

**Report to the Audit and Governance
Committee**



Report reference: AGC-015-2014/15
Date of meeting: 24 November 2014

**Epping Forest
District Council**

Portfolio: Governance and Development Management
Subject: Internal Audit Monitoring Report July - September 2014
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 2014/15:

- (a) the reports issued between July and September 2014 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 2014/15 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 2014, and details the overall performance to date against the Audit Plan for 2014/15. 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. At the end of the quarter a further six 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
None
- (b) Substantial Assurance
Business Plans
Commercial Property Management
Reprographics
North Weald Airfield
Key Performance Indicators
- (c) Limited Assurance
Facilities Management
Planning fees
- (d) No Assurance
None
- (e) At Draft Report Stage
Car Mileage Claims
Corporate Procurement
Contracts – Fraud Prevention
Private Sector Housing Grants
Corporate Asset Register
Car Parking Contract

Limited Assurance

4. During the quarter a report on Facilities Management was given a Limited Assurance rating due to a number of departures from Contract Standing Orders, specifically failure to monitor expenditure and take action when financial thresholds are reached. Management have given assurance that procedures are now in place to monitor expenditure to individual suppliers and highlight when thresholds are approached.

5. An audit of Planning Fees identified weaknesses within the reconciliation process which resulted in a Limited Assurance report. Planning staff are bringing the reconciliation up to date with the assistance of Accountancy staff and will ensure that reconciliation will be carried out in a timely manner.

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 2014/15 (Appendix 4)

8. The status of the 2014/15 Audit Plan is set out at Appendix 4.

Performance Management

9. The Internal Audit Team has local performance indicator targets to meet in 2014/15, as set out below:

	Actual 2011/12 For year	Actual 2012/13 For year	Actual 2013/14 For year	Target 2014/15 For year	Actual 2013/14 Quarter 2	Actual 2014/15 Quarter 2
% Planned audits completed	82%	85%	88%	90%	36%	36%
% chargeable "fee" staff time	71%	69%	74%	75%	77%	78%
Average cost per audit day	£213	£243	£225	£245	£217	£227
% User satisfaction	89%	N/A	N/A	90%	93%	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 – A customer survey is given to the relevant Assistant Director or Manager at the audit exit meeting.

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

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.

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 2014

Appendix 1

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Business Plans	Governance Directorate	<p>Substantial Assurance The systems surrounding the preparation of the Directorate Business Plans are operating satisfactorily. Corporate guidance for Business Plans is provided by the Performance Improvement Unit.</p>	<p>All Directorate Business Plans were available at the time of the audit and had been prepared in accordance with the Corporate Guidance. Small variations in format from the guidance were discussed and agreed as acceptable with the Performance Improvement Manager.</p> <p>All Directorate Business Plans had been approved by the relevant Portfolio Holders, although a number of approval forms had been received after the 30th April deadline.</p>
Commercial Property Management	Governance Directorate	<p>Substantial Assurance The systems and controls surrounding the management of the Council's commercial property portfolio are operating effectively, and ensure that rent reviews and lease renewals are carried out in a timely manner and that rent invoices are accurate.</p>	<p>Outstanding debts are currently monitored by the Sundry Debtors Section and the majority of old debts are being dealt with by Legal Services. This is being reviewed by the Corporate Debt Working Party.</p> <p>The section is in the process of procuring a replacement IT system for GVA, which will improve day-to-day property management and ensure that all commercial property information is held securely on one system.</p>
Reprographics	Resources Directorate	<p>Substantial Assurance The systems and controls in the reprographics section are operating effectively. However, the amount spent on the purchase of copier paper needs to be kept under review to ensure that Contract Standing Orders are complied with.</p>	<p>Testing demonstrated that departments are obtaining quotes for jobs from reprographics and are only placing the order with external suppliers where it is either cheaper or reprographics are unable to do the work.</p>

