

**Report to the Audit and Governance
Committee**



Report reference: **AGC-006-2012/13**
Date of meeting: **24 September 2012**

**Epping Forest
District Council**

Portfolio: **Finance and Economic Development**

Subject: **Internal Audit Monitoring Report - April to June 2012**

Responsible Officer: **Brian Bassington (01992 564446).**

Democratic Services Officer: **Gary Woodhall (01992 564470).**

Recommendations/Decisions Required:

(1) The Committee is requested to note the following issues arising from the Internal Audit Team's first quarter monitoring report for 2012/13:

- (a) The reports issued between April and June 2012 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 2012/13 Audit Plan status report (Appendix 4).**

Executive Summary:

This report provides a summary of the work undertaken by the Internal Audit Unit between April and June 2012, and details the overall performance to date against the Audit Plan for 2012/13. The report also contains a status report on previous priority 1 audit recommendations which have been reviewed and updated during August 2012.

Reasons for Proposed Decision:

Monitoring report as required by the Audit and Governance Committee Terms of Reference.

Other Options for Action:

No other options.

Report:

Work Carried Out in the Period

1. The audit reports issued in the first quarter are listed in paragraph 5 below.
2. Audits completed in the first quarter have included a number of key financial systems which are reviewed by the External Auditors (PKF), the detailed findings of which are in appendix 1. At the end of the quarter a further five audits were substantially complete and at the draft report stage. Further work and top up testing has been carried out for PKF during their review of Internal Audit and its working papers during the first quarter.

3. Advice and guidance continues to be provided on a range of subjects which has included fees and charges, telephone payments, scam emails and mileage claims.

4. The 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 has continued.

Reports Issued

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

(a) Full Assurance:

- None;

(b) Substantial Assurance:

- Budgetary Control;
- General Ledger;
- Council Tax;
- Car Parking; and
- Management of Sickness Absence;

(c) Limited Assurance:

- Housing and Council Tax Benefits; and
- Housing Maintenance Stores Stock take;

(d) No Assurance:

- None;

(e) At Draft Report Stage:

- Business Plans;
- Debt Recovery;
- Environmental Controls and Backup Procedures;
- Overtime and Committee Allowances; and
- Corporate Procurement.

Limited Assurance

6. The recommendations made in the previous Housing and Council Tax Benefits audit surrounding accuracy checks have not been implemented. This was also reported as a high priority recommendation following the external auditors (PKF) annual review in September 2011. The Benefits Manager has agreed to review on a monthly basis to ensure that accuracy checks are being completed. Evidence of this further check will be reviewed by Audit during the third quarter.

7. The Housing Maintenance Stores Stocktake identified that the stock database records could not be relied upon as there were a significant number of discrepancies identified. However, as management has already taken action to address this issue, a recommendation has not been raised.

Follow Up of Previous Priority 1 Recommendations

8. Attached at Appendix 2 is a schedule of outstanding priority 1 recommendations to ensure follow up both by Internal Audit and Service Management.

Follow Up of Previous Limited Assurance Audits

9. 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 2012/13 (Appendix 4)

10. The status of the 2012/13 Audit Plan is set out at Appendix 4.

Performance Management

11. The Internal Audit Team has local performance indicator targets to meet in 2012/13, as set out below:

	Actual 2009/10 For year	Actual 2010/11 For year	Actual 2011/12 For year	Target 2012/13 For year	Actual 2011/12 Quarter 1	Actual 2012/13 Quarter 1
% Planned audits completed	87%	82%	82%	90%	13%	16%
% chargeable "fee" staff time	69%	66%	71%	72%	70%	70%
Average cost per audit day	£300	£307	£213	£245	£226	£239
% User satisfaction	94%	86%	89%	85%	86%	95%

12. 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; 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.

13. During the first quarter there was a vacancy within the Internal Audit Unit which was going through the recruitment process as at the end of the quarter.

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 1
APRIL - JUNE 2012**

Appendix 1

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Budgetary Control	Finance and ICT	<p>Substantial Assurance The systems and controls in place in relation to budget setting, monitoring and reporting are operating effectively. Only one priority 2 recommendation has been raised.</p>	<p>There is a good level of budget monitoring and reporting in the Authority. Monthly cost centre monitoring reports, showing actual expenditure against budget, are sent to Spending Control Officers in order for them to monitor their budgets. These are also used as the basis for discussing budgets within directorates; a standing item on directorate team meeting agendas. Quarterly financial monitoring is reported by the Assistant Director (Accountancy) to the Finance and Performance Management Cabinet Committee.</p>
General Ledger	Finance and ICT	<p>Substantial Assurance The systems and controls surrounding the processing of data on the general ledger and the close down of accounts are operating satisfactorily.</p>	<p>Data from the feeder systems is completely and accurately transferred to the general ledger.</p> <p>Journals, virements and supplementary estimates are all authorised prior to posting to the general ledger, and an explanation recorded for all adjustments.</p> <p>A final accounts close-down timetable is prepared and monitored to ensure the deadlines are met.</p>
Council Tax	Finance and ICT	<p>Substantial Assurance The Council Tax Process is a well managed function and day to day activity is completed accurately and timely. There are minor areas of improvement that audit have identified that would increase control of the process and ensure a good service level is maintained.</p>	<p>The systems and controls currently in place are satisfactory and compliant with Council Policy. Supervisory checks are carried out to ensure control and that best practice and business continuity are given due attention.</p>

