

Report to the Audit and Governance Committee



**Epping Forest
District Council**

Report reference: AGC-008-2013/14
Date of meeting: 27 June 2013

Portfolio: Finance and Technology

Subject: Internal Audit Monitoring Report - January to March 2013

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 fourth quarter monitoring report for 2012/13:

- (a) The reports issued between January and March 2013 and significant findings therein (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 January and March 2013, 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 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 fourth quarter are listed in paragraph 3 below.
2. Audits completed in the fourth quarter have concentrated on fundamental financial systems and income streams, the detailed findings of which are in Appendix 1. At the end of the quarter, a further five audits were in progress or at the draft report stage.

Reports Issued

3. The following audit reports were issued in the fourth quarter:

(a) Full Assurance:

- None;

(b) Substantial Assurance:

- Sundry Debtors;
- Creditors;
- Treasury Management;
- Council Tax;
- National Non Domestic Rates;
- Overtime and Committee Allowances;
- Commercial Property Management;
- General Ledger; and
- Building Control;

(c) Limited Assurance:

- None;

(d) No Assurance:

- None; and

(e) At Draft Report Stage:

- Housing Benefits;
- Payroll;
- Housing Rents;
- Housing Tenancy and Allocations; and
- Procurement Fraud Prevention and Detection.

Limited Assurance

4. During the quarter, no reports were issued with a Limited Assurance rating.

Follow Up of Previous Priority 1 Recommendations

5. 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

6. 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

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

Performance Management

8. 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 4	Actual 2012/13 Quarter 4
% Planned audits completed	87%	82%	82%	90%	82%	85%
% chargeable "fee" staff time	69%	66%	71%	72%	71%	69%
Average cost per audit day	£300	£307	£213	£245	£213	£243
% User satisfaction	94%	86%	89%	85%	89%	See note below

9. The indicators are calculated as follows:

- (a) % Planned audits completed - a cumulative calculation is made each quarter based on the approved plan;
- (b) % Chargeable fee time - a calculation is made each quarter based on reports produced from Internal Audit's time recording system; and
- (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.

10. The reduction in chargeable time and increase in average cost per day has been affected by lost time due to a period of staff sickness and a trial application of lean audit principles which has reduced the chargeable days to some audits.

11. User satisfaction has been based on a customer survey form. Recently it has been increasingly difficult to encourage clients to return the form with any meaningful comments. A replacement electronic form has been developed for use from April with the new audit plan.

12. A member of staff had a period of sick leave following a spell in hospital and returned to work on a phased return during February. This resulted in a reallocation of the outstanding work to ensure that the fundamental financial systems were reviewed by the end of the financial year. This work was substantially complete at the end of March as required by the external auditors.

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 4
January - March 2013

Appendix 1

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Sundry Debtors	Finance and ICT	<p>Substantial Assurance The systems surrounding income collection are operating effectively. Two minor recommendations were made.</p>	<p>Accounts with arrangements to pay are monitored monthly. However, the debtors system should be updated if arrangements are paid in full prior to the end of the agreement.</p> <p>Refunds should be requested in writing by all Directorates. Supporting information should be retained to identify the reason for the refund and to confirm the refund was authorised by the Director or Assistant Director.</p>
Creditors	Finance and ICT	<p>Substantial Assurance The Creditors function shows a clear and well regulated process. Initial invoice registration through to final payment demonstrates a thorough understanding of the role of the function within the Authority, highlights a clear separation of duties and a complete and well maintained administration and reporting process.</p> <p>Payments are made in a timely manner and authorised correctly. Paperwork is retained and provides a clear auditable trail which complies with financial regulations and internal policy.</p>	<p>. Audit has offered advice on areas of the process that could be improved upon to allow for further assurance in what is currently a very satisfactory process</p> <p>Invoices registered but not returned from the Directorates has increased both in terms of number and value since the last audit.</p>
Treasury Management	Finance and ICT	<p>Substantial Assurance The systems and controls surrounding treasury management are operating</p>	<p>The manual should be updated to ensure that all staff are aware of their responsibilities.</p>