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
North Weald Airfield	Neighbourhoods Directorate	<p>Substantial Assurance The systems and controls are operating satisfactorily.</p>	<p>By the end of the audit, new procedures had been put in place for purchasing fuel using Shell fuel cards rather than the local garage. The general manager had also revised the forms for documenting fuel usage.</p> <p>This audit identified the following areas of good practice:</p> <p>Income charges are approved and applied correctly.</p> <p>Runway inspections are completed and documented in compliance with the requirements of the Aviation Third Party Liability Insurance policy.</p>
Key performance Indicators	Governance Directorate	<p>Substantial Assurance There are sound procedures in place for monitoring the Council's performance and achievement of the key objectives.</p>	<p>This audit has recommended additional checks should be put in place to ensure KPI data and full supporting documentation is reported to the Performance Improvement Unit, in accordance with the data quality strategy.</p>
Facilities Management	Resources Directorate	<p>Limited Assurance The system in place for the management of the planned and routine maintenance programmes operate effectively but Management should ensure compliance with Contract Standing Orders.</p>	<p>Value for money should be demonstrated to evidence economic and effective use of public money.</p> <p>The procurement of works, goods and services should be in accordance with the thresholds within Contract Standing Orders.</p> <p>Overall expenditure by each supplier will be monitored in future. Management implemented a system 1st April</p>

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
			2014 to enable the section to monitor committed expenditure. The Procurement section will also provide quarterly reports of expenditure by supplier on request.
Planning Fees	Governance Directorate	<p>Limited Assurance The key income reconciliation is not being undertaken, resulting in a key control being absent from the process. This was a recommendation in the previous audit and therefore has resulted in this assurance rating.</p>	Development Control management to liaise with ICT and Accountancy to establish reports from M3 that are easily reconcilable and if required Cashiers to ensure referencing in the right format to enable reconciliation. Reconciliation to be brought up to date and then completed monthly to establish control within the process.

**INTERNAL AUDIT
OUTSTANDING PRIORITY 1 ACTIONS – STATUS AS AT 14th October 2014**

Appendix 2

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
Commercial Property Portfolio	Some rent review dates on GVA do not agree to the information held on the Valuers spreadsheets. Therefore the data held on GVA should be checked to ensure that it is correct prior to transferring it to the new IT system.	Assistant Director (Asset Management & Economic Development)	31/3/14	<p>Agreed. The data will be cleansed before being loaded onto the new system.</p> <p>Following the failure of the replacement system to meet the required specification, the market is being researched prior to a re-tendering exercise.</p> <p>The license for the original system has been extended for one year to maintain continuity of the database during the acquisition process.</p>	Awaiting system acquisition process.	
Commercial Property Portfolio	A system should be set up whereby outstanding commercial rent debts are regularly monitored in order that appropriate action can be taken in a timely manner	Assistant Director (Asset Management & Economic Development)	1/1/15	The quarterly debt monitoring meetings which used to be held between Finance, Legal Services and Estates ended in March 2013 when Finance were no longer able to attend. It is considered that there are currently insufficient resources within the Estates Section to carry out debt monitoring. This issue will be discussed as part of the Corporate Debt Working Party. In addition, as part of the ongoing restructure		

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
				within the Council, consideration will be given to resource levels required in the Economic Development & Estates and Valuation Section.		
Reprographics	Portfolio Holder approval should be sought for a waiver of Contract Standing Orders. A review of the purchase of copier paper should be carried out in order to assess the likely future expenditure on copier paper and the requisite number of quotes/tenders that need to be obtained.	Reprographics Manager	31/08/2014	Agreed		
Planning Fees	Development Control management to liaise with ICT to establish reports from M3 that are easily reconcilable and if required Cashiers to ensure referencing in the right format to reconcile. Reconciliation to be brought up to date and then completed monthly to establish control within the process.	Assistant Director Development Control	Sept 2014	Planning staff are bringing the reconciliation up to date with the assistance of Accountancy staff and will ensure that reconciliation will be carried out in a timely manner.		
Facilities Management	Where similar items of work are required, repeat orders should not be submitted without consideration of the total sum of expenditure	Facilities Manager.	1.12.2014	FM will involve the Essex Procurement Hub for all relevant purchases. The commitment accounting system will be further developed to more clearly		