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Car Parking	Environment and Street Scene	<p>Substantial Assurance The controls surrounding the verification and reconciliation of car parking income are operating effectively. However, the reconciliation of pay and display income received to banking could be made more efficient by ensuring that more detail of the monthly transfer is obtained from the contractor.</p>	<p>Income from the pay and display car parks is recorded on detailed spreadsheets, banked daily into Vinci's account and the income transferred to EFDC monthly. However, sometimes the amount transferred does not agree to the spreadsheets and this has to be followed up with the contractor. Additionally, the income split between on and off street car parks sometimes needs to be adjusted as it has been incorrectly analysed.</p>
Management of Sickness Absence	Corporate Support Services	<p>Substantial Assurance The systems in place for managing sickness absence are operating effectively. Managers need to ensure the Monthly Certificates of Service include all sickness absence in the directorate. As part of the monitoring of sickness absence by Human Resources, Managers should be asked to provide explanations for any Informal Evaluation Meetings not carried out.</p>	<p>Human Resources monitor all sickness absence in the Authority including Evaluation Meetings held and referrals to the Occupational Health Doctor.</p> <p>Absence reports from KCS provide the information required for the quarterly reporting to the Finance and Performance Management Scrutiny Panel by the Assistant Director (Human Resources).</p>
Housing and Council Tax Benefits	Finance and ICT	<p>Limited Assurance The majority of systems and controls in place for the administration and payment of Housing and Council tax benefit are satisfactory and areas of good practice are evident. However, this audit found the recommendations made in the previous audit regarding accuracy checks remain outstanding.</p>	<p>The recommendations made in the previous audit surrounding accuracy checks have not been implemented. This was also reported as a high priority recommendation following the external auditors (PKF) annual review in September 2011.</p>

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Housing Maintenance Stores Stocktake	Housing Services	<p>Limited Assurance Proper procedures were followed for the year end stocktake, and the accuracy of the stores count could be relied upon. However, there were a significant number of discrepancies between the ledger stock and the physical stock (54% of stock lines).</p>	<p>The audit identified that the stock database records could not be relied upon as there were a significant number of discrepancies identified. However, as management has already taken action to address this issue, a recommendation has not been raised.</p>

**INTERNAL AUDIT
OUTSTANDING PRIORITY 1 ACTIONS – STATUS AS AT SEPTEMBER 2012**

Appendix 2

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>Reconciliation between M3 and financial ledger reliant upon 3 different systems – finance, payments and income recording on M3 Northgate. Cheques are now individually itemized (previously batched) on the general financial ledger so progress and part reconciliation has been made. However, inadequate resources to carry out manual reconciliation and compatibility / merging of all 3 systems is reliant upon electronic ICT solution. A Northgate health check (September 2012) is currently underway to find a solution and enable full reconciliation.</p>	In Progress	Audit review planned for 3 rd quarter.

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
Planning Fees	<p>Refunds Management should consider the use of a checklist to be used by Development Control Administration section to ensure that for each application the same data is recorded on M3 and/or the paying in spreadsheet. A report of refund transactions (DC120 9211) should be used to check that refunds are recorded correctly. It is recommended that the notes facility on M3 is updated with details of refunds. Officers responsible for authorising the refund should be reminded they are signing to confirm the refund is due.</p>	Assistant Director (Development Control).	31 st March 2012	In respect of producing a report of refund transactions, crystal report training has taken place with key staff, but now awaiting the outcome of the Northgate Health check (September 2012) for further progress.	In Progress	Audit review planned for 3 rd quarter.
Licensing Administration	<p>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.</p>	Assistant Director (Legal)	April 2012	Reconciliation is not being carried out due to insufficient resources (as at 30 th July 2012).		Audit to follow up in 3 rd quarter.

