

**Report to the Audit and Governance  
Committee**



**Report reference:** **AGC-019-2010/11**  
**Date of meeting:** **15 November 2010**

**Epping Forest  
District Council**

**Portfolio:** Finance and Economic Development  
**Subject:** Internal Audit Monitoring Report - July to September 2010  
**Responsible Officer:** Brian Bassington (01992 564446).  
**Democratic Services Officer:** Gary Woodhall (01992 564470).

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**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 2010/11:
- (a) The reports issued between July and September 2010 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 2010/11 Audit Plan status report (Appendix 4); and
- (2) The Committee is also requested to confirm that it is satisfied with the effectiveness of the work of Internal Audit in the second quarter 2010/11.

**Executive Summary:**

This report provides a summary of the work undertaken by the Internal Audit Unit between July and September 2010, and details the overall performance to date against the Audit Plan for 2010/11. The report also contains a status report on previous priority 1 audit recommendations.

**Reasons for Proposed Decision:**

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

**Other Options for Action:**

No other options.

**Report:**

Work Carried Out In The Period

1. The audit reports issued in the second quarter are listed in paragraph 5 below.
2. A number of systems audits were carried out in the second quarter in which the ground work had been completed as at 30 September but the reports had not been issued in

draft or finalised with the relevant Director.

3. The Audit Team continued to provide advice and guidance on a range of subjects to management on the application of Contract Standing Orders and Financial Regulations and work begun on a simplified guidance for staff which will result in more directed training. It is intended to include this within the E-learning programme. As at 30 September an E-learning module on Fraud Awareness was being constructed by the Chief Internal Auditor, in preparation for the E-learning launch.

4. The Chief Internal Auditor continued to attend a number of Corporate officer groups including Corporate Governance, Risk Management and the Contract Standing Orders and Financial Regulations Working Party. Supervision and management time has included quality assurance of audit reports and working files, the administration of the outsourced element of the audit plan and liaison and support for the external auditors (PKF).

### Reports Issued

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

(a) Full Assurance:

- None;

(b) Substantial Assurance:

- Household Sales and leaseholder Services;
- Decorating Allowances;
- Overtime and Committee Allowances;
- Car Mileage Claims; and
- Gifts and Hospitality (Members);

(c) Limited Assurance:

- Grounds Maintenance (Appendix 5);

(d) No Assurance:

- None; and

(e) At Draft Report Stage:

- Norway House;
- Bed and Breakfast;
- Homelessness Prevention;
- External Funding; and
- Key and Local Performance Indicators.

6. The detailed findings for the Limited Assurance audit of Grounds Maintenance and the comments of the Service Director are attached at appendix 5.

7. The externalised portion of the audit plan staffed by Deloitte and Touche Public Sector Internal Audit Limited includes six financial audit and three ICT audits which will be carried out during the third quarter to ensure that there will be no delay in the presentation of completed reports and working files to the external auditors (PKF) by 31 March 2011.

### Follow Up Of Previous Limited Assurance Audits (Appendix 3)

8. Attached at Appendix 3 is a summary schedule of previous limited assurance audits to ensure follow up both by Internal Audit and Service Management. The table shows the situation as at 30 September 2010.

## Audit Plan 2010/11 (Appendix 4)

9. The status of the 2010/11 Audit Plan is set out at Appendix 4.

## Performance Management

10. The Internal Audit Team has local performance indicator targets to meet in 2009/10, as set out below:

	Actual 2007/08	Actual 2008/09	Actual 2009/10	Target 2010/11	Actual 2010/11 Quarter 2
% Planned audits completed	89%	95%	87%	90%	39%
% chargeable "fee" staff time	68%	71%	69%	72%	67%
Average cost per audit day	£307	£309	£300	£320	£302
% User satisfaction	81%	85%	94%	85%	97%

11. The indicators are calculated as follows:

- (a) % Planned audits completed - a cumulative calculation is made each quarter based on the approved plan as amended for additional work (e.g. investigations) during the year;
- (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.

