

**Report to the Audit and Governance
Committee**



Report reference: **AGC-010-2012/13**
Date of meeting: **29 November 2012**

**Epping Forest
District Council**

Portfolio: Finance and Technology
Subject: Internal Audit Monitoring Report July - September 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 second quarter monitoring report for 2012/13:

- (a) the reports issued between July and September 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 July and September 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 and the relevant Assistant Directors will be in attendance to discuss the current status as requested by the Committee at the September meeting.

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 7 below.
2. Audits completed in the second quarter have covered ICT, Income and staff management, the detailed findings of which are in appendix 1. At the end of the quarter a further four audits were substantially complete and at the draft report stage.
3. Advice and guidance continues to be provided on a range of subjects which has

included disposal of furniture, disposal of scrap, scam emails, Contract Standing Orders, Freedom of Information and financial appraisals.

4. Work has begun on the next round of the biennial data matching exercise, the National Fraud Initiative (NFI), as directed by the Audit Commission. At the end of the quarter processes had been put in place for the extraction of data from the Creditors, Payroll, Housing Rents and Licences systems, ready for extraction and uploading of the encrypted files to the Audit Commission secure web site on the 1st October. Data on parking permits is no longer held by the Council and assurance was received from the North Essex Parking Partnership that they would be providing that data to the Audit Commission for this area. While preparing for the data extraction it was identified that further data on the applicants right to work status was required by the Audit Commission for taxi licenses which had not been collected by this Council. This is not a mandatory requirement, however the Council's data will not be matched to the immigration data provided by the UK Border Agency. The Senior Licencing Enforcement Officer has agreed to amend taxi license application forms to enable the Council to provide this data for the next data matching exercise.

5. The results of this data matching exercise will be made available in January 2013 and will be allocated to the relevant Directorates for investigation.

6. The Audit Commission have introduced the NFI's new flexible matching service (FMS) for the public sector which builds on the biennial exercise. FMS can match batch datasets as stand-alone tasks at a time and frequency that suits an organisation's operational requirements. This will enable one off data matching of high risk areas in addition to the biennial exercise, for a fee based on the number of data sets matched.

Reports Issued

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

(a) Full Assurance:

- None;

(b) Substantial Assurance:

- Environmental Controls and Backup Procedures;
- Fleet Operations Income;
- Business Plans; and
- Management of Sickness Absence;

(c) Limited Assurance:

- Legal Services Debt Recovery;

(d) No Assurance:

- None; and

(e) At Draft Report Stage:

- Recruitment and Selection;
- Gifts and Hospitality (Members and Officers);
- Corporate Procurement; and
- Car Mileage.

Limited Assurance

8. During the quarter one report was issued with a Limited assurance rating. This audit covered the processes for debt recovery within Legal Services.

9. At the time of the audit, two litigation officers were responsible for managing approximately 380 debts which included charges for Housing Benefit overpayments, former tenant arrears, bed and breakfast charges, commercial rent, leasehold charges and rental loans. The audit attempted to demonstrate the cost effectiveness of the service (for debt recovery) however, the required information regarding the value of debts collected was not recorded within Legal. It was not possible to quantify the exact value of outstanding debts referred to Legal Services and the value of debts recovered as there was not a reporting facility for debts recovered by Legal Services. There are no performance indicators in place to report on the effectiveness of the debt recovery service in Legal.

10. Officers responsible for debt recovery will implement a system for recording debts collected after court proceedings are issued.

11. Court Costs are not always recovered as there is not a proper system in place for recording and collection of court costs. Debt recovery is not always cost effective if the costs of pursuing debts are not recovered. The audit has recommended invoices should be raised on the debtors system (AIMs) to ensure court costs are identified and charged to the debtor. This recommendation does not apply to housing benefit overpayments and current and former tenant arrears as they are managed separately.

12. This report has resulted in four priority one recommendations as detailed in appendix two and also three priority two and one priority three recommendations.

Follow Up of Previous Priority 1 Recommendations

13. 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

14. 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)

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

Performance Management

16. 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 2	Actual 2012/13 Quarter 2
% Planned audits completed	87%	82%	82%	90%	38%	37%
% chargeable "fee" staff time	69%	66%	71%	72%	71%	76%
Average cost per audit day	£300	£307	£213	£245	£226	£223
% User satisfaction	94%	86%	89%	85%	86%	85%

17. 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.

18. At the end of the second quarter the part time vacancy within the Internal Audit Unit had been filled with the new member of staff starting on 1 October.

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 2012

Appendix 1

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Environmental Controls and Backup Procedures	Finance and ICT	<p>Substantial Assurance The back up procedures for the key systems are strong and well administered. Business continuity is built into the process and monitoring is effective in ensuring successful backups are completed. Environmental controls are in place to effectively safeguard the computer suites and ensure the minimum of disruption to service in the case of an issue. Audit has made two recommendations to strengthen the controls surrounding this process.</p>	<p>Audit review of the Environmental Controls and Backup procedures showed processes to be sound, monitoring methods effective and business continuity issues to have been embedded within the function. Best practice would be strengthened by implementing the recommendations highlighted by the audit.</p>
Fleet Operations Income	Corporate Support Services	<p>Substantial Assurance The systems and controls surrounding the recording and reconciliation of fleet operations income are operating satisfactorily.</p>	<p>Fleet Operations income is properly recorded and reconciled. MOT income is reconciled to the report of MOT tests, which is downloaded daily from the VOSA website.</p>
Business Plans	Office of the Chief Executive	<p>Substantial Assurance Business plans are generally produced and submitted in accordance with guidelines. Portfolio Holder approval is retained. The fully completed Business Plans, with one exception and the Approval from Portfolio Holders has been received prior to the April 1st 2012 deadline.</p>	<p>Audit review of the Business Plan process is generally compliant to the Authority's guidelines. Directorates to be reminded that all elements of the business plan to be collated and submitted to the Performance Improvement Unit by the 1st April each year as per the guidelines. Discussion and feedback during the Audit found the current template format not always conducive to the nature of the individual Directorates. For the business plan to add value as well as meet the Authority's requirements it would be of benefit for Directors to discuss their views on this in regards next years planning process.</p>