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
	<p>during previous years with reference to Contract Standing Orders.</p> <p>Overall expenditure with individual suppliers should be reviewed and (if required) a retrospective waiver of Contract Standing Orders should be obtained from the Portfolio Holder. (CSO C2 (10). This was also recommended following a previous audit (February 2010).</p> <p>Facilities Management should consult the Essex Procurement Hub for advice regarding tender specifications and to ensure the best potential suppliers are selected on the basis of the quality of work and best price. (CSO C3(3))</p>			<p>highlight companies nearing the contract standing order thresholds. Reports will also be generated from the Market Place system and these will all be monitored by the FM manager on a regular basis.</p>		
<p>Facilities Management</p>	<p>All Marketplace orders should include comprehensive details of goods and services. Employment details such as the nature and period of work should be provided.</p> <p>The employment of an</p>	<p>Facilities Manager</p>	<p>1.12.2014</p>	<p>Of these orders 2 were for emergency works following the water leak in the then Planning Directorate, and there was a requirement to use of electrician at short notice and with a knowledge of the building and the 3rd was for an electrician, at the end of the</p>		

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
	<p>additional member of staff could be considered more cost effective than using a contractor.</p>			<p>financial year, with a good knowledge of the building who could work alone, to complete the replacement of lighting, LED, in the Conder Building. A request for an additional electrician will be made in due course. This will ultimately result in revenue savings as well as addressing the issues identified above.</p>		
<p>Facilities Management</p>	<p>Procurement services will be utilised to provide a Marketplace reports of the value of orders raised (by supplier) to the Facilities Manager on a monthly basis.</p> <p>Facilities Management should also consider the use of reports of actual expenditure by supplier from Accountancy.</p>	<p>Facilities Manager</p>	<p>1.12.2014</p>	<p>Agreed. Results from the reports generated from the commitment accounting, marketplace and accountancy systems will be collated and monitored regularly to prevent any future departure from CSO.</p>		
<p>Facilities Management</p>	<p>Written quotations should be obtained in accordance with Financial Regulations and Contract Standing Orders.</p> <p>The Marketplace order descriptions should provide more information than 'as per quotation'.</p>	<p>Facilities Manager</p>	<p>1.12.2014</p>	<p>The required number of quotes will be obtained and full details entered onto Marketplace.</p>		

**INTERNAL AUDIT
FOLLOW UP OF LIMITED ASSURANCE AUDITS AS AT October 2014**

Appendix 3

Report Title	Directorate	Date Issued	Agreed Actions by priority	Agreed Actions Outstanding	Time of Follow Up	Outstanding Issues / Comments
Car Parking Income	Neighbourhoods Directorate	March 2014	P1. 0 P2. 1 P3. 0	P1. 0 P2. 1 P3. 0	Q3 2014/15	<p>The pay and display off street car parking income is adequately monitored. However, the introduction of new ticket machines will enable the pay and display income to be more effectively monitored.</p> <p>As little supporting documentation is received in relation to the Penalty Charge Notice (PCN) and Season Ticket income, it is not possible to verify this. This is in the process of being addressed by management. In the meantime however, the volume of PCNs is being monitored to ensure there are no significant fluctuations and the any issues identified are raised with NEPP.</p> <p>Additionally, some assurance should be provided as the car parking contract is subject to independent review by Colchester Borough Council Internal Audit Section.</p>
Facilities Management	Resources Directorate	September 2014	P1. 4 P2. 2 P3. 0	P1. 4 P2. 2 P3. 0	Q4 2014/15	<p>Value for money should be demonstrated to evidence economic and effective use of public money.</p> <p>The procurement of works, goods and services should be in accordance with the thresholds within Contract Standing Orders. The Authority's Procurement section should be consulted at the start of each contract to ensure compliance with Council policy.</p> <p>Overall expenditure by each supplier will be monitored in future. Management implemented a system 1st April 2014 to enable the section to monitor committed expenditure. The</p>

						Procurement section will also provide quarterly reports of expenditure by supplier on request.
Planning Fees	Governance Directorate	July 2014	P1. 1 P2. 0 P3. 1	P1. 1 P2. 0 P3. 1	Q3 2014/15	The importance of the key income reconciliation between M3 and the General Ledger is understood but has not been performed. This is highlighted as a serious control weakness and needs to be rectified for any assurance to be given in regards this aspect of the Planning Fees process. Previous improvements and efforts in regards these processes has been made but have not been followed through with. The key individuals have been communicated with and with management support and commitment the reconciliation should be able to be completed.

