of Conduct in relation to Gifts & Hospitality, although based on a limited sample. The process is very much determined by the Members' understanding and assuming responsibility for Declarations of Interest within the correct timescale. The regular reminders in

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		<p>hospitality are declared in line with the Code of Conduct, when they occur. Requirement to ensure all members have an up to date submission is also of importance in maintaining assurance in the process.</p>	<p>the Council Bulletins should ensure that Members are acutely aware of the need to uphold this responsibility. Members should be specifically reminded of the need to register the full details of the gifts / hospitality received. Monitoring Officer should be aware of those gifts and hospitalities declared that are aged over 3 years.</p>
Sundry Debtors	Finance & ICT	<p>Substantial assurance The systems and controls in place are satisfactory and ensure the debt collection process is sufficiently controlled. The daily processes ensure the invoices are raised and issued timely, outstanding debts are monitored, write offs are authorised and reconciliations to the general ledger are completed.</p>	<p>Recommendations have been made to ensure that arrangement terms for aged debts are reviewed annually to encourage debtors to increase payments, debtors encouraged to pay promptly and bad debts are written off promptly.</p>

**INTERNAL AUDIT
OUTSTANDING PRIORITY 1 ACTIONS 2011/12 – STATUS AS AT December 2011**

Appendix 2

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
<p>Housing Repairs Service</p>	<p>OHMS System There are a number of jobs on OHMS (a total of 1680 as at 28/9/11) raised in 2010/11 which are still recorded as 'allocated' rather than 'invoiced'. Some of these are completed jobs which haven't yet been updated with the job details due to a lack of resources. The costs relating to these jobs have not been extracted as part of the monthly jobs posted to the general ledger. It should be ensured that, where relevant, completed jobs are closed down as 'invoiced' on OHMS to make sure that all relevant costs are posted to the general ledger. The status of the remaining jobs on OHMS should be determined and the system amended as necessary.</p>	<p>Customer Repairs Manager</p>	<p>March 2012</p>		<p>In progress</p>	

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
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.
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	Review in progress.

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)	April 2011	<p>Training took place in 2010.</p> <p>Director reported to Audit and Governance Committee 14th February 2011</p>	In progress	Review complete, findings being discussed with Director.
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.

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
Housing and Council Tax Benefits	Accuracy checks Ensure 5% checks completed timely and have these checks signed off, by a senior manager.	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
Waste Management	Procurement The requirements for the printing contract should be discussed with the Senior Procurement Officer to ensure that the correct procedures are followed.	Waste & Recycling Manager	Ongoing	Agreed	In Progress	To be reviewed
Bed & Breakfast Contracts	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.	Housing Options Manager	Agreed	From 1 st September 2011	In Progress	To be reviewed
Management of Sickness Absence	Evaluation Meetings Managers should be reminded of the importance of holding evaluation meetings once an employee has reached the Council's sickness absence trigger levels.	Directors and Assistant Director (Human Resources)	Agreed	Ongoing	In Progress	To be reviewed

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
Management of Sickness Absence	Key Performance Indicators The sickness absence report used to calculate KPI 10 should be adjusted to include any staff who have left the Authority.	Assistant Director (Human Resources)	March 2012	The Assistant Director (Human Resources) has stated that in the absence of the Operations Manager (vacant post), the calculation for Q4 2010/2011 and Q1 for 2011/2012 was not checked. The calculations for performance indicators completed in Human Resources will be checked in future, and the summary control form will be signed to evidence that the calculation has been completed, independently checked and signed off by the Director.	In Progress	To be reviewed
Licensing Administration	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.	Assistant Director (Legal)	April 2012		In Progress	To be reviewed

Follow up of Limited Assurance Audits as at 31st December 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 complete, substantial assurance given.
Planning Fees	Planning and Economic development	Dec 2010	P1. 2 P2. 2	P1. 1	Q2 2011/12	Review complete, draft report under discussion with Director.

AUDIT PLAN 2011/12

Audit area	Audit type	Days allocated	Completed	Risk Identifier
FINANCE AND ICT				
Finance				
Bank Reconciliation	system/follow up	15	Q4	PKF
Sundry Debtors	system/follow up	20	Completed	PKF
Creditors	system/follow up	20	In Progress	PKF
Treasury Management	system/follow up	15	Q4	PKF/R26
Budgetary Control (capital and revenue)	system/follow up	10	Q4	PKF
Risk Management and Insurance	system/follow up	15	In Progress	PKF
Main Accounting and Financial Ledger	system/follow up	15	Q4	PKF
Housing Benefits	system/follow up	25	Q4	PKF
Council Tax	system/follow up	25	Q4	PKF/R27/AC
National Non Domestic Rates	system/follow up	15	In Progress	PKF/R27
Cash receipting and Income control	system/follow up	15	In Progress	PKF
Provision for 'top up' testing	systems	15	Q4	PKF
Cash Office spot checks	verification	5	Q4	PKF
ICT				
Environmental controls/backup procedures	IT	10	Q4	PKF
Data and Network Security	IT	20	Q4	PKF
Disaster recovery/business continuity	IT	10	Q4	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	Q4	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
HOUSING				
Housing Rent Collection and Arrears	system/follow up	25	Q4	PKF/R27
Housing Lettings	follow up	5		AC
Depot	system/follow up	15	Completed	
Norway House	Follow Up	15	Completed	
Bed and breakfast contract	contract	5	Completed	
Stores - Depot stock take	stocktake	5	Completed	R23
TOTAL		70		
PARTNERSHIPS AND VOLUNTARY SECTOR				
Local Area Agreements	system	15		R22
TOTAL		15		
CORPORATE SUPPORT SERVICES				
Human Resources				
Payroll	System/follow up	25	In Progress	PKF
Recruitment and Selection	Follow up	5		AC
Management of Sickness absence	Follow up	5	Completed	R15
Overtime and Committee Allowances	verification	10	In Progress	R
Car Mileage claims	verification	10	Completed	R
Health and Safety Policy	system	5		R
Estates/Facilities Management/Other				
Commercial Property portfolio	system/follow up	20	In Progress	R9
Licensing	system	15	Completed	R27
Asset Management system	Follow up	5		R18
Non-HRA Repairs	verification	5		R2
Fleet Operations income	system	5		R27
Legal				
TOTAL		110		
Audit area				
MISCELLANEOUS				
Key and Local Performance Indicators	verification	15	Completed	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	Completed	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	In Progress	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