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Management of Sickness Absence	Corporate Support Services	<p>Substantial Assurance</p> <p>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>Sickness absence is recorded by the relevant manager using the RW1 forms, which are then forwarded to Payroll who record the absence on KCS. The Pay Section matches the RW1 to the RW2 once the employee has returned to work and ensures that Fit to Work certificates are provided where necessary.</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>
Legal Services Debt Recovery	Corporate Support Services	<p>Limited Assurance</p> <p>There is a need to implement a proper system for recovering court costs as part of the legal debt recovery process. The implementation of the recommendations in this audit will ensure court costs due to the Council are monitored and increase the likelihood of recovering these debts in addition to the original debt.</p>	<p>This audit has identified improvement areas to enhance the system of control and to ensure the process for collecting unpaid debts is monitored and action is taken to maximise the prospects of debt recovery.</p> <p>Controls should be put in place to prompt Officers to check that court costs have been recovered and allocated to the correct account code.</p> <p>In accordance with Contract Standing Orders, three quotes should be obtained annually for the use of the contractor for tracing debtors and serve court documents.</p>

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
			<p>Officers responsible for debt recovery should implement a system for recording debts collected after court proceedings are issued. This information will be used during the next Audit.</p> <p>The debt recovery process is not always cost effective as the resources are not available to ensure all debts referred to Legal are monitored regularly.</p> <p>Officers should be reminded of the importance of good quality data.</p> <p>The recommendations included in this report will address the weaknesses identified and improve the controls surrounding debt recovery.</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)	Sept 2012	<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).	Sept 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.	A review of the process of documenting accuracy checks to ensure the team leaders follow the same procedure will be carried out.	In Progress	Audit review planned for 3 rd quarter.

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
<p>Legal Debt Recovery</p>	<p>Record of court costs Sundry debt Invoices should be raised via AIMs to ensure court costs are identified and charged correctly. This recommendation does not apply to Housing Benefit overpayments and former tenant arrears.</p> <p>Consideration should be given to the fact that costs invoices will generally relate to debtors already on the system. Therefore the issue of reminders may not be applicable.</p> <p>Management should consider the benefit of employing an additional member of staff to raise invoices for court costs and monitor debts being managed by Legal.</p> <p>The Assistant Director (Legal) will require approval from Spending Control Officers for the use of Directorate budget codes when raising invoices.</p>	<p>Assistant Director (Legal), All Directors</p>	<p>31 March 2013</p>	<p>Agreed</p> <p>When sufficient data has been recorded on costs collected and amounts recovered as a result of court action, as recommended below, consideration will be given to the need for additional resources and the value for money aspects of the process.</p>		

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
Legal Debt Recovery	<p>Monitoring of court costs Expenditure for court costs should be monitored periodically to ensure costs are a) charged to the debtor and b) recovered as part of the original debt.</p> <p>Costs recovered should be properly recorded for Audit purposes. Invoices should include a description of court fees.</p>	Assistant Director (Legal)	31/3/2013	Agreed		
Legal Debt Recovery	<p>Use of Contractor Quotes should be obtained on an annual basis to demonstrate value for money. See Contract Standing Orders C3 (2).</p>	Assistant Director (Legal)	31/3/2013	Agreed – In progress at the end of the audit.		
Legal Debt Recovery	<p>Value for money Officers responsible for debt recovery should implement a system for recording debts collected <u>after</u> court proceedings are issued. This information will be used during the next Internal Audit.</p>	Director of Corporate Support Services	31/3/2013	Agreed		

**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>
Legal Debt Recovery	Corporate	Sept2012	P1. 4	P1. 3	Q4	This audit has identified improvement areas to

	Support Services		P2. 3 P3. 1	P2. 3 P3. 1	2012/13	<p>enhance the system of control and to ensure the process for collecting unpaid debts is monitored and action is taken to maximise the prospects of debt recovery.</p> <p>Controls should be put in place to prompt Officers to check that court costs have been recovered and allocated to the correct account code.</p> <p>In accordance with Contract Standing Orders, three quotes should be obtained annually for the use of the contractor for tracing debtors and serve court documents.</p> <p>Officers responsible for debt recovery should implement a system for recording debts collected after court proceedings are issued. This information will be used during the next Audit.</p> <p>The debt recovery process is not always cost effective as the resources are not available to ensure all debts referred to Legal are monitored regularly.</p> <p>Officers should be reminded of the importance of good quality data.</p> <p>The recommendations included in this report will address the weaknesses identified and improve the controls surrounding debt recovery.</p>
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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	Completed	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	In Progress	R27
TOTAL		25		
ENVIRONMENT AND STREET SCENE				
Waste Management and Recycling	follow up	20	In Progress	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	In Progress	R
TOTAL		10		
HOUSING				
Housing Rent Collection and Arrears	system/follow up	25		PKF/R27
Housing Lettings	follow up	5	In Progress	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	In Progress	AC
Management of Sickness absence	Follow up	5	Completed	R15
Overtime and Committee Allowances	verification	10		R
Car Mileage claims	verification	10	In Progress	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	Completed	R27
Legal				
Licensing	system	15		R27
Debt recovery	system	15	Completed	R27
TOTAL		115		
MISCELLANEOUS				
Key and Local Performance Indicators	verification	15	In Progress	R
Business Plans	verification	10	Completed	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	Completed	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