AUDIT PLAN 2014/15

Key		Risk Identifier		
AC		Audit Commission		
FFS		Fundamental Finance System		
R no.		Risk No. in Corporate Register		
R		Reputation of Council		
Audit area	Audit type	Days allocated	Completed	Risk Identifier
Resources				
Accountancy				
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	10		FFS/R4
Budgetary Control (capital and revenue)	system/follow up	10		FFS
Risk Management and Insurance	system/follow up	10		FFS
Main Accounting and Financial Ledger	system/follow up	15		FFS
Provision for 'top up' testing	systems	30	Completed	FFS
Benefits				
Housing Benefits	system/follow up	15		FFS
Council Tax Reduction	system/follow up	15		FFS
Revenues				
Council Tax	system/follow up	20		FFS/R4/AC
Business Rates	system/follow up	20		FFS/R4
Cash receipting and Income control	system/follow up	15		FFS
Human Resources				
Payroll	System/follow up	20		FFS
Recruitment and Selection	verification	10		R
Management of Sickness absence	verification	10	Completed	R
Overtime and Committee Allowances	verification	10		R
Travelling & Subsistence Claims	verification	10		R
Car Mileage claims	verification	10	In Progress	R

Reprographics	System	10	Completed	
ICT and Facilities Management				
ICT Procurement	ICT	10		AC/R6
Access controls	ICT	10		R6
Facilities Management Contracts	system	10	Completed	AC
TOTAL		315		
Governance				
Governance and Performance Mgmt.				
Key and Local Performance Indicators	verification	15	Completed	R
Business Plans	verification	10	Completed	R
Equality Analysis	verification	10		R
Gifts and Hospitality (Members & Officers)	system/follow up	10		R
Legal				
Debt recovery	Follow up	10		R4
Development Management				
Planning Fees	System	20	Completed	R4
TOTAL		75		
Neighbourhoods				
Neighbourhood Services				
North Weald airfield	establishment	15	Completed	R4
Technical Services				
Waste Management and Recycling	system	20		R
Car Parking Contract	system	10	Completed	R4
Fleet Operations income	system	5	Completed	R4
Forward Planning & Economic Devel.				
Commercial Property portfolio	Follow up	10	Completed	R2
TOTAL		60		
Communities				
Housing Property				
Housing Repairs Service	system	20		R

Council Housebuilding Programme	system	15		AC
Housing Contracts	follow up	5		AC
Housing Operations				
Housing Rent Collection and Arrears	system/follow up	20		FFS/R4
Norway House/Rental Assistance Loans	Estab/system	10	Completed	R4
Private Sector Housing & Comm. Support				
Right to Buy	system	10	Completed	AC
Private Sector Housing - Grants	system	15	In Progress	AC
TOTAL		95		
FRAUD PREVENTION & DETECTION				
Contracts	fraud	15	In Progress	AC
Procurement	fraud	15		AC
Council Tax Discounts	fraud	15		AC
National Fraud Initiative (NFI)	fraud	20	In Progress	AC
Data matching and analysis (IDEA software)	fraud	25	In Progress	AC
TOTAL		90		
CORPORATE				
Corporate Procurement	system/follow up	15	In Progress	AC
Corporate Asset Register	system	5	In Progress	FFS
Priority 1 Audit recommendations	follow up	10	In Progress	R
Governance Statement	management review	5	Completed	R
TOTAL		35		
TOTAL DAYS ALLOCATED		670		
Contingency/Minor investigations		40		
Corporate/Service Advice		65		
TOTAL		775		