12. At previous meeting of the Audit and Governance Committee on 20 September 2010, the Monitoring Report for the first quarter of 2010/11 showed a nil return on user satisfaction. Staff who have not returned the survey are now reminded and are forms are being returned, which has resulted in user satisfaction figure of 97% for the second 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

<b>Level</b>	<b>Evaluation opinion</b>	<b>Testing opinion</b>
<b>Full assurance</b>	There is a sound system of control designed to achieve the system objective.	The controls are being consistently applied.
<b>Substantial assurance</b>	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.
<b>Limited assurance</b>	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.
<b>No assurance</b>	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 2010**

Appendix 1

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
House Sales and Leasehold Services	Housing Services	<p><b>Substantial Assurance</b> Council house sales, leasehold management charges and home ownership grants are all administered in accordance with legislation and council policy. House sales are properly carried out; all checks are completed within the necessary timescales and the process fully documented. The conveyancing is carried out by the Council's Legal section. The implementation of the OHMS leasehold management module may improve the efficiency of both the calculation and income monitoring of leasehold management charges.</p>	<p>Right to buy house sales are carried out in accordance with Council policy and legislation. A file is maintained for each house sale, which, in addition to holding all documentation relating to the sale, includes a checklist to ensure that all the necessary stages have been completed. All checks carried out are evidenced and relevant notices are issued within the requisite timescales.</p> <p>Leasehold fees and charges are correctly calculated and the accounts sent out to leaseholders within legislative timescales. Full details of the calculations relating to the apportionment of costs are retained.</p> <p>Home ownership grants are awarded in accordance with Council policy. Applicants are prioritised according to the criteria set out in the report to Cabinet on 9 March 2009 and grants awarded in order of priority.</p>
Decorating Allowances	Housing Services	<p><b>Substantial Assurance</b> The system for processing cards is generally sound, with cards being processed in line with procedures. The implementation of individual official orders and regular stocktakes of decorating cards will enhance the existing controls.</p>	<p>Budgets are being effectively monitored. The Internal Decorating Service is being effectively managed. Written procedures for the administration of decorating cards needs reviewing and updating.</p> <p>Cards need to be securely stored and a quarterly stocktake carried out with an adequate record maintained.</p>

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
			<p>Management should review the level of budget allocated to this scheme. Management need to monitor data inputting to ensure an effective audit trail is in place and individual orders should be raised for each card activation.</p>
Overtime & Committee Allowances	Corporate Support Services	<p><b>Substantial Assurance</b>  The audit of overtime claims showed there to be effective systems and controls in place. The completion of the forms by the claiming officers was found to be compliant in all cases and there was evidence of these forms being checked and verified by payroll.</p> <p>The procedures in place for the payment of Committee Allowances are effective and no errors were identified. The verification systems and controls ensure compliance with the financial regulations and the sampling shows substantial evidence that both the claiming officers and authorisers are aware of the guidelines.</p>	<p>The audit has indicated a good level of controls and excellent compliance to the financial regulations in regards the completion, submission, authorisation and processing of claims for both overtime and committee allowances.</p> <p>All claims had been authorised, although the schedule of authorised signatories should be updated, to reflect the current corporate structure, to enable payroll to check that all claims are appropriately certified.</p> <p>Overtime and committee allowance payments are correctly calculated and paid to staff. The pay section checks all claims prior to payment.</p> <p>The circulation of guidelines reminds officers and authorisers of the importance of completing the forms correctly and wholly and to ensure forms are checked thoroughly prior to authorisation.</p>
Car Mileage Claims	Corporate Support Services	<p><b>Substantial Assurance</b>  The systems and controls for car mileage are operating satisfactorily, although officers need</p>	<p>Claims are correctly completed with details of the mileage undertaken, although there were a small</p>

Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
		<p>to be reminded of the requirement to fully and accurately complete claims forms, and to submit these in a timely manner with VAT receipts covering all of the journeys claimed for.</p>	<p>number of cases where the mileage rate claimed was either incorrect or omitted. The majority of claims were made within one month.</p> <p>All claims had been authorised, although the schedule of authorised signatories should be updated to reflect the current corporate structure and to enable payroll to check that all claims are appropriately certified.</p> <p>VAT receipts are submitted with all claims. However, in some cases the receipts did not cover all the journeys claimed for.</p> <p>Car mileage payments are correctly calculated and paid to staff. Pay Section check all claims prior to payment. Only one instance of an incorrect payment was calculated and paid incorrectly. This can be deemed an isolated instance and generally the system is sound.</p>
Members Gifts & Hospitality	Assistant to the Chief Executive	<p><b>Substantial Assurance</b> The procedures in place for registering gifts and hospitality are satisfactory and are adhered to by Members. To ensure best practice, regular reminders should be issued, to ensure all gifts and hospitality are declared in line with the Code of Conduct, when they occur.</p>	<p>Audit review shows Members to be complying with the Code of Conduct in relation to Gifts &amp; Hospitality, although based on a limited sample. The process is very much determined by the Members' understanding and assuming responsibility for Declarations of Interest within the correct timescale. The regular reminders in the Council Bulletins should ensure that Members are aware of the need to up hold this responsibility. Members should be specifically reminded of the need to register the full details of the gifts / hospitality received.</p>