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
Housing and Council Tax Benefits	Accuracy checks 5% accuracy checks of all assessments should be completed monthly.	Benefits Manager	1st September 2012.	The Benefits Manager has agreed to review on a monthly basis to ensure that accuracy checks are being completed. Evidence of this further check will be reviewed by Audit.	In Progress	This was a recommendation in the previous years audit and was highlighted by PKF in their annual report. Audit review planned for 3 rd quarter.
Housing and Council Tax Benefits	Sample review: Accuracy checks Accuracy checks should cover all officers involved in processing claims.	Benefits Manager	1st September 2012.	Consideration will be given for reviewing the process of documenting accuracy checks to ensure the team leaders follow the same procedure.	In Progress	Audit review planned for 3 rd quarter.

**INTERNAL AUDIT
FOLLOW UP OF LIMITED ASSURANCE AUDITS AS AT SEPTEMBER 2012**

Appendix 3

Report Title	Directorate	Date Issued	Agreed Actions by priority	Agreed Actions Outstanding	Time of Follow Up	Outstanding Issues / Comments
Building Maintenance Depot Stocktake	Housing	June 2012	P1. 1	P1.1	Q3 2012/13	<p>The audit identified that the stock database records could not be relied upon as there were a significant number of discrepancies identified. However, as management has already taken action to address this issue, a recommendation has not been raised.</p> <p>A Repairs Management Contract presentation – “1 Year On” was presented to a meeting of Housing Scrutiny Standing Panel held on Tuesday, 7 August 2012.</p>
Planning Fees	Planning and Economic development	March 2012	P1. 2 P2. 1	P1. 1	Q3 2012/13	A Northgate health check (September 2012) is currently underway to find a solution and enable full reconciliation.
Housing and Council Tax Benefits	Finance & ICT	June 2012	P1. 2 P3. 1	P1. 2 P3. 1	Q3 2012/13	<p>The recommendations made in the previous Housing and Council Tax Benefits audit surrounding accuracy checks have not been implemented. This was also reported as a high priority recommendation following the external auditors (PKF) annual review in September 2011.</p> <p>The Benefits Manager has agreed to review on a monthly basis to ensure that accuracy checks are being completed. Evidence of this further check will be reviewed by Audit during the third quarter.</p>

AUDIT PLAN 2012/13

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		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	25	Completed	PKF
Cash Office spot checks	verification	5		PKF
ICT				
Environmental controls/backup procedures	IT	10	In Progress	PKF
Disaster recovery/business continuity	IT	10		PKF/R8
TOTAL		240		
PLANNING AND ECONOMIC DEVELOPMENT				
Planning Fees	System	20		R27
Building Control	follow up	5		R27
TOTAL		25		
ENVIRONMENT AND STREET SCENE				
Waste Management and Recycling	follow up	20		R20
Car Parking	system	20		R27
North Weald airfield	establishment	15		R27
Leisure contract	contract	15		R20
TOTAL		70		
OFFICE OF THE CHIEF EXECUTIVE				
Members Services		10		R
TOTAL		10		
HOUSING				
Housing Rent Collection and Arrears	system/follow up	25		PKF/R27
Housing Lettings	follow up	5		AC
Housing Repairs Service	system/follow up	15		
Housing Contracts	system	15		

Stores - Depot stock take	stocktake	5	Completed	R23
TOTAL		65		
CORPORATE SUPPORT SERVICES				
Human Resources				
Payroll	System/follow up	25		PKF
Recruitment and Selection	Follow up	5		AC
Management of Sickness absence	Follow up	5	Completed	R15
Overtime and Committee Allowances	verification	10		R
Car Mileage claims	verification	10		R
Estates/Facilities Management/Other				
Commercial Property portfolio	system/follow up	20		R9
Property Management System - Asset Register	system	5		PKF
Fleet Operations income	system	5		R27
Legal				
Licensing	system	15		R27
Debt recovery	system	15	In Progress	R27
TOTAL		115		
MISCELLANEOUS				
Key and Local Performance Indicators	verification	15		R
Business Plans	verification	10	In Progress	R
FRAUD PREVENTION & DETECTION				
Contracts	fraud	15		AC/R20
Procurement	fraud	15		AC/R2
Council Tax Discounts	fraud	15		AC/R23
National Fraud Initiative (NFI)	fraud	15		R23
Data matching and analysis (IDEA software)	fraud	25		AC
CORPORATE				
Corporate Procurement	system/follow up	15	In Progress	AC/R2
Gifts and Hospitality (Members & Officers)	system/follow up	10		R
Data Protection Act	system	5		R18
Follow up of Priority 1 Audit recommendations	follow up	10	In Progress	R23
Governance Statement	management review	5	Completed	AC/PKF
TOTAL		155		
TOTAL DAYS ALLOCATED				
Contingency/Spot checks/Minor investigations		40		R23
Corporate/Service Advice		55		
TOTAL		775		

Key

AC

PKF

R no.

R

Risk Identifier

Audit Commission

External Audit

Risk No. in Corporate Register

Reputation of Council