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
		effectively.	
Council Tax	Finance and ICT	<p>Substantial Assurance The Council Tax Process is a well-managed function. Staff demonstrate good knowledge and day to day activity is generally completed accurately and timely.</p>	<p>There are areas of improvement in regards reconciliation completion and supervisor checking, that audit has identified, that would ensure key controls are efficient and effective to their purpose and ensure a good service level is maintained.</p>
National Non Domestic rates	Finance and ICT	<p>Substantial Assurance The section has well established procedures for ensuring that the NNDR database is complete and accurate and the liability is correct. Income is accurately recorded and regularly reconciled, and effective recovery and enforcement action ensures that income is maximised.</p>	<p>Income is correctly posted to Academy and is reconciled monthly to the general ledger and cash receipting system, although the reconciliations are currently behind. Credit balances are reviewed and are thoroughly investigated prior to approving and processing refunds.</p> <p>Prompt recovery and enforcement action ensures that income is maximised. Irrecoverable debts are written-off in accordance with Council policy.</p>
Overtime and Committee Allowances	Corporate Support Services	<p>Substantial Assurance The systems and controls surrounding claims for overtime, subsistence and committee allowances are operating effectively.</p>	<p>Overtime, committee allowance and subsistence claims are submitted in a timely manner and certified by an authorised signatory.</p> <p>The reason for overtime was included on all claim forms, receipts submitted with claims for subsistence and attendance at Council meetings verified to the signing-in sheets for committee allowances.</p> <p>All claim forms are signed by the employee and checked by the Pay Section prior to processing.</p>

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Commercial Property Management	Corporate Support Services	<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 and rental income is effectively monitored.</p>	<p>The Excel spreadsheets, which are used by the Valuers to manage their own portfolio of properties, are not as secure as the GVA system, However, it is recognised that GVA does not lend itself to day-to-day property management. The section is in the process of procuring a replacement IT system for GVA, which will improve the day-to-day property management.</p> <p>The valuers spreadsheets should be checked annually to GVA to ensure the correct information is held for invoicing.</p>
General Ledger	Finance and ICT	<p>Substantial Assurance The systems and controls surrounding the processing of data on the general ledger are operating satisfactorily. Three minor recommendations have been raised.</p>	<p>Data from the feeder systems is completely and accurately transferred to the general ledger. The system rejects any invalid codes, which are then corrected immediately and reposted.</p> <p>Reconciliations between the general ledger and the feeder systems are carried out in the directorates raising the feeder system journal transfer.</p>
Building Control	Planning and Economic Development	<p>Substantial Assurance The systems surrounding the recording and checking of building control fee income are operating effectively. Although the income had not been reconciled for around 18 months this has been addressed by management and reconciliations have been performed since November 2012.</p>	<p>Agency and consultancy costs have significantly reduced over the past 3 years, which has enabled the Building Control account to be carefully controlled such that it is now in surplus. . There is no legislation that requires local authorities to ring-fence surpluses or deficits of the building control fee earning account, although authorities are free to ring-fence this service if they consider it to be appropriate. EFDC has decided to keep the ring-fenced account.</p>

**INTERNAL AUDIT
OUTSTANDING PRIORITY 1 ACTIONS – STATUS AS AT March 2013** **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	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.	In Progress	Following a meeting of all relevant officers chaired by the Chief Executive, ICT staff produced a prototype report that is designed to work towards an electronic reconciliation of the DC account. Planning staff have analysed this first report and ICT further refined it to capture some information that was not originally included. The unmatched items are now being investigated and the process is being monitored by Internal Audit.
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	Recruitment in progress. Interviews held and offer made but turned down. Post re-advertised.		Audit to follow up in 4th quarter.

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
<p>Legal Debt Recovery</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> <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</p>	<p>Assistant Director (Legal)</p>	<p>March 2013</p>	<p>A system was now in place to allow for the recording and monitoring of court costs so as to assess whether the income received matched the expenditure in seeking recovery. In the longer term, CGG suggested that once the system had been in operation, it might be coupled with individual assessments of debtors to make judgements about the effectiveness of recovery as against costs.</p> <p>Management Board have agreed that a Working Party be convened to review corporate debt processing and that appropriate membership and terms of reference be brought forward to a future Management Board meeting.</p>	<p>Q4 2012/13</p>	<p>Quotes have been sought from 4 different agencies who provide process serving and tracing services. Two quotes have been received and one is awaited.</p> <p>In reviewing the procedures currently in place and the finance systems available to comply with the Audit recommendations it has become apparent that the debt collection process across the Council needs to be reviewed. A detailed report was discussed at Management Board on 3 April 2013.</p> <p>Action. C O'Boyle/R Rose to draft Terms of Reference for the Working Party and suggested membership and chairmanship.</p>

Report Title	Agreed Action	Responsible Officer	Target Date	Director's Assurance	Status	Completion Date / Comments
	quality data. The recommendations included in this report will address the weaknesses identified and improve the controls surrounding debt recovery					