Title	Service	Assurance Rating/Audit Opinion	Main Conclusions/Comments
Grounds Maintenance	Environment and Street Scene	<p><b>Limited Assurance</b></p> <p>Whilst the Grounds Maintenance service is generally operating satisfactorily, some improvement areas were identified mainly relating to the need to retain evidence to demonstrate that value for money is obtained and charges for maintenance services are consistently applied.</p>	<p>This audit has identified there are generally sound procedures in place for the operation of the Grounds Maintenance section. Improvement areas have been identified to ensure compliance with Financial Regulations and Contract Standing Orders is demonstrated. This audit has concluded:</p> <p>Officer monitor sheets regarding contractual works completed for external bodies will be retained in future to demonstrate that annual charges are correct.</p> <p>The inventory for equipment tools and machinery will be reviewed and signed as completed on an annual basis, the office inventory will be revised to include ICT equipment.</p> <p>Quotations will be recorded for the use of agency staff in accordance with the thresholds in Contract Standing Orders.</p> <p>Orders and invoices are authorised correctly. However future Marketplace orders will include details of purchases including the period of cover. There are sound controls in place for fuel purchases.</p>

## OUTSTANDING PRIORITY 1 ACTIONS – STATUS AT QUARTER 2 2010/11

Report Title	Agreed Action	Responsible Officer	Target Date	Status	Completion Date / Comments
<b>Building Maintenance Unit</b>	<b>Stock Check</b> Regular stock checks will be carried out by Housing Customer Repairs staff throughout the year, to cover all stock lines at least once during the year. Management will review the results of the stock checks and any discrepancies will be investigated.	Assistant Director (Property)	June 2010	In progress	To be reviewed on completion of Depot reorganisation.
<b>Reprographics</b>	<b>Value for Money</b> In recognition of the under-utilisation of staff under the current arrangements, Management should review the role of the Print Section and the functions of the staff.	Director of Corporate Support Services	Dec 2009	In Progress	Follow up audit in quarter 3 2010/11.
<b>Licensing</b>	<b>Licensing Administration</b> Reconciliations should be carried out in a timely fashion by a Senior Independent Officer.	Assistant Director (Legal)	October 2009	In progress	To be included in 2010/2011 audit plan, quarter 4

Report Title	Agreed Action	Responsible Officer	Target Date	Status	Completion Date / Comments
<b>Pest Control</b>	<b>Contract Monitoring</b> Management should review and monitor performance on a regular basis, in line with the agreed contract terms.	Assistant Director of Environment & Street Scene (Environment and Neighbourhoods)	October 2009	In progress	To be included in 2010/2011 audit plan, quarter 3
<b>Asset Management</b>	<b>Asset register</b> (a) Assetmanager.net will be reconciled to the existing asset register to ensure it has been running correctly.	Assistant Director (Accountancy)	March 2010	In progress	To be reviewed in quarter 3, 2010/11.
<b>Decorating Allowances</b>	<b>Storage of Cards</b> A stocktake/reconciliation of cards should undertaken on a quarterly basis whereby the cards spreadsheet should be reconciled to the number of cards issued, ensuring that the void property is valid and if not a void property that authorisation to issue a card has been received. A record should be maintained and monitored by management.	Assistant Housing Director (Property)	October 2010		To be reviewed.

<b>Report Title</b>	<b>Agreed Action</b>	<b>Responsible Officer</b>	<b>Target Date</b>	<b>Status</b>	<b>Completion Date / Comments</b>
<b>Decorating Allowances</b>	<b>Orders and Invoicing</b> While it was recommended that a blanket official order should be raised at the start of each financial year and an official order for 2010/11 was raised during the audit, Housing Management have proposed raising individual orders for each card activation which increases the level of control by improving separation of duties.	Assistant Housing Director (Property)	September 2010		To be reviewed.
<b>Overtime and Committee Allowances</b>	<b>Overtime Authorised Signatories</b> Up to date list to be circulated as agreed action in Car Mileage Audit.	Director of Finance & ICT	October 2010	In progress	To be reviewed.
<b>Car Mileage Claims</b>	<b>Authorised signatories</b> Up to date list must, as a matter of importance be provided, showing current signature specimens and schedules of authorisation levels. This list must be updated annually with any changes to list documented and distributed.	Director of Finance & ICT	October 2010	In progress	To be reviewed.
<b>Grounds Maintenance</b>	<b>Contract documentation</b> The General Manager has agreed to retain Officer monitor worksheets in future for audit purposes.	General Manager, Grounds Maintenance	Implemented during the audit		To be reviewed.
<b>Grounds Maintenance</b>	<b>Inventories</b> The inventory for equipment, tools and machinery will be reviewed and signed as completed on an annual basis. The office inventory will be revised to include ICT equipment.	General Manager, Grounds Maintenance	March 2011		To be reviewed.

Report Title	Agreed Action	Responsible Officer	Target Date	Status	Completion Date / Comments
<b>Grounds Maintenance</b>	<b>Agency Staff</b> Quotations will be recorded for the use of agency staff in accordance with the thresholds in Contract Standing Orders. The General Manager has agreed to ensure quotations are noted on the day they are obtained to evidence value for money.	General Manager, Grounds Maintenance	October 2010		To be reviewed.

Follow up of Limited Assurance Audits as at 30<sup>th</sup> September 2010

Appendix 3

Report Title	Directorate	Date Issued	Agreed Actions	Agreed Actions Outstanding	Time of Follow Up	Outstanding Issues / Comments
<b>Commercial Property</b>	Corp. Support	Dec 09	P1. 1 P2. 3	P2. 1	2011/12	One long term aim, acquisition of the property module – completion by March 2011
<b>IT System logs</b>	Finance & ICT	April 10	P1. 1 P2. 3	P1. 1 P2. 2	Q4 2010/11	Transaction logs could be provided for six out of the 13 systems tested. The logs that were provided for the remaining systems were not as detailed and comprehensive as required. Assistant Head of Finance & ICT is currently reviewing the production of the logs.
<b>Building Maintenance (Works Unit)</b>	Housing	June 10	P1. 1		Q4 2010/11	Subject to major review by Assistant Head of Housing
<b>Waste Management</b>	Environment/ Street Scene	July 2010	P1. 3 P2. 1		Q4 2010/11	Need for written quotes and retention of documentation. Improved stock records.
<b>Grounds Maintenance</b>	Environment/ Street Scene	Sept2010	P1. 3 P2. 2		Q1 2011/12	Retention of contract documentation, annual review of inventories and retention of quotations.

**Audit Plan 2010/11**  
**Status Report at 30th September 2010**

**Appendix 4**

<b>AUDIT PLAN 2010/11</b>				
<b>Audit area</b>	<b>Audit type</b>	<b>Days allocated</b>	<b>Completed</b>	<b>Auditor</b>
<b>FINANCE AND ICT</b>				
<b>Finance</b>				
Bank Reconciliation	system/follow up	15		in house
Sundry Debtors	system/follow up	20	In Progress	contractor
Creditors	system/follow up	20		in house
Treasury Management	system/follow up	15		contractor
Budgetary Control (capital and revenue)	system/follow up	10	In Progress	contractor
Risk Management and Insurance	system/follow up	15		in house
Main Accounting and Financial Ledger	system/follow up	15	In Progress	contractor
Housing Benefits	system/follow up	25		in house
Council Tax	system/follow up	25		contractor
National Non Domestic Rates	system/follow up	15	In Progress	in house
Cash receipting and Income control	system/follow up	15		in house
Cash receipting IT system	IT	5		contractor
Provision for 'top up' testing	systems	15	Completed	in house
Cash Office spot checks	verification	5		in house
<b>ICT</b>				
Environmental controls/backup procedures		10		in house
Data and Network Security	system/follow up	20		contractor
IT Procurement	reserve			contractor
Disaster recovery/business continuity		10		in house
IT System Logs	follow up	5		in house
<b>TOTAL</b>		<b>260</b>		
<b>PLANNING AND ECONOMIC DEVELOPMENT</b>				
Planning Fees	system	20	In Progress	in house
Countrycare	system	10	Completed	in house
Building Control	follow up	5		in house
Environmental (use of natural resources)	system	reserve		in house
<b>TOTAL</b>		<b>35</b>		
<b>ENVIRONMENT AND STREET SCENE</b>				
Waste Management and Recycling	follow up	20		in house
Public Health	system	10		in house
Licensing Enforcement	system	15		in house
Car Parking	system	20		in house
Grounds maintenance	system	20	Completed	in house
North Weald airfield	establishment	15		in house
Leisure contract	contract	15		in house
<b>TOTAL</b>		<b>115</b>		