**INTERNAL AUDIT
FOLLOW UP OF LIMITED ASSURANCE AUDITS AS AT MARCH 2013**

Appendix 3

Report Title	Directorate	Date Issued	Agreed Actions by priority	Agreed Actions Outstanding	Time of Follow Up	Outstanding Issues / Comments
Planning Fees	Planning and Economic development	March 2012	P1. 2 P2. 1	P1. 1	Q4 2012/13	Following a meeting of all relevant officers chaired by the Chief Executive, ICT staff produced a prototype report that is designed to work towards an electronic reconciliation of the DC account. Planning staff have analysed this first report and ICT further refined it to capture some information that was not originally included. The unmatched items are now being investigated and the process is being monitored by Internal Audit.
Legal Debt Recovery	Corporate Support Services	Sept2012	P1. 4 P2. 3 P3. 1	P1. 3 P2. 3 P3. 1	Q4 2012/13	<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> <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 as at 31st March 2013
Appendix 4

Audit area	Audit type	Days allocated	Completed	Risk Identifier
FINANCE AND ICT				
Finance				
Bank Reconciliation	system/follow up	15	Completed	PKF
Sundry Debtors	system/follow up	20	Completed	PKF
Creditors	system/follow up	20	Completed	PKF
Treasury Management	system/follow up	15	Completed	PKF/R26
Budgetary Control (capital and revenue)	system/follow up	10	reduced risk	PKF
Risk Management and Insurance	system/follow up	15	reduced risk	PKF
Main Accounting and Financial Ledger	system/follow up	15	Completed	PKF
Housing Benefits	system/follow up	25	In Progress	PKF
Council Tax	system/follow up	25	Completed	PKF/R27/AC
National Non Domestic Rates	system/follow up	15	Completed	PKF/R27
Cash receipting and Income control	system/follow up	15	Completed	PKF
Provision for 'top up' testing	systems	25	Completed	PKF
Cash Office spot checks	verification	5	reduced risk	PKF
ICT				
Environmental controls/backup procedures	IT	10	Completed	PKF
Disaster recovery/business continuity	IT	10	C/fd	PKF/R8
TOTAL		240		
PLANNING AND ECONOMIC DEVELOPMENT				
Planning Fees	System	20		R27
Building Control	follow up	5	Completed	R27
TOTAL		25		
ENVIRONMENT AND STREET SCENE				
Waste Management and Recycling	follow up	20	Completed	R20
Car Parking	system	20	Completed	R27
North Weald airfield	establishment	15	C/fwd	R27
Leisure contract	contract	15	Reduced risk	R20
TOTAL		70		
OFFICE OF THE CHIEF EXECUTIVE				
Members Services		10	Completed	R
TOTAL		10		
HOUSING				
Housing Rent Collection and Arrears	system/follow up	25	In Progress	PKF/R27
Housing Lettings	follow up	5	In Progress	AC
Housing Repairs Service	system/follow up	15	C/fwd	

Stores - Depot stock take	stocktake	5	Completed	R23
TOTAL		65		
CORPORATE SUPPORT SERVICES				
Human Resources				
Payroll	System/follow up	25	Completed	PKF
Recruitment and Selection	Follow up	5	Completed	AC
Management of Sickness absence	Follow up	5	Completed	R15
Overtime and Committee Allowances	verification	10	Completed	R
Car Mileage claims	verification	10	Completed	R
Estates/Facilities Management/Other				
Commercial Property portfolio	system/follow up	20	Completed	R9
Property Management System - Asset Register	system	5	C/fwd	PKF
Fleet Operations income	system	5	Completed	R27
Legal				
Licensing	system	15	C/fwd	R27
Debt recovery	system	15	Completed	R27
TOTAL		115		
MISCELLANEOUS				
Key and Local Performance Indicators	verification	15	Completed	R
Business Plans	verification	10	Completed	R
FRAUD PREVENTION & DETECTION				
Contracts	fraud	15	In Progress	AC/R20
Procurement	fraud	15	In Progress	AC/R2
Council Tax Discounts	fraud	15	C/fwd	AC/R23
National Fraud Initiative (NFI)	fraud	15	In Progress	R23
Data matching and analysis (IDEA software)	fraud	25	C/fwd	AC
CORPORATE				
Corporate Procurement	system/follow up	15	In Progress	AC/R2
Gifts and Hospitality (Members & Officers)	system/follow up	10	Completed	R
Data Protection Act	system	5	C/fwd	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	Risk Identifier
AC	Audit Commission
PKF	External Audit
R no.	Risk No. in Corporate Register
R	Reputation of Council