<b>OFFICE OF THE CHIEF EXECUTIVE</b>				
Electoral services – data quality		15		in house
<b>TOTAL</b>		<b>15</b>		
<b>Audit area</b>	<b>Audit type</b>	<b>Days allocated</b>	<b>Completed</b>	<b>Auditor</b>
<b>HOUSING</b>				
Housing Rent Collection and Arrears	system/follow up	25	In Progress	contractor
Housing Lettings	system	20		
House Sales and Leaseholder Services	system	20	Completed	in house
Depot	system/follow up	15		in house
Norway House	establishment	15	In Progress	in house
Bed and breakfast contract	contract	5	In Progress	in house
Homelessness prevention unit	VFM	10	In Progress	in house
Stores - Depot stock take	stocktake	5	Completed	in house
Housing Repairs Working Group	management review	5		in house
Decorating allowance	system	5	Completed	in house
External Funding	system		In Progress	in house
<b>TOTAL</b>		<b>125</b>		
<b>PARTNERSHIPS AND VOLUNTARY SECTOR</b>				
Local Area Agreements	system	15		in house
<b>TOTAL</b>		<b>15</b>		
<b>CORPORATE SUPPORT SERVICES</b>				
<b>Human Resources</b>				
Payroll	System/follow up	25		in house
Recruitment and Selection	Follow up	5		in house
Management of Sickness absence	Follow up	5	In Progress	in house
Overtime and Committee Allowances	verification	10	Completed	in house
Car Mileage claims	verification	10	Completed	in house
Lease Car Scheme	system	15		in house
Health and Safety Policy	system	5		in house
<b>Estates/Facilities Management/Other</b>				
Commercial Property portfolio	system/follow up	20	In Progress	in house
Licensing	system	15		in house
Asset Management system	system	15	In Progress	in house
Non-HRA Repairs	verification	5		in house
Fleet Operations income	system	5	Completed	in house
Reprographics	Follow up	5		in house
<b>Legal</b>				
<b>TOTAL</b>		<b>140</b>		



<b>Audit area</b>	<b>Audit type</b>	<b>Days allocated</b>	<b>Completed</b>	<b>Auditor</b>
<b>MISCELLANEOUS</b>				
Key and Local Performance Indicators	verification	15	In Progress	in house
Business Plans	verification	10	Completed	in house
<b>CONTRACTS</b>				
Contract Compliance	System/follow up	15		in house
<b>CORPORATE</b>				
Corporate Procurement	system/follow up	10		contractor
Gifts and Hospitality (Officers)	system/follow up	10		in house
Gifts and Hospitality (Members)	system/follow up	10	Completed	in house
Data Protection Act	system	5		in house
Freedom of Information Act	system	5	In Progress	in house
Follow up of Priority 1 Audit recommendations	follow up	7		in house
<b>CORPORATE MEETINGS</b>				
Governance Statement	management review	5	Completed	in house
Use of Resources work plan	management review	5	Completed	in house
Review of financial regulations and internal controls	management review	3	In Progress	in house
<b>FRAUD AND CORRUPTION</b>				
National Fraud Initiative (NFI)		15	In Progress	in house
<b>TOTAL</b>		115		
<b>TOTAL DAYS ALLOCATED</b>		805		
Contingency/Spot checks/Minor investigations		30		in house
Corporate/Service Advice		65		in house
<b>TOTAL</b>		900		

**5.2 Contract documentation (priority 1)**

The General Manager has agreed to retain Officer monitor worksheets in future for audit purposes.

**5.3 Inventories (priority 1)**

The inventory for equipment, tools and machinery will be reviewed and signed as completed on an annual basis. The office inventory will be revised to include ICT equipment.

**5.4 Agency Staff (priority 1)**

Quotations will be recorded for the use of agency staff in accordance with the thresholds in Contract Standing Orders. The General Manager has agreed to ensure quotations are noted on the day they are obtained to evidence value for money.

**5.5 Additional maintenance work (priority 2)**

Quotations will be more clearly identified within the documentation to ensure income is identified and charged correctly. All monitor sheets should be copied and retained with paperwork.

**5.6 Orders & Invoices (priority 2)**

Management has agreed to ensure that all Marketplace orders include details of purchases including the period of cover.

**Comments of Service Director**

The audit concluded that there were generally sound procedures in place, and the “limited assurance” designation arose solely from minor breaches of standing orders as set out in the implementation table. Taking each in turn:

5.2 This was completed whilst the audit was underway and no further comment is required;

5.3 This action will be incorporated into the end of financial year stock take;

5.4 This action has been fully implemented;

5.5 This issue related to the calculation of charged rates which were based upon previous years plus inflation. Although the information was on file it could not be demonstrated at audit that the current charges related to the previous ones and had therefore been properly applied. This audit trail has now been put into place and is being followed back in time to provide a historic data trail; and

5.6 There was only one incident found at audit and the required correction has been applied.

J Gilbert  
Director of Environment & Street Scene

28 October 2010